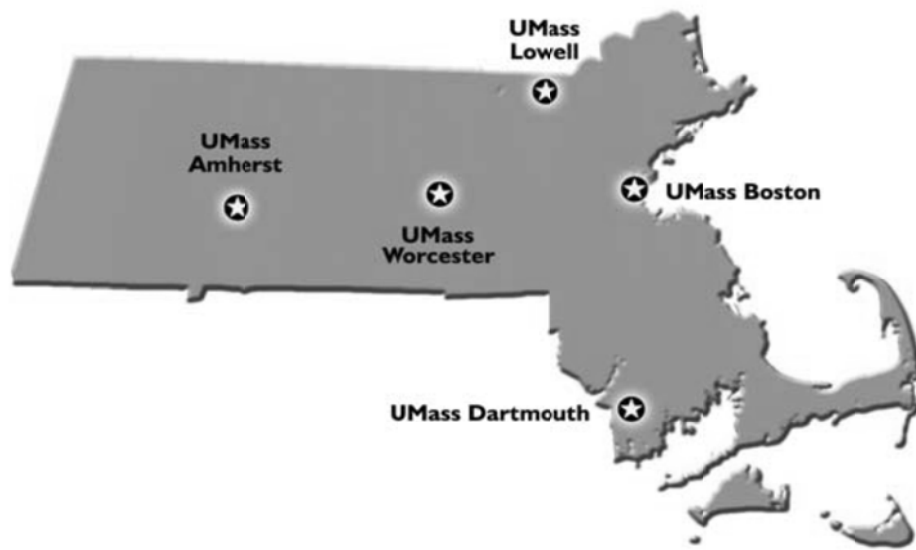


2013

Annual Financial

Report



The University of Massachusetts
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University Administration

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December 18, 2013

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, 2013. 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, 2013 including comparative information as of June 30, 2012.

The University's net assets increased \$246.9 million from \$2.39 billion in fiscal year 2012 to \$2.64 billion in fiscal year 2013. 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 2013, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2013 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
2013 Annual Financial Report
Table of Contents

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Management's Discussion and Analysis	3
Consolidated Statements of Net Position as of June 30, 2013 and 2012	15
Consolidated Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2013 and 2012	16
Consolidated Statements of Cash Flows for the Years Ended June 30, 2013 and 2012	17
Notes to Consolidated Financial Statements	18
Supplemental Financial Information	41



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees of the
University of Massachusetts

Report on the financial statements

We have audited the accompanying consolidated financial statements of the business-type activities and the aggregate discreetly 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, 2013 and 2012, which collectively comprise the University's basic 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the 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 as of June 30, 2013 and 2012, and the respective changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") as listed in the accompanying table of contents 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 this required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the MD&A information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

Boston, Massachusetts
December 20, 2013

**University of Massachusetts
Management's Discussion and Analysis (unaudited)
June 30, 2013**

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, 2013 with comparative information as of June 30, 2012 and June 30, 2011. 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 2012, the University enrolled approximately 60,337 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 \$246.9 million from \$2.39 billion in fiscal year 2012 to \$2.64 billion in fiscal year 2013. Net Position at June 30, 2011 was \$2.14 billion. The major components of the increase in fiscal year 2013 relate to investments in infrastructure and positive operating margins due primarily to greater student fee revenues and cost reductions. From fiscal year 2012 to fiscal year 2013, the University's operating revenue increased by \$97.2 million and operating expenditures increased by \$74.2 million. The increase in operating revenue is primarily due to the increase in fee revenue associated with the 4.9% fee increase 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 and liabilities of the University. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. Net 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, 2013, 2012, and 2011 (in thousands of dollars)				
	University June 30, 2013	University June 30, 2012	FY12-13 Change	University June 30, 2011
ASSETS				
Current Assets	\$579,894	\$617,093	(\$37,199)	\$581,207
Noncurrent Assets				
Investment in Plant Net of Accumulated Depreciation	3,705,516	3,098,186	607,330	2,582,651
All Other Noncurrent Assets	1,425,264	1,518,505	(93,241)	1,842,998
Total Assets	5,710,674	5,233,784	476,890	5,006,856
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Change in Fair Value of Interest Rate Swaps	40,207	75,635	(35,428)	19,510
LIABILITIES				
Current Liabilities	772,922	880,104	(107,182)	609,291
Noncurrent Liabilities	2,341,718	2,039,939	301,779	2,275,685
Total Liabilities	3,114,640	2,920,043	194,597	2,884,976
NET POSITION				
Invested in Capital Assets Net of Related Debt	1,682,173	1,502,171	180,002	1,283,888
Restricted				
Nonexpendable	18,058	17,773	285	17,112
Expendable	156,469	162,341	(5,872)	184,909
Unrestricted	779,541	707,091	72,450	655,481
Total Net Position	\$2,636,241	\$2,389,376	\$246,865	\$2,141,390

University of Massachusetts Condensed Statement of Net Position for Related Organizations As of June 30, 2013, 2012, and 2011 (in thousands of dollars)				
	University Related Organizations June 30, 2013	University Related Organizations June 30, 2012	FY12-13 Change	University Related Organizations June 30, 2011
ASSETS				
Current Assets	\$3,830	\$2,597	\$1,233	\$5,222
Noncurrent Assets				
Investment in Plant Net of Accumulated Depreciation	8,619	8,822	(203)	9,019
All Other Noncurrent Assets	391,699	364,516	27,183	355,378
Total Assets	404,148	375,935	28,213	369,619
LIABILITIES				
Current Liabilities	14,604	14,612	(8)	15,785
Noncurrent Liabilities	3,332	3,487	(155)	3,413
Total Liabilities	17,936	18,099	(163)	19,198
NET POSITION				
Invested in Capital Assets Net of Related Debt	8,619	8,822	(203)	9,020
Restricted				
Nonexpendable	290,858	273,995	16,863	254,625
Expendable	74,706	60,278	14,428	73,995
Unrestricted	12,029	14,740	(2,711)	12,781
Total Net Position	\$386,212	\$357,835	\$28,377	\$350,421

At June 30, 2013, total University net position was \$2.64 billion, an increase of \$246.9 million over the \$2.39 billion in assets recorded for fiscal year 2012. The University's largest asset continues to be its net investment in its physical plant of \$3.71 billion at June 30, 2013 (\$3.10 billion in fiscal year 2012 and \$2.58 billion in fiscal year 2011).

University liabilities totaled \$3.11 billion at June 30, 2013, an increase of \$194.6 million over fiscal year 2012. Long-term liabilities represent 75% of the total liabilities which primarily consist of bonds payable amounting to \$2.14 billion at June 30, 2013.

The University's current assets as of June 30, 2013 of \$579.9 million were below the current liabilities of \$772.9 million, as the current ratio was 0.75 dollars in assets to every one-dollar in liabilities. June 30, 2012 current assets of \$617.1 million were below current liabilities of \$880.1 million, resulting in a current ratio of 0.70. June 30, 2011 current assets of \$581.2 million were below current liabilities of \$609.3 million, resulting in a current ratio of 0.95.

The unrestricted and restricted expendable net position totaled \$936.0 million in fiscal year 2013, which represents 35% of total operating expenditures of \$2.66 billion. The unrestricted and restricted expendable net position totaled \$869.4 million in fiscal year 2012, which represents 33.6% of total operating expenditures of \$2.59 billion. The unrestricted and restricted expendable net position totaled \$840.4 million in fiscal year 2011, which represents 30.1% of total operating expenditures of \$2.79 billion for that fiscal year.

University of Massachusetts				
Condensed Statement of Revenues, Expenses, and Changes in Net Position				
For the Year Ended June 30, 2013, 2012, and 2011				
(in thousands of dollars)				
	University June 30, 2013	University June 30, 2012	FY12-13 Change	University June 30, 2011
Operating Revenues				
Tuition and Fees (net of scholarship allowances)	\$707,495	\$659,180	\$48,315	\$597,200
Grants and Contracts	512,458	536,031	(23,573)	543,727
Auxiliary Enterprises	319,544	297,956	21,588	272,020
Other Operating Revenues	613,257	562,360	50,897	816,166
Total Operating Revenues	2,152,754	2,055,527	97,227	2,229,113
Operating Expenses	2,663,837	2,589,626	74,211	2,788,784
Operating Loss	(511,083)	(534,099)	23,016	(559,671)
Nonoperating Revenues / (Expenses)				
Federal Appropriations	6,774	6,845	(71)	5,826
State Appropriations	519,311	517,392	1,919	505,799
State Appropriations - Federal Stimulus Funds		10	(10)	37,897
Interest on Indebtedness	(91,364)	(64,434)	(26,930)	(65,358)
Other Nonoperating Income	102,061	65,738	36,323	119,709
Nonoperating Federal Grants	70,586	73,908	(3,322)	70,643
Net Nonoperating Revenues	607,368	599,459	7,909	674,516
Income Before Other Revenues, Expenses, Gains and Losses	96,285	65,360	30,925	114,845
Capital Appropriations, Grants and Other Sources	156,442	193,913	(37,471)	62,824
Disposal of Plant Facilities	(8,802)	(13,606)	4,804	(10,682)
Other Additions / (Deductions)	2,939	2,317	622	5,250
Total Other Revenues, Expenses, Gains, and Losses	150,579	182,624	(32,045)	57,392
Total Increase in Net Assets	246,864	247,984	(1,120)	172,237
Net Position				
Net Position at the Beginning of the Year	2,389,377	2,141,392	247,985	1,969,153
Net Position at the End of the Year	\$2,636,241	\$2,389,376	\$246,865	\$2,141,390

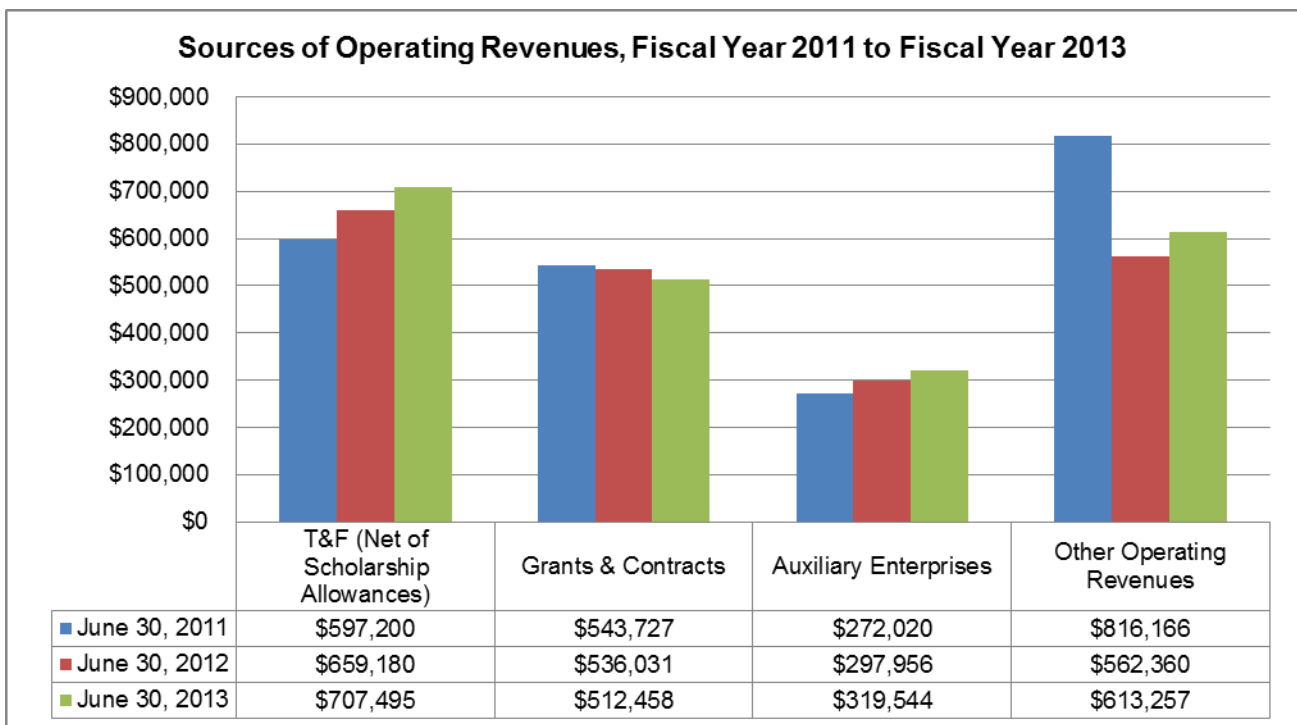
University of Massachusetts

Condensed Statement of Revenues, Expenses, and Changes in Net Position for University Related Organizations

For the Year Ended June 30, 2013, 2012, and 2011

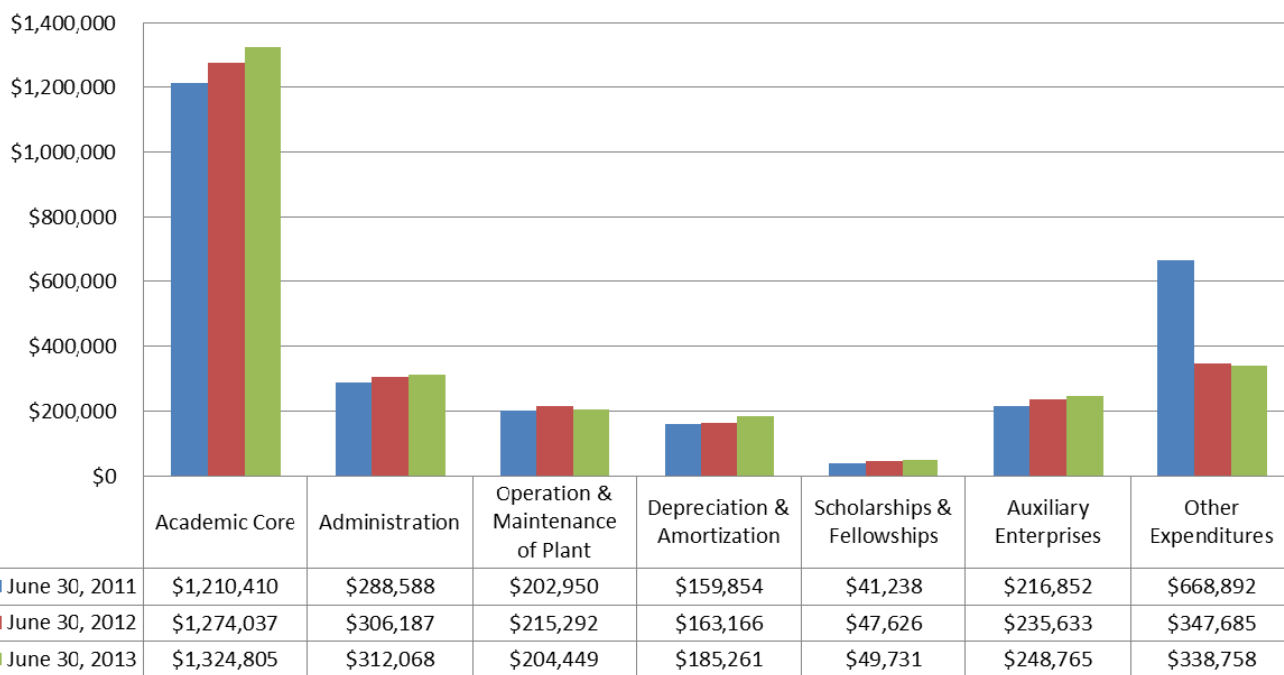
(in thousands of dollars)

	University Related Organizations June 30, 2013	University Related Organizations June 30, 2012	FY12-13 Change	University Related Organizations June 30, 2011
Operating Expenses	\$12,852	\$15,905	(\$3,053)	\$12,107
Operating Loss	(12,852)	(15,905)	(3,053)	(12,107)
Nonoperating Revenues / (Expenses)				
Other Nonoperating Income	35,152	3,731	31,421	52,571
Net Nonoperating Revenues	35,152	3,731	31,421	52,571
Income Before Other Revenues, Expenses, Gains and Losses	22,300	(12,174)	34,474	40,464
Additions to Permanent Endowments	16,056	19,604	(3,548)	15,195
Other Additions / (Deductions)	(9,979)	(16)	(9,963)	171
Total Other Revenues, Expenses, Gains, and Losses	6,077	19,588	(13,511)	15,366
Total Increase / (Decrease) in Net Assets	28,377	7,414	20,963	55,830
Net Position				
Net Position at the Beginning of the Year	357,835	350,421	7,414	294,591
Net Position at the End of the Year	\$386,212	\$357,835	\$28,377	\$350,421



Total operating revenues for fiscal year 2013 were \$2.15 billion. This represents a \$97.2 million increase from the \$2.06 billion in operating revenues in fiscal year 2012. Total operating revenues for fiscal year 2011 were \$2.23 billion. The most significant sources of operating revenue for the University are tuition and fees, grants and contracts, auxiliary services and public service activities at the Worcester Medical School campus categorized in the chart above as "Other Operating Revenues". While not classified in 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 2013, 2012, and 2011.

Operating Expenses by Category, Fiscal Year 2011 to Fiscal Year 2013



In fiscal year 2013, operating expenditures, including depreciation and amortization of \$185.3 million, totaled \$2.66 billion. Of this total, \$1.32 billion or 50% was used to support the academic core activities of the University, including \$405.3 million in research. In fiscal year 2012, operating expenditures totaled \$2.59 billion. The chart above displays fiscal year 2013, 2012, and 2011 operating spending.

Public Service Activities

Other operating revenues includes Public Service Activities and consists largely of sales and services provided to third parties by the UMass Medical School campus through its Commonwealth Medicine (“CWM”) programs, which provide public consulting and services in health care financing, administration and policy to federal, state and local agencies and not-for-profit health and policy organizations. Included in this category of activities are CWM revenues of \$358.7 million and \$346.7 million for the years ended June 30, 2013 and 2012, respectively. Included in expenditures are CWM expenditures of \$347.4 million and \$311.6 million for the years ended June 30, 2013 and 2012, 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 \$153.0 million and \$112.3 million for the years ended June 30, 2013 and 2012, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of \$65.0 million and \$60.0 million for the years ended June 30, 2013 and 2012, respectively, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts.

State Appropriations

In fiscal year 2013, state appropriations represent approximately 19% of all operating and non-operating revenues. The level of state support is a key factor influencing the University’s overall financial condition. Although the state appropriation is unrestricted revenue, nearly 100% of the state appropriation supports payroll and benefits for University employees.

The net state appropriation for the University increased by \$1.92 million from fiscal year 2012, with the increase attributable to a higher level of fringe benefit support allocated to University employees paid through the state appropriation.

The financial statements for the years ended June 30, 2013 record as tuition revenue approximately \$35.1 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 \$37.0 million in fiscal year 2012 and \$49.7 million in fiscal year 2011. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year.

In fiscal year 2004, a pilot program authorized by the Commonwealth enabled the Amherst campus to retain tuition for out-of-state students. This pilot program was extended indefinitely for the Amherst Campus in fiscal year 2005 and starting in fiscal year 2012 all of the University’s campuses were authorized to retain tuition from non-resident students. The amount of tuition retained by the University during 2013, 2012, and 2011 was \$74.5 million, \$50.8 million, and \$34.6 million, respectively.

The following table details the Commonwealth operating appropriations received by the University for fiscal years ended June 30, 2013, 2012, and 2011:

	FY2013	FY2012	FY2011**
Gross Commonwealth Appropriations	\$447,837	\$425,656	\$434,963
Plus: Fringe Benefits*	130,005	154,953	147,511
	577,842	580,609	582,474
Less: Tuition Remitted	(35,103)	(37,029)	(49,731)
Less: Mandatory Waivers	(23,428)	(26,188)	(26,944)
Net Commonwealth Support	\$519,311	\$517,392	\$505,799

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

**It should be highlighted that in fiscal year 2011 the Commonwealth distributed federal stimulus funding to the University in addition to the state appropriations. The \$37.9 million provided in FY2011 is not included in the table.

Capital Appropriations from the Commonwealth

The University faces a financial challenge to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. In order to have a successful capital program, the University must rely on a combination of revenue sources to fund its investment with \$112.6 million of capital support provided to the University through appropriations and grants from the Commonwealth which was \$37.8 million less than the capital appropriations provided in fiscal year 2012. This decrease is attributed to the Commonwealth's Division of Capital Asset Management ("DCAM") funding of several large capital projects in fiscal year 2012 which include: the Lab Science Building on the Amherst campus, the Science Complex on the Boston campus, Carney Library improvements on the Dartmouth campus, the Health Social Sciences Building on the Lowell campus and the Albert Sherman Center on the Worcester campus. The University projects that although capital support will fluctuate year to year, the level of capital appropriations from the Commonwealth will continue to be significant through the completion of major construction projects managed by the Commonwealth's construction agency that are underway at all five of the University's campuses.

Grant and Contract Revenue

Collectively, the University's Amherst Campus and Medical School in Worcester account for approximately 78% of University grant and contract activity. These two campuses have been the primary catalyst in the University's research funding growth in recent years; however, the Boston, Dartmouth, and Lowell campuses continue to 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, 2013, 2012, and 2011:

	FY2013	FY2012	FY2011
Federal Grants and Contracts	\$334,697	\$355,792	\$371,426
State Grants and Contracts	68,794	67,927	62,597
Local Grants and Contracts	2,253	3,077	1,937
Private Grants and Contracts	106,714	109,235	107,767
Total Grants and Contracts	\$512,458	\$536,031	\$543,727

Discretely Presented Component Units

University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately \$664.7 million at June 30, 2013 from \$564.0 million at June 30, 2012 and from \$527.7 million at June 30, 2011.

The Foundation utilizes the pooled investment concept whereby all invested funds are in one investment pool, except for investments of certain funds that are otherwise restricted. Pooled investment funds will receive an annual distribution of 4% to 6% of the endowment fund's average market value for the preceding twelve quarters on a one-year lag and three-year share average. The Foundation revised its policy during fiscal year 2011 and it went into effect for the fiscal year 2012 distribution. The new policy is to have an annual distribution of 4% of the endowment fund's average market value for the preceding twelve quarters on a one year lag. Only quarters with funds on deposit shall be included in the average. In addition, a prudence rule will be utilized to limit spending from a particular endowment fund to no lower than 93% of its book value. The Foundation distributed \$15.1 million (4%) and \$13.6 million (4%) in fiscal years 2013 and 2012, respectively.

The total investment returns of the Foundation for fiscal year 2013, including realized and unrealized investment activity, was a net gain of approximately \$64.0 million as compared to a net loss of \$0.2 million in fiscal year 2012 and a net gain of \$93.3 million in fiscal year 2011. This is consistent with investment return performance at other institutions.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were \$47.9 million at June 30, 2013 up from \$43.2 million at June 30, 2012, and up from \$40.4 million at June 30, 2011, and 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 2013, including realized and unrealized investment activity, was a net gain of approximately \$2.9 million as compared to a net loss of \$0.2 million in 2012 and a net gain of \$4.2 million in 2011.

Tuition and Fees

The University strives to provide students with the opportunity to obtain a quality education. In fiscal year 2004, the University established the practice of limiting the annual increases in total mandatory student charges (tuition and mandatory fees) for resident undergraduate students to rate increases of no greater than the rate of inflation. However, with state appropriations declining by \$188.3 million over the two year span from fiscal year 2008 to fiscal year 2010, the University's Board approved a \$1,500 increase for academic year 2009-2010 in total mandatory student charges for resident undergraduate students. Due to the receipt of \$150.6 million of federal stimulus funds in fiscal year 2010, a rebate of \$1,100 was provided to resident undergraduate students who had initially paid the \$1,500 increase for academic year 2009-2010. Due to the fact that the full \$1,500 increase approved for the 2009-2010 academic year stayed in effect for the 2010-2011 academic year, the University's Board decided that this in effect served as a significant increase over the prior year student charge level and voted in June 2010 to keep mandatory student charges at the currently approved level. The University's Board of Trustees voted to increase mandatory student charges by 7.5% for resident undergraduate students for the 2011-2012 academic year and an additional 4.9% for the 2012-2013 academic year.

Enrollment

Except for the Medical School, which admits only Massachusetts residents (as required by Massachusetts Session Laws, 1987, Chapter 199, Section 99), admission to the University is open to residents of the Commonwealth and non-residents on a competitive basis. In the fall 2011 semester, Massachusetts residents accounted for approximately 83% and 56% of the University's total undergraduate and graduate enrollment, respectively. Total enrollment in the fall of 2012 was 60,337 FTE (70,774 headcount students). Enrollments at the University have shown significant increases over the last five years (53,140 FTE in fall 2008). The 14% 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, including associate, bachelors, masters and doctoral/professional degrees. A total of 15,688 degrees were awarded in the 2011-2012 academic year, reflecting a 6% increase from the previous year. Of these awards, 66.3% were at the undergraduate level and 26.3% were at the graduate level. The remaining 7.4% were associates degrees and undergraduate certificates.

Bonds Payable

As of June 30, 2013, the University had outstanding bonds of approximately \$2.14 billion representing \$2.13 billion of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), \$40.7 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 \$284.4 million of bonds financed through the Worcester City Campus Corporation (the "WCCC Bonds"). Bonds payable is the University's largest liability at June 30, 2013. 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 .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% – 5.0%.

On August 13, 2013, the Authority issued Commercial Paper Notes, 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 is 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.

In fiscal year 2011, the Building Authority issued bonds in the amount of \$552.3 million through three Series and refunded two series as follows:

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

Capitalized Lease Obligations

At June 30, 2013, the University had capital lease obligations with remaining principal payments of approximately \$6.5 million which is a \$5.5 million decrease from the remaining principal payments of \$12.0 million at June 30, 2012. At June 30, 2011, the remaining principal payments were \$17.6 million. The capital leases primarily consist of telecommunications, software and co-generation systems, and campus energy conversions. The decrease in obligations is due to scheduled 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, 2013 was \$129.5 million, at June 30, 2012 was \$136.9 million and at June 30, 2011 was \$138.5 million.

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 (formerly Massachusetts Health and Educational Facilities Authority) financing, Commonwealth appropriations, and private fund raising. 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	Total Sept Approved Projects
Amherst	\$ 1,417,236,000	\$ 1,414,736,000
Boston	1,291,935,410	943,785,410
Dartmouth	721,328,374	438,510,374
Lowell	1,516,400,000	828,400,000
Worcester	523,597,500	151,840,000
TOTAL	\$ 5,470,497,284	\$ 3,777,271,784
Projects	255	183

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. New projects added to each campus as "approved" by the Board of Trustees are as follows and are included in the \$3.8 billion in approved projects summarized above:

Campus	Campus Project Names	Est. September 2013
Amherst	Campus Core Accessibility, Waterproofing and Landscape Improvements study	\$1,000,000
Amherst	Machmer Repairs	12,600,000
Amherst	University Health Services design	4,000,000
Amherst	Liquified Natural Gas infrastructure	1,200,000
Boston	McCormack Hall: Roof Replacement and Building Envelope Repairs	3,500,000
Boston	Calf Pasture Pumping Station: Secure and Button Up Envelope and Improve Exterior Appearance	1,000,000
Boston	Study Bayside Parcel for Future Permanent Use, Including Sea Level Rise Requirements	1,000,000
Boston	Master Plan Phase I: New Baseball Facility To Be Constructed at Boston College High School	1,000,000
Boston	Healey Building: Renovations to Improve and Increase Student Learning Space, Including Necessary Fire Protection Improvements	12,500,000
Boston	Instructional Equipment Upgrades and Replacements	5,000,000
Boston	WUMB: Relocation WUMB Radio to New Facility	4,000,000
Dartmouth	Update Campus Master Plan	1,500,000
Dartmouth	ATMC Acquisition	11,400,000
Dartmouth	Wind Turbine Project	1,317,457
Dartmouth	Residence Halls - Wireless Network Installation	1,200,000
Dartmouth	Centennial Way Retail Corridor	10,000,000
Lowell	McGauvran Dining Conversion	30,000,000
Lowell	Residence Hall Acquisition & Construction	100,000,000
Lowell	Athletic & Recreational Facility Improvements - incl. Division 1	10,000,000
Worcester	Basic Research and Student Lab Wing Improvements (Floors 5&6)	15,500,000
Worcester	LRB Teaching and Learning Space - Backfill Project (Floor 1)	2,000,000
Worcester	Campus Electrical Distribution Efficiency Improvements	2,500,000
Worcester	Library repurposing and renovations	5,500,000
Worcester	Student Services and Delivery Services Improvements	3,600,000
Worcester	A Level Animal Quarters Improvements (cage wash, mechanical, finishes)	14,500,000
Worcester	Steam Chiller 2 & 3 Retrofits	1,000,000
Worcester - WCCC	MBL - AAV Production Facility (not including filling suite)	5,000,000
SUBTOTAL - NEW PROJECTS		\$261,817,457

Beginning in the late 1990s, the University enhanced its program to address deferred maintenance needs at its campuses. As a result, the University has made investments to repair and renovate facilities at the University's campuses through the use of operational funds, campus borrowing, and state support.

Factors Impacting Future Periods

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, 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:

- On February 2, 2010, the Massachusetts Board of Higher Education issued approval for UMass Dartmouth to offer the juris doctorate (J.D.) degree and establish the first public law school in the Commonwealth. On November 16, 2010, the Foundation completed the acquisition of the building and land at 333 Faunce Corner Road, Dartmouth, MA, from the Board of Trustees of Southern New England School of Law. This acquisition marks the culmination of the gift of the assets of Southern New England School of Law to the University of Massachusetts Foundation, Inc. and the University of Massachusetts Dartmouth. On July 1, 2010, the University of Massachusetts Dartmouth began operation of the law school, now known as UMass Law School at Dartmouth. The focus of the law school is on public service, with a curriculum concentrating on civil and human rights, legal support for businesses, economic justice, and community law. Implementing its strategic plan to receive full accreditation from the American Bar Association, the School of Law has been provisionally approved by the accrediting Council of the Bar Association. If the Law School continues to meet Bar Association standards over the next three years, it will receive full accreditation.
- Also in February 2010, the Lowell campus accepted the transfer of the 6,500-seat Tsongas Arena from the City of Lowell. The renamed Tsongas Center at UMass Lowell has been remodeled and is a vibrant addition to the University and the surrounding communities. The Tsongas Center is host to hockey games, concerts, functions, school events and other community activities.
- In May 2010, the University's Boston Campus finalized the purchase of the former site of the Bayside Exposition Center, which is located less than one mile from the main campus. This acquisition adds 20 acres of waterfront property to the Campus and includes 1,500 parking spaces. The Boston Campus will be using the property temporarily for parking and storage space as it completes major capital projects over the next few years but it continues to collaborate with the City of Boston on the master planning around the ideal development of the property in the future.
- In January 2011, the University's Lowell Campus purchased the former Saint Joseph's Hospital in Lowell. When acquired, the property consisted of six buildings totaling 300,000 square feet located within walking distance of the University's North, South, and East campuses in Lowell. The Lowell Campus is in the process of converting the property through a combination of new construction and renovation into an important campus connection point focused on student and administrative services to be known as University Crossing.
- In late 2012, the Albert Sherman Center opened at the Medical School to unify the UMass Medical School's Worcester campus, double its research capacity and support the school's new learner-centered curriculum. This interdisciplinary, state-of-the-art research and education facility will foster interaction and collaboration among scientists and promote innovation and synergies across disciplines. It attracts researchers, physicians, faculty, students and industry partners, enhancing the Medical School's position as a leader in medical research and education.
- Included in the fiscal year 2013 budget was funding to alleviate student overcrowding. On the Lowell campus, a satellite campus in Haverhill is currently being explored to better serve its student population. Additionally, the Amherst campus is developing a presence in downtown Springfield and is currently reviewing proposals for available space to serve its students in that City.

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 greatest challenges facing the University. Despite investing more than \$2.5 billion in 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 colleges, and the University. More than \$1 billion of these funds are directed to University projects exclusively. Although the financial challenges faced by the Commonwealth have slowed down the pace of this funding, the capital plans prepared by the Commonwealth's Executive Office for Administration and Finance maintain the commitment to fund \$1 billion of capital activity at the University over the ten-year period from FY09-FY18. 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 the University is 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 in the financial statements where capital appropriations and grants exceeded \$112 million in fiscal year 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 now underway to develop, adjacent to the campus, the Edward M. Kennedy Institute for the United States Senate. The Kennedy Institute will focus on political study, training sessions for students and politicians, and historical records. Once established, the Institute is likely to add significant prominence to the Boston Campus and the University.

Research funding for the University of Massachusetts was strong despite Federal sequestration of funds, approaching the \$600 million mark for fiscal year 2012. Research expenditures were \$597.5 million in Fiscal Year 2012, up from \$586.7 million in Fiscal Year 2011. Most research at the University is externally funded, with the federal government providing a majority of the funding through the National Institutes of Health, the National Science Foundation, and other sources. Among Massachusetts colleges and universities, UMass ranks third in research and development expenditures, behind only MIT and Harvard. The University, as well as most major public research universities across the United States, is closely monitoring the potential reduction in federal funding for research and development programs.

In recent years the online learning consortium of the University, UMassOnline, has shown significant growth in enrollments, course offerings and revenue generation benefiting the campuses and raising the profile of the University throughout this important sector of the higher education market. UMassOnline provides marketing and technology support for UMass' online offerings that enable students, professionals, and lifelong learners to take courses anywhere, anytime. With over 100 undergraduate and graduate degree, certificate and professional development programs and more than 1,500 courses available from University faculty, UMassOnline is one of the largest accredited online programs available.

For fiscal year 2013, UMass Online and the Continuing Education units at the five campuses collaboratively generated tuition revenue in excess of \$78.2 million and supported 59,154 enrollments, an increase of 8.6% for revenue and enrollments.

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

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

In response to these mid-year reductions and the anticipated further reduction of the state appropriation for fiscal year 2010, the University departed from its five-year practice of limiting student charge increases to at or below the rate of inflation. For fiscal year 2010, the University Trustees approved a mandatory student charge increase of up to \$1,500 for in-state undergraduate students. The approved increase included specific language that authorized rebates of the charge increases based upon the level of federal support provided by The American Recovery and Reinvestment Act of 2009 ("ARRA"). The Commonwealth's budget for fiscal year 2010 approved on June 29, 2009 reduced the University's state appropriation by \$53.5 million in comparison to the final fiscal year 2009 state appropriation after the reductions made in October 2008 and January 2009. The fiscal year 2010 state budget also eliminated \$10.2 million of line item funding specific to the University.

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

The fiscal year 2011 budget approved by the Legislature and signed by the Governor on June 30, 2010 included a base state appropriation of approximately \$424.1 million for the University, an increase in the base state appropriation of approximately

\$44.2 million in comparison to fiscal year 2010. In addition, \$4.4 million of line item funding specific to the University that was not funded in fiscal year 2010 was restored for fiscal year 2011. The University received an additional \$5.5 million from the Commonwealth to support the fiscal year 2011 cost of collective bargaining agreements. Subsequent to the finalization of the Commonwealth's fiscal year 2011 budget, federal legislation was passed that authorized approximately \$200 million for protecting education jobs in the Commonwealth. With the receipt of this funding, the Commonwealth's Executive Office of Education distributed \$37.8 million of ARRA funds to the University for fiscal year 2011.

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

In addition to the level funding of the base state appropriation, the Commonwealth's fiscal year 2012 budget included \$6.4 million of line item funding specific to the University. However, this positive support was offset by the fact that the University received almost no ARRA stimulus funds in fiscal year 2012. As a result of the flat state support, the elimination of the federal stimulus funding, and the realization that the Commonwealth would not be providing support for the fiscal year 2012 costs of the collective bargaining contracts signed in fiscal year 2011, the University's Board of Trustees voted on June 8, 2011 to increase mandatory student charges by 7.5% for resident undergraduate students for the 2011-2012 academic year.

The Commonwealth's fiscal year 2013 budget approved in June 2012 included a base state appropriation amount for the University equal to the base state appropriation received in fiscal year 2012. In addition to the base state appropriation, the budget also provided \$25.6 million to cover the FY13 cost of the collective bargaining increases for the University's union employees and \$6.6 million of line item funding specific to the University. With state support consistent with the FY11 level despite the fact that enrollment has increased at the University by 15% over the last five years, the University's Board of Trustees approved a 4.9% tuition and fee increase for undergraduate students for the 2012-2013 academic year. 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 (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 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 FY14, the University continues to examine its 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.

As the University begins planning for fiscal year 2015, it continues to work with the State on the 50:50 proposal to ensure the second year of funding toward this plan. 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 its fundraising efforts including the Amherst campus celebration of the 150th anniversary of its founding as Massachusetts Agricultural College in 1863 following the passage of the federal Morrill Act. The year-long anniversary celebration will include a series of events and activities along with an aggressive fundraising campaign.

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, contact the University by calling the University Controller, Sarah Mongeau, at (774) 455-7520 or by email at smongeau@umassp.edu.

University of Massachusetts
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)

	University	University Related	University	University Related
	June 30, 2013	June 30, 2013	June 30, 2012	June 30, 2012
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$93,939		\$61,769	
Cash Held By State Treasurer	23,883		17,167	
Accounts, Grants and Loans Receivable, net	235,988		227,740	
Pledges Receivable, net	12,461	\$887	4,199	\$1,648
Short Term Investments	170,916		268,600	
Inventories, net	19,769		21,442	
Accounts Receivable from UMass Memorial, net	12,734		5,808	
Due From Related Organizations	230	380	173	542
Other Assets	9,974	2,563	10,195	407
Total Current Assets	579,894	3,830	617,093	2,597
Noncurrent Assets				
Cash and Cash Equivalents		1,041		778
Cash Held By State Treasurer	9,339		11,874	
Cash and Securities Held By Trustees	622,791		819,794	
Accounts, Grants and Loans Receivable, net	39,388		41,993	
Pledges Receivable, net	3,907	1,109	2,828	8,586
Investments	717,729	389,376	609,242	355,088
Other Assets	32,110	173	32,774	64
Investment In Plant Net of Accumulated Depreciation	3,705,516	8,619	3,098,186	8,822
Total Noncurrent Assets	5,130,780	400,318	4,616,691	373,338
Total Assets	\$5,710,674	\$404,148	\$5,233,784	\$375,934
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Change in Fair Value of Interest Rate Swaps	\$40,207		\$75,635	
LIABILITIES				
Current Liabilities				
Accounts Payable	\$129,238	\$94	\$169,787	\$49
Accrued Salaries and Wages	106,016		93,555	
Accrued Compensated Absences	73,118		71,892	
Accrued Workers' Compensation	4,198		4,467	
Accrued Interest Payable	22,316		20,218	
Bonds Payable	328,126		415,860	
Capital Lease Obligations	4,302		5,501	
Assets Held on behalf of Others		12,307		11,978
Accounts Payable to UMass Memorial	4,364		3,613	
Due To Related Organizations	380	230	542	173
Deferred Revenues and Credits	40,388	1,973	46,248	2,412
Advances and Deposits	7,946		10,154	
Other Liabilities	52,530		38,267	
Total Current Liabilities	772,922	14,604	880,104	14,612
Noncurrent Liabilities				
Accrued Compensated Absences	30,410		30,820	
Accrued Workers' Compensation	10,429		9,805	
Bonds Payable	2,144,776		1,824,474	
Capital Lease Obligations	2,238		6,539	
Derivative Instruments, Interest Rate Swaps	69,325		106,110	
Deferred Revenues and Credits	20,199		16,501	
Advances and Deposits	27,943		26,697	
Other Liabilities	36,398	3,332	18,993	3,487
Total Noncurrent Liabilities	2,341,718	3,332	2,039,939	3,487
Total Liabilities	\$3,114,640	\$17,936	\$2,920,043	\$18,099
Net Position:				
Invested in Capital Assets Net of Related Debt Restricted	\$1,682,173	\$8,619	\$1,502,171	\$8,822
Nonexpendable	18,058	290,858	17,773	273,995
Expendable	156,469	74,706	162,341	60,278
Unrestricted	779,541	12,029	707,091	14,740
Total Net Position	\$2,636,241	\$386,212	\$2,389,376	\$357,835

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

University of Massachusetts
Statements of Revenues, Expenses, and Changes in Net Position
For The Years Ended June 30, 2013 and 2012
(in thousands of dollars)

	University Related		University Related	
	University	Organizations	University	Organizations
	June 30, 2013	June 30, 2013	June 30, 2012	June 30, 2012
REVENUES				
Operating Revenues				
Tuition and Fees (net of scholarship allowances of \$189,753 at June 30, 2013 and \$177,420 at June 30, 2012)	\$707,495		\$659,180	
Federal Grants and Contracts	334,697		355,792	
State Grants and Contracts	68,794		67,927	
Local Grants and Contracts	2,253		3,077	
Private Grants and Contracts	106,714		109,235	
Sales and Service, Educational	19,237		19,311	
Auxiliary Enterprises	319,544		297,956	
Other Operating Revenues:				
Sales and Service, Independent Operations	46,062		61,087	
Sales and Service, Public Service Activities	447,119		383,855	
Other	100,839		98,107	
Total Operating Revenues	2,152,754		2,055,527	
EXPENSES				
Operating Expenses				
<i>Educational and General</i>				
Instruction	661,467		633,481	
Research	405,326		417,124	
Public Service	74,620	\$12,573	75,665	\$15,240
Academic Support	147,031		147,767	
Student Services	109,737		107,246	
Institutional Support	202,331		198,941	
Operation and Maintenance of Plant	204,449		215,292	
Depreciation and Amortization	185,261	202	163,166	203
Scholarships and Fellowships	49,731	77	47,626	462
<i>Auxiliary Enterprises</i>	248,765		235,633	
<i>Other Expenditures</i>				
Independent Operations	47,826		53,734	
Public Service Activities	327,293		293,951	
Total Operating Expenses	2,663,837	12,852	2,589,626	15,905
Operating Loss	(511,083)	(12,852)	(534,099)	(15,905)
NONOPERATING REVENUES/(EXPENSES)				
Federal Appropriations	6,774		6,845	
State Appropriations	519,311		517,392	
State Appropriations - Federal Stimulus funds			10	
Gifts	30,044	9,452	22,143	8,891
Investment Income	56,037	24,540	27,192	(5,255)
Endowment Income	13,614	1,160	15,623	95
Interest on Indebtedness	(91,364)		(64,434)	
Nonoperating Federal Grants	70,586		73,908	
Other Nonoperating Income	2,366		780	
Net Nonoperating Revenues	607,368	35,152	599,459	3,731
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	96,285	22,300	65,360	(12,174)
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES				
Capital Appropriations	112,581		150,367	
Capital Grants and Contracts	39,347		43,891	
Additions to Permanent Endowments		16,056		19,604
Net Amounts Earned/Received on Behalf of Others		(928)		107
Capital Contribution	4,514		(345)	
Disposal of Plant Facilities	(8,802)		(13,606)	
Other Additions/(Deductions)	2,939	(9,051)	2,317	(123)
Total Other Revenues, Expenses, Gains, and Losses	150,579	6,077	182,624	19,588
Total Increase in Net Assets	246,864	28,377	247,984	7,414
NET POSITION				
Net Position at Beginning of Year	2,389,377	357,835	2,141,392	350,421
Net Position at End of Year	\$2,636,241	\$386,212	\$2,389,376	\$357,835

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, 2013 and 2012
(in thousands of dollars)

	University June 30, 2013	University June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$780,541	\$730,873
Grants and Contracts	695,492	667,310
Payments to Suppliers	(1,038,532)	(989,163)
Payments to Employees	(1,292,185)	(1,206,719)
Payments for Benefits	(283,775)	(317,157)
Payments for Scholarships and Fellowships	(49,725)	(47,620)
Loans Issued to Students and Employees	(7,229)	(6,308)
Collections of Loans to Students and Employees	5,755	5,353
Auxiliary Enterprises Receipts	305,907	301,266
Sales and Service, Educational	19,372	17,769
Sales and Service, Independent Operations	69,181	68,408
Sales and Service, Public Service Activities	466,113	415,292
Net Cash Used for Operating Activities	(329,086)	(360,696)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	577,841	580,609
State Appropriations - Federal Stimulus Funds	0	10
Tuition Remitted to the State	(35,103)	(37,029)
Federal Appropriations	6,774	6,845
Gifts and Grants for Other Than Capital Purposes	23,047	24,794
Nonoperating Federal Grants	70,586	73,908
Student Organization Agency Transactions	(518)	(40)
Net Cash Provided by Noncapital Financing Activities	642,627	649,097
CASH FLOWS FROM CAPITAL AND OTHER FINANCING ACTIVITIES		
Proceeds from Capital Debt	303,752	
Bond Issuance Costs Paid	(2,151)	(24)
Capital Appropriations	112,582	133,653
Capital Grants and Contracts	40,324	46,187
Purchases of Capital Assets and Construction	(273,885)	(318,942)
Principal Paid on Capital Debt and Leases	(76,347)	(72,885)
Interest Paid on Capital Debt and Leases	(95,550)	(54,929)
Use of Debt Proceeds on Deposit with Trustees	(537,050)	(345,214)
Net Cash Used for Capital Financing Activities	(528,325)	(612,154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	1,067,589	1,379,520
Interest on Investments	9,172	17,872
Purchase of Investments	(1,022,629)	(1,409,649)
Net Cash Provided by (Used for) Investing Activities	54,132	(12,257)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(160,652)	(336,010)
Cash and Cash Equivalents - Beginning of the Year	910,604	1,246,614
Cash and Cash Equivalents - End of Year	\$749,952	\$910,604
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	(\$511,083)	(\$534,099)
<i>Adjustments to reconcile loss to net cash used by Operating Activities:</i>		
Depreciation and Amortization Expense	185,261	163,166
<i>Changes in Assets and Liabilities:</i>		
Receivables, net	(14,984)	(6,038)
Inventories	1,673	1,146
Due to/from Related Organizations	(105)	(212)
Accounts Receivable/Payable UMass Memorial	(6,175)	(7,953)
Other Assets	(2,090)	(1,969)
Accounts Payable (non-capital)	(7,039)	10,079
Accrued Liabilities	13,632	16,623
Deferred Revenue	(2,162)	(4,036)
Advances and Deposits	(962)	3,169
Other Liabilities	14,948	(572)
Net Cash Used for Operating Activities	(329,086)	(360,696)
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Assets acquired and included in accounts payable and other liabilities	\$61,743	\$95,253
Loss on disposal of capital assets	(8,802)	(13,606)
Unrealized gain (loss) on investments	7,932	(17,711)

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

**University of Massachusetts
Notes to Financial Statements
June 30, 2013 and 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The 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, of which U Health Solutions, Inc. (“UHS”) see note 6) is a subsidiary, is a tax exempt organization founded to support research and real property activities for the University. The UMass Amherst Foundation was established in 2003 as a tax exempt organization founded to foster and promote the growth, progress, and general welfare of the University. These component units are included in the financial statements of the University because of the significance and exclusivity of their financial relationships with the University.

The University Related Organizations column in the accompanying financial statements includes the financial information of the University’s discretely presented component units. The University of Massachusetts Foundation, Inc. (“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 (“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 requires external financial statements to be reported on a consolidated basis and establishes standards for external financial reporting by public colleges and universities that resources be classified into the following net 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:** Net position subject to externally imposed stipulations that they be maintained permanently by the University.
- **Restricted Expendable:** Net position whose use by the University is subject to externally imposed stipulations. Such assets include restricted grants and contracts, the accumulated net gains/losses on true endowment funds, as well as restricted funds loaned to students, restricted gifts and endowment income, and other similar restricted funds.
- **Unrestricted:** Net position that is 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. As used in Statement No. 60, an 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.

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, 2013 and 2012 was \$113.9 million and \$124.7 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 2013 and 2012. Future utilization of gains is dependent on market performance. Deficiencies for donor-restricted endowment funds resulting from declines in market value would be offset by an allocation from unrestricted net assets to temporarily restricted net assets, and would be recorded in realized and unrealized gains (losses) on sale of investments. In fiscal years 2013 and 2012, the deficiencies were \$0.1 million and \$1.2 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 or historical treasures. Effective fiscal year 2012, the University no longer capitalizes library book acquisitions.

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

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

COMPENSATED ABSENCES

Employees earn the right to be compensated during absences for annual vacation leave and sick leave. The accompanying statements of net 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 estimated accrual.

DEFERRED REVENUE

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

ADVANCES AND DEPOSITS

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

TUITION AND STATE APPROPRIATIONS

The accompanying financial statements for the years ended June 30, 2013 and 2012 present as tuition revenue approximately \$35.1 million and \$37.0 million, respectively, of tuition received by the University and remitted to the State Treasurer's Office for the general fund of the Commonwealth of Massachusetts. During fiscal year 2004, the Amherst campus was granted authority to retain tuition for out of state students as part of a pilot program authorized by the Commonwealth. This pilot program was extended indefinitely in 2005. This program has been approved, effective 2012, for the remaining campuses. The amount of tuition retained by the University during 2013 and 2012 was \$74.5 million and \$50.8 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):

	<u>2013</u>	<u>2012</u>
Gross Commonwealth Appropriations	\$447,837	\$425,656
Plus: Fringe Benefits	130,005	154,953
	<u>577,842</u>	<u>580,609</u>
Less: Tuition Remitted	(35,103)	(37,029)
Less: Mandatory Waivers	(23,428)	(26,188)
Net Commonwealth support	<u>\$519,311</u>	<u>\$517,392</u>

AUXILIARY ENTERPRISES

Auxiliary Enterprise revenue of \$319.5 million and \$298.0 million for the years ended June 30, 2013 and 2012, respectively, are stated net of room and board charge allowances of \$0.7 million and \$0.6 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 \$358.7 million and \$346.7 million for the years ended June 30, 2013 and 2012, respectively. Included in expenditures are Commonwealth Medicine expenditures of \$347.4 million and \$311.6 million for the years ended June 30, 2013 and 2012, respectively.

Public Service Activities also includes payments received by the Medical School for educational services it provides to its clinical affiliate UMass Memorial as required by the enabling legislation enacted by the Commonwealth in 1997. Educational services revenues included in public service revenues were \$153.0 million and \$112.3 million for the years ended June 30, 2013, and 2012, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of \$65 million and \$60.0 million for the years ended June 30, 2013 and 2012, 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, 2013 and June 30, 2012, respectively, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

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

INCOME TAX STATUS

The University of Massachusetts and University of Massachusetts Building Authority are agencies of the Commonwealth of Massachusetts and are exempt from Federal income tax under Section 115(a) of the Internal Revenue Code. The Worcester City Campus Corporation, U Health Solutions, Inc. and the University Related Organizations are 501(c)(3) organizations and are exempt from Federal Income tax under the Internal Revenue Code and similar state provisions. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

COMPARATIVE INFORMATION AND RECLASSIFICATIONS

The University's financial statements include prior year comparative information. Certain reclassifications were made within prior year net position as a result of a correction of a prior year error. 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 24.5% and 22.8% of the University's investments at June 30, 2013 and 2012, respectively.

Custodial Credit Risk - Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the University would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. The University does not have a formal policy for custodial credit risk. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the University and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2013 and 2012, 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; non-interest bearing accounts are fully insured through December 31, 2013. None of the accounts are collateralized above the FDIC insured amounts. The

University also invested in individual CD's and BNY Mellon's CDARS program. These funds are invested in individual certificates of deposit in \$250,000 increments and are therefore fully insured by the FDIC.

At June 30, 2013 and 2012, the carrying amounts, bank balances and FDIC insured amounts were as follows (in thousands):

	2013			2012		
	Book Balance	Bank Balance	FDIC Insured	Book Balance	Bank Balance	FDIC Insured
Depository Accounts	\$ 73,056	\$ 86,519	\$ 5,938	\$ 42,057	\$ 59,054	\$ 58,698
Certificates of Deposit	30,650	30,650	30,400	40,650	40,650	40,400
Money Market	129,004	129,004	2,251	217,006	217,006	1,500
Total	\$ 232,710	\$ 246,173	\$ 38,589	\$ 299,713	\$ 316,710	\$ 100,598

At June 30, 2013 the University held a carrying and fair market value of \$723.5 million in non-money market investments compared to a carrying and fair market value of \$638.7 million at June 30, 2012. In the event of negligence due to the University's custodian and/or investment manager(s), it is expected that investment balances of \$723.5 million and \$638.7 million at June 30, 2013 and 2012, 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, 2013 and June 30, 2012, respectively, there is no portion of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio.

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

The table below shows the fair value (in thousands) and average credit quality of the fixed income component of the University's investment portfolio as of June 30, 2013 and 2012, respectively:

<u>Asset Class</u>	<u>June 30, 2013 Fair Value</u>	<u>Average Credit Quality</u>	<u>June 30, 2012 Fair Value</u>	<u>Average Credit Quality</u>
Short duration	\$230,161	AAA	\$304,965	AAA
Intermediate duration	282,837	A	246,646	A

The table below shows the fair value (in thousands) by credit quality of the rated debt investments component of the University's investment portfolio as of June 30, 2013 and 2012, respectively:

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	-
Bond Mutual Funds	2,248	-	289	1,959	-	-	-	-	-	-
Municipal/Public Bonds	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	

Rated Debt Investments - 2012
(in thousands)

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

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, 2013 and 2012, respectively:

<u>Asset Class</u>	<u>6/30/13 Allocation</u>	<u>6/30/13 Fair Value</u>	<u>6/30/12 Allocation</u>	<u>6/30/12 Fair Value</u>
Short Duration	26%	\$230,161	35%	\$304,965
Intermediate Duration	32%	282,837	28%	246,646
Alternative Assets	25%	217,442	23%	200,219
Equities	14%	130,175	11%	102,895
Commodities	2%	21,020	2%	17,836
Real Estate	1%	7,010	0%	5,281

Investments - 2013

(in thousands)

Investment Type:	Investment Maturity (in Years)				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
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
Bond Mutual Funds	2,248	470	1,489	289	-
Municipal/Public Bonds	173,923	14,704	72,774	47,857	38,588
Money Market Mutual Funds	165,793	165,793	-	-	-
Sub Total Debt Securities	\$ 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

Investments - 2012

(in thousands)

Investment Type:	Investment Maturity (in Years)				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Debt Securities					
US Agencies	\$ 19,180	\$ 5,883	\$ 3,130	\$ -	\$ 10,167
US Government	24,244	1,145	18,005	5,021	73
Foreign Government Bonds	2,186	-	500	691	995
Certificates of Deposit	40,500	40,500	-	-	-
Corporate Debt	123,489	12,187	45,211	22,394	43,697
Bond Mutual Funds	96,456	4,188	67,662	14,017	10,589
Municipal/Public Bonds	4,725	231	865	1,347	2,282
Money Market Mutual Funds	240,831	240,831	-	-	-
Sub Total Debt Securities	\$ 551,611	\$ 304,965	\$ 135,373	\$ 43,470	\$ 67,803

Other Investments

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

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 \$33.2 million at June 30, 2013 and \$29.0 million at June 30, 2012. The University has recorded a comparable amount of cash held by the State Treasurer for the benefit of the University, which will be subsequently utilized to pay for such liabilities. The cash is held in the State Treasurer's pooled cash account. The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible

collateral. Eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver – General.

4. CASH AND SECURITIES HELD BY TRUSTEES

Cash and securities held by trustees primarily consist of unspent bond proceeds, amounts held for the future payment of debt service on such borrowings and designated funds. At June 30, 2013 and June 30, 2012 there are investments of \$7,000 and \$63,000, respectively, available from Master Lease agreements entered into by the University for capital asset purchases at the Amherst and Boston campuses. Additionally, there is \$13.6 million and \$13.7 million, respectively, available from the Revolving Loan Fund established with 2000 Series A bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Note 8) and \$608.5 million and \$805 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 \$0.6 billion at June 30, 2013 and \$0.8 billion at June 30, 2012) 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, 2013 and 2012 (in thousands):

	2013	2012
Cash	\$ 5,130	\$ 56
Permitted money market accounts ("MMA")	<u>518,739</u>	<u>575,203</u>
Total cash and cash equivalents	<u>\$ 523,869</u>	<u>\$ 575,259</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, 2013, the bank balances of uninsured deposits totaled \$4.8M. At June 30, 2012, the Building Authority's cash deposits of \$56,075 were not subject to custodial credit risk as they were fully insured. For purposes of disclosure under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, money market accounts investing in debt securities are considered investments and therefore, are included in the investment disclosures that follow.

Investments

As of June 30, 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
MMA	<u>523,870</u>	<u>523,870</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 608,973</u>	<u>\$ 584,577</u>	<u>\$ 19,078</u>	<u>\$ 5,318</u>

As of June 30, 2012, 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	\$ 10,247	\$ -	\$ 10,247	\$ -
US Agencies	214,500	30,495	184,005	-
Repurchase Agreements	5,318	-	-	5,318
MMA	<u>575,203</u>	<u>575,203</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 805,268</u>	<u>\$ 605,698</u>	<u>\$ 194,252</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, 2013, the Building Authority had 28.8% of its investments with the Federal Home Loan Mortgage Corporation, 41.6% of its investments with the Federal Home Loan Bank and 11.5% of its investments with the Federal National Mortgage Association. As of June 30, 2012, the Authority had 10.1% of its investments with the Federal Home Loan Mortgage Corporation.

5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

Accounts, grants and loans receivable as of June 30, 2012 and 2013 respectively (in thousands):

	<u>2013</u>	<u>2012</u>
Student Accounts Receivable	\$ 51,449	\$ 47,167
Less allowance for uncollectible accounts	(18,319)	(16,329)
	<u>33,130</u>	<u>30,838</u>
Grants and Contracts Receivable	85,028	82,335
Less allowance for uncollectible accounts	(2,989)	(2,427)
	<u>82,039</u>	<u>79,908</u>
Student Loans Receivable	44,257	42,938
Less allowance for uncollectible accounts	(302)	(309)
	<u>43,955</u>	<u>42,629</u>
Commonwealth Medicine	64,094	56,216
Less allowance for uncollectible accounts	(825)	(1,007)
	<u>63,269</u>	<u>55,209</u>
Other	53,537	62,611
Less allowance for uncollectible accounts	(554)	(1,462)
	<u>52,983</u>	<u>61,149</u>
Total, net	275,376	269,733
Less current portion, net	(235,988)	(227,740)
Long-term, net	<u>\$ 39,388</u>	<u>\$ 41,993</u>

UMASS MEMORIAL

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

- UMass Memorial has been granted the right to occupy portions of the University's Worcester Medical School campus for a period of 99 years and UMass Memorial has agreed to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial has also agreed to contribute to capital improvements to shared facilities.
- UMass Memorial has agreed to make certain payments to the University and its related organizations, including: 1) an annual fee of \$12.0 million (plus an inflation adjustment), for 99 years as long as the University continues to operate a medical school; and 2) a participation payment based on a percentage of net operating income of UMass Memorial for which revenue is recognized by the University when the amounts are received.

The University is reimbursed by, and reimburses UMass Memorial for shared services, cross-funded employees, and other agreed upon activities provided and purchased. For the years ended June 30, 2013 and 2012, the reimbursements for services provided to UMass Memorial were \$124.0 million and \$128.5 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 \$73.8 million and \$83.1 million for fiscal years 2013 and 2012, respectively. At June 30, 2013 and 2012, the University has recorded a receivable in the amount of \$12.7 million and \$5.8 million, respectively from UMass Memorial which includes \$5.8 million and \$2.8 million, respectively, in payroll and related fringe charges. The University has recorded a payable at June 30, 2013 of \$4.4 million primarily for cross-funded payroll. At June 30, 2012, the University had a payable of \$3.6 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, 2013, the net assets of the Foundation included as related organizations in the combined financial statements of the University are \$394.3 million, of which \$366.7 million are restricted funds and \$27.5 million are unrestricted funds. During the fiscal year ended June 30, 2013, the University received approximately \$49.9 million from the Foundation, and disbursed approximately \$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.

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

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

UHealthSolutions, Inc. (formerly Public Sector Partners, Inc. "PSP") and its previously wholly-owned subsidiary, MedMetrics Health Partners, Inc., is a corporation that offers a wide range of program management and consulting services to both public sector agencies and nonprofit organizations. UHS is affiliated with Commonwealth Medicine, a division of the Medical School and WCCC is its sole member. The majority of the net assets of MHP were sold to a third party on April 11, 2012, and the remainder of the MHP assets were transferred to UHS. UHS received \$12.7 million as consideration and recognized a gain of the sale of the net assets of \$9.7 million.

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

In August 2005, the Building Authority executed a contract with UMass Management, LLC, a wholly owned subsidiary of ClubCorp USA, Inc., to provide management services for The University of Massachusetts Club ("the Club"), a private social club for alumni and friends of the University. Under the contract, the Authority is responsible for approving the budgets and operating plans of the Club as presented by the Manager. The Building Authority is responsible for any shortfall in the operating budget and will benefit from any operating profits. The contract calls for a minimum management fee payable to the Manager of \$0.2 million or four percent of the operating revenues, as defined by the contract, whichever is greater. Additionally, the Manager receives a percentage of the Club initiation fees and 25 percent of operating profits, as defined by the contract. The contract term is 10 years and can be terminated by the Building Authority after 3 years if the Building Authority decides to close the Club for a minimum of 18 months. The Building Authority is the tenant on the sublease for the Club space and the lease does not terminate should the Building Authority close the Club. As of June 30, 2013 and 2012, the Authority had provided operating support for the Club of approximately \$0.2 million and \$0.2 million, respectively.

7. INVESTMENT IN PLANT

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)	\$4,058,559
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	583,747	(563,344)	888,937
Sub-Total	926,365	591,802	(563,344)	954,823
Total	\$3,098,186	\$1,198,511	(\$591,181)	\$3,705,516

University Related Organizations:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings and Improvements	\$7,942	-	-	\$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

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

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

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

At June 30, 2013 and 2012, investment in plant included capital lease assets of approximately \$52.0 million and \$84.7 million, respectively, net of accumulated depreciation on capital lease assets of approximately \$45.5 million and \$74.0 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, 2013 and 2012, the University capitalized net interest costs of \$27.4 million and \$41.4 million respectively.

8. BONDS PAYABLE

Amounts outstanding at June 30, 2013 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%	\$ 12,035
Series 2004-A	96,025	2015	4.2-4.5%	6,715
Series 2004-1	183,965	2016	5.25%	24,500
Series 2005-1	25,595	2016	5.0%	8,020
Series 2005-2	212,550	2025	5.0%	180,195
Series 2006-2	21,240	2014	5.47-5.49%	2,760
Series 2008-A	26,580	2038	variable	22,795
Series 2008-1	232,545	2038	variable	201,655
Series 2008-2	120,560	2038	4.0-5.0%	108,300
Series 2009-1	247,810	2039	3.0-5.0%	216,870
Series 2009-2	271,855	2039	6.423-6.573%	271,855
Series 2009-3	28,570	2039	5.283-6.173%	27,715
Series 2010-1	118,985	2020	5.0%	107,950
Series 2010-2	430,320	2040	3.8-5.45%	430,320
Series 2010-3	3,005	2040	5.75%	2,925
Series 2011-1	135,040	2034	variable	132,450
Series 2011-2	101,700	2034	variable	100,020
Series 2013-1	212,585	2043	2.00%-5.00%	212,585
Series 2013-2	71,790	2043	.43-2.686%	71,790
				<u>2,141,455</u>
			Unamortized Bond Premium	54,032
			Less Deferred Loss on Refunding	(68,945)
			SUBTOTAL	<u>2,126,542</u>
University of Massachusetts HEFA/MDFA:				
2000 Series A	\$ 20,000	2030	variable	20,000
2002 Series C	35,000	2034	4.2%	-
2007 Series D	10,435	2031	3.5-4.25%	9,750
Series 2011	29,970	2034	2.5-4.0%	29,810
				<u>59,560</u>
			Unamortized Bond Premium	1,112
			SUBTOTAL	<u>60,672</u>
WCCC HEFA/MDFA:				
Series 2005-D	\$ 99,325	2029	5.0-5.25%	81,860
Series 2007-E	118,750	2036	3.5-5.0%	108,135
Series 2007-F	101,745	2036	4.0-5.0%	87,110
Series 2011	10,495	2023	2.0-5.0%	9,765
				<u>286,870</u>
			Unamortized Bond Premium	8,889
			Deferred Loss on Refunding	(11,409)
			SUBTOTAL	<u>284,350</u>
MDFA:				
Clean Renewable Energy Bonds	\$ 1,625	2027	3.5%	1,338
			TOTAL	<u><u>\$ 2,472,902</u></u>

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

	Beginning Balance	Additions/ Amortization	Retirements/ Repayments	Ending Balance
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
Less: deferred loss on refunding	(69,719)	774		(68,945)
Subtotal	1,884,082	304,525	(62,065)	2,126,542
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)	720		(11,409)
Subtotal	292,857	720	(9,227)	284,350
MDFA:				
Clean Renewable Energy Bonds	1,434		(96)	1,338
Total	\$ 2,240,334	\$ 305,245	\$ (72,677)	\$ 2,472,902

Maturities and interest, which is estimated using rates in effect at June 30, 2013, on bonds payable are for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>
2014	\$ 77,846	\$ 103,271
2015	84,521	98,423
2016	86,576	94,691
2017	89,626	91,367
2018	91,196	87,329
2019-2023	496,163	371,827
2024-2028	484,257	273,220
2029-2033	446,845	179,546
2034-2038	385,995	96,011
2039-2043	221,550	22,611
2044-2048	24,650	501
Total	\$ 2,489,225	\$ 1,418,797

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Repayments</u>	<u>Ending Balance</u>
University of Massachusetts Building Authority:				
Series 2000-A	\$ 1,645		\$ (1,645)	-
Series 2003-1	23,045		(5,380)	17,665
Series 2004-A	10,735		(1,970)	8,765
Series 2004-1	39,935		(7,740)	32,195
Series 2005-1	12,745		(2,305)	10,440
Series 2005-2	197,825		(8,180)	189,645
Series 2006-2	7,860		(2,485)	5,375
Series 2008-A	24,435		(805)	23,630
Series 2008-1	215,120		(6,605)	208,515
Series 2008-2	113,105		(2,355)	110,750
Series 2009-1	240,120		(11,455)	228,665
Series 2009-2	271,855			271,855
Series 2009-3	28,570		(415)	28,155
Series 2010-1	118,985		(4,710)	114,275
Series 2010-2	430,320			430,320
Series 2010-3	3,005		(40)	2,965
Series 2011-1	135,040		(1,275)	133,765
Series 2011-2	101,700		(825)	100,875
Plus: unamortized bond premium	44,031		(8,085)	35,946
Less: deferred loss on refunding	(72,376)	2,657		(69,719)
Subtotal	1,947,700	2,657	(66,275)	1,884,082
UMass HEFA/MDFA:				
2000 Series A	20,000			20,000
2001 Series B	280		(280)	-
2002 Series C	30,660		(29,920)	740
2007 Series D	10,140		(50)	10,090
Series 2011		29,970		29,970
Plus: unamortized bond premium		1,161		1,161
Subtotal	61,080	31,131	(30,250)	61,961
WCCC HEFA/MDFA:				
WCCC 2001 Series B	12,545		(12,545)	-
WCCC 2005 Series D	87,800		(2,905)	84,895
WCCC 2007 Series E	112,295		(1,775)	110,520
WCCC 2007 Series F	92,165		(2,470)	89,695
Series 2011		10,495		10,495
Plus: unamortized bond premium	8,638	1,113	(370)	9,381
Less: deferred loss on refunding	(12,568)	439		(12,129)
Subtotal	300,875	12,047	(20,065)	292,857
MDFA:				
Clean Renewable Energy Bonds	1,530		(96)	1,434
Total	\$ 2,311,185	\$ 45,835	\$ (116,686)	\$ 2,240,334

University of Massachusetts Building Authority

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

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

Pursuant to the authority given by the Building Authority's enabling act, the Commonwealth, acting by and through the Trustees of the University, has guaranteed the payment of principal of and interest on the Building Authority's bonds. (The guarantee is a general obligation of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. As is generally the case with other general obligations of the Commonwealth, funds with which to honor the guarantee, should it be called upon, will be provided by Commonwealth appropriation). The Building Authority's enabling act provides that the outstanding principal amount of notes and bonds of the Building Authority guaranteed by the Commonwealth cannot exceed \$200.0 million. The Building Authority issued bonds are all Commonwealth guaranteed with the exception of Series 2000-2, Series 2003-1, Series 2004-1, Series 2005-1, Series 2005-2, Series 2006-2 (federally taxable), Series 2008-1, Series 2008-2, Series 2009-1, Series 2009-2 (federally taxable), Series 2009-3 (federally taxable), Series 2010-1, Series 2010-2 (federally taxable), Series 2010-3 (federally taxable), Series 2011, Series 2013-1 and Series 2013-2.

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

Variable Rate Bonds The 2008-1 bonds were supported with an irrevocable direct pay letter of credit (the "Lloyds LOC") issued by Lloyds TSB Bank plc ("Lloyds"). Upon presentation of required documentation, the Lloyds LOC would be required to pay the Bond Trustee the amount necessary to pay the principal and accrued interest on the bonds. The Lloyds LOC expired in April 2013. Under the terms of the Lloyds LOC, the Authority was required to pay Lloyds in quarterly installments a facility fee in the amount of 26.5 basis points (or higher, under certain circumstances) of the commitment amount. Fees accrued by the Building Authority in connection with the Lloyds LOC totaled \$492,500 and \$570,000 for the years ended June 30, 2013 and 2012, respectively. On April 23, 2013, the Building 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 Building 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 Building Authority in connection with the J.P. Morgan agreement totaled \$106,100 for the year ended June 30, 2013. The agreement expires in April 2016 and may be extended if a mutual interest exists between both the Building Authority and J.P. Morgan.

The 2008-A bonds were supported by a standby bond purchase agreement with Bank of America, N.A. ("BofA") which required BofA to purchase bonds tendered, and not remarketed, in an amount not to exceed the principal on the bonds plus accrued interest up to 184 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Building Authority was required to pay BofA in quarterly installments a facility fee in the amount of 12 basis points of the initial commitment. The initial commitment under the agreement was set at \$28.0 million and was subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expired in April 2013 and could have been extended at the option of BofA. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled \$24,800 and \$43,600 for the years ended June 30, 2013 and 2012, respectively. On April 16, 2013, the Building 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 Building 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 Building Authority and Barclays. Fees accrued by the Building Authority in connection with the Barclays agreement totaled \$132,500 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. Under this agreement, the Building Authority is required to pay Wells in quarterly installments a facility fee in the amount of 40 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the agreement was set at \$135.0 million and is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires on June 9, 2014 and may be extended at the option of Wells. Fees accrued by the Building Authority in connection with Wells totaled \$665,500 and \$674,600 for the years ended June 30, 2013 and 2012, respectively.

Window Bonds In fiscal year 2011, the Building Authority issued its 2011-2 bonds in a variable rate Window Bond mode. As with the Building Authority's other variable rate bonds, the Window Bondholders can tender the bonds at any time. But unlike the Building Authority's other variable rate bonds, where the bondholders will receive payment on any tendered bonds 7 days from the tender, Window Bondholders are not required to receive funds for the tender until after a 30 day remarketing period and an additional 180 day funding window period. Due to this 210 day funding period, the Building Authority is not required to obtain any type of liquidity support for the 2011-2 bonds and the bonds are considered supported with self-liquidity. Window Bondholders receive 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 There were no advanced refundings in fiscal year 2013. In previous fiscal years, the Building Authority has advanced refunded various bonds by depositing into various trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds could be called. Assets held in the trust accounts for this purpose had aggregate market values of approximately \$298.0 million and \$311.7 million as of June 30, 2013 and 2012, respectively. The unpaid principal amount of the refunded bonds totaled \$289.6 million and \$292.0 million as of June 30, 2013 and 2012, respectively.

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

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

Bond Premium and Issuance Expenses In connection with the Building Authority's bond issues, the Building Authority received premiums at issuance totaling approximately \$86.7 million. The Building Authority will amortize the premiums received as a reduction in interest expense over the life of the respective bond issue.

In connection with the Building Authority's bond issues, the Building Authority incurred certain issuance costs associated with the bond offerings, as of June 30, 2013, bond issuance costs were \$19.0 million and \$19.8 million, net of accumulated amortization of \$2.5 million and \$1.7 million, respectively. These issuance costs have been capitalized by the Building Authority and will be amortized over the life of the respective bond issue.

Interest Rate Swaps The Building Authority uses derivative instruments in an attempt to manage the impact of interest rate changes on its cash flows and net position. The Building Authority utilizes these instruments in an attempt to mitigate 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 Statement No. 53") to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate risk exposures.

The Building Authority applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB 53 are referred to as hedging derivative instruments. Under hedge accounting, changes in the fair value of a hedging derivative instrument is reported as a deferred inflow or deferred outflow in the Statement of Net Position until the contract is settled or terminated.

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

The Building Authority's hedging derivative instruments at June 30, 2013 and 2012 were as follows (in thousands):

	Fair Value June 30, 2013		Net Change in Fair Value	Fair Value June 30, 2012		Type of Hedge	Financial Statement Classification for Changes in Fair Value
Series 2008-1 Swap	\$	(28,125)	\$ 16,596	\$	(44,721)	Cash Flow	Deferred outflow
Series 2008-A Swap		(3,232)	1,894		(5,126)	Cash Flow	Deferred outflow
Series 2006-1 Swap		(37,969)	18,294		(56,263)	Cash Flow	Deferred outflow
Total	\$	<u>(69,326)</u>	<u>\$ 36,784</u>	\$	<u>(106,110)</u>		

The terms of the Building Authority's financial derivative instruments that were outstanding at June 30, 2013 are summarized in the table below (in thousands):

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 were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the agreements, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the agreements. As of June 30, 2013 and 2012, the Building Authority's swaps had a negative fair value of \$69.3 million and \$106.1 million, respectively.

Credit risk. As of June 30, 2013, the Building Authority was not exposed to credit risk on the swaps with 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 Building Authority to credit risk. To mitigate the potential for credit risk, when a counterparty has a positive fair value and if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

The credit ratings for the Building Authority's counterparties at June 30, 2013 are as follows:

	Credit Ratings		
	Moody's	S & P	Fitch
UBS AG	A2	A	A
Deutsche Bank AG	A2	A+	A+
Citi Bank NA	A3	A	A

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

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

Contingencies. All of the Building Authority's swaps include provisions that require the Building Authority to post collateral in the event its credit rating falls below certain levels. In the event the Building Authority is rated A2 by Moody's Investors Service or A by Standard & Poor's, the Building Authority would need to post collateral equal to amounts above the fair value of its swaps in liability positions above \$10 million. In the event the Building Authority is not rated or rated below A3 by Moody's Investors Service or below A- by Standard & Poor's, the Building Authority must post collateral in the amount of the fair value of the swaps in liability positions. The collateral posted is to be in the form of cash, obligations guaranteed by the U.S. Treasury, or negotiable debt obligations issued by the Federal Home Loan Mortgage Association or the Federal National Mortgage Association. If the Building Authority does not post collateral, the derivative instrument may be terminated by the counterparty. The Building Authority's credit rating is Aa2 from Moody's Investors Service, AA from Fitch Ratings, and AA- from Standard and Poor's at June 30, 2013; therefore, no collateral has been posted.

Termination of Hedge Accounting. In June of 2011, the Building Authority undertook an advance refunding of the 2008-3 and 2008-4 variable rate bonds hedged by the Series 2006-1 Swap. As part of the refunding, the Series 2006-1 swap was re-assigned to a new underlying notional (the 2011-1 and 2011-2 Bonds) with identical terms. This refunding and reassignment effectively terminated the original hedge. At June 30, 2011, the Series 2006-1 Swap was considered a hedging derivative instrument. In accordance with GASB 53, at the time of a termination event related to an advance refunding of the hedged debt, the balance of the amounts in deferred outflows is to be included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. The balance of the deferred outflows that was included in the net carrying amount of the refunded debt at the time of the refunding was \$22.2 million. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2013 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2013.

Swap payments and associated debt. Using rates as of June 30, 2013, 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.

in thousands

Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2014	\$ 10,050	\$ 388	\$ 14,578	\$ 25,016
2015	10,430	381	14,251	25,062
2016	10,845	374	13,932	25,151
2017	11,625	366	13,536	25,527
2018	11,770	358	13,182	25,310
2019-2023	116,785	1,579	57,620	175,984
2024-2028	155,640	904	33,965	190,509
2029-2033	112,390	298	11,768	124,456
2034-2038	16,495	21	787	17,303
Total	\$ 456,030	\$ 4,669	\$ 173,619	\$ 634,318

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 will be exercised and performed by MassDevelopment and any and all obligations and liabilities of MHEFA have become obligations and liabilities of MassDevelopment.

University of Massachusetts Series A, 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. On March 27, 2009 (the "Mandatory Purchase Date"), the Series A Bonds were subject to mandatory tender for purchase due to the expiration of the liquidity facility supporting the Series A Bonds and the conversion of the Series A Bonds from a weekly rate period to a long-term rate period. Only \$20.0 million of the Series A Bonds was remarketed on the Mandatory Purchase Date (the "Remarketed Series A Bonds" and together with the Series A Bonds, the "Bonds"). The initial long-term rate of 0.85% ended on March 31, 2010. The Remarketed Series A Bonds were remarketed again on April 1, 2010 with a long-term rate of 2.20%. The long-term rate period ended on March 31, 2013 and the Remarketed Series A Bonds were subject to mandatory tender for purchase on April 1, 2013. The Remarketed Series A Bonds were remarketed again 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. Average interest rates on the Bonds during fiscal year 2013 and 2012 were approximately 1.85% and 2.20%, respectively. At June 30, 2013 and 2012, 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, 2013, the aggregate principal payments outstanding on these bonds were \$29.8 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, 2013 and 2012, the aggregate principal payments outstanding on these bonds were \$9.8 million and \$10.5 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 \$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, 2013 and June 30, 2012, the aggregate principal payments outstanding on this portion of the Series F Bonds were \$29.8 million and \$30.4 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, 2013 and 2012, the aggregate principal payments outstanding on this portion of the Series F Bonds were \$57.4 million and \$59.3 million, respectively.

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, 2013 and June 30, 2012, the aggregate principal payments outstanding on the Series E Bonds were \$108.1 million and \$110.5 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, 2013 and 2012, the aggregate principal payment outstanding on the WCCC Series D Bonds was \$81.9 million and \$84.9 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 2013 and 2012, respectively.

Clean Renewable Energy Bonds

During 2011, the University entered into an Energy Services agreement for Solar Panel construction with the Commonwealth's Division of Capital Asset Management and Century Bank and Trust Company. The financing arrangement includes \$1.6 million in Clean Renewable Energy Bonds.

9. LEASES

The University leases certain equipment and facilities under operating leases with terms exceeding one year, which are cancelable at the University's option with 30 days notice. The rent expense related to these operating leases amounted to approximately \$16.8 million and \$20.0 million for the years ended June 30, 2013 and 2012, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems. The University also leases space to third party tenants. During 2013 and 2012, the amount reported as rental income was \$17.7 million and \$13.6 million, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems.

The following presents a schedule of future minimum payments under capital and non-cancelable operating leases and a schedule of principal and interest payments on capital lease obligations for the next five years and in subsequent five-year periods for the University as of June 30, 2013 (in thousands):

Year	University Capital Leases			Operating Leases	University		
	Master Leases	Other Leases	Total		Capital Lease Obligations	Interest	
2014	\$4,372	\$131	\$4,503	\$14,151			
2015	2,186	87	2,273	13,479	June 30, 2013		
2016	-	-	-	12,812	Year	Principal	
2017	-	-	-	11,681	2014	\$4,307	\$196
2018 and thereafter	-	-	-	28,650	2015	2,233	40
Total Payments	6,558	218	6,776	\$80,773	Total Payments	\$6,540	\$236
Less: Amount representing interest	(226)	(10)	(236)				
Present Value of Minimum Lease Payments	\$6,332	\$208	\$6,540				

10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES

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

	<u>Balance</u>		<u>Adjustments*</u>	<u>Balance</u>
University:				
Capital lease obligations	\$6,539	\$ -	(\$4,301)	\$2,238
Compensated absences	30,820	-	(410)	30,410
Workers' compensation	9,805	624	-	10,429
Deferred 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	18,050	(645)	36,398
University Related Organization:				
Other Liabilities	\$3,487	\$ -	(\$155)	\$3,332

During the year ended June 30, 2012 the following changes occurred in long-term liabilities as recorded in the statement of net position (in thousands):

	<u>Beginning Balance</u>		<u>Additions/ Adjustments*</u>	<u>Reductions/ Adjustments*</u>	<u>Ending Balance</u>
University:					
Capital lease obligations	\$12,116	\$ -	-	(\$5,577)	\$6,539
Compensated absences	26,541	4,279	-	-	30,820
Workers' compensation	9,821	-	-	(16)	9,805
Deferred revenues and credits	20,080	7,270	(10,849)	-	16,501
Advances and deposits	26,688	367	(357)	-	26,698
Other Liabilities	6,850	12,459	(316)	-	18,993
University Related Organization:					
Other Liabilities	\$3,413	\$74	\$ -	-	\$3,487

* Adjustments include changes in estimates

11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2013 and 2012 include \$229.5 million and \$272.7 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, \$99.5 million for 2013 and \$117.8 million for 2012 was reimbursed to the Commonwealth and \$130.0 million and \$155.0 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 \$66.3 million and \$63.8 million at June 30, 2013 and 2012, respectively. Cumulative repayments totaled approximately \$48.8 million and \$46.4 million as of June 30, 2013 and 2012, 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 \$52 million and \$64 million for the years ended June 30, 2013 and 2012, respectively. Annual covered payroll approximated 75.4% and 75.0% for the years ended June 30, 2013 and 2012,

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, 2013 and 2012, there were approximately 4,433 and 4,060 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 \$8.7 million and \$8.0 million in 2013 and 2012, respectively. University employees contributed \$20.6 million and \$18.2 million in 2013 and 2012, 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, 2013 plan assets totaled approximately \$410,000.

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 which is uncollateralized. The receivable from UMass Memorial represents 4.4% and 2.1% of total accounts receivable for the University at June 30, 2013 and 2012, respectively. The University also had uncollateralized receivables from three other organizations comprising approximately 5.8%, 5.5% and 5.7% of the total outstanding receivables at June 30, 2013 and 6.9%, 3.8% and 4.8% of the total outstanding receivables at June 30, 2012.

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 \$171.1 million and \$306.7 million at June 30, 2013 and 2012, respectively. In connection with the investments in certain limited partnership agreements, the Foundation has \$26.5 million and \$8.9 million in committed calls as of June 30, 2013 and 2012, 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, 2013 and 2012 in the amount of \$29.8 million and \$16.2 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 \$14.6 million as of June 30, 2013 and \$14.3 million as of June 30, 2012. 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 UMass Memorial Medical Center (UMMMC), the final report for which was issued December 2009. Portions of this report continue to be contested and the final outcome of this audit is currently unknown. Dependent on the final outcome, 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 will amortize its \$10.0 million investment over ten years beginning this fiscal year. The University's unamortized \$9.0 million investment is included in its Statement of Financial Position within Prepaids (\$1.0 million) and Other Assets (\$8.0 million).

16. SUBSEQUENT EVENT

On August 8, 2013, the Building Authority issued its \$25.0 million 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 Building 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 provided by State Street Bank with respect to the \$125.0 million Commercial Paper Notes, Series 2013 A, which expires in August of 2013. The remaining \$75.0 million Commercial Paper Notes, Series 2013 B are secured by a Standby Bond Purchase Agreement provided by U.S. Bank National Association, which expires in August 2016.

Management has evaluated subsequent events through December 18, 2013, which is the date the financial statements were available for issuance. There were no subsequent events that require adjustments to or disclosure in the financial statements.

**University of Massachusetts
2013 Annual Financial Report
Supplemental Financial Information
Table of Contents**

	<u>Page</u>
Report of Independent Auditors on Supplemental Information	S
Campuses:	
<i>Central Administration:</i>	
Statements of Net Assets as of June 30, 2013 and 2012	S-1
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	S-2
<i>Amherst:</i>	
Statements of Net Assets as of June 30, 2013 and 2012	S-3
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	S-4
<i>Boston:</i>	
Statements of Net Assets as of June 30, 2013 and 2012	S-5
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	S-6
<i>Dartmouth:</i>	
Statements of Net Assets as of June 30, 2013 and 2012	S-7
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	S-8
<i>Lowell:</i>	
Statements of Net Assets as of June 30, 2013 and 2012	S-9
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	S-10
<i>Worcester (including Worcester City Campus Corporation and Subsidiary):</i>	
Statements of Net Assets as of June 30, 2013 and 2012	S-11
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	S-12
University Related Organizations:	
Combining Statements of Net Assets as of June 30, 2013 and 2012	I
Combining Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2013 and 2012	II



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees of the
University of Massachusetts

We have audited, 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 of the United States, the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the University of Massachusetts as of and for the years ended June 30, 2013 and 2012, and our report thereon dated December 20, 2013 expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on these basic consolidated financial statements as a whole.

The accompanying supplementary information listed in the accompanying index 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 statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements 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.

Grant Thornton LLP

Boston, Massachusetts
December 20, 2013

**University of Massachusetts
CENTRAL ADMINISTRATION
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$13,554	\$7,854
Cash Held By State Treasurer	542	743
Accounts, Grants and Loans Receivable, net	2,996	2,386
Short Term Investments	41,890	46,901
Due From Other Campuses	500	182
Other Assets	4,268	4,218
Total Current Assets	<u>63,750</u>	<u>62,284</u>
Noncurrent Assets		
Cash and Securities Held By Trustees	44,470	70,549
Investments	121,082	88,781
Other Assets	8,385	9,404
Investment In Plant Net of Accumulated Depreciation	54,762	31,393
Total Noncurrent Assets	<u>228,699</u>	<u>200,127</u>
Total Assets	<u>\$292,449</u>	<u>\$262,411</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$7,125	\$5,675
Accrued Salaries and Wages	1,566	1,336
Accrued Compensated Absences	3,991	3,632
Accrued Interest Payable	453	459
Bonds Payable	16,770	15,822
Due To Campuses	50,290	35,187
Due To Related Organizations	539	436
Deferred Revenues and Credits	1,243	2,067
Advances and Deposits	942	464
Other Liabilities	3,609	6,304
Total Current Liabilities	<u>86,528</u>	<u>71,382</u>
Noncurrent Liabilities		
Accrued Compensated Absences	475	375
Bonds Payable	56,488	57,412
Deferred Revenues and Credits	5	192
Total Noncurrent Liabilities	<u>56,968</u>	<u>57,979</u>
Total Liabilities	<u>\$143,496</u>	<u>\$129,361</u>
Net Position:		
Invested in Capital Assets Net of Related Debt	\$20,312	\$23,720
Restricted		
Nonexpendable	2,206	2,206
Expendable	24,372	25,168
Unrestricted	102,063	81,956
Total Net Position	<u>\$148,953</u>	<u>\$133,050</u>

**University of Massachusetts
CENTRAL ADMINISTRATION
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2013 and 2012
(in thousands of dollars)**

REVENUES	June 30, 2013	June 30, 2012
Operating Revenues		
Tuition and Fees	\$7,024	\$7,153
Federal Grants and Contracts	2,450	2,577
State Grants and Contracts	2,983	2,584
Local Grants and Contracts	173	78
Private Grants and Contracts	3,691	4,305
Sales and Service, Educational	2,023	1,478
Allocation from Campuses	60,710	55,898
Other Operating Revenues:		
Other	8,772	17,603
Total Operating Revenues	87,826	91,676
EXPENSES		
Operating Expenses		
<i>Educational and General</i>		
Instruction	12,507	13,058
Research	3,084	3,279
Public Service	1,144	1,149
Institutional Support	60,064	57,157
Operation and Maintenance of Plant	6,288	6,213
Scholarships and Fellowships	6	6
Depreciation and Amortization	5,641	5,879
Total Operating Expenses	88,734	86,741
Operating Income	(908)	4,935
NONOPERATING REVENUES/(EXPENSES)		
State Appropriations	10,847	12,730
State Appropriations - Federal Stimulus funds		7
Investment Return	4,760	2,089
Endowment Return	224	231
Interest on Indebtedness	(680)	172
Other Nonoperating Income	335	(78)
Net Nonoperating Revenues	15,486	15,151
Income Before Other Revenues, Expenses, Gains, and Losses	14,578	20,086
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES		
Capital Grants and Contracts		2,282
Other Additions/(Deductions)	1,326	1,206
Total Other Revenues, Expenses, Gains, and Losses	1,326	3,488
Total Increase in Net Assets	15,904	23,574
NET POSITION		
Net Position at Beginning of Year	133,049	109,476
Net Position at End of Year	\$148,953	\$133,050

**University of Massachusetts
AMHERST CAMPUS
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)**

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$27,226	\$15,060
Cash Held By State Treasurer	11,299	6,815
Accounts, Grants and Loans Receivable, net	36,083	36,581
Pledges Receivable, net	1,761	1,444
Short Term Investments	57,465	97,686
Inventories, net	5,196	5,902
Due From Other Campuses	23,276	15,955
Other Assets	605	592
Total Current Assets	162,911	180,035
Noncurrent Assets		
Cash Held By State Treasurer	4,738	4,996
Cash and Securities Held By Trustees	155,081	217,426
Accounts, Grants and Loans Receivable, net	18,852	18,180
Pledges Receivable, net	2,318	1,588
Investments	249,222	215,069
Other Assets	6,817	7,450
Investment In Plant Net of Accumulated Depreciation	1,472,368	1,241,597
Total Noncurrent Assets	1,909,396	1,706,306
Total Assets	\$2,072,307	\$1,886,341
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Change in Fair Value of Interest Rate Swaps	\$27,820	\$49,888
LIABILITIES		
Current Liabilities		
Accounts Payable	\$51,032	\$47,224
Accrued Salaries and Wages	42,386	37,140
Accrued Compensated Absences	24,305	23,593
Accrued Workers' Compensation	2,020	2,226
Accrued Interest Payable	6,501	5,565
Bonds Payable	147,295	243,670
Capital Lease Obligations	4,184	4,039
Deferred Revenues and Credits	13,426	12,402
Advances and Deposits	690	510
Other Liabilities	8,034	6,090
Total Current Liabilities	299,873	382,459
Noncurrent Liabilities		
Accrued Compensated Absences	11,876	11,840
Accrued Workers' Compensation	5,017	4,885
Bonds Payable	630,900	458,437
Derivative Instrument , Interest Rate Swap	41,838	64,570
Capital Lease Obligations	2,148	6,332
Deferred Revenues and Credits	11,307	10,917
Advances and Deposits	13,348	12,998
Total Noncurrent Liabilities	716,434	569,979
Total Liabilities	\$1,016,307	\$952,438
Net Position:		
Invested in Capital Assets Net of Related Debt	\$777,589	\$685,396
Restricted		
Nonexpendable	3,971	3,963
Expendable	48,526	65,084
Unrestricted	253,734	229,348
Total Net Position	\$1,083,820	\$983,791

**University of Massachusetts
AMHERST CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)**

REVENUES	June 30, 2013	June 30, 2012
Operating Revenues		
Tuition and Fees (net of scholarship allowances of \$89,345 at June 30, 2013 and \$84,524 at June 30, 2012)	\$323,331	\$301,888
Federal Grants and Contracts	97,930	103,168
State Grants and Contracts	12,734	13,580
Local Grants and Contracts	316	530
Private Grants and Contracts	30,547	31,164
Sales and Service, Educational	8,615	7,339
Auxiliary Enterprises	195,577	177,650
Other Operating Revenues:		
Other	19,225	15,713
Total Operating Revenues	688,275	651,032
EXPENSES		
Operating Expenses		
<i>Educational and General</i>		
Instruction	294,707	283,236
Research	103,727	108,227
Public Service	24,882	27,357
Academic Support	56,305	56,433
Student Services	49,763	48,304
Institutional Support	59,033	55,203
Operation and Maintenance of Plant	77,610	80,231
Depreciation and Amortization	71,594	68,995
Scholarships and Fellowships	22,115	19,146
<i>Auxiliary Enterprises</i>	164,212	148,153
Total Operating Expenses	923,948	895,285
Operating Loss	(235,673)	(244,253)
NONOPERATING REVENUES/(EXPENSES)		
Federal Appropriations	6,774	6,845
State Appropriations	241,423	239,383
State Appropriations - Federal Stimulus funds		3
Gifts	13,950	13,750
Investment Return	19,471	8,591
Endowment Return	6,258	7,960
Interest on Indebtedness	(25,427)	(19,562)
Nonoperating Federal Grants	23,867	25,069
Other Nonoperating Income	(78)	(357)
Net Nonoperating Revenues	286,238	281,682
Income Before Other Revenues, Expenses, Gains, and Losses	50,565	37,429
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES		
Capital Appropriations	52,934	62,480
Capital Grants and Contracts	3,226	5,389
Disposal of Plant Facilities	(3,978)	(4,667)
Other Additions/(Deductions)	(2,718)	(657)
Total Other Revenues, Expenses, Gains, and Losses	49,464	62,545
Total Increase in Net Assets	100,029	99,974
NET POSITION		
Net Position at Beginning of Year	983,791	883,817
Net Position at End of Year	\$1,083,820	\$983,791

University of Massachusetts
BOSTON CAMPUS
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$7,951	\$5,765
Cash Held By State Treasurer	3,649	2,864
Accounts, Grants and Loans Receivable, net	22,803	23,246
Pledges Receivable, net	331	
Short Term Investments	23,983	40,606
Inventories, net	766	722
Due From Other Campuses	5,617	4,189
Other Assets	298	404
Total Current Assets	65,398	77,796
Noncurrent Assets		
Cash Held By State Treasurer	885	2,170
Cash and Securities Held By Trustees	302,781	246,172
Accounts, Grants and Loans Receivable, net	7,696	6,415
Pledges Receivable, net	718	
Investments	94,117	80,515
Other Assets	3,706	3,453
Investment In Plant Net of Accumulated Depreciation	302,084	231,286
Total Noncurrent Assets	711,987	570,011
Total Assets	\$777,385	\$647,807
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Change in Fair Value of Interest Rate Swaps	\$1,102	\$3,099
LIABILITIES		
Current Liabilities		
Accounts Payable	\$14,902	\$6,949
Accrued Salaries and Wages	17,764	15,674
Accrued Compensated Absences	10,827	10,347
Accrued Workers' Compensation	328	305
Accrued Interest Payable	3,657	2,658
Bonds Payable	37,172	20,554
Capital Lease Obligations	118	1,462
Deferred Revenues and Credits	5,585	5,626
Advances and Deposits	2,001	2,847
Other Liabilities	6,101	3,821
Total Current Liabilities	98,455	70,243
Noncurrent Liabilities		
Accrued Compensated Absences	3,978	3,952
Accrued Workers' Compensation	816	670
Bonds Payable	360,322	293,365
Capital Lease Obligations	90	207
Derivative Instrument, Interest Rate Swap	4,442	6,585
Deferred Revenues and Credits	783	1,317
Advances and Deposits	4,545	3,649
Other Liabilities	1,889	1,960
Total Noncurrent Liabilities	376,865	311,705
Total Liabilities	\$475,320	\$381,948
Net Position:		
Invested in Capital Assets Net of Related Debt Restricted	\$187,018	\$153,190
Nonexpendable	6,673	6,569
Expendable	18,387	18,292
Unrestricted	91,089	90,907
Total Net Position	\$303,167	\$268,958

**University of Massachusetts
BOSTON CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2013 and 2012
(in thousands of dollars)**

REVENUES	June 30, 2013	June 30, 2012
Operating Revenues		
Tuition and Fees (net of scholarship allowances of \$31,413 at June 30, 2013 and \$30,066 at June 30, 2012)	\$153,084	\$139,759
Federal Grants and Contracts	27,142	31,893
State Grants and Contracts	10,089	9,520
Local Grants and Contracts	1,127	1,589
Private Grants and Contracts	10,832	11,327
Sales and Service, Educational	3,000	2,546
Auxiliary Enterprises	9,743	10,054
Other Operating Revenues:		
Other	749	781
Total Operating Revenues	215,766	207,469
EXPENSES		
Operating Expenses		
<i>Educational and General</i>		
Instruction	134,004	127,268
Research	30,568	30,869
Public Service	11,125	11,084
Academic Support	30,356	27,098
Student Services	21,773	22,444
Institutional Support	32,732	31,250
Operation and Maintenance of Plant	24,026	25,606
Depreciation and Amortization	12,770	14,032
Scholarships and Fellowships	11,832	11,684
<i>Auxiliary Enterprises</i>	10,565	10,223
Total Operating Expenses	319,751	311,558
Operating Loss	(103,985)	(104,089)
NONOPERATING REVENUES/(EXPENSES)		
State Appropriations	89,435	87,749
Gifts	3,767	2,346
Investment Return	8,692	5,570
Endowment Return	1,718	2,285
Interest on Indebtedness	(9,570)	(6,593)
Nonoperating Federal Grants	20,817	20,365
Other Nonoperating Income		189
Net Nonoperating Revenues	114,859	111,911
Income Before Other Revenues, Expenses, Gains, and Losses	10,874	7,822
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES		
Capital Appropriations	26,401	15,616
Capital Grants and Contracts		53
Disposal of Plant Facilities	(1,039)	(1,288)
Other Additions/(Deductions)	(2,029)	(1,879)
Total Other Revenues, Expenses, Gains, and Losses	23,333	12,502
Total Increase in Net Assets	34,207	20,324
NET POSITION		
Net Position at Beginning of Year	268,960	248,634
Net Position at End of Year	\$303,167	\$268,958

University of Massachusetts
DARTMOUTH CAMPUS
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$2,412	\$1,658
Cash Held By State Treasurer	1,680	1,674
Accounts, Grants and Loans Receivable, net	23,753	13,047
Short Term Investments	3,879	7,151
Inventories, net	792	894
Due From Other Campuses	1,310	993
Due From Related Organizations	230	173
Other Assets	102	354
Total Current Assets	34,158	25,944
Noncurrent Assets		
Cash Held By State Treasurer	766	1,819
Cash and Securities Held By Trustees	54,725	49,849
Accounts, Grants and Loans Receivable, net	2,340	2,025
Investments	14,666	13,072
Other Assets	2,541	3,227
Investment In Plant Net of Accumulated Depreciation	318,533	273,250
Total Noncurrent Assets	393,571	343,242
Total Assets	\$427,729	\$369,186
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Change in Fair Value of Interest Rate Swaps	\$5,496	\$12,805
LIABILITIES		
Current Liabilities		
Accounts Payable	\$6,490	\$4,736
Accrued Salaries and Wages	10,357	9,342
Accrued Compensated Absences	5,829	5,529
Accrued Workers' Compensation	344	359
Accrued Interest Payable	1,505	1,744
Bonds Payable	89,332	66,009
Due To Other Campuses	500	182
Deferred Revenues and Credits	1,147	1,145
Advances and Deposits	1,191	1,320
Other Liabilities	3,660	2,969
Total Current Liabilities	120,355	93,335
Noncurrent Liabilities		
Accrued Compensated Absences	3,724	3,759
Accrued Workers' Compensation	855	788
Bonds Payable	123,813	136,190
Derivative Instrument, Interest Rate Swap	15,522	23,294
Deferred Revenues and Credits	295	200
Advances and Deposits	2,749	2,591
Other Liabilities	30,255	16,249
Total Noncurrent Liabilities	177,213	183,071
Total Liabilities	\$297,568	\$276,406
Net Position:		
Invested in Capital Assets Net of Related Debt	\$118,144	\$85,504
Restricted		
Expendable	7,516	8,151
Unrestricted	9,997	11,930
Total Net Position	\$135,657	\$105,585

**University of Massachusetts
DARTMOUTH CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2013 and 2012
(in thousands of dollars)**

REVENUES	June 30, 2013	June 30, 2012
Operating Revenues		
Tuition and Fees (net of scholarship allowances of \$31,279 at June 30, 2013 and \$30,000 June 30, 2012)	\$76,821	\$74,904
Federal Grants and Contracts	9,421	10,863
State Grants and Contracts	6,268	7,546
Local Grants and Contracts	315	601
Private Grants and Contracts	3,850	5,084
Sales and Service, Educational	125	50
Auxiliary Enterprises	48,405	47,300
Other Operating Revenues:		
Other	5,079	6,356
Total Operating Revenues	150,284	152,704
EXPENSES		
Operating Expenses		
<i>Educational and General</i>		
Instruction	68,426	66,161
Research	18,274	18,852
Public Service	5,513	5,581
Academic Support	25,687	27,219
Student Services	10,971	10,159
Institutional Support	14,104	17,527
Operation and Maintenance of Plant	19,604	23,402
Depreciation and Amortization	13,438	11,409
Scholarships and Fellowships	6,011	8,116
<i>Auxiliary Enterprises</i>	30,055	31,425
Total Operating Expenses	212,083	219,851
Operating Loss	(61,799)	(67,147)
NONOPERATING REVENUES/(EXPENSES)		
State Appropriations	57,242	55,993
Investment Return	2,190	1,890
Endowment Income	1,509	1,430
Interest on Indebtedness	(8,434)	(7,873)
Nonoperating Federal Grants	10,492	12,779
Other Nonoperating Income	755	627
Net Nonoperating Revenues	63,754	64,846
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	1,955	(2,301)
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES		
Capital Appropriations	16,037	30,650
Capital Grants and Contracts	13,813	
Disposal of Plant Facilities	(1,140)	(1,270)
Other Additions/(Deductions)	(593)	(170)
Total Other Revenues, Expenses, Gains, and Losses	28,117	29,210
Total Increase in Net Assets	30,072	26,909
NET POSITION		
Net Position at Beginning of Year	105,585	78,676
Net Position at End of Year	\$135,657	\$105,585

**University of Massachusetts
LOWELL CAMPUS
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)**

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$6,996	\$4,059
Cash Held By State Treasurer	5,088	3,774
Accounts, Grants and Loans Receivable, net	31,100	24,790
Pledges Receivable, net	659	795
Short Term Investments	17,186	25,070
Due From Other Campuses	5,732	3,875
Other Assets	706	313
Total Current Assets	67,467	62,676
Noncurrent Assets		
Cash Held By State Treasurer	2,787	2,558
Cash and Securities Held By Trustees	35,345	106,652
Accounts, Grants and Loans Receivable, net	4,874	4,869
Pledges Receivable, net	871	1,240
Investments	64,665	51,471
Other Assets	4,042	2,535
Investment In Plant Net of Accumulated Depreciation	478,769	342,341
Total Noncurrent Assets	591,353	511,666
Total Assets	\$658,820	\$574,342
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Change in Fair Value of Interest Rate Swaps	\$5,789	\$9,843
LIABILITIES		
Current Liabilities		
Accounts Payable	\$17,910	\$22,747
Accrued Salaries and Wages	16,402	15,380
Accrued Compensated Absences	8,676	7,912
Accrued Workers' Compensation	404	329
Accrued Interest Payable	2,856	2,086
Bonds Payable	20,272	53,283
Deferred Revenues and Credits	4,388	5,209
Advances and Deposits	1,516	894
Other Liabilities	7,919	3,379
Total Current Liabilities	80,343	111,219
Noncurrent Liabilities		
Accrued Compensated Absences	5,014	5,090
Accrued Workers' Compensation	1,003	723
Bonds Payable	277,573	197,864
Derivative Instruments, Interest Rate Swap	7,523	11,661
Deferred Revenues and Credits	3,238	1,393
Advances and Deposits	3,854	4,012
Other Liabilities	250	250
Total Noncurrent Liabilities	298,455	220,993
Total Liabilities	\$378,798	\$332,212
Net Position:		
Invested in Capital Assets Net of Related Debt	\$193,871	\$169,687
Restricted		
Nonexpendable	4,185	4,018
Expendable	14,946	11,043
Unrestricted	72,809	67,225
Total Net Position	\$285,811	\$251,973

**University of Massachusetts
LOWELL CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2013 and 2012
(in thousands of dollars)**

	June 30, 2013	June 30, 2012
REVENUES		
Operating Revenues		
Tuition and Fees (net of scholarship allowances of \$34,956 at June 30, 2013 and \$29,990 at June 30, 2012)	\$139,748	\$127,679
Federal Grants and Contracts	23,151	22,404
State Grants and Contracts	5,091	5,622
Local Grants and Contracts	322	279
Private Grants and Contracts	10,160	10,700
Sales and Service, Educational	129	375
Auxiliary Enterprises	36,188	32,564
Other Operating Revenues:		
Other	6,046	4,202
Total Operating Revenues	220,835	203,825
EXPENSES		
Operating Expenses		
<i>Educational and General</i>		
Instruction	105,148	101,858
Research	35,921	36,794
Public Service	1,321	1,824
Academic Support	22,656	23,058
Student Services	21,280	20,516
Institutional Support	39,316	39,376
Operation and Maintenance of Plant	30,056	32,737
Depreciation and Amortization	19,657	16,927
Scholarships and Fellowships	9,767	8,674
<i>Auxiliary Enterprises</i>	21,176	19,832
Total Operating Expenses	306,298	301,596
Operating Loss	(85,463)	(97,771)
NONOPERATING REVENUES/(EXPENSES)		
State Appropriations	79,228	77,868
Gifts	2,170	2,463
Investment Return	6,440	3,975
Endowment Return	1,554	1,329
Interest on Indebtedness	(9,625)	(5,310)
Nonoperating Federal Grants	15,410	15,695
Other Nonoperating Income	114	126
Net Nonoperating Revenues	95,291	96,146
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	9,828	(1,625)
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES		
Capital Appropriations	17,164	41,220
Capital Grants and Contracts	5,613	2,105
Capital Contribution	3,000	
Disposal of Plant Facilities	(1,388)	(4,528)
Other Additions/(Deductions)	(379)	1,332
Total Other Revenues, Expenses, Gains, and Losses	24,010	40,129
Total Increase in Net Assets	33,838	38,504
NET POSITION		
Net Position at Beginning of Year	251,973	213,469
Net Position at End of Year	\$285,811	\$251,973

University of Massachusetts
WORCESTER CAMPUS
Statements of Net Position
As of June 30, 2013 and 2012
(in thousands of dollars)

	Worcester Campus June 30, 2013	Worcester Campus June 30, 2012	Worcester City Campus Corporation June 30, 2013	Worcester City Campus Corporation June 30, 2012	Eliminations June 30, 2013	Eliminations June 30, 2012	Combined Totals Memorandum Only June 30, 2013	Combined Totals Memorandum Only June 30, 2012
ASSETS								
Current Assets								
Cash and Cash Equivalents	\$8,696	\$6,966	\$27,104	\$20,407			\$35,800	\$27,373
Cash Held By State Treasurer	1,625	1,297					1,625	1,297
Accounts, Grants and Loans Receivable, net	118,558	125,400	695	2,290			119,253	127,690
Pledges Receivable, net	9,710	1,960					9,710	1,960
Short Term Investments	26,513	51,186					26,513	51,186
Inventories, net	13,015	13,924					13,015	13,924
Accounts Receivable UMass Memorial, net	12,690	5,808	44				12,734	5,808
Due From Other Campuses	14,355	10,175					14,355	10,175
Due From Related Organizations	1,907	1,480	48,343	41,801	(\$49,711)	(\$43,281)	539	
Other Assets	3,456	3,452	539	862			3,995	4,314
Total Current Assets	210,525	221,648	76,725	65,360	(49,711)	(43,281)	237,539	243,727
Noncurrent Assets								
Cash Held By State Treasurer	163	331					163	331
Cash and Securities Held By Trustees	30,365	129,146	24				30,389	129,146
Accounts, Grants and Loans Receivable, net	5,626	6,016		4,488			5,626	10,504
Investments	173,977	160,334					173,977	160,334
Other Assets	3,702	3,847	2,917	2,858			6,619	6,705
Investment In Plant Net of Accumulated Depreciation	664,682	582,793	414,318	395,526			1,079,000	978,319
Total Noncurrent Assets	878,515	882,467	417,259	402,872			1,295,774	1,285,339
Total Assets	\$1,089,040	\$1,104,115	\$493,984	\$468,232	(49,711)	(43,281)	\$1,533,313	\$1,529,066
LIABILITIES								
Current Liabilities								
Accounts Payable	\$27,562	\$79,750	\$4,217	\$2,706			\$31,779	\$82,456
Accrued Salaries and Wages	17,541	14,683					17,541	14,683
Accrued Compensated Absences	19,490	20,879					19,490	20,879
Accrued Workers' Compensation	1,102	1,248					1,102	1,248
Accrued Interest Payable	3,697	4,248	3,647	3,458			7,344	7,706
Bonds Payable	8,195	7,295	9,090	9,227			17,285	16,522
Accounts Payable UMass Memorial	4,364	3,613					4,364	3,613
Due to Related Organizations	48,184	41,907	1,907	1,480	(\$49,711)	(\$43,281)	380	106
Deferred Revenues and Credits	14,599	19,799					14,599	19,799
Advances and Deposits	1,606	4,119					1,606	4,119
Other Liabilities	19,759	12,200	3,448	3,504			23,207	15,704
Total Current Liabilities	166,099	209,741	22,309	20,375	(49,711)	(43,281)	138,697	186,835
Noncurrent Liabilities								
Accrued Compensated Absences	5,343	5,804					5,343	5,804
Accrued Workers' Compensation	2,738	2,739					2,738	2,739
Bonds Payable	390,198	397,574	305,482	283,632			695,680	681,206
Deferred Revenues and Credits	4,571	2,482					4,571	2,482
Advances and Deposits	3,447	3,447					3,447	3,447
Other Liabilities	3,500		504	534			4,004	534
Total Noncurrent Liabilities	409,797	412,046	305,986	284,166			715,783	696,212
Total Liabilities	\$575,896	\$621,787	\$328,295	\$304,541	(49,711)	(43,281)	\$854,480	\$883,047
Net Position:								
Invested in Capital Assets Net of Related Debt Restricted	\$288,219	\$289,045	\$97,020	\$95,629			\$385,239	\$384,674
Nonexpendable	1,023	1,017					1,023	1,017
Expendable	39,775	31,718	2,947	2,885			42,722	34,603
Unrestricted	184,127	160,548	65,722	65,177			249,849	225,725
Total Net Position	\$513,144	\$482,328	\$165,689	\$163,691			\$678,833	\$646,019

University of Massachusetts
WORCESTER CAMPUS
Statements of Revenues, Expenses and Changes in Net Position
For The Years Ended June 30, 2013 and June 30, 2012
(in thousands of dollars)

	Worcester Campus June 30, 2013	Worcester Campus June 30, 2012	Worcester City City Campus Corporation June 30, 2013	Worcester City City Campus Corporation June 30, 2012	Eliminations June 30, 2013	Eliminations June 30, 2012	Combined Totals Memorandum Only June 30, 2013	Combined Totals Memorandum Only June 30, 2012
REVENUES								
Operating Revenues								
Tuition and Fees (net of scholarship allowances of \$2,760 at June 30, 2013 and \$2,840 at June 30, 2012)	\$14,367	\$14,107					\$14,367	\$14,107
Federal Grants and Contracts	174,603	184,887					174,603	184,887
State Grants and Contracts	33,140	30,462					33,140	30,462
Private Grants and Contracts	48,391	47,782					48,391	47,782
Sales and Service, Educational	5,345	7,523					5,345	7,523
Auxiliary Enterprises	33,101	30,388			(\$3,470)		29,631	30,388
Other Operating Revenues:								
Sales and Service, Independent Operations	46,062	61,087					46,062	61,087
Sales and Service, Public Service Activities	446,925	382,861	\$33,277	\$32,449	(33,083)	(\$31,455)	447,119	383,855
Other	42,674	42,257	57,238	45,697	(38,944)	(32,861)	60,968	55,093
Total Operating Revenues	844,608	801,354	90,515	78,146	(75,497)	(64,316)	859,626	815,184
EXPENSES								
Operating Expenses								
<i>Educational and General</i>								
Instruction	53,969	48,743			(74)	(110)	53,895	48,633
Research	215,744	221,028			(86)		215,658	221,028
Public Service	30,657	28,836					30,657	28,836
Academic Support	12,129	14,061			(102)	(102)	12,027	13,959
Student Services	5,950	5,823					5,950	5,823
Institutional Support	58,067	56,480			(275)	(513)	57,792	55,967
Operation and Maintenance of Plant	50,956	49,343	26,100	17,906	(30,191)	(20,146)	46,865	47,103
Depreciation and Amortization	41,582	26,599	20,579	19,325			62,161	45,924
<i>Auxiliary Enterprises</i>	24,557	27,800			(1,800)	(1,800)	22,757	26,000
<i>Other Expenditures</i>								
Independent Operations	54,434	60,339			(6,608)	(6,605)	47,826	53,734
Public Service Activities	334,845	304,812	28,809	24,179	(36,361)	(35,040)	327,293	293,951
Total Operating Expenses	882,890	843,864	75,488	61,410	(75,497)	(64,316)	882,881	840,958
Operating Income/(Loss)	(38,282)	(42,510)	15,027	16,736			(23,255)	(25,774)
NONOPERATING REVENUES/(EXPENSES)								
State Appropriations	41,136	43,669					41,136	43,669
Gifts	10,157	3,584					10,157	3,584
Investment Return	13,933	4,640	551	437			14,484	5,077
Endowment Return	2,351	2,388					2,351	2,388
Interest on Indebtedness	(23,759)	(11,234)	(13,869)	(14,034)			(37,628)	(25,268)
Other Nonoperating Income	1,240	273					1,240	273
Net Nonoperating Revenues	45,058	43,320	(13,318)	(13,597)			31,740	29,723
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	6,776	810	1,709	3,139			8,485	3,949
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES								
Capital Appropriations	45	401					45	401
Capital Grants and Contracts	16,695	34,062					16,695	34,062
Disposal of Plant Facilities	(1,248)	(1,601)	(9)	(252)			(1,257)	(1,853)
Contributions for Capital Expenditures			1,514	(345)			1,514	(345)
Other Additions/Deductions	8,548	4,918	(1,216)	(2,433)			7,332	2,485
Total Other Revenues, Expenses, Gains, and Losses	24,040	37,780	289	(3,030)			24,329	34,750
Total Increase in Net Assets	30,816	38,590	1,998	109			32,814	38,699
NET POSITION								
Net Position at Beginning of Year	482,328	443,738	163,691	163,582			646,019	607,320
Net Position at End of Year	\$513,144	\$482,328	\$165,689	\$163,691			\$678,833	\$646,019

Combining Statements of Net Position for University Related Organizations as of June 30, 2013 and 2012
(in thousands of dollars)

Supplemental Schedule I

	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	Total June 30, 2012	Eliminations and Adjustments June 30, 2012	The University of Massachusetts Foundation, Inc. June 30, 2012	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2012
ASSETS								
Current Assets								
Accounts, Grants and Loans Receivable, net								
Pledges Receivable, net	\$887	(\$6,114)	\$6,513	\$488	\$1,648	(\$7,712)	\$8,325	\$1,034
Due From Related Organizations	380	380			542	451		91
Other Assets	2,563		2,550	13	407		401	6
Total Current Assets	3,830	(5,734)	9,063	501	2,597	(7,261)	8,726	1,131
Noncurrent Assets								
Cash and Cash Equivalents	1,041		81	960	778		84	694
Pledges Receivable, net	1,109	(9,333)	8,978	1,464	8,586	(7,755)	14,721	1,619
Investments	389,376	(628,633)	970,061	47,948	355,088	(511,083)	822,949	43,222
Other Assets	173		113	60	64		7	57
Investment In Plant Net of Accumulated Depreciation	8,619		8,619		8,822		8,822	
Total Noncurrent Assets	400,318	(637,966)	987,852	50,432	373,338	(518,838)	846,583	45,592
Total Assets	\$404,148	(\$643,700)	\$996,915	\$50,933	\$375,934	(\$526,098)	\$855,309	\$46,723
LIABILITIES								
Current Liabilities								
Accounts Payable	\$94		\$13	\$81	\$49		\$40	\$9
Due To Related Organizations	230	(5,409)		5,639	173	(\$4,644)		4,817
Assets Held on Behalf of the University		(585,005)	585,005			(472,119)	472,119	
Assets Held on Behalf of Others	12,307		12,307		11,978		11,978	
Deferred Revenues and Credits	1,973		1,973		2,412		2,412	
Total Current Liabilities	14,604	(590,414)	599,298	5,720	14,612	(476,763)	486,549	4,826
Noncurrent Liabilities								
Notes Payable								
Other Liabilities	3,332		3,332		3,487	177	3,310	
Total Noncurrent Liabilities	3,332		3,332		3,487	177	3,310	
Total Liabilities	\$17,936	(\$590,414)	\$602,630	\$5,720	\$18,099	(\$476,586)	\$489,859	\$4,826
Net Position:								
Invested in Capital Assets Net of Related Debt Restricted	\$8,619	\$8,619			\$8,822	\$8,822		
Nonexpendable	290,858	(43,525)	\$303,973	\$30,410	273,995	(47,539)	\$286,266	\$35,268
Expendable	74,706	(9,761)	71,889	12,578	60,278	(1,973)	56,225	6,026
Unrestricted	12,029	(8,619)	18,423	2,225	14,740	(8,822)	22,959	603
Total Net Position	\$386,212	(\$53,286)	\$394,285	\$45,213	\$357,835	(\$49,512)	\$365,450	\$41,897

**Combining Statements of Revenues, Expenses, and Changes in Net Position for University Related Organizations
For The Years Ended June 30, 2013 and 2012
(in thousands of dollars)**

Supplemental Schedule II

	Eliminations and Adjustments		University of Massachusetts Dartmouth Foundation, Inc.		Eliminations and Adjustments		University of Massachusetts Dartmouth Foundation, Inc.	
	Total	June 30, 2013	Total	June 30, 2013	Total	June 30, 2012	Total	June 30, 2012
EXPENSES								
Operating Expenses								
<i>Educational and General</i>								
Public Service	\$12,573	(\$732)	\$10,308	\$2,997	\$15,240	(\$1,000)	\$14,302	\$1,938
Depreciation	202		202		203		203	
Scholarships and Fellowships	77	(1,175)	561	691	462	(1,045)	805	702
Total Operating Expenses	12,852	(1,907)	11,071	3,688	15,905	(2,045)	15,310	2,640
Operating Income/(Loss)	(12,852)	1,907	(11,071)	(3,688)	(15,905)	2,045	(15,310)	(2,640)
NONOPERATING REVENUES/(EXPENSES)								
Gifts	9,452	217	6,300	2,935	8,891	(802)	7,862	1,831
Investment Income	24,540	(35,589)	57,662	2,467	(5,255)	1,346	(6,264)	(337)
Endowment Income	1,160	(13,936)	15,096		95	(13,592)	13,687	
Net Nonoperating Revenues	35,152	(49,308)	79,058	5,402	3,731	(13,048)	15,285	1,494
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	22,300	(47,401)	67,987	1,714	(12,174)	(11,003)	(25)	(1,146)
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES								
Additions to Permanent Endowments	16,056	(844)	16,457	443	19,604	1,466	16,793	1,345
Less: Amounts Earned/Received on Behalf of the University		(637)	637			(20,677)	20,677	
Less: Amounts Earned/Received on Behalf of Others	(928)		(928)		107		107	
Distribution to University		46,764	(46,764)			32,107	(32,107)	
Other Additions/Deductions	(9,051)	(1,656)	(8,554)	1,159	(123)	(144)	21	
Total Other Revenues, Expenses, Gains, and Losses	6,077	43,627	(39,152)	1,602	19,588	12,752	5,491	1,345
Total Increase/(Decrease) in Net Assets	28,377	(3,774)	28,835	3,316	7,414	1,749	5,466	199
NET POSITION								
Net Position at Beginning of Year	357,835	(49,512)	365,450	41,897	350,421	(51,261)	359,984	41,698
Net Position at End of Year	\$386,212	(\$53,286)	\$394,285	\$45,213	\$357,835	(\$49,512)	\$365,450	\$41,897