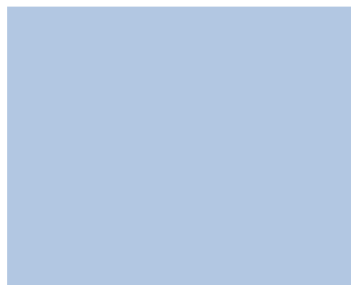
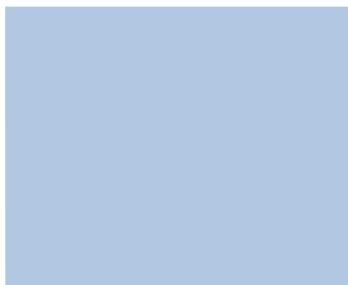
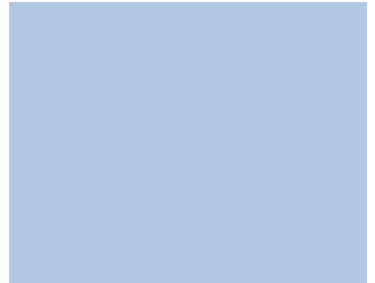
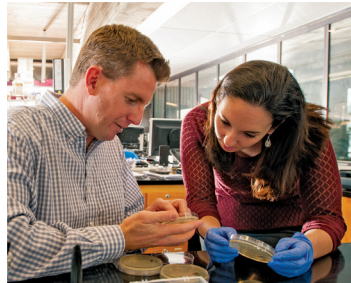
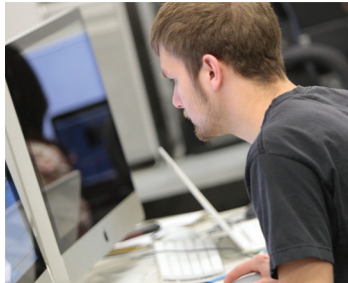
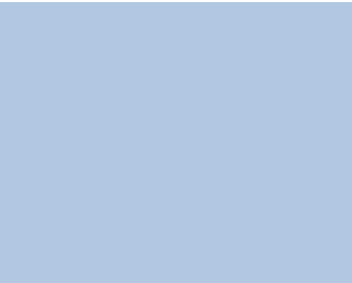
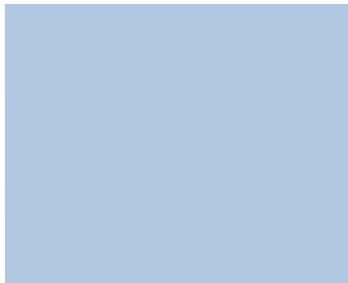
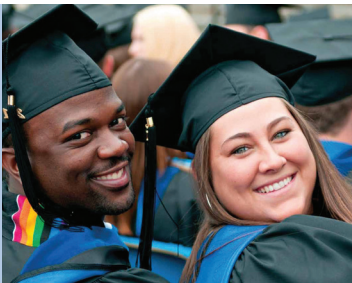


UNIVERSITY OF MASSACHUSETTS

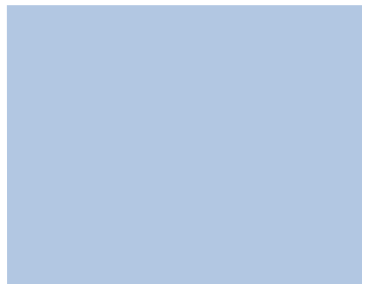
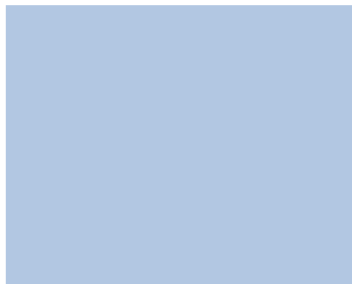
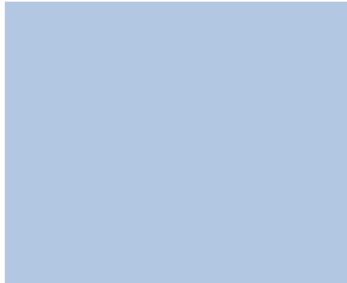
# Annual Financial Report 2015



University of Massachusetts

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



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# University Administration

As of December 2015

## Board of Trustees:

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Maria D. Furman (Vice Chair), Wellesley, MA  
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Nolan O'Brien (UMass Boston Student Trustee), Munson, MA  
(Voting Student)  
Jacob D. Miller (UMass Dartmouth Student Trustee), Fairhaven, MA  
(Non-Voting Student)  
Emily O'Neil (UMass Amherst Student Trustee), Amherst, MA  
(Voting Student)  
Amanda Robinson, UMass Lowell Student Trustee), Hingham, MA  
(Non-Voting Student)  
Yevin ROH (UMass Worcester Student Trustee), Worcester, MA  
(Non-Voting Student)

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J. Keith Motley, Ph.D., Chancellor, UMass Boston  
Divina Grossman, Ph.D., Chancellor, UMass Dartmouth  
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and Senior Vice President for Health Sciences  
James R. Julian, J.D., Executive Vice President  
Christine M. Wilda, Senior Vice President for Administration and Finance & Treasurer  
Marcellette G. Williams, Ph.D., Senior Vice President for Academic Affairs and International Relations  
Zunilka Barrett, Secretary to the Board of Trustees





December 9, 2015

To the Board of Trustees  
and President Martin T. Meehan J.D.

We are pleased to submit the annual Financial Report of the University of Massachusetts for the year ended June 30, 2015. 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, 2015 including comparative information as of June 30, 2014.

The University's net assets decreased \$150.9 million from \$2.82 billion in fiscal year 2014 to \$2.67 billion in fiscal year 2015. This decrease is primarily attributed to the recording of pension liability related to the implementation of GASB 68, *Accounting and Reporting for Pensions*.

Each year, the Board of Trustees reviews a five-year projection for key financial indicators that are likely to determine the success of the University over the long term. The development of this projection is currently underway at each of the campuses. For the key indicators of operating margin, primary reserve, and debt service to operations, for FY2015, the University was on target with meeting initial projections with the exception of the impact of GASB 68 on the primary reserve ratio. Overall, the University continues to make strategic investments that support the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,

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

Sarah B. Mongeau  
University Controller



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees of the  
**University of Massachusetts**

### Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Massachusetts (the “University”), an enterprise fund of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor’s responsibility

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

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

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

Grant Thornton LLP  
U.S. member firm of Grant Thornton International Ltd

#### Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the University of Massachusetts as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Emphasis of matter

As discussed in Note 1 to the financial statements, the University adopted new accounting guidance effective July 1, 2014 related to accounting and financial reporting for pensions. Our opinion is not modified with respect to this matter.

#### Other matters

#### Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 and the Schedule of the University's Proportionate Share of the Net Pension Liability and the Schedule of the University's Contributions for the Massachusetts State Employees' Retirement System on page 41 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 18, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Boston, Massachusetts  
December 18, 2015

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# Management's Discussion and Analysis

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## 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, 2015 with comparative information as of June 30, 2014 and June 30, 2013. This discussion and analysis has been prepared by management along with the accompanying financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

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

The University's mission is to provide an affordable and accessible education of high quality and to conduct programs of research and public service that advance knowledge and improve the lives of the people of the Commonwealth, the nation and the world. In the fall of 2014, the University enrolled 62,301 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 decreased \$150.9 million from \$2.82 billion in fiscal year 2014 to \$2.67 billion in fiscal year 2015. Net position at June 30, 2013 was \$2.61 billion. From fiscal year 2014 to fiscal year 2015, total liabilities for the year increased by \$484.0 million or 13.8% over fiscal year 2014. The most significant changes were the increase in pension liability due to the implementation of GASB 68, Accounting and Reporting for Pensions of \$237.1 million and the increase in Bonds Payable of \$258.8 million.

From fiscal year 2014 to fiscal year 2015, Deferred Outflows of Resources and Deferred Inflows of Resources increased \$54.8 million and \$48.8 million, respectively. These increases were primarily due to the implementation of GASB 68.

From fiscal year 2014 to fiscal year 2015, the University's operating revenue decreased by \$96.5 million and operating expenditures decreased \$27.6 million. These decreases are attributed to decreased Public Service Activities. From fiscal year 2013 to fiscal year 2014, the University's operating revenue increased by \$56.5 million.

From fiscal year 2014 to fiscal year 2015, the University's net non-operating revenues/(expenses) decreased \$30.0 million. This decrease was primarily attributed to poor market performance of University investments offset by increased State Appropriations related to the Commonwealth's support of the University's 50/50 plan (see State Appropriations).

## Using the Annual Financial Report

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

The Statement of Net Position includes all assets, liabilities, as well as deferred inflows and outflows of resources of the University. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are incurred, regardless of when cash is exchanged. Net Position is further broken down into three categories: invested in capital assets-net of related debt, restricted and unrestricted. Amounts reported in invested in capital assets-net of related debt represent the historical cost of property and equipment, reduced by the balance of related debt outstanding and depreciation expense charged over the years. Net Position is reported as restricted when constraints are imposed by third parties, such as donors or enabling legislation. Restricted net position is either non-expendable, as in the case of endowment gifts to be held



in perpetuity, or expendable, as in the case of funds to be spent on scholarships and research. All other assets are unrestricted; however, they may be committed for use under contract or designation by the Board of Trustees.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned or received and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues and expenses include tuition and fees, grant and contract activity, auxiliary enterprises and activity for the general operations of the institution not including appropriations from state and federal sources. Non-operating revenues and expenses include appropriations, capital grants and contracts, endowment, gifts, investment income, and non-operating federal grants (Pell Grants). With a public University's dependency on support from the state, Pell grants, and gifts, it is common for institutions to have operating expenses exceed operating revenues. That is because the prescribed financial reporting model classifies state appropriations, Pell grants, and gifts as non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation expense, which amortizes the cost of a capital asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The statement of cash flows presents information

related to cash inflows and outflows summarized by operating, capital and non-capital, financing and investing activities.

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

## Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The financial statements of the University are separated between University (including its blended component units) and its discretely presented Component Unit activities. The University's discretely presented Component Units (or Related Organizations) are the University of Massachusetts Foundation, Inc., and the University of Massachusetts Dartmouth Foundation, Inc. **See Tables 1 & 2**

## Condensed Financial Information

At June 30, 2015, total University net position was \$2.67 billion, a decrease of \$150.9 million over the \$2.82 billion in net position for fiscal year 2014. The University's largest asset continues to be its net investment in its physical plant of \$4.33 billion at June 30, 2015, \$4.06 billion at June 30, 2014 and \$3.71 billion in fiscal year 2013.

**Table 1. University of Massachusetts Condensed Statement of Net Position**  
As of June 30, 2015, 2014 and 2013 (in thousands of dollars)

	University June 30, 2015	University June 30, 2014	FY14–15 Change	University June 30, 2013
<b>ASSETS</b>				
Current Assets	\$692,679	\$592,750	\$99,929	\$579,824
Noncurrent Assets				
Investment in Plant Net of Accumulated Depreciation	4,333,761	4,064,786	268,975	3,705,517
All Other Noncurrent Assets	1,501,421	1,543,391	(41,970)	1,403,449
<b>Total Assets</b>	<b>6,527,861</b>	<b>6,200,927</b>	<b>326,934</b>	<b>5,688,790</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	<b>178,410</b>	<b>123,567</b>	<b>54,843</b>	<b>114,286</b>
<b>LIABILITIES</b>				
Current Liabilities	856,460	674,330	182,130	772,922
Noncurrent Liabilities	3,133,710	2,831,869	301,841	2,415,798
<b>Total Liabilities</b>	<b>3,990,170</b>	<b>3,506,199</b>	<b>483,971</b>	<b>3,188,720</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
	<b>48,753</b>		<b>48,753</b>	
<b>NET POSITION</b>				
Invested in Capital Assets Net of Related Debt	1,887,941	1,800,767	87,174	1,682,173
Restricted				
Nonexpendable	18,378	17,387	991	18,058
Expendable	169,591	174,530	(4,939)	156,469
Unrestricted	591,438	825,611	(234,173)	757,656
<b>Total Net Position</b>	<b>\$2,667,348</b>	<b>\$2,818,295</b>	<b>\$(150,947)</b>	<b>\$2,614,356</b>

**Table 2. University of Massachusetts Condensed Statement of Net Position for Related Organizations**  
As of June 30, 2015 and 2014 and 2013 (in thousands of dollars)

	University Related Organizations June 30, 2015	University Related Organizations June 30, 2014	FY14–15 Change	University Related Organizations June 30, 2013
<b>ASSETS</b>				
Current Assets	\$1,373	\$1,678	(\$305)	\$3,830
Noncurrent Assets				
Investment in Plant Net of Accumulated Depreciation	8,293	8,478	(185)	8,619
All Other Noncurrent Assets	478,645	454,646	23,999	391,699
<b>Total Assets</b>	<b>488,311</b>	<b>464,802</b>	<b>23,509</b>	<b>404,148</b>
<b>LIABILITIES</b>				
Current Liabilities	31,421	15,525	15,896	14,604
Noncurrent Liabilities	3,505	3,483	22	3,332
<b>Total Liabilities</b>	<b>34,926</b>	<b>19,008</b>	<b>15,918</b>	<b>17,936</b>
<b>NET POSITION</b>				
Invested in Capital Assets Net of Related Debt	8,293	8,477	(184)	8,619
Restricted				
Nonexpendable	330,301	309,718	20,583	290,858
Expendable	90,413	101,195	(10,782)	74,706
Unrestricted	24,378	26,404	(2,026)	12,029
<b>Total Net Position</b>	<b>\$453,385</b>	<b>\$445,794</b>	<b>\$7,591</b>	<b>\$386,212</b>

University liabilities totaled \$3.99 billion at June 30, 2015, an increase of \$484.0 million over fiscal year 2014. Long-term liabilities represent 78.5% of the total liabilities which primarily consist of bonds payable amounting to \$3.08 billion at June 30, 2015.

The University's current assets as of June 30, 2015 of \$692.68 million were below the current liabilities of \$856.46 million, and as a result the current ratio was .81 dollars in assets to every one dollar in liabilities. Current assets of \$592.8 million at June 30, 2014 were below the current liabilities of \$674.3 million, resulting in a current ratio of 0.88.

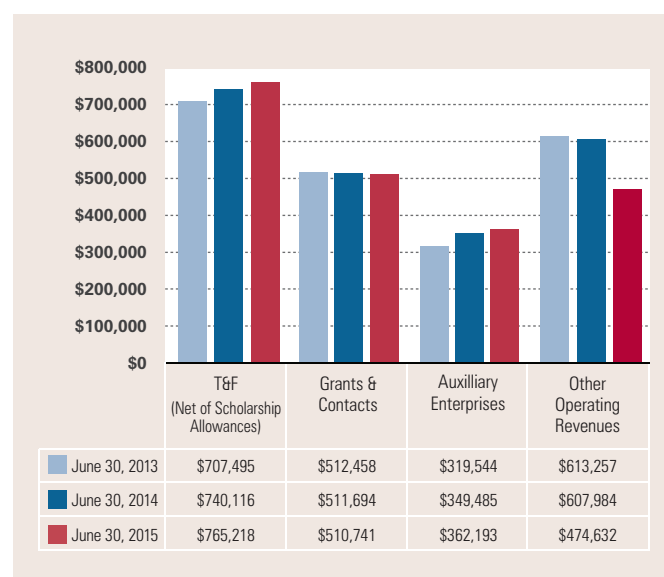
The unrestricted and restricted expendable net position totaled \$761.0 million in fiscal year 2015, which represents 27.4% of total operating expenditures of \$2.78 billion for fiscal year 2015. The unrestricted and restricted expendable net position totaled \$1.00 billion in fiscal year 2014, which represents 36% of total operating expenditures of \$2.81 billion. The unrestricted and restricted expendable net position totaled \$914.1 million in fiscal year 2013, which represents 34% of total operating expenditures of \$2.66 billion. See Tables 3 & 4, and Figure 1.

Total operating revenues for fiscal year 2015 were \$2.11 billion. This represents a \$96.5 million decrease from the \$2.21 billion in operating revenues in fiscal year 2014. The most significant sources of operating revenue for the University are tuition and fees, grants and contracts, auxiliary services and public service activities at the Worcester Medical School campus categorized in the chart above as "Other Operating Revenues". While not classified on the financial statements as operating revenue, state appropriations serve as a primary source for funding the core mission of the University. State appropriation revenue, described in detail in a section below, is used almost exclusively to fund payroll

for University employees. Figure 1 displays operating revenues by source for the University in fiscal years 2015, 2014 and 2013.

In fiscal year 2015, operating expenditures, including depreciation and amortization of \$221.0 million, totaled \$2.78 billion. Of this total, \$1.38 billion or 50% was used to support the academic core activities of the University, including \$431.6 million in research. In

**Figure 1. Sources of Operating Revenues**  
FY 2013, 2014 and 2015



**Table 3. University of Massachusetts Condensed Statement of Revenues, Expenses, and Changes in Net Position**  
For the Year Ended June 30, 2015, 2014 and 2013 (in thousands of dollars)

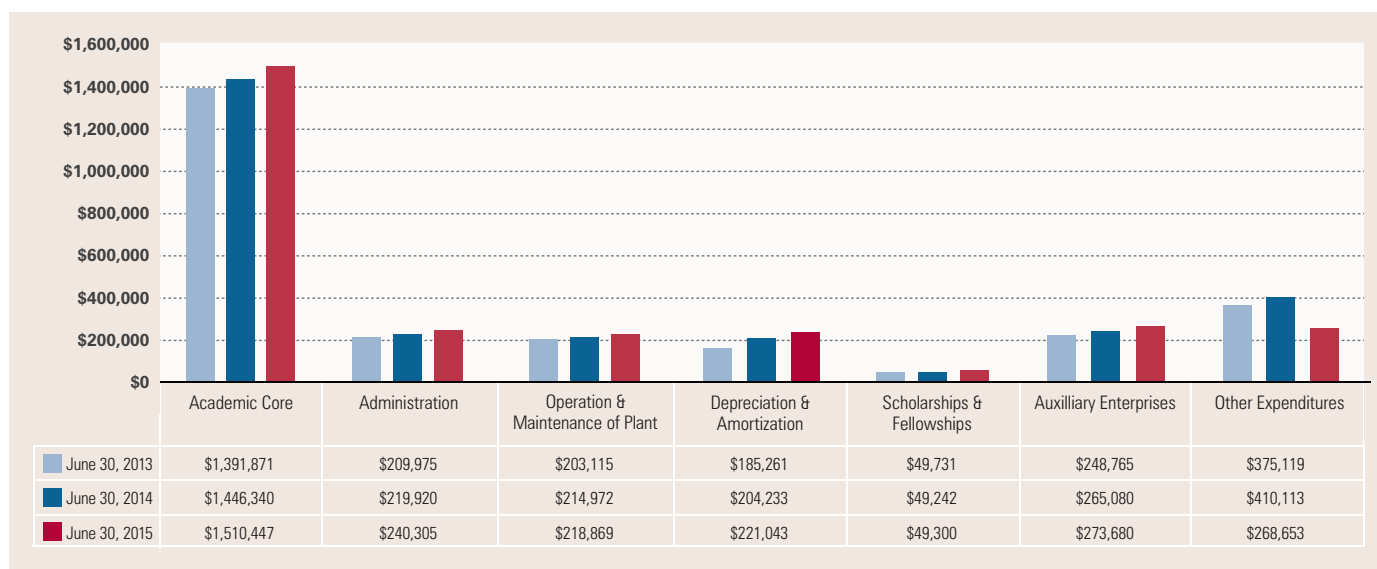
	University June 30, 2015	University June 30, 2014	FY14-15 Change	University June 30, 2013
<b>Operating Revenues</b>				
Tuition and Fees (net of scholarship allowances)	\$765,218	\$740,116	\$25,102	\$707,495
Grants and Contracts	510,741	511,694	(953)	512,458
Auxiliary Enterprises	362,193	349,485	12,708	319,544
Other Operating Revenue	474,632	607,984	(133,352)	613,257
<b>Total Operating Revenues</b>	<b>2,112,784</b>	<b>2,209,279</b>	<b>(96,495)</b>	<b>2,152,754</b>
<b>Operating Expenses</b>	<b>2,782,297</b>	<b>2,809,900</b>	<b>(27,603)</b>	<b>2,663,837</b>
<b>Operating Loss</b>	<b>(669,513)</b>	<b>(600,621)</b>	<b>(68,892)</b>	<b>(511,083)</b>
<b>Nonoperating Revenues/(Expenses)</b>				
Federal Appropriations	6,619	7,020	(401)	6,774
State Appropriations	621,200	570,618	50,582	519,311
Interest on Indebtedness	(100,332)	(89,496)	(10,836)	(91,364)
Other Nonoperating Income	61,806	133,386	(71,580)	100,697
Nonoperating Federal Grants	76,539	74,279	2,260	70,586
<b>Net Nonoperating Revenues</b>	<b>665,832</b>	<b>695,807</b>	<b>(29,975)</b>	<b>606,004</b>
<b>Income Before Other Revenues, Expenses, Gains, and Losses</b>	<b>(3,681)</b>	<b>95,186</b>	<b>(98,867)</b>	<b>94,921</b>
Capital Appropriations, Grants and Other Sources	118,405	134,369	(15,964)	156,442
Disposal of Plant Facilities	(12,120)	(6,198)	(5,922)	(8,802)
Other Additions/(Deductions)	(14,645)	(19,418)	4,773	2,939
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>91,640</b>	<b>108,753</b>	<b>(17,113)</b>	<b>150,579</b>
<b>Total Increase in Net Position</b>	<b>87,959</b>	<b>203,939</b>	<b>(115,980)</b>	<b>245,500</b>
<b>Net Position</b>				
Net Position at the Beginning of the Year	2,818,295	2,614,356	203,939	2,389,377
<i>Cumulative effect of change in accounting principle*</i>	(238,906)		(238,906)	(20,521)
<i>Net Position at the Beginning of the Year, adjusted</i>	2,579,389		2,579,389	2,368,856
<b>Net Position at the End of the Year</b>	<b>\$2,667,348</b>	<b>\$2,818,295</b>	<b>\$(150,947)</b>	<b>\$2,614,356</b>

\* Adoption of GASB 65 for the year ended 6/30/2013 and GASB 68 for the year ended 6/30/2015. See Footnote 13 Pensions for detailed discussion of the impact of GASB 68 Implementation.

**Table 4. University of Massachusetts Condensed Statement of Revenues, Expenses, and Changes in Net Position for University Related Organizations**  
For the Year Ended June 30, 2015, 2014 and 2013 (in thousands of dollars)

	University Related Organizations June 30, 2015	University Related Organizations June 30, 2014	FY14-15 Change	University Related Organizations June 30, 2013
<b>Operating Expenses</b>	<b>\$16,709</b>	<b>\$11,443</b>	<b>\$5,266</b>	<b>\$12,852</b>
<b>Operating Loss</b>	<b>(16,709)</b>	<b>(11,443)</b>	<b>5,266</b>	<b>(12,852)</b>
<b>Nonoperating Revenues/(Expenses)</b>				
Other Nonoperating Income	(18,811)	54,982	(73,793)	35,152
<b>Net Nonoperating Revenues</b>	<b>(18,811)</b>	<b>54,982</b>	<b>(73,793)</b>	<b>35,152</b>
<b>Income Before Other Revenues, Expenses, Gains, and Losses</b>	<b>(35,520)</b>	<b>43,539</b>	<b>(79,059)</b>	<b>22,300</b>
Additions to Permanent Endowments	42,842	17,566	25,276	16,056
Other Additions	269	(1,523)	1,792	(9,979)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>43,111</b>	<b>16,043</b>	<b>27,068</b>	<b>6,077</b>
<b>Total Increase in Net Position</b>	<b>7,591</b>	<b>59,582</b>	<b>(51,991)</b>	<b>28,377</b>
<b>Net Position</b>				
Net Position at the Beginning of the Year	445,794	386,212	59,582	357,835
<b>Net Position at the End of the Year</b>	<b>\$453,385</b>	<b>\$445,794</b>	<b>\$7,591</b>	<b>\$386,212</b>

**Figure 2. Operating Expenses by Category**  
FY 2013, 2014 and 2015



fiscal year 2014, operating expenditures, including depreciation and amortization of \$204.2 million, totaled \$2.81 billion. **Figure 2** displays fiscal years 2015, 2014 and 2013 operating spend.

## Public Service Activities

Other operating revenues includes Public Service Activities and consists largely of sales and services provided to third parties by the UMass Medical School campus through its Commonwealth Medicine (“CWM”) programs, which provide public consulting and services in health care financing, administration and policy to federal, state and local agencies and not-for-profit health and policy organizations. Included in this category of activities are CWM revenues of \$310.2 million and \$349.0 million for the years ended June 30, 2015 and 2014, respectively. Included in expenditures are CWM expenditures of \$296.3 million and \$318.2 million for the years ended June 30, 2015 and 2014, 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 \$43.8 million and \$163.8 million for the years ended June 30, 2015 and 2014, respectively. Finally, Public Service Activity expenditures also include payments made to the Commonwealth of Massachusetts of \$120 million for the year ended June 30, 2014, pursuant to requirements of legislation enacted by the State Legislature of Massachusetts.

## State Appropriations

In fiscal year 2015, state appropriations represent approximately 22% 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 \$50.6 million from fiscal year 2014, with the increase attributable to a higher level of State Appropriation and related fringe benefit support through the State’s investment in the University’s 50/50 plan. This plan, phased in over FY14 and FY15, had the State providing additional state appropriations in order to bring State funding levels closer to historical amounts that will allow for the State to support 50% of the educational costs of an in state undergraduate while the student funds the remaining 50%. In return for this State investment, the University and the Board committed to freezing the in state undergraduate curriculum fee during this same time period.

During the year ended June 30, 2015, the University reported approximately \$31.1 million of tuition revenues remitted to the State Treasurer’s Office for the general fund of the Commonwealth of Massachusetts. Through fiscal year 2016, 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

\$34.3 million in fiscal year 2014 and \$35.1 million in fiscal year 2013. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year.

In fiscal year 2004, a pilot program authorized by the Commonwealth enabled the Amherst campus to retain tuition for out-of-state students. This pilot program was extended indefinitely for the Amherst Campus in fiscal year 2005 and starting in fiscal year 2012 all of the University's campuses were authorized to retain tuition from out-of-state students. The amount of tuition retained by the University during 2015, 2014 and 2013 was \$82.0 million, \$75.8 million and \$74.5 million, respectively. Beginning in fiscal year 2017, the University has been granted the Legislative authority to retain all tuition.

The following table details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2015, 2014 and 2013.

**Table 5. The Commonwealth Operating Appropriations Received by the University For Fiscal Years Ended June 30, 2015, 2014 and 2013**

	FY2015	FY2014	FY2013
Gross Commonwealth Appropriations	\$516,794	\$486,656	\$447,837
Plus: Fringe Benefits*	159,403	141,881	130,005
	<b>676,197</b>	<b>628,537</b>	<b>577,842</b>
Less: Tuition Remitted	(31,055)	(34,325)	(35,103)
Less: Mandatory Waivers	(23,942)	(23,594)	(23,428)
<b>Net Commonwealth Support</b>	<b>\$621,199</b>	<b>\$570,618</b>	<b>\$519,311</b>

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

**Table 6. The University's Grant and Contract Revenues For Fiscal Years Ended June 30, 2015, 2014 and 2013 (in thousands of dollars)**

	FY2015	FY2014	FY2013
Federal Grants and Contracts	\$313,754	\$322,047	\$334,697
State Grants and Contracts	70,871	74,996	68,794
Local Grants and Contracts	1,717	2,223	2,253
Private Grants and Contracts	124,399	112,428	106,714
<b>Total Grants and Contracts</b>	<b>\$510,741</b>	<b>\$511,694</b>	<b>\$512,458</b>

## Capital Appropriations from the Commonwealth

The University faces a financial challenge to maintain and upgrade its capital assets including its infrastructure, buildings and grounds. In order to have a successful capital program, the University must rely on a combination of revenue sources to fund its investment. In fiscal year 2015, there was \$62.58 million of capital support provided to the University through appropriations and grants from the Commonwealth. This funding is attributed to the Commonwealth's Division of Capital Asset Management ("DCAM") which funded several large capital projects in fiscal year 2014 and 2015 through the State's Higher Education Bond Bill and Life Sciences Bond Bill, both passed in 2008 and have projects funded on each of the campuses. The completion of major construction projects managed by DCAM are underway at all five of the University's campuses and current bond support continues for key projects in the plan.

## Grant and Contract Revenue

Collectively, the University's Amherst Campus and Medical School in Worcester account for approximately 77% of University grant and contract activity. The Boston, Dartmouth, and Lowell campuses continue to have significant sponsored research activity.

**Table 6** details the University's grant and contract revenues (in thousands) for the fiscal years ended June 30, 2015, 2014 and 2013.

## Discretely Presented Component Units

### University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately \$768.4 million at June 30, 2015 from \$757.5 million at June 30, 2014 and from \$664.7 million at June 30, 2013.

The Foundation utilizes the pooled investment concept whereby all invested funds are in one investment pool, except for investments of certain funds that are otherwise restricted. Pooled investment funds will receive an annual distribution of 4% of the endowment fund's average market value for the preceding twelve quarters on a one year lag. Only quarters with funds on deposit shall be included in the average. In addition, a prudence rule will be utilized to limit spending from a particular endowment fund to no lower than 93% of its book value. The Foundation distributed \$24.6 million (4%) and \$17.7 million (4%) in fiscal year 2015 and 2014, respectively.

The total investment loss of the Foundation for fiscal year 2015 was \$5.7 million as compared to 2014, which, including realized and unrealized investment activity, was a net gain of approximately \$112.2 million. This is consistent with investment return performance at other institutions.



## University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were \$54.8 million at June 30, 2015 up from \$53.5 million at June 30, 2014, which are held by the University of Massachusetts Foundation, Inc. The increase was primarily due to new gifts. The Dartmouth Foundation total investment return for fiscal year 2015, including realized and unrealized investment activity, was a net loss of \$.5 million as compared to a net gain of \$4.9 million in 2014.

## Tuition and Fees

Due to declining State Appropriations, the University's Board of Trustees voted to increase mandatory student charges by 7.5% for resident undergraduate students for the 2011-2012 academic year and an additional 4.9% for the 2012-2013 academic year. For academic years 2013-2014 and 2014-2015, the Board of Trustees voted to freeze the mandatory curriculum fee for in state undergraduate students based on the increase to the State appropriation known as the 50/50 described above. Affordability will continue to be a priority of the University and increases in fees will be considered in conjunction with State support on an annual basis.

## Enrollment

Admission to the University is open to residents of the Commonwealth and non-residents on a competitive basis. In the fall 2014 semester, Massachusetts residents accounted for approximately 82% and 53% of the University's total undergraduate and graduate enrollment, respectively. Total enrollment in the fall of 2014 was 62,301 FTE (72,789 headcount students). Enrollments at the University have shown significant increases over the last five years (55,740 FTE in fall 2009). The 12% enrollment growth is consistent with the University's efforts to increase its reach across the Commonwealth and to recruit non-resident students and is reflective of the quality education provided by the University of Massachusetts.

## Degrees Awarded

The University awards four levels of degrees, as follows: associate, bachelors, masters and doctoral/professional degrees. A total of 17,174 degrees were awarded in the 2013-2014 academic year reflecting a 4.4% increase from the previous year. Of these awards, 67% were at the undergraduate level and 26% were at the graduate level. The remaining were associates degrees and undergraduate certificates.

## Bonds Payable

As of June 30, 2015, the University had outstanding bonds of approximately \$3.1 billion representing \$2.9 billion of University of Massachusetts Building Authority bonds (the "Building Authority

Bonds"), \$58.0 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority which has been merged into MassDevelopment (the "UMass HEFA Bonds"), and \$100.3 million of bonds financed through the Worcester City Campus Corporation (the "WCCC Bonds"). Bonds payable is the University's largest liability at June 30, 2015. 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 July 3, 2014, the Building Authority issued \$67,365,000 of Refunding Revenue Bonds, Senior Series 2014-3 (the "2014-3 Bonds"). The 2014-3 Bonds included a premium of \$12.0 million. The 2014-3 Bonds are tax-exempt and mature at various dates through 2029. The interest on the bonds is payable semi-annually each November 1st and May 1st and the interest rates on the bonds range from 2.0% to 5.0%. The 2014-3 Bonds were issued to refinance a portion of the Massachusetts Health and Educational Facilities Authority's Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (2005).

On March 25, 2015, the Building Authority issued \$298,795,000 of Project Revenue Bonds, Senior Series 2015-1 (the "2015-1 Bonds") and \$191,825,000 of Refunding Revenue Bonds, Senior Series 2015-2 (the "2015-2 Bonds"). The 2015-1 Bonds included a premium of \$35.7 million. The 2015-1 Bonds are tax-exempt and mature at various dates through 2045. The interest on the 2015-1 Bonds is payable semi-annually each November 1st and May 1st and the interest rates on the 2015-1 Bonds range from 4.0% to 5.0%. The 2015-2 Bonds included a premium of \$34.0 million. The 2015-2 Bonds are tax-exempt and mature at various dates through 2036. The interest on the 2015-2 Bonds is payable semi-annually each November 1st and May 1st and the interest rates on the 2015-2 Bonds range from 3.0% to 5.0%. The 2015-2 Bonds were issued to refinance a portion of the Massachusetts Health and Educational Facilities Authority's Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series E & F (2007).

## Capitalized Lease Obligations

At June 30, 2015, the University had no capital lease obligations.

## 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 obligations guaranteed by the Commonwealth at June 30, 2015 and 2014 was \$121.6 million and \$125.6 million, respectively.

## Capital Plan

In December 2014, the University's Trustees approved a \$7.0 billion five-year (fiscal years 2015-2019) update to its capital plan with \$3.4 billion of projects approved to continue or commence over the next 24 months. The University generally has funded its capital plans through a combination of funding received from University operations, bonds issued by the University of Massachusetts Building Authority, MassDevelopment financing, Commonwealth appropriations, and private fundraising. The execution of many projects from the University's capital plan is from funding from the Commonwealth through the Higher Education and Life Sciences Bond Bills. **See Table 7.**

**Table 7. \$3.8 Billion in Approved Projects Summarized**

Campus	Total 5-Year Plan (in millions) FY15–FY19	Total Approved Projects (in millions and as of June 2015)
Amherst	\$2,582,836	\$1,280,300
Boston	\$1,323,325	\$967,875
Dartmouth	\$702,809	\$275,838
Lowell	\$1,727,900	\$666,600
Worcester	\$639,746	\$173,340
<b>Total</b>	<b>\$6,976,616</b>	<b>\$3,363,953</b>
<b># of Projects</b>	<b>208</b>	<b>104</b>

The University's five-year capital plan for fiscal years 2015-2019 includes both new projects and major projects that were previously approved by the University Trustees in prior-year capital plans. Over the last year the University has been working with the Board to enhance its policy regarding its approval of capital projects to ensure a clear process for the review and approval of projects and to provide for multiple reviews during the process so that the President's Office, Building Authority and the Board of Trustees (the Board) are actively involved. Since the capital program requires significant investment, the President's office and the Board wanted to ensure that the proper steps were in place for reviewing and approving projects so that the University continues to live within its current capital and debt policies.

## 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:

- In the fall of 2014, the University opened the Springfield Satellite Center to offer bachelor and master level courses associated with a variety of existing academic degrees and certificates that are already available to citizens of Greater Springfield at nearby locations and/or online. The Center will also house selected outreach, research, and economic development programs and activities.
- A satellite campus associated with UMass Lowell, in Haverhill, is currently being planned to better serve its student population. A permanent site is being explored and a temporary site is being utilized in the current year in partnership with Northern Essex Community College. Additionally, a new site on Beacon Hill in Boston will serve as another collaboration between the five campuses to offer the University experience.

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Despite these successful acquisitions, the ability to address priority capital needs and requirements for deferred maintenance, technology, repairs and adaptation, and selected new construction projects is one of the largest challenges facing the University. In spite of investing more than \$2.7 billion on capital improvements over the last decade, the University's FY15-19 capital plan projects spending another \$3.4 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, 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. The Higher Education Improvement Act authorized \$2.2 billion for capital improvement spending over the next ten years at community colleges, state universities, and the University. More than \$1 billion of these funds are directed to University projects exclusively. Although the financial challenges faced by the Commonwealth have slowed down the pace of this funding, the University continues to work to ensure that critical needs are met.

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.

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. In fiscal year 2015 construction was completed on the Edward M. Kennedy Institute for the United States Senate which focuses on political study, training sessions for students and politicians, and historical records.

Research funding for the University of Massachusetts was strong despite Federal sequestration of funds. For the University, research expenditures were \$603 million in fiscal year 2014 and \$591.1 million in fiscal year 2013. 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 140 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 2015, UMassOnline and the Continuing Education units at the five campuses collaboratively generated tuition revenue in excess of \$89.6 million and supported 66,767 course enrollments, an increase of 5.3% for revenue and an increase of 5.2% for course enrollments as compared to fiscal year 2014.

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

The Commonwealth's fiscal year 2013 budget approved in June 2012 included a base state appropriation amount for the University equal to the base state appropriation received in fiscal year 2012. In addition to the base state appropriation, the budget also provided \$25.6 million to cover the fiscal year 2013 cost of the collective bargaining increases for the University's union employees and \$6.6 million of line item funding specific to the University. With state support consistent with the FY11 level despite the fact that enrollment has increased at the University by 15% over the last five years, the University's Board of Trustees approved a 4.9% tuition and fee increase for undergraduate students for the 2012-2013 academic year. In January of 2013, the Governor imposed mid-year budget reductions to bring the State budget into balance. As part of the reductions, the University received a 1% reduction equating to \$4.2 million. Through working

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with the Legislature, the University was able to utilize revenues to meet the reduction so that there would be no impact on the fringe support provided by the State. Each campus and the central office absorbed the reduction into operations for fiscal year 2013.

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

The fiscal year 2015 budget approved in July 2014 provided for a base state appropriation of \$519.0 million which represents the second installment of the 50:50 plan which began in fiscal year 2014. This investment, along with the additional fringe support, allowed the University to freeze the mandatory curriculum fee for the second consecutive year for in state undergraduate students. However, the State did not fund the first year of collective bargaining contracts to date that cost approximately \$13.1 million in State support. Although \$2.2 million of the collective bargaining costs were received in fiscal year 2015, the University did not receive the remaining \$10.9 million. Additionally, the University was issued a 9C budget reduction in February 2015 totaling \$7.8 million which was absorbed into operations.

### Contacting the University

This financial report is designed to provide the University, the Commonwealth, the public and other interested parties with an overview of the financial results of the University and an explanation of the University's financial condition. If you have any questions about this report or require additional information, you can contact the University by calling the University Controller, Sarah Mongeau, at (774) 455-7520 or by email at [smongeau@umassp.edu](mailto:smongeau@umassp.edu).

## Table 8. Consolidated Statement of Net Position

AS OF JUNE 30, 2015 AND 2014 (IN THOUSANDS OF DOLLARS)

	University June 30, 2015	University Related Organizations June 30, 2015	University June 30, 2014	University Related Organizations June 30, 2014
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$89,965		\$63,752	
Cash Held By State Treasurer	27,597		27,867	
Accounts, Grants and Loans Receivable, net	249,517		231,156	
Pledges Receivable, net	10,620	\$500	11,320	\$785
Short Term Investments	265,248		192,957	
Inventories, net	17,472		16,298	
Accounts Receivable from UMass Memorial	17,463		40,807	
Due From Related Organizations	59	203	181	354
Other Assets	14,738	670	8,412	539
<b>Total Current Assets</b>	<b>692,679</b>	<b>1,373</b>	<b>592,750</b>	<b>1,678</b>
<b>Noncurrent Assets</b>				
Cash and Cash Equivalents		2,018		1,378
Cash Held By State Treasurer	5,403		8,429	
Cash and Securities Held By Trustees	707,061		704,186	
Accounts, Grants and Loans Receivable, net	38,382		40,498	
Pledges Receivable, net	6,275	293	6,465	677
Investments	737,788	476,272	775,953	452,529
Other Assets	6,512	62	7,860	62
Investment In Plant, net	4,333,761	8,293	4,064,786	8,478
<b>Total Noncurrent Assets</b>	<b>5,835,182</b>	<b>486,938</b>	<b>5,608,177</b>	<b>463,124</b>
<b>Total Assets</b>	<b>6,527,861</b>	<b>488,311</b>	<b>6,200,927</b>	<b>464,802</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Change in Fair Value of Interest Rate Swaps	\$44,648		41,082	
Loss on Debt Refunding	86,723		82,485	
Pensions	47,039			
<b>Total Deferred Outflows of Resources</b>	<b>178,410</b>		<b>123,567</b>	
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$120,090	\$691	113,650	174
Accrued Salaries and Wages	127,341		110,464	
Accrued Compensated Absences	76,634		74,092	
Accrued Workers' Compensation	3,495		4,352	
Accrued Interest Payable	22,650		21,872	
Bonds Payable	398,015		196,608	
Capital Lease Obligations	170		2,232	
Accelerated Variable Rate Debt, current	6,000		50,000	
Assets Held on Behalf of Others		29,284		13,797
Accounts Payable to UMass Memorial	2,787		3,864	
Due to Related Organizations	203	59	354	181
Unearned Revenues and Credits	45,530	1,387	40,923	1,373
Advances and Deposits	6,191		6,912	
Other Liabilities	47,354		49,007	
<b>Total Current Liabilities</b>	<b>856,460</b>	<b>31,421</b>	<b>674,330</b>	<b>15,525</b>
<b>Noncurrent Liabilities</b>				
Accrued Compensated Absences	31,813		31,779	
Accrued Workers' Compensation	10,886		10,811	
Bonds Payable	2,685,235		2,627,836	
Capital Lease Obligations	562			
Derivative Instruments, Interest Rate Swaps	71,054		68,843	
Net Pension Liability	237,135			
Unearned Revenues and Credits	26,821		21,243	
Advances and Deposits	28,621		28,094	
Other Liabilities	41,583	3,505	43,263	3,483
<b>Total Noncurrent Liabilities</b>	<b>3,133,710</b>	<b>3,505</b>	<b>2,831,869</b>	<b>3,483</b>
<b>Total Liabilities</b>	<b>3,990,170</b>	<b>34,926</b>	<b>3,506,199</b>	<b>19,008</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pensions	48,753			
<b>Net Position</b>				
Invested in Capital Assets Net of Related Debt	1,887,941	8,293	1,800,767	8,477
Restricted				
Nonexpendable	18,378	330,301	17,387	309,718
Expendable	169,591	90,413	174,530	101,195
Unrestricted	591,438	24,378	825,611	26,404
<b>Total Net Position</b>	<b>\$2,667,348</b>	<b>\$453,385</b>	<b>\$2,818,295</b>	<b>\$445,794</b>



**Table 9. Consolidated Statement of Revenues, Expenses, and Changes in Net Position**  
FOR THE YEAR ENDED JUNE 30, 2014 AND 2013 (IN THOUSANDS OF DOLLARS)

	University June 30, 2015	University Related Organizations June 30, 2015	University June 30, 2014	University Related Organizations June 30, 2014
<b>REVENUES</b>				
<b>Operating Revenues</b>				
Tuition and Fees (net of scholarship allowances of \$212,469 at June 30, 2015 and \$201,186 at June 30, 2014)	\$765,218		\$740,116	
Federal Grants and Contracts	313,754		322,047	
State Grants and Contracts	70,871		74,996	
Local Grants and Contracts	1,717		2,223	
Private Grants and Contracts	124,399		112,428	
Sales and Service, Educational	25,601		21,792	
Auxiliary Enterprises	362,193		349,485	
Other Operating Revenues:				
Sales and Service, Independent Operations	48,368		44,296	
Sales and Service, Public Service Activities	295,429		448,478	
Other	105,234		93,418	
<b>Total Operating Revenues</b>	<b>2,112,784</b>		<b>2,209,279</b>	
<b>EXPENSES</b>				
<b>Operating Expenses</b>				
<i>Educational and General</i>				
Instruction	712,430		690,635	
Research	431,586		407,425	
Public Service	72,910	\$16,359	77,985	\$11,066
Academic Support	165,533		151,000	
Student Services	127,988		119,295	
Institutional Support	240,305		219,920	
Operation and Maintenance of Plant	218,869		214,972	
Depreciation and Amortization	221,043	201	204,233	200
Scholarships and Fellowship	49,300	149	49,242	177
<i>Auxiliary Enterprises</i>	273,680		265,080	
<i>Other Expenditures</i>				
Independent Operations	40,961		44,861	
Public Service Activities	227,692		365,252	
<b>Total Operating Expenses</b>	<b>2,782,297</b>	<b>16,709</b>	<b>2,809,900</b>	<b>11,443</b>
<b>Operating Loss</b>	<b>(669,513)</b>	<b>(16,709)</b>	<b>(600,621)</b>	<b>(11,443)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>				
Federal Appropriations	6,619		7,020	
State Appropriations	621,200		570,618	
Gifts	30,351	10,438	29,013	11,063
Investment Income	11,670	(30,383)	86,685	42,849
Endowment Income	16,858	1,134	16,642	1,070
Interest on Indebtedness	(100,332)		(89,496)	
Nonoperating Federal Grants	76,539		74,279	
Other Nonoperating Income	2,927		1,046	
<b>Net Nonoperating Revenues</b>	<b>665,832</b>	<b>(18,811)</b>	<b>695,807</b>	<b>54,982</b>
<b>Income Before Other Revenues, Expenses, Gains and Losses</b>	<b>(3,681)</b>	<b>(35,520)</b>	<b>95,186</b>	<b>43,539</b>
<b>OTHER REVENUES, EXPENSES, GAINS, AND LOSSES</b>				
Capital Appropriations	62,582		112,132	
Capital Grants and Contracts	55,823		21,987	
Additions to Permanent Endowments	920	42,842		17,566
Net Amounts Earned/Received on Behalf of Others		12		(1,555)
Capital Contribution			250	
Disposal of Plant Facilities	(12,120)		(6,198)	
University Related Organization Transactions				
Other Additions /(Deductions)	(15,565)	257	(19,418)	32
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>91,640</b>	<b>43,111</b>	<b>108,753</b>	<b>16,043</b>
<b>Total Increase in Net Position</b>	<b>87,959</b>	<b>7,591</b>	<b>203,939</b>	<b>59,582</b>
<b>NET POSITION</b>				
Net Position at Beginning of the Year, as reported	2,818,295	445,794	2,614,356	386,212
Cumulative Effect of Change in Accounting Principle	(238,906)			
Net Position at Beginning of Year, as adjusted	2,579,389		2,614,356	
<b>Net Position at the End of Year</b>	<b>\$2,667,348</b>	<b>\$453,385</b>	<b>\$2,818,295</b>	<b>\$445,794</b>

**Table 10. Consolidated Statements of Cash Flows**  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (IN THOUSANDS OF DOLLARS)

	University June 30, 2015	University June 30, 2014
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$802,554	\$793,246
Grants and Contracts	778,001	798,973
Payments to Suppliers	(1,046,986)	(1,273,331)
Payments to Employees	(1,352,448)	(1,298,736)
Payments for Benefits	(295,584)	(288,286)
Payments for Scholarships and Fellowships	(49,294)	(49,236)
Loans Issued to Students and Employees	(5,899)	(7,212)
Collections of Loans to Students and Employees	8,668	5,302
Auxiliary Enterprises Receipts	354,192	336,456
Sales and Service, Educational	22,720	21,613
Sales and Service, Independent Operations	54,621	49,781
Sales and Service, Public Service Activities	317,039	471,119
<b>Net Cash Used for Operating Activities</b>	<b>(412,417)</b>	<b>(440,311)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	676,197	628,537
Tuition Remitted to the State	(31,055)	(34,325)
Federal Appropriations	6,619	7,020
Gifts and Grants for Other than Capital Purposes	27,106	25,990
Nonoperating Federal Grants	76,539	74,279
Student Organization Agency Transactions	(431)	31
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>754,975</b>	<b>701,533</b>
<b>CASH FLOWS FROM CAPITAL AND OTHER FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt	365,501	587,555
Bond Issuance Costs Paid	(789)	(3,647)
Capital Appropriations	62,497	112,132
Capital Grants and Contracts	50,199	37,584
Purchases of Capital Assets and Construction	(152,369)	(208,444)
Principal Paid on Capital Debt and Leases	(161,296)	(257,837)
Interest Paid on Capital Debt and Leases	(106,625)	(104,441)
Use of Debt Proceeds on Deposit with Trustees	(330,330)	(357,204)
<b>Net Cash Used for Capital Financing Activities</b>	<b>(273,212)</b>	<b>(194,302)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	876,156	1,141,204
Interest on Investments	8,651	8,959
Purchase of Investments	(928,361)	(1,162,801)
<b>Net Cash (Used in)/Provided by Investing Activities</b>	<b>(43,554)</b>	<b>(12,638)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>25,792</b>	<b>54,282</b>
<b>Cash and Cash Equivalents — Beginning of the Year</b>	<b>804,234</b>	<b>749,952</b>
<b>Cash and Cash Equivalents — End of Year</b>	<b>\$830,026</b>	<b>\$804,234</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>Operating Loss</b>	(669,513)	(600,621)
<i>Adjustments to reconcile loss to net cash used by Operating Activities:</i>		
Depreciation and Amortization Expense	221,043	204,233
<i>Changes in Assets and Liabilities:</i>		
Receivable, net	(15,355)	2,306
Inventories	(1,174)	3,471
Due to/from Related Organizations	(273)	(75)
Accounts Receivable/Payable UMass Memorial	22,267	(28,573)
Other Assets	(5,067)	(16,748)
Accounts Payable (non-capital)	3,419	(10,550)
Accrued Liabilities	18,671	7,327
Deferred Revenue	10,185	1,579
Advances and Deposits	(194)	(883)
Other Liabilities	3,574	(1,777)
<b>Net Cash Used for Operating Activities</b>	<b>(412,417)</b>	<b>(440,312)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>		
The Authority issued Project and Refunding revenue bonds to refund certain debt	302,388	
Pension Liability	237,135	
Assets Acquired and Included in Accounts Payable and Other Liabilities	59,726	56,705
Loss on Disposal of Capital Assets	(12,120)	(6,198)
Unrealized Gain on Investments	(6,971)	50,353

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# Notes to Consolidated Financial Statements

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## 1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

### Organization

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

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

The University Related Organizations column in the accompanying financial statements includes the financial information of the University's discretely presented component units. The University of Massachusetts Foundation, Inc. ("Foundation") and the University of Massachusetts Dartmouth Foundation, Inc. ("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 changes in endowment net position. Revenues are recognized when earned and expenses are recognized when incurred with the exception of revenue earned on certain public service activities (see Note 5). Restricted grant revenue is recognized only when all eligibility requirements have been met, that is to the extent grant revenues are expended or in the case of fixed price contracts, when the contract terms are met or completed. Contributions, including unconditional promises to give (pledges) for non-endowment or non-capital purposes, are recognized as revenues in the period received. Pledges to restricted non-expendable endowments are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The University applies restricted net assets first when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of

America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, and disclosures of contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Significant estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the allowance for doubtful accounts, valuation of certain investments, and best estimates of selling price associated with certain multiple element arrangements. Actual results could differ from those estimates.

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

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

- **Invested in capital assets, net of related debt:** Capital assets, at historical cost or fair market value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted Nonexpendable:** Resources subject to externally imposed stipulations that they be maintained permanently by the University.
- **Restricted Expendable:** Resources whose use by the University is subject to externally imposed stipulations. Such assets include restricted grants and contracts, the accumulated net gains/losses on true endowment funds, as well as restricted funds loaned to students, restricted gifts and endowment income, and other similar restricted funds.
- **Unrestricted:** Resources that are not subject to externally imposed stipulations. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

Revenues are reported net of discounts and allowances. As a result, student financial aid expenditures are reported as an allowance against tuition and fees revenue while stipends and other payments made directly to students are recorded as scholarship and fellowship expenditures on the statements of

revenues, expenses, and changes in net position, and included in supplies and services in the statements of cash flows. Discounts and allowances for tuition and fees and auxiliary enterprises are calculated using the Alternate Method which reports tuition and fee revenue net of scholarship allowances.

## Adoption of Accounting Pronouncement — Pension

For the year ended June 30, 2015, the University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Retirement Benefits* – an amendment of GASB Statement No. 27. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments through pension plans that are administered through trusts that have certain characteristics and establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. The implementation of GASB 68 resulted in a cumulative effect adjustment of (\$238,906) to the beginning net position of the 2015 Statement of Revenues, Expenses and Changes in Net Position as of July 1, 2014 for the recording of pensions. The application of GASB 68 was recorded effective in the beginning of fiscal year 2015 because this was the earliest date for which was practical based on available information.

## New GASB Pronouncements

On March 2, 2015, the Governmental Accounting Standards Board (GASB) released Statement No. 72, *Fair Value Measurement and Application*, which would generally require state and local governments to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. The requirements are effective for financial statements for periods beginning after June 15, 2015, with early application encouraged. The University plans to implement GASB 72 in fiscal year 2016.

In June 2015 the Governmental Accounting Standards Board (GASB) released Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting

assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. Management is evaluating the impact this pronouncement will have on the University.

## 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, 2015 and 2014 was \$112.2 million and \$114.0 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 2015 and 2014. Future utilization of gains is dependent on market performance. Deficiencies for donor-restricted endowment funds resulting from declines in market value would be offset by an allocation from unrestricted net position to restricted expendable net position, and would be recorded in realized and unrealized gains (losses) on sale of investments. In fiscal years 2015 and 2014, the deficiencies were \$0.1 million and \$0.0 million, respectively. The Foundation believes that these adjustments are temporary and will not require permanent funding.



## Inventories

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

## Investment in Plant

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

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

**Table 11. The Range of Useful Lives for the University's Depreciable Assets**

Assets	
Buildings	20–50 years
Building Improvements	3–20 years
Equipment and Furniture	3–15 years
Software	5 years
Land Improvements	20 years

## Compensated Absences

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

## Unearned Revenue

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

## Advances and Deposits

Advances from the U.S. Government for Federal Perkins Loans to students are reported as part of advances and deposits. Future loans to students are made available only from repayments of outstanding principal amounts plus accumulated interest received thereon. Funding ended on Sept. 30, 2015 for the low-interest Federal Perkins Loan program. Universities and colleges are not allowed to make Federal Perkins Loans to new borrowers after this date.

## Tuition and State Appropriations

The accompanying financial statements for the years ended June 30, 2015 and 2014 present as tuition revenue approximately \$31.1 million and \$34.3 million, respectively, of in-state tuition received by the University and remitted to the State Treasurer's Office for the general fund of the Commonwealth of Massachusetts. The amount of tuition retained by the University related to out-of-state students during 2015 and 2014 was \$82.0 million and \$75.8 million, respectively. The recorded amount of State Appropriations received by the University has been reduced by a corresponding amount of tuition remitted as shown in **Table 12** (in thousands).

## Auxiliary Enterprises

Auxiliary Enterprise revenue of \$362.2 million and \$349.5 million for the years ended June 30, 2015 and 2014, respectively, are stated net of room and board charge allowances of \$0.7 million and \$1.0 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

**Table 12. The Recorded Amount of State Appropriations Received by the University Has Been Reduced by a Corresponding Amount of Tuition Remitted (in thousands of dollars)**

	2015	2014
Gross Commonwealth Appropriations	\$516,794	\$486,656
Plus: Fringe Benefits	159,403	141,881
	<b>676,197</b>	<b>628,537</b>
Less: Tuition Remitted	(31,055)	(34,325)
Less: Mandatory Waivers	(23,942)	(23,594)
<b>Net Commonwealth Support</b>	<b>\$621,200</b>	<b>\$570,618</b>

and not-for-profit health and policy organizations. Included in this category of activities are Commonwealth Medicine revenues of \$310.2 million and \$349.0 million for the years ended June 30, 2015 and 2014, respectively. Included in expenditures are Commonwealth Medicine expenditures of \$296.3 million and \$318.2 million for the years ended June 30, 2015 and 2014, respectively.

Public Service Activities also include payments received by the Medical School for educational services it provides to its clinical affiliate, UMass Memorial, as required by the enabling legislation enacted by the Commonwealth in 1997. Educational services revenues included in public service revenues were \$43.8 million and \$163.8 million for the years ended June 30, 2015, and 2014, respectively. Finally, Public Service Activity expenditures include payments made to the Commonwealth of Massachusetts of \$120 million for the year ended June 30, 2014, 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. 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, 2015 and June 30, 2014, respectively, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

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

## Income Tax Status

The University and the Building Authority are component units of the Commonwealth of Massachusetts and are exempt from Federal and state income tax under the doctrine of intergovernmental tax immunity found in the U.S. Constitution. The University qualifies as a public charity eligible to receive charitable contributions under Section 170(b)(1)(A)(ii) of the Internal Revenue Code, as amended (the Code). The Building Authority qualifies as a public charity under Section 170(b)(1)(A)(iv) of the Code.

The Worcester City Campus Corporation (WCCC), and the University Related Organizations are organizations described in Section 501(c)(3) of the Code, and are generally exempt from

income taxes pursuant to Section 501(a) of the Code. WCCC and the University Related Organizations are required to assess uncertain tax positions and have determined that there were no such positions that are material to the financial statements.

## Comparative Information and Reclassifications

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

## 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The University's investments are made in accordance with the Investment Policy and Guidelines Statement Operating Cash Portfolio adopted in May 2005 and later amended in June 2009 by the Board of Trustees (the "Investment Policy") and the Statement of Investment and Spending Policies of the University of Massachusetts Foundation, Inc. The goals of these documents are to preserve capital, provide liquidity, and generate investment income. The University of Massachusetts has statutory authority under Massachusetts General Laws Chapter 75 to collect, manage, and disburse trust funds of the University.

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. Private equities and certain other non-marketable securities are valued using current estimates in fair value by management based on information provided by the general partner or investment manager for the respective securities. Investments in units of non-publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market prices of the underlying investments. Private equities and other non-marketable securities represent approximately 24.4% and 27.4% of the University's investments at June 30, 2015 and 2014, respectively.

**Custodial Credit Risk:** Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the University would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. The University does not have a formal policy related to mitigation of custodial credit risk. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the University and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2015 and 2014, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustees' name.

The University maintains depository, payroll, disbursement, receipt, and imprest accounts. In addition to bank account deposits, the University held money market instruments which are classified as investments. Interest bearing and money market accounts carry Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000 per account. None of the accounts are collateralized above the FDIC insured amounts. The University also invested in individual CDs and BNY Mellon's CDARS program as of June 30, 2014. These funds are invested in individual CDs in \$250,000 increments and are therefore fully insured by the FDIC. The University did not invest in BNY Mellon's CDARS program in fiscal year 2015.

At June 30, 2015 and 2014, the carrying amounts, bank balances and FDIC insured amounts were as follows (in thousands): **See Table 13.**

At June 30, 2015, the University held a carrying and fair market value of \$713.7 million in non-money market investments compared to a carrying and fair market value of \$743.2 million at June 30, 2014. In the event of negligence due to the University's custodian and/or investment manager(s), it is expected that investment balances of \$713.7 million and \$743.2 million at June 30, 2015 and 2014, 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

**Table 13. The Carrying Amounts, Bank Balances and FDIC Insured Amounts  
At June 30, 2015 and 2014 (in thousands of dollars)**

	2015			2014		
	Book Balance	Bank Balance	FDIC Insured	Book Balance	Bank Balance	FDIC Insured
Depository Accounts	\$90,691	\$70,176	\$1,052	\$57,360	\$65,410	\$1,007
Certificates of Deposit	650	650	400	650	650	400
Money Market	233,305	233,305	2,501	180,601	180,601	2,251
<b>Total</b>	<b>\$324,646</b>	<b>\$304,131</b>	<b>\$3,953</b>	<b>\$238,611</b>	<b>\$246,661</b>	<b>\$3,658</b>

value of the University's investments. The University does not have a formal policy for concentration of credit risk.

As of June 30, 2015 and June 30, 2014, respectively, there is no concentration of investments with one issuer of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio.

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

**Table 14** presents the fair value (in thousands) and average credit quality of the fixed income component of the University's investment portfolio as of June 30, 2015 and 2014, respectively.

**Tables 15 & 16** present the fair value (in thousands) by credit quality of the rated debt investments component of the University's investment portfolio as of June 30, 2015 and 2014, respectively.

**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

**Table 14. The Fair Value and Average Credit Quality of the Fixed Income Component of the University's Investment Portfolio**  
As of June 30, 2015 and 2014, respectively (in thousands of dollars)

Asset Class	June 30, 2015 Fair Value	Average Credit Quality	June 30, 2014 Fair Value	Average Credit Quality
Short Duration	\$314,081	AAA	\$240,550	AAA
Intermediate Duration	\$231,382	A	\$282,030	A

**Table 15. Rated Debt Investments — 2015**  
(in thousands of dollars)

	S&P Quality Ratings								
	Fair Value	AAA	AA	A	BBB	BB	B	<B	Unrated
US Agencies	\$1,313	—	\$582	—	—	—	—	—	\$731
US Government	34,856	—	48	—	—	—	—	—	34,808
Certificates of Deposit	500	\$500	—	—	—	—	—	—	—
Corporate Debt	100,192	22,117	6,662	\$25,797	\$26,957	—	—	—	18,659
Municipal/Public Bonds	4,767	439	2,899	312	1,117	—	—	—	—
Bond Mutual Funds	113,655	44,137	3,159	12,754	18,835	\$14,590	\$8,667	\$2,986	8,527
Money Market Funds	290,180	290,067	—	—	—	—	—	—	113
	<b>\$525,463</b>	<b>\$357,260</b>	<b>\$13,350</b>	<b>\$38,863</b>	<b>\$46,909</b>	<b>\$14,590</b>	<b>\$8,667</b>	<b>\$2,986</b>	<b>\$62,838</b>

**Table 16. Rated Debt Investments — 2014**  
(in thousands of dollars)

	S&P Quality Ratings								
	Fair Value	AAA	AA	A	BBB	BB	B	<B	Unrated
US Agencies	\$12,195	—	\$12,195	—	—	—	—	—	—
US Government	34,522	—	34,522	—	—	—	—	—	—
Certificates of Deposit	500	\$500	—	—	—	—	—	—	—
Corporate Debt	90,284	17,627	12,830	\$24,742	\$22,199	—	\$131	\$1,426	\$11,329
Municipal/Public Bonds	4,253	—	1,614	1,500	1,139	—	—	—	—
Bond Mutual Funds	152,806	56,581	6,657	19,463	31,222	\$15,940	11,282	3,375	8,286
Money Market Funds	228,021	225,764	—	—	—	—	—	—	2,257
	<b>\$522,581</b>	<b>\$300,472</b>	<b>\$67,818</b>	<b>\$45,705</b>	<b>\$54,560</b>	<b>\$15,940</b>	<b>\$11,413</b>	<b>\$4,801</b>	<b>\$21,872</b>

fixed income component of the investment portfolio by asset class by limiting investments through targeted allocations to different asset classes.

**Tables 17** shows the allocation for each asset class and the fair value (in thousands) for each as of June 30, 2015 and 2014, respectively.

**Tables 18 & 19** present the fair value (in thousands) by credit quality of the rated debt investments component of the University's investment portfolio as of June 30, 2015 and 2014, respectively.

**Table 17. The Allocation for Each Asset Class and the Fair Value for Each**  
As of June 30, 2015 and 2014 (in thousands of dollars)

Asset Class	6/30/15 Allocation	6/30/15 Fair Value	6/30/14 Allocation	6/30/14 Fair Value
Short Duration	31%	\$314,081	25%	\$240,551
Intermediate Duration	23%	231,382	29%	282,030
Alternative Assets	24%	244,456	27%	265,499
Equities	18%	182,880	15%	147,500
Commodities	2%	18,704	3%	24,592
Real Estate	1%	11,533	1%	8,738

**Table 18. Investments — 2015**  
(in thousands of dollars)

Investment Type	Fair Value	Investment Maturity (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt Securities					
US Agencies	\$1,313		\$1,313		
US Government	34,856		33,862	\$994	
Certificates of Deposit	500	\$500	—	—	
Corporate Debt	100,192	1,284	93,411	5,097	\$400
Municipal/Public Bonds	4,767	3,407	1,360	—	—
Bond Mutual Funds	113,655	18,710	46,479	33,791	14,675
Money Market Mutual Funds	290,180	290,180	—	—	—
<b>Sub Total Debt</b>	<b>\$545,463</b>	<b>\$314,081</b>	<b>\$176,425</b>	<b>\$39,882</b>	<b>\$15,075</b>
Other Investments					
Alternative Assets	244,456				
Equity Securities - International	110,903				
Equity Securities - Domestic	71,977				
Commodities	18,704				
Real Estate	11,533				
<b>Grand Total</b>	<b>\$1,003,036</b>				

**Table 19. Investments — 2014**  
(in thousands of dollars)

Investment Type	Fair Value	Investment Maturity (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt Securities					
US Agencies	\$12,195	\$4,307	\$3,999	\$825	\$3,064
US Government	34,522	—	29,557	4,965	—
Certificates of Deposit	500	500	—	—	—
Corporate Debt	90,284	7,722	40,361	14,119	28,082
Municipal/Public Bonds	4,253	—	4,017	236	—
Bond Mutual Funds	152,806	17,395	81,561	36,503	17,347
Money Market Mutual Funds	228,021	228,021	—	—	—
<b>Sub Total Debt</b>	<b>\$522,581</b>	<b>\$257,945</b>	<b>\$159,495</b>	<b>\$56,648</b>	<b>\$48,493</b>
Other Investments					
Alternative Assets	265,499				
Equity Securities - International	81,358				
Equity Securities - Domestic	66,142				
Commodities	24,592				
Real Estate	8,738				
<b>Grand Total</b>	<b>\$968,910</b>				



### 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 \$33.0 million at June 30, 2015 and \$36.5 million at June 30, 2014. The University has recorded a comparable amount of cash held by the State Treasurer for the benefit of the University, which will be subsequently utilized to pay for such liabilities. The cash is held in the State Treasurer's pooled cash account. The Commonwealth requires all bank deposits in excess of insurance coverage by the FDIC to be collateralized with a perfected pledge of eligible collateral. Eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver-General.

### 4. CASH AND SECURITIES HELD BY TRUSTEES

Cash and securities held by trustees primarily consist of unspent bond proceeds, amounts held for the future payment of debt service on such borrowings and designated funds. At June 30, 2015 and June 30, 2014, there was \$6.2 million and \$3.0 million, respectively, available from the Revolving Loan Fund established with 2000 Series A bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Note 8) and \$700.9 million and \$701.2 million, respectively, held by trustees related to the Building Authority.

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately \$700 million at June 30, 2015 and June 30, 2014, respectively) 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 (in thousands):

**Table 20. The Building Authority's Cash and Cash Equivalents**  
As of June 30, 2015 and 2014 (in thousands of dollars)

	2015	2014
Cash	\$3,580	\$4,406
Permitted Money Market Accounts ("MMA")	692,194	691,381
<b>Total Cash and Cash Equivalents</b>	<b>\$695,774</b>	<b>\$695,787</b>

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, 2015 and June 30, 2014, the bank balances of uninsured deposits totaled \$3.3 million and \$4.1 million, respectively. 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, 2015, the Building Authority's investments consisted of the following: **See Table 21.**

As of June 30, 2014, the Building Authority's investments consisted of the following: **See Table 22.**

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.

**Table 21. The Building Authority's Investments**  
As of June 30, 2015

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 5	6 to 10
Debt Securities				
Repurchase Agreements	\$5,318			\$5,318
MoneyMarket Funds	692,194	\$ 692,194		
<b>Total</b>	<b>\$697,512</b>	<b>\$692,194</b>		<b>\$5,318</b>

**Table 22. The Building Authority's Investments**  
As of June 30, 2014

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 5	6 to 10
Debt Securities				
Repurchase Agreements	\$5,318			\$5,318
MoneyMarket Funds	691,381	\$691,381		
<b>Total</b>	<b>\$696,699</b>	<b>\$691,381</b>		<b>\$5,318</b>

**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, 2015, the Building Authority had 98.7% of its investments in MMDT. As of June 30, 2014, the Building Authority had 98.6% of its investments in MMDT.

## 5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

Accounts, grants and loans receivable as of June 30, 2015 and 2014 are as follows (in thousands):

**Table 23. Accounts, Grants and Loans Receivable  
As of June 30, 2015 and 2014 (in thousands of dollars)**

	2015	2014
Student Accounts Receivable	\$54,295	\$53,383
Less Allowance for Uncollectible Accounts	(23,955)	(21,814)
	<b>30,340</b>	<b>31,569</b>
Grants and Contracts Receivable	94,929	82,157
Less Allowance for Uncollectible Accounts	(2,124)	(1,151)
	<b>92,805</b>	<b>81,006</b>
Student Loans Receivable	45,362	46,869
Less Allowance for Uncollectible Accounts	(296)	(296)
	<b>45,066</b>	<b>46,573</b>
Commonwealth Medicine	66,894	65,586
Less Allowance for Uncollectible Accounts	(822)	(824)
	<b>66,072</b>	<b>64,762</b>
Other	54,763	48,154
Less Allowance for Uncollectible Accounts	(1,147)	(410)
	<b>53,616</b>	<b>47,744</b>
Total, net	287,899	271,654
Less Current Portion, net	(249,517)	(231,156)
Long-term, net	<b>\$38,382</b>	<b>\$40,498</b>

### UMass Memorial

The University and UMass Memorial have the following ongoing agreements:

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

The University is reimbursed by, and reimburses UMass Memorial for shared services, cross-funded employees, and other agreed upon activities provided and purchased. For the years ended June 30, 2015 and 2014, the reimbursements for services provided

to UMass Memorial were \$156.3 million and \$107.1 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 \$96.2 million and \$62.8 million for fiscal years 2015 and 2014, respectively. At June 30, 2015 and 2014, the University has recorded a receivable in the amount of \$17.5 million and \$38.8 million, respectively from UMass Memorial which includes \$9.5 million and \$23.8 million, respectively, in payroll and related fringe charges. The University has recorded a payable at June 30, 2015 of \$2.8 million primarily for 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, 2015, the net position of the Foundation included as related organizations in the accompanying financial statements of the University are \$468.4 million, of which \$438.4 million are restricted funds and \$30.0 million are unrestricted funds. During the fiscal year ended June 30, 2015, the University received \$28.5 million from the Foundation, and \$14.1 million to the Foundation of which \$3.8 million related to the establishment of quasi-endowment. At June 30, 2015, the University's investments include \$333.3 million of endowment funds held in a custodial relationship at the Foundation, and \$291.4 million in ITIF.

As of June 30, 2014, the net position of the Foundation included as related organizations in the accompanying financial statements of the University are \$455.1 million, of which \$423.0 million are restricted funds and \$32.1 million are unrestricted funds. During the fiscal year ended June 30, 2014, the University received \$21.6 million from the Foundation, and \$13.1 million to the Foundation of which \$3.4 million related to the establishment of quasi-endowment. At June 30, 2014, the University's investments include \$346.1 million of endowment funds held in a custodial relationship at the Foundation, and \$295.7 million in ITIF.

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

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

In August 2005, the Building Authority executed a contract with UMass Management, LLC, a wholly owned subsidiary of ClubCorp USA, Inc., to provide management services for The University of Massachusetts Club ("Club"), a private social club for alumni and friends of the University. Under the contract, the

**Table 24. Investment in Plant Activity**  
For the Year Ended June 30, 2015 (in thousands of dollars)

	Beginning Balance	Additions/Adjustments	Retirements/Adjustments	Ending Balance
<b>UNIVERSITY</b>				
Buildings and Improvements	\$4,694,649	\$76,2310	(\$9,616)	\$5,447,343
Equipment and Furniture	609,786	53,085	(28,601)	634,270
Software	136,904	737	(1,071)	136,570
Library Books	84,315	—	(9,739)	74,576
	5,525,654	816,132	(49,027)	6,292,759
Accumulated Depreciation	(2,309,127)	(220,952)	35,361	(2,494,718)
Subtotal	3,216,527	595,180	(13,666)	3,798,041
Land	68,852	2,727	—	71,579
Construction in Progress	779,407	415,396	(730,661)	464,142
Subtotal	848,259	418,123	(730,661)	535,721
<b>Total</b>	<b>\$4,064,786</b>	<b>\$1,013,303</b>	<b>(\$744,327)</b>	<b>\$4,333,762</b>
<b>UNIVERSITY RELATED ORGANIZATIONS</b>				
Buildings and Improvements	7,942	—	—	7,942
Equipment and Furniture	168	—	—	168
	8,110	—	—	8,110
Accumulated Depreciation	(1,053)	(\$185)	—	(1,238)
Subtotal	7,057	(185)	—	6,872
Land	1,421	—	—	1,421
<b>Total</b>	<b>\$8,478</b>	<b>(\$185)</b>	<b>—</b>	<b>\$8,293</b>

**Table 25. Investment in Plant Activity**  
For the Year Ended June 30, 2014 (in thousands of dollars)

	Beginning Balance	Additions/Adjustments	Retirements/Adjustments	Ending Balance
<b>UNIVERSITY</b>				
Buildings and Improvements	\$4,058,559	\$643,091	(\$7,001)	\$4,694,649
Equipment and Furniture	587,478	35,542	(13,234)	609,786
Software	134,558	2,374	(28)	136,904
Library Books	93,091	—	(8,776)	84,315
	4,873,686	681,007	(29,039)	5,525,654
Accumulated Depreciation	(2,122,993)	(200,256)	14,122	(2,309,127)
Subtotal	2,750,693	480,751	(14,917)	3,216,527
Land	65,886	3,484	(518)	68,852
Construction in Progress	888,937	589,512	(699,042)	779,407
Subtotal	954,823	592,996	(699,560)	848,259
<b>Total</b>	<b>\$3,705,516</b>	<b>\$1,073,747</b>	<b>(\$714,477)</b>	<b>\$4,064,786</b>
<b>UNIVERSITY RELATED ORGANIZATIONS</b>				
Buildings and Improvements	7,942	—	—	7,942
Equipment and Furniture	168	—	—	168
	8,110	—	—	8,110
Accumulated Depreciation	(851)	(202)	—	(1,053)
Subtotal	7,259	(202)	—	7,057
Land	1,360	61	—	1,421
<b>Total</b>	<b>\$8,619</b>	<b>(\$141)</b>	<b>—</b>	<b>\$8,478</b>

Authority is responsible for approving the budgets and operating plans of the Club as presented by the Manager. The Building Authority is responsible for any shortfall in the operating budget and will benefit from any operating profits. The contract calls for a minimum management fee payable to the Manager of \$0.2 million or four percent of the operating revenues, as defined by the contract, whichever is greater. Additionally, the Manager receives a percentage of the Club initiation fees and 25 percent of operating profits, as defined by the contract. The contract term is 10 years and can be terminated by the Building Authority if the Building Authority decides to close the Club for a minimum of 18 months. The Building Authority is the tenant on the sublease for the Club space and the lease does not terminate should the Building Authority close the Club. The Authority had provided operating support for the Club of \$0.2 million for both years ended June 30, 2015 and 2014.

## 7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2015 is comprised of the following (in thousands): **See Table 24.**

Investment in plant activity for the year ended June 30, 2014 is comprised of the following (in thousands): **See Table 25.**

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, 2015 and 2014, the University capitalized net interest costs of \$23.6 million and \$29.7 million respectively.

## 8. BONDS PAYABLE

Amounts Outstanding at June 30, 2015 are as follows (in thousands): **See Table 26.**

Bond Payable activity for the year ended June 30, 2015 is summarized as follows (in thousands): **See Table 27.**

Principal and interest, which is estimated using rates in effect at June 30, 2015, on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands): **See Table 28.**

The 2008-1 and 2008-A variable rate bonds have a total outstanding principle balance of \$208,160 and are classified as a current debt obligation as a result of the liquidity facilities expiring in April 2016. The University expects to redeem these variable rate bonds on their original principal amortization schedule. The 2011-2 window

bonds with a principle outstanding balance of \$98,220 have no supporting liquidity facility and therefore are classified as a current debt obligation. Consistent with prior years, the University expects to redeem this bond based on its original amortization schedule and based on annual maturities on that schedule.

Bond payable activity for the year ended June 30, 2014 is summarized as follows (in thousands): **See Table 29.**

## University of Massachusetts Building Authority

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

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

Pursuant to the authority given by the Building Authority's enabling act, the Commonwealth, acting by and through the Trustees of the University, has guaranteed the payment of principal and interest on the Building Authority's bonds. (The guarantee is a general obligation of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. As is generally the case with other general obligations of the Commonwealth, funds with which to honor the guarantee, should it be called upon, will be provided by Commonwealth appropriation). The Building Authority's enabling act provides that the outstanding principal amount of notes and bonds of the Building Authority guaranteed by the Commonwealth cannot exceed \$200 million. The amount of bond obligations guaranteed by the Commonwealth was \$121.6 million and \$125.6 million at June 30, 2015 and June 30, 2014, respectively.

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

**Variable Rate Bonds:** The 2008-1 bonds are supported by a standby bond purchase agreement with JP Morgan Chase Bank, N.A. ("J.P. Morgan") which requires J.P. Morgan to purchase bonds that are tendered and not remarketed. Under the terms of the J.P. Morgan standby bond purchase agreement, the Authority is required to pay J.P. Morgan in quarterly installments a facility fee in the amount of 25 basis points (or higher, under certain circumstances) of the commitment amount. Fees incurred by the Authority in connection with the J.P. Morgan agreement totaled \$0.5 million for the years ended June 30, 2015 and June 30, 2014, respectively. The agreement expires in April 2016 and may be

**Table 26. Amounts Outstanding**  
At June 30, 2015 (in thousands of dollars)

Issue Borrowing	Original Borrowing	Maturity Date	Interest Rate	Amount Outstanding
<b>UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY</b>				
Series 2004-A	\$96,025	2015	4.20% - 4.50%	\$2,340
Series 2004-1	183,965	2016	5.25%	8,300
Series 2005-1	25,595	2016	5.00%	2,805
Series 2005-2	212,550	2025	5.00%	16,005
Series 2008-A	26,580	2038	variable	21,035
Series 2008-1	232,545	2038	variable	187,125
Series 2008-2	120,560	2038	4.00% - 5.00%	65,835
Series 2009-1	247,810	2039	3.00% - 5.00%	120,575
Series 2009-2	271,855	2039	6.42% - 6.57%	271,855
Series 2009-3	28,570	2039	5.28% - 6.17%	26,755
Series 2010-1	118,985	2020	5.00%	84,775
Series 2010-2	430,320	2040	3.80% - 5.45%	430,320
Series 2010-3	3,005	2040	5.75%	2,835
Series 2011-1	135,040	2034	variable	129,690
Series 2011-2	101,700	2034	variable	98,220
Series 2013-1	212,585	2043	2.00% - 5.00%	208,060
Series 2013-2	71,790	2043	.43% - 2.69%	69,570
Series 2013-3	24,640	2043	4.00% - 5.00%	24,640
Series 2014-1	293,890	2045	3.00% - 5.00%	293,890
Series 2014-2	14,085	2020	.44% - 2.10%	14,085
Series 2014-4	157,855	2026	.20% - 3.38%	153,800
Series 2014-3	67,365	2029	2.00% - 5.00%	67,365
Series 2015-1	298,795	2036	4.00% - 5.00%	298,795
Series 2015-2	191,825	2036	3.00% - 5.00%	191,825
				2,790,500
			Unamortized Bond Premium	133,429
			<b>SUBTOTAL</b>	<b>2,923,929</b>
<b>UNIVERSITY OF MASSACHUSETTS HEFA/MDFA</b>				
2000 Series A	20,000	2030	variable	20,000
2007 Series D	10,435	2031	3.50% - 4.25%	9,025
Series 2011	29,970	2034	2.50% - 4.00%	27,925
				56,950
			Unamortized Bond Premium	895
			<b>SUBTOTAL</b>	<b>57,845</b>
<b>WCCC HEFA/MDFA</b>				
Series 2005-D	99,325	2029	5.00% - 5.25%	1,785
Series 2007-E	118,750	2036	3.50% - 5.00%	33,945
Series 2007-F	101,745	2036	4.00% - 5.00%	54,830
Series 2011	10,495	2023	2.00% - 5.00%	8,270
				98,830
			Unamortized Bond Premium	1,499
			<b>SUBTOTAL</b>	<b>100,329</b>
<b>MDFA</b>				
Clean Renewable Energy Bonds	1,625	2027	3.50%	1,147
			<b>TOTAL</b>	<b>\$3,083,250</b>

extended if a mutual interest exists between both the Authority and J.P. Morgan. Previously, the 2008-1 bonds were supported with an irrevocable direct pay letter of credit (the "Lloyds LOC") issued by Lloyds TSB Bank PLC.

The 2008-A bonds are supported by a standby bond purchase agreement with Barclays Bank PLC ("Barclays") which requires

Barclays to purchase bonds that are tendered and not remarketed. Under the terms of the Barclays standby bond purchase agreement, the Authority is required to pay Barclays in quarterly installments a facility fee in the amount of 32.5 basis points (or higher, under certain circumstances) of the commitment amount. The agreement expires in April 2016 and may be extended if a mutual interest exists between both the Authority and Barclays.



**Table 27. Bond Payable Activity**  
For the Year Ended June 30, 2015 (in thousands of dollars)

	Beginning Balance	Additions/Amortization	Retirements/Repayments	Ending Balance
<b>UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY</b>				
Series 2003-1	\$6,155	—	—	—
Series 2004-A	4,575	—	\$(6,155)	\$2,340
Series 2004-1	16,600	—	(2,235)	8,300
Series 2005-1	5,480	—	(8,300)	2,805
Series 2005-2	25,200	—	(2,675)	16,005
Series 2008-A	21,930	—	(9,195)	21,035
Series 2008-1	194,530	—	(895)	187,125
Series 2008-2	105,725	—	(7,405)	65,835
Series 2009-1	198,670	—	(39,890)	120,575
Series 2009-2	271,855	—	(78,095)	271,855
Series 2009-3	27,250	—	—	26,755
Series 2010-1	96,645	—	(495)	84,775
Series 2010-2	430,320	—	(11,870)	430,320
Series 2010-3	2,880	—	—	2,835
Series 2011-1	131,090	—	(45)	129,690
Series 2011-2	99,135	—	(1,400)	98,220
Series 2013-1	212,585	—	(915)	208,060
Series 2013-2	71,790	—	(4,525)	69,570
Series 2013-3	24,640	—	(2,220)	24,640
Series 2014-1	293,890	—	—	293,890
Series 2014-2	14,085	—	—	14,085
Series 2014-4	157,855	—	(4,055)	153,800
Series 2014-3	—	\$67,365	—	67,365
Series 2015-1	—	298,795	—	298,795
Series 2015-2	—	191,825	—	191,825
Plus: Unamortized Bond Premium	64,807	81,639	(13,017)	133,429
<b>Subtotal</b>	<b>2,477,692</b>	<b>639,624</b>	<b>(193,387)</b>	<b>2,923,929</b>
<b>UNIVERSITY OF MASSACHUSETTS HEFA/MDFA</b>				
2000 Series A	20,000	—	—	20,000
2007 Series D	9,395	—	(370)	9,025
Series 2011	28,880	—	(955)	27,925
Plus: Unamortized Bond Premium	1,056	—	(161)	895
<b>Subtotal</b>	<b>59,331</b>	<b>—</b>	<b>(1,486)</b>	<b>57,845</b>
<b>WCCC HEFA/MDFA</b>				
WCCC 2005 Series D	78,676	—	(76,891)	1,785
WCCC 2007 Series E	105,659	—	(71,715)	33,944
WCCC 2007 Series F	84,416	—	(29,585)	54,831
Series 2011	9,030	—	(760)	8,270
Plus: Unamortized Bond Premium	8,398	—	(6,899)	1,499
<b>Subtotal</b>	<b>286,179</b>	<b>—</b>	<b>(185,850)</b>	<b>100,329</b>
<b>MDFA</b>				
Clean Renewable Energy Bonds	1,242	—	(95)	1,147
<b>Total</b>	<b>\$2,824,444</b>	<b>\$639,624</b>	<b>\$(380,818)</b>	<b>\$3,083,250</b>

Fees incurred by the Authority in connection with the Barclays agreement totaled \$0.1 million for the years ended June 30, 2015 and June 30, 2014, respectively. Previously, the 2008-A bonds were supported by a standby bond purchase agreement with Bank of America, N.A. ("BoFA").

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 the agreement, the Authority was required to pay Wells in quarterly installments a facility fee in the amount of 40 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the agreement was set at \$143.3 million and was subject to adjustment from time to time in accordance with the provisions of the agreement. The standby bond purchase agreement expired on June 9, 2014.

**Table 28. Principal and Interest on Bonds Payable For the Next Five Fiscal Years and In Subsequent Five-Year Periods**  
**Estimated Using Rates in Effect at June 30, 2015**  
**(in thousands of dollars)**

Fiscal Year	Principal	Interest
2016	\$92,116	\$117,828
2017	94,586	115,122
2018	94,991	112,219
2019	99,976	109,069
2020	103,321	105,410
2021-2025	513,333	466,228
2026-2030	521,326	367,778
2031-2035	469,999	265,116
2036-2040	561,285	152,550
2041-2045	377,435	43,042
2046-2050	154,882	65,515
<b>Total</b>	<b>\$3,083,250</b>	<b>\$1,919,877</b>

The Authority and Wells executed a first amendment to the standby bond purchase agreement to extend the agreement until June 9, 2017. Under the first amendment to the standby purchase agreement, the Authority is required to pay Wells in quarterly installments a facility fee in the amount of 25 basis points (or higher, under certain circumstances) of the initial commitment. The initial commitment under the first amendment to the standby bond purchase agreement was set at \$139.1 million and is subject to adjustment from time to time in accordance with the provisions of the agreement. Fees incurred by the Authority in connection with the Wells agreement totaled \$0.4 million and \$0.6 million for the years ended June 30, 2015 and 2014, respectively.

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

**Bond Refundings:** In July 2014, the Authority issued \$67.4 million of Senior Series 2014-3 bonds. These bond proceeds were used to refund the 2005 Series-D Worcester City Campus Corporation Bonds. The Authority also issued \$191.8 million of Refunding Revenue Senior Series 2015-2 Bonds which refunded

\$104.5 million of WCCC 2007 Series E and 2007 Series F bonds, \$37.2 million of the Authority's 2008-2 bonds and \$66.8 million of the Authority's 2009-1 bonds. In fiscal year 2014, the Authority refunded \$5.4 million of its 2009-1 series bonds with 2013-3 series bonds. Accordingly, the Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds until the bonds are called.

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

In connection with the Authority's advanced refundings, the Authority recorded a difference between the reacquisition price and the net carrying amount of the refunded debt of approximately \$95.4 million in fiscal 2015. This balance is being reported as a component of deferred outflows, loss on debt refunding, and will be amortized as an increase in interest expense over the remaining term of the original life of the refunded bonds. These refundings reduced the Authority's debt service payments in future years by approximately \$73.8 million and resulted in an economic gain (the present value of the savings) of approximately \$56.2 million.

**Bond Premium and Issuance Expenses:** In connection with the Authority's bond issues, the Authority received premiums at issuance totaling approximately \$190.6 million. The Authority amortizes the premiums received as a reduction in interest expense over the life of the respective bond issue.

In connection with the Authority's bond issues, the Authority incurred certain issuance costs associated with the bond offerings. In fiscal years 2015 and 2014 these costs amounted to \$3.5 million and \$3.6 million, respectively, and were expensed in accordance with the provisions of GASB Statement No 65.

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

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

**Table 29. Bond Payable Activity**  
For the Year Ended June 30, 2014 (in thousands of dollars)

	Beginning Balance	Additions/Amortization	Retirements/Repayments	Ending Balance
<b>UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY</b>				
Series 2003-1	\$12,035	—	(\$5,880)	\$6,155
Series 2004-A	6,715	—	(2,140)	4,575
Series 2004-1	24,500	—	(7,900)	16,600
Series 2005-1	8,020	—	(2,540)	5,480
Series 2005-2	180,195	—	(154,995)	25,200
Series 2006-2	2,760	—	(2,760)	—
Series 2008-A	22,795	—	(865)	21,930
Series 2008-1	201,655	—	(7,125)	194,530
Series 2008-2	108,300	—	(2,575)	105,725
Series 2009-1	216,870	—	(18,200)	198,670
Series 2009-2	271,855	—	—	271,855
Series 2009-3	27,715	—	(465)	27,250
Series 2010-1	107,950	—	(11,305)	96,645
Series 2010-2	430,320	—	—	430,320
Series 2010-3	2,925	—	(45)	2,880
Series 2011-1	132,450	—	(1,360)	131,090
Series 2011-2	100,020	—	(885)	99,135
Series 2013-1	212,585	—	—	212,585
Series 2013-2	71,790	—	—	71,790
Series 2013-3	—	\$24,640	—	24,640
Series 2014-1	—	293,890	—	293,890
Series 2014-2	—	14,085	—	14,085
Series 2014-4	—	157,855	—	157,855
Plus: Unamortized Bond Premium	54,033	10,774	—	64,807
<b>Subtotal</b>	<b>2,195,488</b>	<b>501,244</b>	<b>(219,040)</b>	<b>2,477,692</b>
<b>UNIVERSITY OF MASSACHUSETTS HEFA/MDFA</b>				
2000 Series A	20,000	—	—	20,000
2007 Series D	9,750	—	(355)	9,395
Series 2011	29,810	—	(930)	28,880
Plus: Unamortized Bond Premium	1,161	—	(105)	1,056
<b>Subtotal</b>	<b>60,721</b>	<b>—</b>	<b>(1,390)</b>	<b>59,331</b>
<b>WCCC HEFA/MDFA</b>				
WCCC 2005 Series D	81,860	5,642	(8,826)	78,676
WCCC 2007 Series E	108,135	1,311	(3,787)	105,659
WCCC 2007 Series F	87,110	3,523	(6,217)	84,416
Series 2011	9,765	211	(946)	9,030
Plus: Unamortized Bond Premium	8,889	—	(491)	8,398
<b>Subtotal</b>	<b>295,759</b>	<b>10,687</b>	<b>(20,267)</b>	<b>286,179</b>
<b>MDFA</b>				
Clean Renewable Energy Bonds	1,338	—	(96)	1,242
<b>Total</b>	<b>\$2,553,306</b>	<b>\$511,931</b>	<b>(\$240,793)</b>	<b>\$2,824,444</b>

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

The Authority's hedging derivative instruments at June 30, 2015 and 2014 were as follows: **See Table 30.**

The terms of the Authority's financial derivative instruments that were outstanding at June 30, 2015 are summarized in the table below: **See Table 31.**

**Fair Values:** The fair values of the swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the agreements, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rate implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the agreements. As of June 30, 2015 and 2014, the Authority's swaps had a negative fair value of \$71.1

**Table 30. The Building Authority's Hedging Derivative Instruments**  
At June 30, 2015 and 2014 (in thousands of dollars)

	Fair Value June 30, 2014	Net Change in Fair Value	Fair Value June 30, 2015	Type of Hedge	Financial Statement Classification
Series 2008-1 Swap	(\$27,933)	(\$1,416)	(\$29,349)	Cash Flow	Deferred Outflow
Series 2008-A Swap	(3,201)	(166)	(3,367)	Cash Flow	Deferred Outflow
Series 2006-1 Swap	(37,710)	(628)	(38,338)	Cash Flow	Deferred Outflow
<b>Total</b>	<b>(\$68,844)</b>	<b>(\$2,210)</b>	<b>(\$71,054)</b>		

**Table 31. The Terms of the Building Authority's Financial Derivative Instruments That Were Outstanding**  
At June 30, 2015 (in thousands of dollars)

	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

million and \$68.8 million, respectively, and as such are presented as a deferred outflow.

**Credit Risk:** As of June 30, 2015, the Authority was not exposed to credit risk on the swaps as the fair value was negative. Since changes in interest rates affect the fair values of swap agreements, it is possible that the swap agreements with negative fair values become positive which would expose the Authority to credit risk. To mitigate the potential for credit risk, when a counterparty has a positive fair value and if the counterparty's credit quality falls below A3/A/A, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

The credit ratings for the Authority's counterparties at June 30, 2015 are as follows: **See Table 32.**

**Table 32. The Credit Ratings for the Building Authority's Counterparties**  
At June 30, 2015

	Credit Ratings		
	Moody's	S&P	Fitch
UBS AG	A2	A	A
Deutsche Bank AG	A3	BBB+	A
Citi Bank NA	A1	A	A+

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

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

loss and need to make a termination payment to settle the swap position. A positive fair value means the Authority would realize a gain and receive a termination payment in settlement of the swap position.

**Contingencies:** All of the Authority’s swaps include provisions that require the Authority to post collateral in the event its credit rating falls below certain levels. In the event the Authority is rated A2 by Moody’s Investors Service or A by Standard & Poor’s, the Authority would need to post collateral equal to amounts above the fair value of its swaps in liability positions above \$10 million. In the event the Authority is not rated or rated below A3 by Moody’s Investors Service or below A- by Standard & Poor’s, the Authority must post collateral in the amount of the fair value of the swaps in liability positions. The collateral posted is to be in the form of cash obligations guaranteed by the U.S. Treasury, or negotiable debt obligations issued by the Federal Home Loan Mortgage Association or the Federal National Mortgage Association. If the Authority does not post collateral, the derivative instrument may be terminated by the counterparty. The 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, 2015; therefore, no collateral has been posted.

**Termination of Hedge Accounting:** In June of 2011, the Authority undertook an advance refunding of the 2008-3 and 2008-4 variable rate bonds hedged by the Series 2006-1 Swap. As part of the refunding, the Series 2006-1 swap was re-assigned to a new underlying notional (the 2011-1 and 2011-2 Bonds) with identical terms. This refunding and reassignment effectively terminated the original hedge. At June 30, 2011, the Series 2006-1 Swap was considered a hedging derivative instrument. In accordance with GASB No. 53, at the time of a termination event related to an advance refunding of the hedged debt, the balance of the

amounts in deferred outflows is to be included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. The balance of the deferred outflows that was included in the net carrying amount of the refunded debt at the time of the refunding was \$22.2 million. The change in fair value of the Series 2006-1 Swap from the refunding date to June 30, 2015 is reported as a deferred outflow as the swap was determined to be effective at June 30, 2015.

**Swap Payments and Associated Debt:** Using rates as of June 30, 2015, 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: **See Table 33.**

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

## MassDevelopment

### University of Massachusetts Series A, D and 2011

The University, through the Massachusetts Development Finance Agency (“MassDevelopment”), has issued bonds in order to construct new student centers on the Boston and Lowell campuses; to create a pool of funds to acquire telecommunications, electronics, computer, office, research, equipment and administrative systems; and to fund the related renovation costs and to refund previously issued bonds.

**Variable Rate Debt:** In March 2000, the University issued \$40.0 million of MHEFA Variable Rate Demand Revenue Bonds, University of Massachusetts Issue, Series A (the “Series A Bonds”) to create a pool of funds from which the University could finance and refinance the acquisition of certain equipment and related renovation costs at the various University campuses on a revolving basis throughout the term of the Series A Bonds. The Series A Bonds were remarketed on April 1, 2014 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

**Table 33. Swap Payments and Associated Debt Using Rates as of June 30, 2015, the Debt Service Requirements of the Variable-Rate Debt and Net Swap Payments, Assuming Current Interest Rates Remain the Same for Their Term**

Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2016	\$10,845	\$374	\$13,932	\$25,151
2017	11,625	365	13,536	25,526
2018	11,770	358	13,182	25,310
2019	12,215	349	12,800	25,364
2020	12,720	341	12,420	25,481
2021-2025	155,465	1,333	49,050	205,848
2026-2030	148,985	639	24,507	174,131
2031-2035	69,985	145	5,678	75,808
2036-2040	3,010	5	243	3,258
<b>Total</b>	<b>\$436,620</b>	<b>\$3,909</b>	<b>\$145,348</b>	<b>\$585,877</b>



to the Remarketed Series A Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Remarketed Series A Bonds. At June 30, 2015 and 2014, 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, 2015, the aggregate principal payments outstanding on these bonds were \$27.9 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, One Innovation Drive, 373, 377 and 381 Plantation Street, Worcester and to refund previously issued bonds.

In November 2011, the Corporation issued \$10.5 million of Massachusetts Development Finance Agency Revenue Refunding Bonds (the "Series 2011 Bonds"). The Series 2011 Bonds were issued at a premium of \$1.1 million. These bonds bear interest at various fixed rates ranging from 2.00% to 5.00% and mature on October 1, 2023. The proceeds of the Series 2011 Bonds were used to refund the Massachusetts Health and Education

Facilities Authority (MHEFA) Series B Bonds, which were used to finance the construction of a parking garage, the acquisition and installation of equipment at the Lazare Research Building, and the financing of 373 Plantation Street.

In January 2007, the Corporation issued \$101.7 million of MHEFA Revenue Bonds (the Series F Bonds). The Series F Bonds were issued at a premium of \$2.8 million. These bonds have been partially refunded by Series 2015 bonds. The remaining portion of the bonds bear interest at various fixed rates ranging from 4.00% to 4.50% and mature on October 1, 2031.

In January 2007, the Corporation issued \$118.8 million of MHEFA Revenue Bonds (the Series E Bonds). The Series E Bonds were issued at a premium of \$3.9 million. The Corporation deposited \$32.4 million of the proceeds to an irrevocable trust fund to provide for partial advanced refunding of outstanding MHEFA Series B Revenue Bonds. In accordance with the applicable guidance, a portion of the Series B Bonds totaling \$30.8 million and the related irrevocable trust has been derecognized by the Corporation. Approximately \$85.7 million of the Series E Bonds proceeds were used to finance the construction of the Ambulatory Care Center. These bonds have been partially refunded by Series 2015 bonds. The remaining portion of the Series E Bonds bear interest at various fixed rates ranging from 3.50% to 4.50%, and mature on October 1, 2031.

In April 2005, the Corporation issued \$99.3 million of MHEFA Revenue Bonds (the Series D Bonds). The Corporation deposited the proceeds to an irrevocable trust fund to provide for payment of the MHEFA Series A Revenue Bonds. In accordance with the applicable guidance, the Series A Bonds and the related irrevocable trust were derecognized by the Corporation. The Series D Bonds have been partially refunded by Series 2014 Bonds. The Series D Bonds bear interest at various fixed rates ranging from 3.00% to 5.25% per year and mature on October 1, 2025. The Series D Bonds were issued at a premium of \$4.1 million.

**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 2015 and 2014, respectively.

### **Clean Renewable Energy Bonds**

During 2011, the University entered into an Energy Services agreement for Solar Panel construction with the Commonwealth's Division of Capital Asset Management and Century Bank and Trust Company. The financing arrangement includes \$1.6 million in Clean Renewable Energy Bonds as of June 30, 2015 and 2014.



## 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 \$25.6 million and \$22.1 million for the years ended June 30, 2015 and 2014, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems. The University also leases space to third party tenants. During 2015 and 2014, the amount reported as rental income was \$18.8 million and \$21.0 million, respectively.

The following presents a schedule of future minimum payments under non-cancelable operating leases for the next five years and in subsequent five-year periods for the University as of June 30, 2015 (in thousands): **See Table 34.**

**Table 34. A Schedule of Future Minimum Payments Under Non-Cancelable Operating Leases for the Next Five Years and in Subsequent Five-Year Periods for the University**  
As of June 30, 2015 (in thousands of dollars)

Year	Operating Leases
2016	\$22,026
2017	19,991
2018	19,476
2019	19,535
2020	18,492
2021 and thereafter	146,397
<b>Total Payments</b>	<b>\$245,917</b>

## 10. OTHER LONG-TERM LIABILITIES

During the years ended June 30, 2015 and June 30, 2014, the following changes occurred in long-term liabilities as recorded in the statements of net position (in thousands): **See Tables 35 & 36.**

**Table 35. Changes Occurred in Long-Term Liabilities During the Year Ended June 30, 2015 (in thousands of dollars)**

	Beginning Balance	Additions/Adjustments	Reductions/Adjustments	Ending Balance
<b>UNIVERSITY</b>				
Capital Lease Obligations	—	\$562	—	\$ 562
Compensated Absences	\$31,779	34	—	31,813
Workers' Compensation	10,811	75	—	10,886
Unearned Revenues and Credits	21,243	23,585	(\$18,006)	26,822
Advances and Deposits	28,094	758	(231)	28,621
Other Liabilities	43,263	—	(1,680)	41,583
<b>UNIVERSITY RELATED ORGANIZATIONS</b>				
Other Liabilities	\$3,483	\$22	—	\$3,505

**Table 36. Changes Occurred in Long-Term Liabilities During the Year Ended June 30, 2014 (in thousands of dollars)**

	Beginning Balance	Additions/Adjustments	Reductions/Adjustments	Ending Balance
<b>UNIVERSITY</b>				
Capital Lease Obligations	\$2,238	—	(\$2,238)	—
Compensated Absences	30,410	\$1,369	—	\$31,779
Workers' Compensation	10,429	382	—	10,811
Unearned Revenues and Credits	20,199	10,542	(9,498)	21,243
Advances and Deposits	27,943	694	(543)	28,094
Other Liabilities	41,532	5,312	(3,581)	43,263
<b>UNIVERSITY RELATED ORGANIZATIONS</b>				
Other Liabilities	\$3,332	\$151	—	\$3,483

## 11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2015 and 2014 include \$257.8 million and \$244.6 million, respectively, for the employer portion of fringe benefit costs (pension expense, health insurance for active employees and retirees, and terminal leave) that was paid directly by the Commonwealth of Massachusetts. Of this amount, \$98.4 million for 2015 and \$102.8 million for 2014 was reimbursed to the Commonwealth and \$159.4 million and \$141.9 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 \$70.9 million and \$68.6 million at June 30, 2015 and 2014, respectively. Cumulative repayments totaled approximately \$53.8 million and \$51.2 million as of June 30, 2015 and 2014, respectively.

## 13. PENSIONS

The Massachusetts State Employees' Retirement System (MSERS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan as defined by Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth. Management of MSERS is vested in the Massachusetts State Retirement Board (the MSRB) which consists of five members- two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer, who serves as ex-officio and is the Chair of the MSRB. MSERS does not issue stand-alone financial statements; however, MSERS 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.

MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws

(MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for MSERS vary depending on the most recent date of membership:

**Table 37. MSER Member Contributions by Date of Membership**

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 to 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
1979 to present	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. The fringe benefit charged amounted to approximately \$ 85.7 million and \$63.6 million for the years ended June 30, 2015 and 2014, respectively. Annual covered payroll approximated 76.2% and 76.4% for the years ended June 30, 2015 and 2014, respectively of annual total payroll for the University. The amount of pension expense included in the fringe charge was \$22.4 million and \$18.7 million for the years ended June 30, 2015 and 2014, respectively.

**Actuarial Assumptions:** The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The measurement date of June 30, 2014 was used for the June 30, 2015 fiscal year as the pronouncement allows a lag for practical application. Therefore all references to the liability as of June 30, 2015 are based on the measurement date of June 30, 2014. This valuation used the following assumptions:

1. a. 8.0% investment rate of return
  - b. 3.5% interest rate credited to an annuity savings fund
  - c. 3.0% cost of living increase per year
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
  - a. Pre-retirement — reflects RP-2000 Employees table projected 20 years with Scale AA (gender distinct)
  - b. Post-retirement — reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
  - c. Disability — the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 are summarized in the following table:

**Table 38. Summary of PRIT Fund's Target Asset Allocation As of June 30, 2014**

Asset Class	Target Allocation	Long-term Expected Real Rate of Return 2014
Global Equity	43.00%	7.20%
Core Fixed Income	13.00%	2.50%
Hedge Funds	10.00%	5.50%
Private Equity	10.00%	8.80%
Real Estate	10.00%	6.30%
Value Added Fixed Income	10.00%	6.30%
Timber / Natural Resources	4.00%	5.00%
<b>Total</b>	<b>100.00%</b>	

**Discount Rate:** The Discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity Analysis:** The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MSERS collective pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

**Table 39. MSERS Collective Pension Liability As of June 30, 2014 (in thousands of dollars)**

1% Decrease to 7%	Current Discount Rate 8%	1% Increase to 9%
\$342,861	\$237,135	\$145,815

For the year ending June 30, 2015, the University recognized (\$57,000) of pension expense, which is recorded in Other Nonoperating Income. The following table shows the components of pension expense as of June 30, 2015 (amounts in thousands):

**Table 40. Components of Pension Expense As of June 30, 2015 (in thousands of dollars)**

Proportionate Share of Plan Pension Expense	\$17,555
Net Amortization of Deferred Amounts from Change in Proportion	4,851
2015 Payments	(22,463)
<b>Pension Expense</b>	<b>\$(57)</b>

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** At June 30, 2015, in connection with the adoption of GASB 68, the University reported a liability of \$237,135 million for its proportionate share of MSERS's net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability was used to calculate the net pension liability which was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the total projected

contributions of all participating entities, actuarially determined. There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

At June 30, 2015, the University reported its proportionate share of MSERS's deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

**Table 41. The University's Proportionate Share of MSERS's Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension As of June 30, 2015 (in thousands of dollars)**

	Deferred Inflows of Resources	Deferred Outflows of Resources
Changes of Assumptions		\$2,666
Changes in Proportion Due to Internal Allocation		21,910
Employer Contributions after measurement date		22,463
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$48,672	
Changes in Proportion From Commonwealth	82	
	<b>\$48,754</b>	<b>\$47,039</b>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Table 42. Pension Expense — Net Amounts of the Employer's Balances of Deferred Outflows and Inflows of Resources (in thousands of dollars)**

Year Ended June 30	
2016	\$(5,281)
2017	\$(5,281)
2018	\$(5,281)
2019	\$(5,281)
2020	\$2,227
Thereafter	—

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, 2015 and 2014, there were approximately 4,449 and 4,031 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 \$6.2 million and \$8.9 million in 2015 and 2014, respectively. University employees contributed \$28.6 million and \$28.0 million in 2015 and 2014, 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, 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, 2015 and 2014 plan assets totaled approximately \$780.1 million and \$506.0 million, respectively.

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

The financial instrument that potentially subjects the University to concentrations of credit risk is the receivable from UMass Memorial Medical Center (UMMMC) which is uncollateralized. The receivable from UMass Memorial represents 5.7% and 12.2% of total accounts receivable for the University at June 30, 2015 and 2014, respectively. The University also had uncollateralized receivables from three other organizations comprising approximately 11.8%, 8.0% and 3.7% of the total outstanding receivables at June 30, 2015 and 6.5%, 6.0% and 4.8% of the total outstanding receivables at June 30, 2014.

## 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 \$205.7 million and \$148.2 million at June 30, 2015 and 2014, respectively. In connection with the investments in certain limited partnership agreements, the Foundation has \$60.1 million and \$22.4 million in committed calls as of June 30, 2015 and 2014, 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, 2015 and 2014 in the amount of \$29.1 million and \$29.7 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 \$14.4 million as of June 30, 2015 and \$15.1 million as of June 30, 2014. 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 UMMMM, the final report for which was issued December 2009. Portions of this report continue to be contested and the final outcome of this audit is currently unknown. Dependent on the final outcome,

UMMMC may be required to repay any MSR received deemed to be disallowed as a result of the audit. Dependent on that outcome, the University, consistent with the Agreement for Medical Educational Services, made part of the Definitive Agreement between the University and UMMMM, and its subsequent amendments and the indemnification provisions in these Agreements, may be required to indemnify UMMMM 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, 2015, each university had contributed the required amounts. The University's unamortized \$6.0 million investment is included in its Statement of Financial Position within Other Assets.

## 16. SUBSEQUENT EVENTS

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2015 and through December 18, 2015, the date on which the financial statements were available to be issued and, determined that there were no matters requiring recognition or disclosure to the accompanying financial statements.

## Table 43. Required Supplementary Information — Unaudited

AS OF JUNE 30, 2015 (IN THOUSANDS OF DOLLARS)

Schedule of the University's Proportionate Share of the Net Pension Liability Massachusetts State Employees' Retirement System	
University's proportion of the net pension liability	3.489%
University's proportionate share of the net pension liability	\$237,134
University's covered-employee payroll	\$1,061,132
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	22.35%
Plan fiduciary net position as a percentage of total pension liability	76.32%
Schedule of the University's Contributions Massachusetts State Employees' Retirement System	
Contractually required contribution	\$22,870
Contributions in relation to the contractually required contribution	(22,870)
Contribution deficiency (excess)	—
University's covered-employee payroll	\$1,061,132
Contributions as a percentage of covered-employee payroll	2.16%



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# Supplemental Financial Information Table of Contents

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Report of Independent Certified Public Accountants S1

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Combining Statements of Net Position for University Related Organizations S2

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Combining Statements of Revenues, Expenses and Changes in Net  
Position for University Related Organizations S3

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
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 statement audits contained in *Governmental Auditing Standards* issued by the Comptroller of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Massachusetts (the "University"), an enterprise fund of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, and our report thereon dated December 18, 2015 expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on these financial statements as a whole.

The accompanying Combining Statements of Net Position for University Related Organizations and of Revenues, Expenses and Changes in Net Position as of and for the years ended June 30, 2015 and 2014 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the 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 financial statements or to the 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 financial statements as a whole.

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

Boston, Massachusetts  
December 18, 2015

## Table 44. Combining Statements of Net Position for University Related Organizations

AS OF JUNE 30, 2015 AND 2014 (IN THOUSANDS OF DOLLARS) — SUPPLEMENTAL SCHEDULE I

	June 30, 2015				June 30, 2014			
	Total	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	The University of Massachusetts Dartmouth Foundation, Inc.	Total	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	The University of Massachusetts Dartmouth Foundation, Inc.
<b>ASSETS</b>								
<b>Current Assets</b>								
Accounts, Grants and Loans Receivable, net								
Pledges Receivable, net	\$500	(\$6,581)	\$6,045	\$1,036	\$785	(\$6,368)	\$6,045	\$1,108
Due from Related Organizations	203	203			354	354		
Other Assets	670		659	11	539		535	4
<b>Total Current Assets</b>	<b>1,373</b>	<b>(6,378)</b>	<b>6,704</b>	<b>1,047</b>	<b>1,678</b>	<b>(6,014)</b>	<b>6,580</b>	<b>1,112</b>
<b>Noncurrent Assets</b>								
Cash and Cash Equivalents	2,018	(18,099)	16,319	2,073	1,378		158	1,220
Pledges Receivable, net	293	(675,928)	1,097,353	54,847	677	(12,676)	10,634	2,719
Investments	476,272			62	452,529	(692,318)	1,091,312	53,535
Other Assets	62				62			62
Investment In Plant, net	8,293		8,293		8,478		8,478	
<b>Total Noncurrent Assets</b>	<b>486,938</b>	<b>(694,027)</b>	<b>1,122,100</b>	<b>58,865</b>	<b>463,124</b>	<b>(704,994)</b>	<b>1,110,582</b>	<b>57,536</b>
<b>Total Assets</b>	<b>488,311</b>	<b>(700,405)</b>	<b>1,128,804</b>	<b>59,912</b>	<b>464,802</b>	<b>(711,008)</b>	<b>1,117,162</b>	<b>58,648</b>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Accounts Payable	\$691		682	\$9	174		154	20
Due To Related Organization	59	(7,131)		7,190	181	(5,954)		6,135
Assets Held on Behalf of the University		(625,555)	625,555			(643,224)	643,224	
Assets Held on Behalf of Others	29,284		29,284		13,797		13,797	
Unearned Revenues and Credits	1,387		1,387		1,373		1,373	
<b>Total Current Liabilities</b>	<b>31,421</b>	<b>(632,686)</b>	<b>656,908</b>	<b>7,199</b>	<b>15,525</b>	<b>(649,178)</b>	<b>658,548</b>	<b>6,155</b>
<b>Noncurrent Liabilities</b>								
Other Liabilities	3,505		3,505		3,483		3,483	
<b>Total Noncurrent Liabilities</b>	<b>3,505</b>		<b>3,505</b>		<b>3,483</b>		<b>3,483</b>	
<b>Total Liabilities</b>	<b>34,926</b>	<b>(632,686)</b>	<b>660,413</b>	<b>7,199</b>	<b>19,008</b>	<b>(649,178)</b>	<b>662,031</b>	<b>6,155</b>
<b>Net Position</b>								
Invested in Capital Assets Net of Related Debt	8,293	8,293			8,477	8,477		
Restricted								
Nonexpendable	330,301	(55,662)	351,668	34,295	309,718	(47,808)	324,579	32,947
Expendable	90,413	(12,057)	86,684	15,786	101,195	(14,022)	98,409	16,808
Unrestricted	24,378	(8,293)	30,039	2,632	26,404	(8,477)	32,143	2,738
<b>Total Net Position</b>	<b>\$453,385</b>	<b>(\$67,719)</b>	<b>\$468,391</b>	<b>\$52,713</b>	<b>\$445,794</b>	<b>(\$61,830)</b>	<b>\$455,131</b>	<b>\$52,493</b>

## Table 45. Combining Statements of Revenues, Expenses and Changes in Net Position for University Related Organizations

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (IN THOUSANDS OF DOLLARS) — SUPPLEMENTAL SCHEDULE II

	June 30, 2015				June 30, 2014			
	Total	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	The University of Massachusetts Dartmouth Foundation, Inc.	Total	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	The University of Massachusetts Dartmouth Foundation, Inc.
<b>EXPENSES</b>								
<b>Operating Expenses</b>								
<i>Educational and General</i>								
Public Service	\$6,359	(\$1,758)	\$16,500	\$1,617	\$11,066	(\$658)	\$8,872	\$2,852
Depreciation	201		201		200		200	
Scholarships and Fellowships	149	(1,410)	710	849	177	(1,326)	642	861
<b>Total Operating Expenses</b>	<b>16,709</b>	<b>(3,168)</b>	<b>17,411</b>	<b>2,466</b>	<b>11,443</b>	<b>(1,984)</b>	<b>9,714</b>	<b>3,713</b>
<b>Total Operating Income/(Loss)</b>	<b>(16,709)</b>	<b>3,168</b>	<b>(17,411)</b>	<b>(2,466)</b>	<b>(11,443)</b>	<b>1,984</b>	<b>(9,714)</b>	<b>(3,713)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>								
Gifts	10,438	(5,993)	12,765	3,666	11,063	(2,019)	6,257	6,825
Investment Income	(30,383)	374	(30,444)	(313)	42,849	(65,246)	103,882	4,213
Endowment Income	1,134	(23,516)	24,650		1,070	(16,625)	17,695	
<b>Net Nonoperating Revenues</b>	<b>(18,811)</b>	<b>(29,135)</b>	<b>6,971</b>	<b>3,353</b>	<b>54,982</b>	<b>(83,890)</b>	<b>127,834</b>	<b>11,038</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains and Losses</b>	<b>(35,520)</b>	<b>(25,967)</b>	<b>(10,440)</b>	<b>887</b>	<b>43,539</b>	<b>(81,906)</b>	<b>118,120</b>	<b>7,325</b>
<b>OTHER REVENUES, EXPENSES, GAINS, AND LOSSES</b>								
Additions to Permanent Endowments	42,842	14,475	28,367		17,566	(1,746)	19,312	
Less: Amounts Earned/Received on Behalf of the University	0	(21,025)	21,025			54,746	(54,746)	
Less: Amounts Earned/Received on Behalf of Others	12		12		(1,555)		(1,555)	
Distribution to University	0	27,211	(27,211)			20,268	(20,268)	
Other Additions/Deductions	257	(583)	1,507	(667)	32	94	(17)	(45)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>43,111</b>	<b>20,078</b>	<b>23,700</b>	<b>(667)</b>	<b>16,043</b>	<b>73,362</b>	<b>(57,274)</b>	<b>(45)</b>
<b>Total Increase/(Decrease) in Net Assets</b>	<b>7,591</b>	<b>(5,889)</b>	<b>13,260</b>	<b>220</b>	<b>59,582</b>	<b>(8,544)</b>	<b>60,846</b>	<b>7,280</b>
<b>NET POSITION</b>								
Net Position at Beginning of Year	445,794	(61,830)	455,131	52,493	386,212	(53,286)	394,285	45,213
<b>Net Position at End of Year</b>	<b>\$453,385</b>	<b>(\$67,719)</b>	<b>\$468,391</b>	<b>\$52,713</b>	<b>\$445,794</b>	<b>(\$61,830)</b>	<b>\$455,131</b>	<b>\$52,493</b>









