

Financial Statements, Supplemental Schedule of
Expenditures of Federal Awards and Report of
Independent Certified Public Accountants

University of Massachusetts

June 30, 2011 and 2010

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PART I
FINANCIAL STATEMENTS



**Report of Independent Certified Public Accountants on
Financial Statements and Supplementary Schedule of
Expenditures of Federal Awards**

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Board of Trustees of the
University of Massachusetts

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by 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 of material misstatement. The financial statements of the University of Massachusetts Amherst Foundation, Worcester City Campus Corporation, the University of Massachusetts Foundation and the University of Massachusetts Dartmouth Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, 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 of 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Federal Expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Boston, Massachusetts
December 15, 2011

Introduction

This unaudited section of the University of Massachusetts (the "University") Annual Financial Report presents our discussion and analysis of the financial position and performance of the University and its component units during the fiscal year ended June 30, 2011 with comparative information as of June 30, 2010 and June 30, 2009. This discussion and analysis has been prepared by management along with the accompanying financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

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

The University's mission is to provide an affordable and accessible education of high quality and to conduct programs of research and public service that advance knowledge and improve the lives of the people of the Commonwealth, the nation and the world. In the fall of 2010, the University enrolled approximately 58,564 full-time equivalent ("FTE") students. The University is committed to providing, without discrimination, diverse program offerings to meet the needs of the whole of the state's population. The University's five campuses are geographically dispersed throughout Massachusetts and possess unique and complementary missions.

Financial Highlights

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

Using the Annual Financial Report

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

The statement of net assets includes all assets and liabilities of the University. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. Net assets are further broken down into three categories: Investment in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt represents the historical cost of property and equipment, reduced by the balance of related debt outstanding and depreciation expense charged over the years. Net assets are reported as restricted when constraints are imposed by third parties, such as donors, or enabling legislation. Restricted net assets are either non-expendable, as in the case of endowment gifts to be held in perpetuity, or expendable, as in the case of funds to be spent on scholarships and research. All other assets are unrestricted; however, they may be committed for use under contract or designation by the Board of Trustees.

The statement of revenues, expenses and changes in net assets presents the revenues earned or received and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues and expenses include tuition and fees, grant and contract activity, auxiliary enterprises and activity for the general operations of the institution not including appropriations from state and federal sources. Non-operating revenues and expenses include appropriations, capital grants and contracts, endowment, gifts, investment income, and non-operating federal grants (Pell Grants). All things being equal, a public University's dependency on state aid. Pell grants, and gifts will result in operating deficits. That is because the prescribed financial reporting model classifies state appropriations, Pell grants, and gifts as non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation expense, which amortizes the cost of a capital asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and non-capital, financing and investing activities.

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

Reporting Entity

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

Condensed Financial Information

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

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

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

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

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

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

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

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

