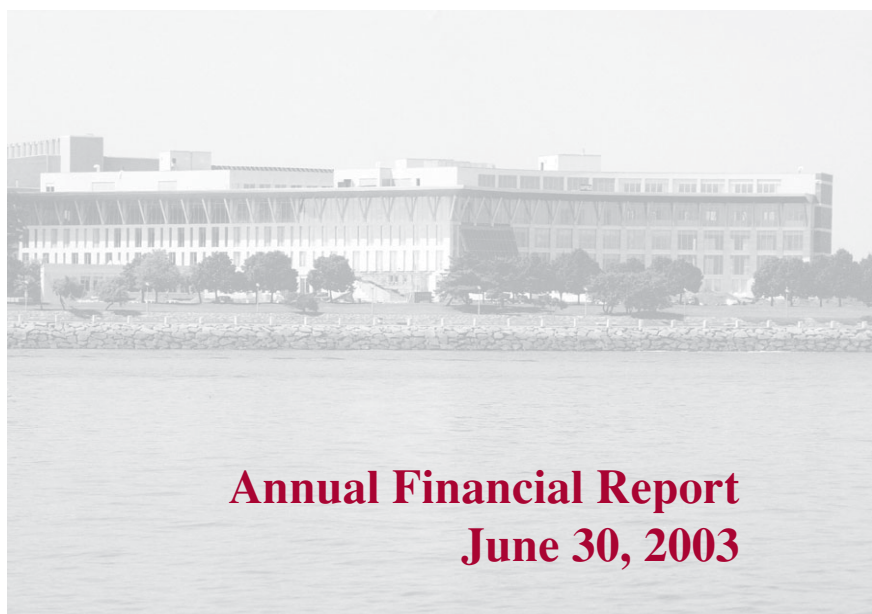


**UNIVERSITY OF MASSACHUSETTS**



**Annual Financial Report  
June 30, 2003**

# UNIVERSITY OF MASSACHUSETTS

## UNIVERSITY ADMINISTRATION

### THE TRUSTEES OF THE UNIVERSITY OF MASSACHUSETTS

*as of December 2, 2003*

Grace K. Fey, (Chair), Boston, MA  
William E. Giblin, (Vice Chair), Wareham, MA  
Dennis G. Austin, Duxbury, MA  
Lawrence F. Boyle, Milton, MA  
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John A. Dibiaggio, Ph.D., Snowmass Village, CO  
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William F. Kennedy, Quincy, MA  
James E. Mahoney, Newton, MA  
Robert M. Mahoney, Wellesley, MA  
Robert B. McCarthy, Watertown, MA  
Diane Bissonnette Moes, Milton, MA  
William T. O'Shea, Basking Ridge, NJ  
Stacey R. Rainey, Boston, MA  
Robert K. Sheridan, Hingham, MA  
Karl E. White, Boston, MA  
Hannah S. Fatemi, (UMass Amherst Student Trustee), West Brookfield, MA  
(Non-Voting Student)  
Omar S. Bukhari, (UMass Boston Student Trustee), Somerville, MA  
(Voting Student)  
Carolina B. Marcalo, (UMass Dartmouth Student Trustee), New Bedford, MA  
(Voting Student)  
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(Non-Voting Student)  
Sean W. Reed, (UMass Worcester Student Trustee), Worcester, MA  
(Non-Voting Student)

### ADMINISTRATIVE OFFICERS

*as of December 2, 2003*

Jack M. Wilson, Interim President  
John V. Lombardi, Chancellor, UMass Amherst  
Jo Ann Gora, Chancellor, UMass Boston  
Jean F. MacCormack, Chancellor, UMass Dartmouth  
William T. Hogan, Chancellor, UMass Lowell  
Aaron Lazare, M.D., Chancellor, UMass Worcester  
James R. Julian, Executive Vice President  
Vice President for Academic Affairs, vacant  
Thomas Chmura, Vice President for Economic Development  
David Gray, Vice President for Information Services and Chief Information Officer  
and Interim CEO of UMass Online  
Stephen W. Lenhardt, Vice President for Management & Fiscal Affairs and  
University Treasurer  
Terrence O'Malley, General Counsel  
Barbara F. DeVico, Secretary to the Board of Trustees

## A MESSAGE FROM PRESIDENT JACK M. WILSON

The University of Massachusetts — with its comprehensive campuses in Amherst, Boston, Dartmouth, and Lowell; its medical school in Worcester; and its global distance learning initiative, UMassOnline – remains at the core of the most powerful innovation state in the nation.

Our 60,000 students, 320,000 alumni, and \$300 million in research represent a catalyst for economic and social development in every region of the state and are having a powerful impact around the globe. UMass research goes hand in hand with the excellent education being offered to our undergraduate and graduate students. Our students learn in an atmosphere that cherishes discovery, curiosity, and intellectual courage. Just consider a few of our recent successes:

- “Gene silencing” work at UMass Medical has been recognized as one of the top 10 discoveries in the world and holds the promise of fighting the deadliest diseases.
- UMass Dartmouth marine scientists have helped save one third of the New England fishing fleet from economic extinction by proving the health of scallop population along the Atlantic coast.
- UMass Amherst researchers won a \$40 million grant to create the next generation of weather forecasting radar.
- UMass Lowell discoveries are turning light into power, forming the basis for new solar technology companies seeking to bring electricity to rural areas of the world.
- A UMass Boston researcher is the co-founder of the international Green Chemistry movement, which makes manufacturers more profitable and environmentally safe at the same time.
- And the Donahue Institute, located at the Office of the President, continues to be the state’s leading provider of economic forecasts and analysis, keeping business and policy leaders informed at a most critical time.

Though the University has been confronted with financial challenges in recent years, this report indicates that we have reason to keep our high expectations. The resources provided by the Commonwealth, UMass families, private donors, the federal government and other friends have assured us of a bright future if we remain innovative, bold, and dedicated.



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## LETTER OF TRANSMITTAL



# University of Massachusetts

AMHERST • BOSTON • DARTMOUTH • LOWELL • WORCESTER

Office of the President  
One Beacon Street, 26th Floor  
Boston, Massachusetts 02108

Phone: 617.287.7000  
Fax: 617.287.7044  
www.massachusetts.edu

To the Board of Trustees  
and President Jack M. Wilson

We are pleased to submit the annual Financial Report of the University of Massachusetts for the year ended June 30, 2003. The enclosed financial statements incorporate all financial activity of the University and its five campuses. This statement has been audited by an independent accounting firm and is fully represented in the financial report of the Commonwealth of Massachusetts. Detailed information about each campus will be provided in a separate document.

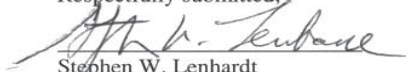
The financial information presented in the Financial Report is designed to aid a wide variety of readers to assess the effectiveness of the University's management of its resources in meeting its primary mission of instruction, research, and public service. This report is intended to form a comprehensive 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, 2003 including comparative information as of June 30, 2002.

The University's combined net assets increased \$108.3 million from \$1.12 billion in fiscal year 2002 to \$1.23 billion in fiscal year 2003. The major components of the increase are:

- Increases in tuition and fee rates across all campuses
- Aggressive cost cutting in response to anticipated state budget cuts
- Increases in building construction with funds from capital gifts, grants and contracts, including \$30.8 million of special payments received from UMass Memorial Health Center in support of the granite façade replacement project on the Worcester Campus, and
- Increases in manufacturing and royalty net operating income derived from the operations of the Massachusetts Biologics Laboratories.

Each year, the Board of Trustees approves five-year targets for five key financial indicators that are likely to determine the success of the University over the long term operating margin, financial cushion, current ratio, debt service to operations, and endowment per student. During 2003, the University met or exceeded its targets for all five indicators. Despite significant fiscal challenges, overall, the University made important progress in fiscal 2003 toward the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,

  
Stephen W. Lenhardt  
Vice President, Management  
and Fiscal Affairs & Treasurer

  
Christine M. Wilda  
University Controller

REPORT OF INDEPENDENT AUDITORS



Report of Independent Auditors

PricewaterhouseCoopers LLP  
One International Place  
Boston MA 02110  
Telephone (617) 478 5000  
Facsimile (617) 478 3900

To the Board of Trustees of the  
University of Massachusetts

In our opinion, based on our audits and the reports of other auditors, the accompanying combined statements of net assets and the related combined statements of revenues, expenses, and changes in net assets and cash flows, present fairly, in all material respects, the financial position of the University of Massachusetts (the "University") at June 30, 2003 and 2002 and its revenues, expenses and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Massachusetts Building Authority or the University of Massachusetts Dartmouth Foundation, Inc., which statements reflect total net assets of \$98.3 million and \$69.0 million as of June 30, 2003 and 2002, respectively, and total revenue of \$66.9 million and \$53.8 million for the years ended June 30, 2003 and 2002, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these components of the University, is based solely on the reports of other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

December 21, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

### 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, 2003 with comparative information as of June 30, 2002. 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 and a Center for Professional Education at Westborough, 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 and Worcester campuses were opened in 1965 and 1970, respectively. 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 fundamental mission of the University is to provide, within available resources, the highest possible quality of instruction, research and public service to the widest possible segment of the citizens of the Commonwealth. In the fall of 2002, the University enrolled approximately 47,610 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.

### Basis of Presentation

The annual financial report and statements include the University and certain other organizations that have a significant relationship with the University. The statements include the University's blended component units, which are the University of Massachusetts Building Authority (the "Building Authority"), a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960 of the Commonwealth, and Worcester City Campus Corporation ("WCCC"), a not-for-profit 501(C)(3) organization. The purposes of the Building Authority is to provide dormitories, dining commons and other buildings and structures for use by the University and other entities associated with the University and to issue bonds to finance such projects. On November 4, 1992, the University created WCCC as a Massachusetts not-for-profit corporation to purchase various assets of Worcester City Hospital, to operate as a real estate holding company and to foster and promote the growth, progress and general welfare of the University. WCCC includes the Worcester Foundation for Biomedical Research, Inc. (WFBR) as a subsidiary. The University's discrete component units are the University of Massachusetts Foundation, Inc. (the "Foundation") and the University of Massachusetts Dartmouth Foundation, Inc. (the "Dartmouth Foundation"). Furthermore, the University of Massachusetts Amherst Foundation, Inc. (the "UMass Amherst Foundation") was established in fiscal year 2003. These foundations are related tax exempt organizations founded to foster and promote the growth, progress and general welfare of the University, and to solicit, receive, and administer gifts and donations for such purposes. The Foundation manages the majority of the University's endowment.

### Financial Highlights

- Operating cash and cash equivalents decreased by \$9.9 million from \$13.5 million in fiscal year 2002 to \$3.6 million in fiscal year 2003. This decrease is due to cash being used for investing activities, primarily the strategic investment of excess cash.
- The University's combined net assets increased \$108.3 million from \$1.12 billion in fiscal year 2002 to \$1.23 billion in fiscal year 2003. The major components of the increase are:
  - o Increases in tuition and fee rates across all campuses
  - o Aggressive cost cutting in response to anticipated state budget cuts
  - o Increases in building construction with funds from capital gifts, grants and contracts, including \$30.8 million of special payments received from UMass Memorial Health Center in support of the granite façade replacement project on the Worcester Campus, and
  - o Increases in manufacturing and royalty net operating income derived from the operations of the Massachusetts Biologics Laboratories.

### Using the Annual Financial Report

This annual financial report consists of a series of financial statements, prepared in accordance with the principles established by the Governmental Accounting Standards Board (GASB). These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented previous to fiscal year 2002. The

financial statements presented in years prior to 2002 focused on the accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

One of the most important questions asked about University finances is whether the University as a whole is better off or worse off as result of the year's activities. The key to understanding this question is 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 corporations. 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 and the condition of the facilities.

The statement of net assets includes all assets and liabilities. 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 provided, regardless of when cash is exchanged. Net assets are further broken down into three categories: Invested in plant, net of 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 and expenses incurred during the year. Activities are reported as either operating or nonoperating. 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 and investment income. All things being equal, a public University's dependency on state aid and gifts will result in operating deficits. That is because the financial reporting model classifies state appropriations and gifts as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, 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, 2003 and 2002 (in thousands of dollars)							
	University June 30, 2003	University Related Organizations June 30, 2003	Combined Totals Memorandum Only June 30, 2003	University June 30, 2002	University Related Organizations June 30, 2002	Combined Totals Memorandum Only June 30, 2002	Change
<b>ASSETS</b>							
Current Assets	\$359,478	\$5,268	\$364,746	\$366,765	\$7,465	\$374,230	(\$9,484)
Noncurrent Assets							
Investment In Plant Net of Accumulated Depreciation	1,109,079	1,187	1,110,266	1,032,092	1,224	1,033,316	76,950
All other noncurrent asset	602,083	171,892	773,975	579,628	159,625	739,253	34,722
Total Assets	2,070,640	178,347	2,248,987	1,978,485	168,314	2,146,799	102,188
<b>LIABILITIES</b>							
Current Liabilities	320,040	2,702	322,742	315,848	2,300	318,148	4,594
Noncurrent Liabilities	695,902	3,747	699,649	706,419	3,902	710,321	(10,672)
Total Liabilities	1,015,942	6,449	1,022,391	1,022,267	6,202	1,028,469	(6,078)
<b>NET ASSETS</b>							
Invested in Capital Assets Net of Related Debt	685,514	45	685,559	653,755	(247)	653,508	32,051
Restricted							
Nonexpendable	14,390	132,180	146,570	14,306	122,038	136,344	10,226
Expendable	96,174	41,875	138,049	73,872	40,408	114,280	23,769
Unrestricted	258,620	(2,202)	256,418	214,285	(87)	214,198	42,220
Total Net Assets	\$1,054,698	\$171,898	\$1,226,596	\$956,218	\$162,112	\$1,118,330	\$108,266

At June 30, 2003, total University assets were \$2.25 billion, an increase of \$102.2 over the \$2.15 billion in assets recorded for fiscal year 2002. The University's largest asset is its net investment in its physical plant of \$1.1 billion at June 30, 2003 (\$1.03 billion in fiscal year 2002). Other significant University assets include current and noncurrent investments and cash and securities held by the Trustees. Most of the increase can be attributed to the increase in both investment in plant and grant and contract receivables.

University liabilities totaled \$1.02 billion at June 30, 2003, a decrease of \$6.1 million over fiscal year 2002 (\$1.03 billion). Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to \$646.6 million at June 30, 2003. This represents a decrease of \$14.3 million over long-term debt obligations of \$660.9 million in fiscal year 2002. This decrease is principally due to scheduled debt repayments while incurring no new debt.

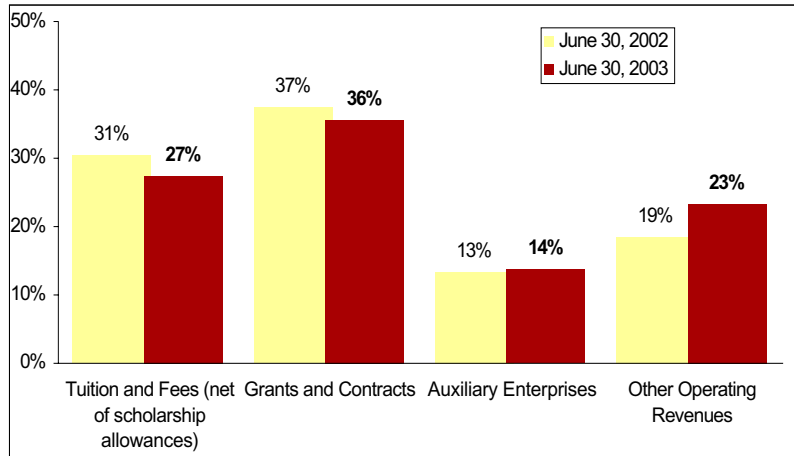
The University's current assets of \$364.7 million were sufficient to cover current liabilities of \$322.7 million, as the current ratio was 1.13 dollars in assets to every one-dollar in liabilities. In fiscal year 2002, the current ratio was 1.18 (\$374.2 million in assets for \$318.1 million in liabilities). The decrease was primarily due to a reduction in accounts receivable from UMass Memorial.

The unrestricted and restricted expendable net assets totaled \$394.5 million, which represents 26.5% percent of total operating expenditures of \$1.49 billion during 2003. In fiscal year 2002, expendable net assets of \$328.5 million to operating expenditures of \$1.44 billion made the expendable net assets to spending ratio 22.8%. The increase in this ratio is a result of an increase in net assets driven by increases in tuition and fee rates across all campuses, aggressive cost cutting in response to anticipated state budget cuts, increases in building construction with funds from capital gifts, grants and contracts, including \$30.8 million of special payments received from UMass Memorial Health Center in support of the granite faAade replacement project on the Worcester Campus, and increases in manufacturing and royalty net operating income derived from the operations of the Massachusetts Biologics Laboratories.

University of Massachusetts Condensed Statement of Revenues, Expenses, and Changes in Net Assets For The Years Ended June 30, 2003 and 2002 (in thousands of dollars)							
	University June 30, 2003	University Related Organizations June 30, 2003	Combined Totals Memorandum Only June 30, 2003	University June 30, 2002	University Related Organizations June 30, 2002	Combined Totals Memorandum Only June 30, 2002	Change
<b>Operating Revenues</b>							
Tuition and Fees (net of scholarship allowances of \$51.5 at June 30, 2003 and \$44,231 at June 30, 2002)	\$289,441		\$289,441	\$282,142		\$282,142	\$7,299
Grants and Contracts	377,008		377,008	346,295		346,295	30,713
Auxiliary Enterprises	143,715		143,715	124,149		124,149	19,566
Other Operating Revenues	245,656		245,656	172,085		172,085	73,571
<b>Total Operating Revenues</b>	<b>1,055,820</b>		<b>1,055,820</b>	<b>924,671</b>		<b>924,671</b>	<b>131,149</b>
<b>Operating Expenses</b>	1,485,481	\$7,936	1,493,417	1,421,656	\$13,530	1,435,186	58,231
<b>Operating Loss</b>	<b>(429,661)</b>	<b>(7,936)</b>	<b>(437,597)</b>	<b>(496,985)</b>	<b>(13,530)</b>	<b>(510,515)</b>	<b>72,918</b>
<b>Nonoperating Revenues</b>							
Federal Appropriations	5,139		5,139	5,900		5,900	(761)
State Appropriations	447,437		447,437	465,040		465,040	(17,603)
Other Nonoperating Income	11,937	13,486	25,423	20,057	20,000	40,057	(14,634)
<b>Net Nonoperating Revenues</b>	<b>464,513</b>	<b>13,486</b>	<b>477,999</b>	<b>490,997</b>	<b>20,000</b>	<b>510,997</b>	<b>(32,998)</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains or Losses</b>	<b>34,852</b>	<b>5,550</b>	<b>40,402</b>	<b>(5,988)</b>	<b>6,470</b>	<b>482</b>	<b>39,920</b>
Capital Appropriations	30,491		30,491	63,633		63,633	(33,142)
Capital Grants and Contracts	30,800		30,800	93		93	30,707
Additions to Permanent Endowments		14,554	14,554		11,204	11,204	3,350
University Related Organization Transactions	10,391	(10,391)		10,385	(10,385)		
Gain from Disposal of Previously Discontinued Operatio	(10,733)		(10,733)	(17,009)		(17,009)	6,276
Other	2,679	73	2,752	10,018	131	10,149	(7,397)
<b>Total Other Revenues, Expenses, Gains, and</b>	<b>63,628</b>	<b>4,236</b>	<b>67,864</b>	<b>67,120</b>	<b>950</b>	<b>68,070</b>	<b>(206)</b>
<b>Total Increase in Net Assets</b>	<b>98,480</b>	<b>9,786</b>	<b>108,266</b>	<b>61,132</b>	<b>7,420</b>	<b>68,552</b>	<b>39,714</b>
<b>Net Assets</b>							
Net Assets at Beginning of Year, as reported	956,218	162,112	1,118,330	1,865,505	154,692	2,020,197	(901,867)
Cumulative effect of change in accounting principle				(970,419)		(970,419)	970,419
Net Assets at Beginning of Year, restated	956,218	162,112	1,118,330	895,086	154,692	1,049,778	68,552
<b>Net Assets at End of Year</b>	<b>\$1,054,698</b>	<b>\$171,898</b>	<b>\$1,226,596</b>	<b>\$956,218</b>	<b>\$162,112</b>	<b>\$1,118,330</b>	<b>\$108,266</b>

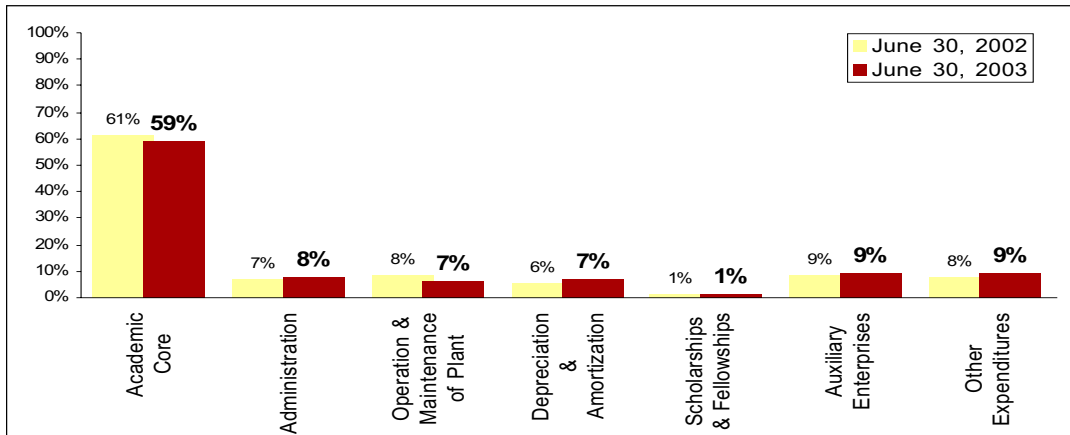
Total operating revenues for fiscal year 2003 were \$1.06 billion. This is an increase of \$131.1 million over fiscal year 2002 operating revenues of \$924.7 million. The most significant sources of revenue for the University are tuition and fees, grants and contracts and auxiliary services. The following chart displays operating revenues by source for the University in fiscal years 2002 and 2003.

**Sources of Operating Revenues in Relation to Total Revenues, FY2002 & FY2003**



In fiscal year 2003, operating expenditures, including depreciation and amortization of \$104.0 million, totaled \$1.49 billion. Of this total, \$884.2 million or 59.2% was, used to support the academic core activities of the University, including \$275.8 million in research. The chart below displays fiscal year 2002 and 2003 operating spending.

**Operating Expenses in Relation to Total Expenses, FY2002 and FY2003**



**State Appropriations**

State appropriations represent approximately 29.2% of all operating and non-operating revenues noted above. The level of state support is a key factor influencing the University's overall financial condition. Although the state appropriation is unrestricted revenue, a significant portion of the state appropriation supports payroll and benefits for University employees.

Continued deterioration in the state's economic condition resulted in an additional reduction in the state appropriation to the University of \$24.3 million from fiscal year 2002 to fiscal year 2003. The total reduction in the state maintenance appropriation from fiscal year 2001 therefore was over \$47.3 million or -9.8%. In response, the President and Board of Trustees continue to implement fiscal stabilization plans to allow the University to continue to provide service to students. This plan includes targeted cost-cutting measures – including layoffs, judicial backfilling of positions vacated through the state's Early Retirement Program, private fundraising efforts, and student charge adjustments.

Unless otherwise permitted by the Massachusetts Legislature, the University is required to remit tuition revenue received to the Commonwealth. Therefore, the University collects student tuition on behalf of the Commonwealth and remits it to the Commonwealth's General Fund. 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.

The following details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2003 and 2002 (in thousands):

	June 30, 2003	June 30, 2002
Gross Commonwealth Appropriations	\$443,375	\$469,477
<i>Plus: Fringe Benefits*</i>	<u>88,365</u>	<u>90,904</u>
	531,740	560,381
Less: Tuition Remitted	<u>(84,303)</u>	<u>(95,341)</u>
<b>Net Commonwealth Support</b>	<b>\$447,437</b>	<b>\$465,040</b>

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

#### Grant and Contract Revenue

The University's Amherst Campus and Medical School campus in Worcester has been the primary catalyst in the University's research funding growth in recent years. The following table details the University's grant and contract revenues (in millions) for the fiscal years ended June 30, 2002 and 2003:

	June 30, 2003	June 30, 2002
Federal Grants and Contracts	\$256,579	\$223,767
State Grants and Contracts	55,294	58,189
Local Grants and Contracts	3,240	2,918
Private Grants and Contracts	61,895	61,421
<b>Total Grant &amp; Contracts</b>	<b>\$377,008</b>	<b>\$346,295</b>

#### Discretely Presented Component Units

##### University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately \$182.8 million at June 30, 2003, up from \$167.9 million at June 30, 2002, primarily due to new gifts and contributions. At June 30, 2003, the number of endowed chairs is at 40.

The Foundation utilizes the pooled investment concept whereby all invested funds are included in one investment pool, except for investments of certain funds that are otherwise restricted. The Foundation's total investment return for fiscal year 2003, including realized and unrealized activity was a net gain of approximately \$1.5 million. Additions, redemptions and transfers to pooled investment funds are assigned a number of shares based upon their market value at the date of receipt or withdrawal. The actual spending rate for Foundation endowment funds was 4.0% for fiscal year 2003.

##### University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were \$11.9 million at June 30, 2003, up from \$11.3 million at June 30, 2002. The increase was primarily due to new gifts. The Dartmouth Foundation total investment return for fiscal year 2003, including realized and unrealized investment activity, was a net gain of approximately \$268,000.

#### Tuition and Fees

The University strives to provide students with the opportunity to obtain a quality education. Once the second most expensive of the six New England public university systems, the University recently ranked fifth (based upon in-state undergraduate charges at the University's Amherst campus). Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges and any material decrease in Commonwealth appropriations.

As previously noted, state appropriation reductions during fiscal year 2003 required that the University take a series of actions to stabilize operations including student fee increases for the 2002-2003 and 2003-2004 academic years.

## Enrollment

Except for the Medical School, which admits only Massachusetts residents (as required by Massachusetts Session Laws, 1987, Chapter 199, Section 99); admission to the University is open to residents and non-residents of the Commonwealth on a competitive basis. In the fall 2002 semester, Massachusetts residents accounted for approximately 86% and 58% of the University's total undergraduate and graduate fall enrollment, respectively. Total enrollment in the fall of 2002 was 46,761 FTE (57,992 headcount students). In the fall of 2001 semester, Massachusetts residents accounted for approximately 84% and 59% of the University's total undergraduate and graduate enrollment, respectively.

Enrollments at the University have shown modest increases in 1998, 1999, and 2001. Fall 2002 enrollments were down less than 1% from fall 2001 levels. The enrollment level fluctuation is consistent with the University's efforts to manage housing and class enrollment. Freshman applications were up between 2% and 19% at the University's undergraduate campuses and transfer applications were flat at two campuses and up at Dartmouth and Amherst in the fall 2002 compared with the fall 2001. The total freshman application data was influenced by a 19% increase at the Dartmouth campus, a 9.7% increase at the Amherst campus, a 9% increase at the Lowell campus and a 2% increase at the Boston campus.

The average Scholastic Aptitude Test ("SAT") scores for entering University freshmen ranged from 1047 to 1124 at the University's campuses in the fall of 2002. The United States Average in 2002-2003 was 1026.

## Degrees Awarded

The University awards four levels of degrees, including associate, bachelors, masters and doctoral/professional degrees. A total of 10,499 degrees were awarded in 2001-2002: 229 associate degrees, 7,535 bachelor degrees, 2,274 master degrees, and 372 doctoral degrees and 89 MD's.

## Early Retirement Program

In December of 2001, the Commonwealth adopted an early retirement incentive program (ERIP) as part of the overall strategy to address the significant budget shortfalls then faced. ERIP offered another option other than lay-offs to the University and its employees to deal with state budget cuts in fiscal year 2002. State funded and non-state funded employees were allowed to retire under ERIP and the University also initiated an additional incentive program for individuals not covered by the provisions of the state ERIP. A total of 940 employees took advantage of these programs.

Early retirement had a significant impact on the University, especially in academic departments where approximately 301 faculty retired. These retirements were scattered throughout the organization, impacting some high student demand departments in such a way that campuses have been refilling positions in select academic departments and other vital support areas. The University is committed to maintaining enrollment levels and the high quality of the teaching, research and public service activities despite the financial and programmatic challenges associated with the ERIP and recent state budget cuts.

In fiscal year 2004, the University implemented a second early retirement incentive program. For the University the impact of this program will not be fully understood until January of 2004 after the deadline for employees to leave under this program has passed. Seven hundred sixty two employees have "signed up" for the program (including 219 faculty).

## Bonds Payable

As of June 30, 2003, the University had outstanding bonds of approximately \$588.9 million representing approximately \$310.0 million of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), and approximately \$87.0 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority (the "UMass HEFA Bonds"). Bonds payable is the University's largest liability at June 30, 2003 and 2002. Projects initially financed by the Building Authority Bonds consist primarily of dormitories, apartments, dining commons, athletic and multi purpose facilities and parking garages at the University campuses. The proceeds from the UMass HEFA Bonds were used to create a revolving loan program and to fund the construction of two new campus centers at the Boston and Lowell campuses (funded jointly with the Commonwealth).

In fiscal year 2002, the University of Massachusetts through the Massachusetts Health and Educational Facilities Authority issued bonds in the amount of \$35 million (the UMass Series C Bonds). The proceeds of the UMass Series C Bonds are being used to fund a portion of the construction of an approximately 331,000 square foot campus center located on the Boston Campus. The project also includes associated landscaping, approximately 166 parking spaces within the campus center and approximately 619 surface parking spaces.

At June 30, 2003, WCCC had outstanding bonds of approximately \$222.0 million representing University of Massachusetts Worcester City Campus Corporation bonds (the "WCCC Bonds"). Proceeds from borrowing prior to fiscal year 2002 were used to fund the construction and equipping of a research facility; the proceeds will also be used to construct a parking garage on the Worcester campus. In fiscal year 2002, \$70 million in WCCC Bonds was issued through the Massachusetts Health and Educational Facilities Authority (the WCCC Series C Bonds). Proceeds from the WCCC Series C Bonds are being used to fund the construction of a biologics laboratory for the UMass Worcester Medical School campus. The biologics facility will consist of up to two stories containing approximately 50,000 to 75,000 rentable square feet of space and will include a state-of-the-art aseptic filling suite and a manufacturing suite for at least one monoclonal antibody product.

In fiscal year 2003, there were no new University or WCCC bonds issued through either the University of Massachusetts Building Authority or the Massachusetts Health and Educational Facilities Authority. Although no bonds were issued in fiscal year 2003, on August 7, 2003 the University of Massachusetts Building Authority issued \$138.0 million in Series 2003-1 Bonds. The projects to be financed by these bonds are expected to consist of the construction of parking garages at Boston and Lowell campuses, construction of the Charlton College of Business and the improvements of athletic fields at the Dartmouth campus, and the construction of an integrated science facility and wing space/art building along with many other improvements and renovations at the Amherst campus.

#### **Capitalized Lease Obligations**

At June 30, 2003, the University had capital lease obligations with remaining principal payments of approximately \$57.7 million. The capital leases primarily consist of telecommunications, software and co-generation system, and campus energy conversions. In fiscal year 2003, a new approximately \$19.6 million capital lease agreement was entered into with Fifth Third Leasing Company to fund a number of Boston campus initiatives such as, the acquisition and installation of various energy management equipment, furniture and wiring upgrades for the Campus Center and upgrades to data cabling throughout the campus.

#### **University Rating**

The University of Massachusetts has been rated "A+" by both Fitch and Standard & Poor's rating agencies. The highest achievable rating is "AAA" based upon the scale used in the University's rating. The University's rating is one tier below the "AA-" rating of the Commonwealth of Massachusetts.

#### **Limitations on Additional Indebtedness**

The University may, without limit, issue additional indebtedness or request the Building Authority to issue additional indebtedness on behalf of the University so long as such indebtedness is payable from all available funds of the University. However, the University may request that the Building Authority issue additional indebtedness not payable from all available funds of the University provided that the additional indebtedness is secured by certain pledged revenues and the maximum annual debt service on all revenue indebtedness does not exceed 10% of the University's available revenues.

The Building Authority is authorized by its enabling act to issue bonds with the unconditional guarantee of the Commonwealth of Massachusetts for the punctual payment of the interest and principal payments on the guaranteed bonds. The full faith and credit of the Commonwealth are pledged for the performance of its guarantee. The enabling act, as amended, presently limits to \$200 million the total principal amount of notes and bonds of the Building Authority that may be Commonwealth guaranteed and outstanding at any one time.

#### **Capital Plan**

In August of 2003, the University Trustees approved a five-year (fiscal years 2004-2008), approximately \$1.1 billion capital plan to be financed from all available funding sources, including projects already in process with prior approval of the University Trustees, as well as new projects. A vote was also taken by the University Trustees in May 2003 to update information/estimates related to a number of the University's capital projects. The University generally has funded its capital plans through a combination of moneys received from University operations, bonds issued by the Building Authority, Massachusetts Health and Educational Facilities Authority financing, Commonwealth appropriations, and private fund raising. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

During fiscal year 2003, the University expended approximately \$98.1 million on plant operations and maintenance activities. Project activity in fiscal year 2003 included on-going construction of a new Campus Center at the Boston campus (expected to be completed in December of 2003), the construction of a new Campus Center at the Lowell campus (the facility was opened in September of 2002), the construction of new residence halls at the Dartmouth campus (completed October 2002) and energy conversion projects at the Worcester and Boston campuses.

The University's five-year capital plan includes both new projects as well as major projects in process from 2004 through 2008 that were previously approved by the University Trustees in prior year capital plans. The fiscal year 2004-2008 capital plan (including the projects approved by the Trustees in May 2003) includes the following major projects, their total estimated costs and their related indebtedness or anticipated indebtedness:

##### **Amherst**

- New construction of an Integrated Sciences Facility (Phase 1A) for approximately \$63 million (partial financing provided by the UMBA 2000 Bonds with additional funding provided by the UMBA 2003 Bonds).
- Deferred maintenance of the campus heating plant for approximately \$85 million (\$63 million of the financing provided by the UMBA 2000 Bonds).
- A transitional art facility for approximately \$13.8 million (May 2003 vote) (financing provided by the UMBA 2003 Bonds).
- Renovation and expansion of a building to be used by the School of Nursing for approximately \$13.8 million (May 2003 vote) (financing provided by the UMBA 2003 Bonds).

## **Boston**

- New construction of a parking garage for approximately \$39.68 million (May 2003 vote) (financing provided by the UMBA 2003 Bonds)

## **Dartmouth**

- Renovation of the College of Business for approximately \$4.4 million (financing provided by the UMBA 2000 Bonds and the UMBA 2003 Bonds).
- Renovation of Athletic Fields for approximately \$1.4 million (May 2003 vote) (financing provided by the UMBA 2003 Bonds).

## **Lowell**

- New construction of a parking garage for approximately \$9 million (May 2003 Vote) (financing provided by the UMBA 2003 Bonds).

## **Worcester**

- New construction of a Biologics Laboratory for approximately \$100 million (\$70 million financed by the WCCC Series C Bonds).

In 1996, the University initiated a more active program to address deferred maintenance needs at its campuses. As a result, the University has made investments to repair and renovate facilities at the University's campuses from a combination of University sources and direct Commonwealth support. Addressing deferred maintenance remains a priority within the University's capital plan. The University's 2004-2008 capital plan includes approximately \$300.1 million of deferred maintenance projects.

## **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 and financial performance, investing in capital assets, expanding fundraising capacity, 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, 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. In addition, a second early retirement program is being offered during fiscal year 2004 that will have an impact on University operations comparable to the fiscal year 2002 program previously noted.

The ability to address priority needs and requirements for deferred maintenance, technology, repairs and adaptation, and selected new construction projects may be the biggest challenge facing the University in years to come. The commitment of operating funds for servicing debt and/or funding capital expenditures has an ongoing impact on the overall financial picture of the University.

Reallocation and assessment programs, both academic and administrative, continue across the University. These efforts are geared to assessing the University's performance related to goals, rethinking the way we do business, and freeing up resources to support change. The University's ongoing efforts to identify reallocation opportunities have expanded to new planning activities to enhance revenues and control expenditures over the short and long term. These efforts have included a focus on enhancing the University's corporate, continuing and distance education offerings through campus and UMASS ONLINE activities; fundraising efforts to increase the endowment and to fund the creation of endowed professorships; expanding and strengthening partnerships with Commonwealth agencies; and continuing to seek opportunities to coordinate administrative and academic activities and programs.

Financial Statements

## COMBINED STATEMENTS OF NET ASSETS

*as of June 30, 2003 and 2002*  
(in thousands of dollars)

	University June 30, 2003	University Related Organizations June 30, 2003	Combined Totals Memorandum Only June 30, 2003	University June 30, 2002	University Related Organizations June 30, 2002	Combined Totals Memorandum Only June 30, 2002
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents	\$3,627		\$3,627	\$11,926		\$11,926
Cash Held By State Treasurer	22,447		22,447	29,044		29,044
Cash and Securities Held By Trustees	33		33			
Accounts, Grants and Loans Receivable	135,440	\$447	135,887	117,253	\$620	117,873
Pledges Receivable	1,272	2,148	3,420	1,241	4,586	5,827
Short Term Investments	151,078		151,078	135,307		135,307
Inventories	9,529		9,529	9,996		9,996
Accounts Receivable UMass Memorial	25,032		25,032	52,294		52,294
Due From Related Organizations	856	2,620	3,476	799	2,218	3,017
Other Assets	10,164	53	10,217	8,905	41	8,946
<b>Total Current Assets</b>	<b>359,478</b>	<b>5,268</b>	<b>364,746</b>	<b>366,765</b>	<b>7,465</b>	<b>374,230</b>
<b>Noncurrent Assets</b>						
Cash and Cash Equivalents		1,301	1,301	1,545	21,195	22,740
Cash Held By State Treasurer	3,634		3,634	9,476		9,476
Cash and Securities Held By Trustees	311,933		311,933	338,005		338,005
Accounts, Grants and Loans Receivable	30,751	617	31,368	31,596	804	32,400
Pledges Receivable	1,266	18,709	19,975	2,004	15,108	17,112
Investments	251,725	151,265	402,990	190,219	122,518	312,737
Due From Related Organizations	789		789	1,145		1,145
Other Assets	1,985		1,985	5,638		5,638
Investment In Plant Net of Accumulated Depreciation	1,109,079	1,187	1,110,266	1,032,092	1,224	1,033,316
<b>Total Noncurrent Assets</b>	<b>1,711,162</b>	<b>173,079</b>	<b>1,884,241</b>	<b>1,611,720</b>	<b>160,849</b>	<b>1,772,569</b>
<b>Total Assets</b>	<b>\$2,070,640</b>	<b>\$178,347</b>	<b>\$2,248,987</b>	<b>\$1,978,485</b>	<b>\$168,314</b>	<b>\$2,146,799</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts Payable	\$66,918	\$602	\$67,520	\$82,520	\$792	\$83,312
Accrued Salaries and Wages	64,627		64,627	62,655		62,655
Accrued Liability for Compensated Absences	52,732		52,732	50,119		50,119
Accrued Liability for Workers' Compensation	2,644		2,644	2,130		2,130
Accrued Interest Payable	6,287	43	6,330	6,202	61	6,263
Bonds Payable	22,620		22,620	28,429		28,429
Capital Lease Obligations	10,920		10,920	9,490		9,490
Accounts Payable UMass Memorial	7,063		7,063	5,956		5,956
Due To Related Organizations	2,620	856	3,476	2,218	799	3,017
Deferred Revenues and Credits	36,988	1,201	38,189	28,481	648	29,129
Advances and Deposits	3,937		3,937	3,906		3,906
Other Liabilities	42,684		42,684	33,742		33,742
<b>Total Current Liabilities</b>	<b>320,040</b>	<b>2,702</b>	<b>322,742</b>	<b>315,848</b>	<b>2,300</b>	<b>318,148</b>
<b>Noncurrent Liabilities</b>						
Accrued Liability for Compensated Absences	24,572		24,572	26,959		26,959
Accrued Liability for Workers' Compensation	11,497		11,497	11,884		11,884
Arbitrage Rebate Payable	3,490		3,490	1,100		1,100
Bonds Payable	566,294		566,294	588,861		588,861
Capital Lease Obligations	46,764		46,764	34,109		34,109
Due To Related Organizations		789	789		1,145	1,145
Deferred Revenues and Credits	10,654		10,654	8,865		8,865
Advances and Deposits	31,718		31,718	30,814		30,814
Other Liabilities	913	2,958	3,871	3,827	2,757	6,584
<b>Total Noncurrent Liabilities</b>	<b>695,902</b>	<b>3,747</b>	<b>699,649</b>	<b>706,419</b>	<b>3,902</b>	<b>710,321</b>
<b>Total Liabilities</b>	<b>\$1,015,942</b>	<b>\$6,449</b>	<b>\$1,022,391</b>	<b>\$1,022,267</b>	<b>\$6,202</b>	<b>\$1,028,469</b>
<b>Net Assets:</b>						
Invested in Capital Assets Net of Related Debt	\$685,514	\$45	\$685,559	\$653,755	(\$247)	\$653,508
Restricted						
Nonexpendable	14,390	132,180	146,570	14,306	122,038	136,344
Expendable	96,174	41,875	138,049	73,872	40,408	114,280
Unrestricted	258,620	(2,202)	256,418	214,285	(87)	214,198
<b>Total Net Assets</b>	<b>\$1,054,698</b>	<b>\$171,898</b>	<b>\$1,226,596</b>	<b>\$956,218</b>	<b>\$162,112</b>	<b>\$1,118,330</b>

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

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 for the years ended June 30, 2003 and 2002  
 (in thousands of dollars)

	University June 30, 2003	University Related Organizations June 30, 2003	Combined Totals Memorandum Only June 30, 2003	University June 30, 2002	University Related Organizations June 30, 2002	Combined Totals Memorandum Only June 30, 2002
<b>REVENUES</b>						
<b>Operating Revenues</b>						
Tuition and Fees (net of scholarship allowances of \$51,521 at June 30, 2003 and \$44,231 at June 30, 2002)	\$289,441		\$289,441	\$282,142		\$282,142
Federal Grants and Contracts	256,579		256,579	223,767		223,767
State Grants and Contracts	55,294		55,294	58,189		58,189
Local Grants and Contracts	3,240		3,240	2,918		2,918
Private Grants and Contracts	61,895		61,895	61,421		61,421
Sales & Service, Educational	14,454		14,454	11,133		11,133
Auxiliary Enterprises	143,715		143,715	124,149		124,149
Other Operating Revenues:						
Sales & Service, Independent Operations	51,595		51,595	32,457		32,457
Sales & Service, Public Service Activities	143,115		143,115	97,381		97,381
Other	36,492		36,492	31,114		31,114
<b>Total Operating Revenues</b>	<b>1,055,820</b>		<b>1,055,820</b>	<b>924,671</b>		<b>924,671</b>
<b>EXPENSES</b>						
<b>Operating Expenses</b>						
<i>Educational and General</i>						
Instruction	374,386		374,386	391,988		391,988
Research	275,838		275,838	245,027		245,027
Public Service	64,169	\$4,731	68,900	66,978	\$11,193	78,171
Academic Support	94,414		94,414	97,613		97,613
Student Services	70,648		70,648	74,061		74,061
Institutional Support	114,174		114,174	100,325		100,325
Operation and Maintenance of Plant	98,135		98,135	110,282		110,282
Depreciation and Amortization	103,981	36	104,017	82,142	37	82,179
Scholarships and Fellowships	15,401	3,169	18,570	19,346	2,300	21,646
<i>Auxiliary Enterprises</i>	131,577		131,577	124,059		124,059
<i>Other Expenditures</i>						
Independent Operations	26,777		26,777	20,385		20,385
Public Service Activities	115,981		115,981	89,450		89,450
<b>Total Operating Expenses</b>	<b>1,485,481</b>	<b>7,936</b>	<b>1,493,417</b>	<b>1,421,656</b>	<b>13,530</b>	<b>1,435,186</b>
<b>Operating Loss</b>	<b>(429,661)</b>	<b>(7,936)</b>	<b>(437,597)</b>	<b>(496,985)</b>	<b>(13,530)</b>	<b>(510,515)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>						
Federal Appropriations	5,139		5,139	5,900		5,900
State Appropriations	447,437		447,437	465,040		465,040
Gifts	11,905	12,829	24,734	11,130	24,515	35,645
Investment Income	20,660	(3,425)	17,235	17,703	(7,379)	10,324
Endowment Income	1,202	4,168	5,370	743	2,988	3,731
Interest on Indebtedness	(27,145)	(86)	(27,231)	(26,116)	(124)	(26,240)
Other Nonoperating Income	5,315		5,315	16,597		16,597
<b>Net Nonoperating Revenues</b>	<b>464,513</b>	<b>13,486</b>	<b>477,999</b>	<b>490,997</b>	<b>20,000</b>	<b>510,997</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses</b>	<b>34,852</b>	<b>5,550</b>	<b>40,402</b>	<b>(5,988)</b>	<b>6,470</b>	<b>482</b>
Capital Appropriations	30,491		30,491	63,633		63,633
Capital Grants and Contracts	30,800		30,800	93		93
Additions to Permanent Endowments		14,554	14,554		11,204	11,204
University Related Organization Transactions	10,391	(10,391)		10,385	(10,385)	
Disposal of Plant Facilities	(10,733)		(10,733)	(17,009)		(17,009)
Gain from Disposal of Previously Discontinued Operations				10,561		10,561
Other Additions/Deductions	2,679	73	2,752	(543)	131	(412)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>63,628</b>	<b>4,236</b>	<b>67,864</b>	<b>67,120</b>	<b>950</b>	<b>68,070</b>
<b>Total Increase in Net Assets</b>	<b>98,480</b>	<b>9,786</b>	<b>108,266</b>	<b>61,132</b>	<b>7,420</b>	<b>68,552</b>
<b>NET ASSETS</b>						
Net Assets at Beginning of Year, as reported	956,218	162,112	1,118,330	1,865,505	154,692	2,020,197
Cumulative effect of change in accounting principle				(970,419)		(970,419)
Net Assets at Beginning of Year, restated	956,218	162,112	1,118,330	895,086	154,692	1,049,778
<b>Net Assets at End of Year</b>	<b>\$1,054,698</b>	<b>\$171,898</b>	<b>\$1,226,596</b>	<b>\$956,218</b>	<b>\$162,112</b>	<b>\$1,118,330</b>

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

COMBINED STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2003 and 2002  
(in thousands of dollars)

	University June 30, 2003	University Related Organizations June 30, 2003	Combined Totals Memorandum Only June 30, 2003	University June 30, 2002	University Related Organizations June 30, 2002	Combined Totals Memorandum Only June 30, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Tuition and Fees	\$298,563		\$298,563	\$275,327		\$275,327
Grants and Contracts	343,732		343,732	346,489		346,489
Payments to Suppliers	(346,722)	(\$3,155)	(349,877)	(384,244)	(\$702)	(384,946)
Payments to Employees	(825,492)	(706)	(826,198)	(824,376)	(689)	(825,065)
Payments for Benefits	(125,831)		(125,831)	(109,999)	(332)	(110,331)
Payments for Scholarships and Fellowships	(14,946)	(5,009)	(19,955)	(19,346)	(3,271)	(22,617)
Loans Issued to Students and Employees	(14,602)		(14,602)	(5,880)		(5,880)
Collections of Loans to Students and Employees	8,017		8,017	5,656		5,656
Auxiliary Enterprises Receipts	175,792		175,792	129,921		129,921
Sales and Service, Educational	14,181		14,181	11,070		11,070
Sales & Service, Independent Operations	55,442		55,442	47,393		47,393
Sales & Service, Public Service Activities	112,639		112,639	98,324		98,324
<b>Net Cash Used by Operating Activities</b>	<b>(319,227)</b>	<b>(8,870)</b>	<b>(328,097)</b>	<b>(429,665)</b>	<b>(4,994)</b>	<b>(434,659)</b>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>						
State Appropriations	537,442		537,442	565,545		565,545
Tuition Remitted to the State	(84,303)		(84,303)	(95,341)		(95,341)
Federal Appropriations	5,139		5,139	5,900		5,900
Gifts and Grants for Other Than Capital Purposes	13,842	12,685	26,527	13,251	4,301	17,552
Private Gifts for Endowment Purposes	192	9,758	9,950	143	28,115	28,258
Student Organization Agency Transactions	1,467		1,467	(297)		(297)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>473,779</b>	<b>22,443</b>	<b>496,222</b>	<b>489,201</b>	<b>32,416</b>	<b>521,617</b>
<b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES</b>						
Proceeds from Capital Debt	19,635		19,635	119,488		119,488
Capital Appropriations	30,491		30,491	63,633		63,633
Capital Grants and Contracts	47,500		47,500	8,317		8,317
Purchases of Capital Assets and Construction	(143,307)		(143,307)	(180,357)		(180,357)
Principal Paid on Capital Debt and Leases	(34,619)		(34,619)	(27,162)		(27,162)
Interest Paid on Capital Debt and Leases	(25,767)		(25,767)	(26,110)		(26,110)
Use of Debt Proceeds on Deposit with Trustees	(11,381)		(11,381)	(38,168)		(38,168)
<b>Net Cash Used by Capital Financing Activities</b>	<b>(117,448)</b>		<b>(117,448)</b>	<b>(80,359)</b>		<b>(80,359)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Proceeds from Sales and Maturities of Investments	852,214		852,214	500,698		500,698
Interest on Investments	14,117	3,447	17,564	18,075	4,193	22,268
Purchase of Investments	(951,757)	(36,914)	(988,671)	(522,197)	(10,648)	(532,845)
<b>Net Cash Used by Investing Activities</b>	<b>(85,426)</b>	<b>(33,467)</b>	<b>(118,893)</b>	<b>(3,424)</b>	<b>(6,455)</b>	<b>(9,879)</b>
<b>NET (DECREASE)/INCREASE IN CASH</b>	<b>(48,322)</b>	<b>(19,894)</b>	<b>(68,216)</b>	<b>(24,247)</b>	<b>20,967</b>	<b>(3,280)</b>
Cash - Beginning of the Year	389,996	21,195	411,191	414,243	228	414,471
Cash - End of Year	\$341,674	\$1,301	\$342,975	\$389,996	\$21,195	\$411,191
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>						
Operating Loss	(\$429,661)	(\$7,936)	(\$437,597)	(\$496,985)	(\$13,530)	(\$510,515)
<i>Adjustments to reconcile loss to net cash used by Operating Activities:</i>						
Depreciation Expense	103,981	36	104,017	82,142	37	82,179
<i>Changes in Assets and Liabilities:</i>						
Receivables, net	(16,635)	(803)	(17,438)	(10,240)	(7,051)	(17,291)
Inventories	467		467	(3,791)		(3,791)
Due from Related Organizations	299	(402)	(103)	(3,211)	15,637	12,426
Accounts Receivable/Payable UMass Memorial	13,069		13,069	9,539		9,539
Other Assets	2,394	(12)	2,382	160	5	165
Accounts Payable	(13,212)	(190)	(13,402)	8,766	331	9,097
Accrued Salaries and Wages	1,972		1,972	16,753		16,753
Accrued Liability for Compensated Absences	226		226	10,258		10,258
Accrued Liability for Workers Compensation	127		127	(246)		(246)
Accrued Interest Payable	85	(18)	67	(192)	(6)	(198)
Due To Related Organizations	402	(299)	103	(40,458)		(40,458)
Deferred Revenue	10,296	553	10,849	950	13	963
Advances and Deposits	935		935	1,787		1,787
Other Liabilities	6,028	201	6,229	(4,897)	(430)	(5,327)
<b>Net Cash Used by Operating Activities</b>	<b>(319,227)</b>	<b>(8,870)</b>	<b>(328,097)</b>	<b>(429,665)</b>	<b>(4,994)</b>	<b>(434,659)</b>
<b>NONCASH CAPITAL FINANCING ACTIVITY</b>						
Assets acquired through capital leases	\$4,726		\$4,726	\$3,983		\$3,983

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

**NOTES TO COMBINED FINANCIAL STATEMENTS***June 30, 2003***1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****ORGANIZATION**

The combined financial statements herein present the financial position, results of operations, changes in net assets, and cash flows of the University of Massachusetts (University), a federal land grant institution and an agency of the Commonwealth of Massachusetts (Commonwealth) and its component units. The University blends the tradition of providing access to quality education with that of delivering pioneering research applied to everyday problems. At the University, teaching and learning are integrated with research and public service. The combined financial statements of the University include the Amherst, Boston, Dartmouth, Lowell and Worcester Medical School campuses, and the Central Administration office of the University, Worcester City Campus Corporation (WCCC), the University of Massachusetts Amherst Foundation (UMass Amherst Foundation), as well as the University of Massachusetts Building Authority (Building Authority).

The Building Authority is a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960, whose purpose is to provide dormitories, dining commons, and other buildings and structures for use by the University. WCCC, of which the Worcester Foundation for Biomedical Research, Inc. (WFBR) is a subsidiary, is a tax exempt organization founded to foster and promote the growth, progress and general welfare of 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 combined 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 combined financial statements includes the financial data of the University's discretely presented component units. The University of Massachusetts Foundation, Inc. (Foundation) and the University of Massachusetts Dartmouth Foundation, Inc. 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 University is a component unit of the Commonwealth of Massachusetts. The financial balances and activities included in these combined financial statements are, therefore, also included in the Commonwealth's comprehensive annual financial report.

Effective March 31, 1998, the former University of Massachusetts Clinical Services Division (which was comprised of the University of Massachusetts Medical School Teaching Hospital Trust Fund, University of Massachusetts Medical School - Group Practice Plan, and the University of Massachusetts Medical Center Self Insurance Trust), was merged into a separate Massachusetts not-for-profit corporation named UMass Memorial Health Care, Inc. (UMass Memorial). UMass Memorial is not a component of these financial statements.

**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 statements are reported on a combined basis, and all intra-University transactions are eliminated. In accordance with GASB Statement No. 20, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

Operating revenues consist of tuition and fees, federal appropriations, 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 nonoperating revenues and expenses including state general appropriations, noncapital gifts, short term investment income, endowment income used in operations, interest expense, and capital additions and deductions. Capital items represent all other changes in long term plant and endowment net assets. Revenues are recognized when earned and expenses are recognized when incurred. 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. 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. Major estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the allowance for doubtful accounts and depreciation expense. Actual results could differ from those estimates.

## NEW ACCOUNTING STANDARDS

Effective July 1, 2001, the University adopted GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as well as Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures. These standards are collectively referred to hereafter as "GASB 35". The following elements are included with these general purpose financial statements, as required by GASB 35:

- Management's discussion and analysis (as required supplemental information)
- Basic financial statements which include a statement of net assets; statement of revenues, expenses and changes in net assets; and statement of cash flows
- Notes to the financial statements

The University reports its financial statements as a "business-type activity" ("BTA") under GASB 35. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

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

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

GASB 35 requires that revenues be 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 financial aid expense on the statement of revenues, expenses, and other changes to net assets, and included in supplies and services on the statement of cash flows.

## CLASSIFICATION OF ASSETS AND LIABILITIES

GASB 35 requires the University to present current and non-current assets and liabilities in the statement of net assets. Assets and liabilities are considered current if they mature in one year or less, or are expected to be received, used, or paid within one year or less. Cash and cash equivalents and 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 to the restrictions imposed on the balances by external parties.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value approximates carrying value for cash and cash equivalents, investments, notes and accounts receivable, accounts payable, accrued expenses and interest, and deposits.

## 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 carried at fair value. 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. The University holds certain investment securities in publicly traded and privately held companies as the result of agreements entered into by the University's Commercial Ventures and Intellectual Property (CVIP) program. Securities received or purchased as the result of these agreements are recorded at fair value, where readily determinable by quoted market prices, or if fair value is not known or practicable to estimate, the investment is carried at cost which is deemed to be the estimated fair value.

Certain securities held by the Foundation do not have readily determinable quoted market prices and are carried at valuations provided by third-party investment managers. The Foundation believes that the carrying amount of these investments are a reasonable estimate of fair value, however, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Venture capital investments represent initial investments made to certain funds and are reported at cost until distributions are made from the funds or until market values are reported on the funds.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statement of net assets.

Investment income 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, 2003 and 2002 was \$67.9 million and \$60.0 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 their realizability and valuation, 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 approximately 5% of their beginning market value as of July 1 subject to review and approval by the Foundation's Board of Directors. The distribution amount will be made available at the beginning of the following fiscal year. The actual spending rate was 4% for fiscal years 2003 and 2002. Future utilization of gains is dependent on market performance. Deficiencies of \$7.3 million for fiscal year 2003 and \$5.5 million for fiscal year 2002 for donor-restricted endowment funds resulting from declines in market value, have been offset by an allocation from unrestricted net assets to restricted expendable net assets within the Foundation. 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, and operating supplies which are carried at the lower of cost (first-in, first-out and average cost methods) or market.

#### INVESTMENT IN PLANT

Capital assets are stated at cost. Net interest costs incurred during the construction period for major capital projects are added to the cost of the asset. 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. Following is the range of useful lives for the University's depreciable assets:

Buildings	20-40 years
Building Improvements	5-20 years
Equipment and Furniture	3-12 years
Software	5 years
Library Books	15 years
Land Improvements	20 years

#### COMPENSATED ABSENCES

Employees earn the right to be compensated during absences for annual vacation leave and sick leave. The accompanying combined statement of net assets reflects an accrual for the amounts earned and ultimately payable for such benefits.

#### DEFERRED REVENUE

Deferred revenue consists of amounts billed or received in advance of the University providing goods or services.

**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 from repayments of outstanding principal amounts plus accumulated interest received thereon.

**TUITION AND STATE APPROPRIATIONS**

The combined financial statements for the years ended June 30, 2003 and 2002 record as tuition revenue approximately \$84.3 million and \$95.3 million respectively of tuition received by the University and remitted to the State Treasurer's Office for the general fund of the Commonwealth of Massachusetts.

The recorded amount of State Appropriations received by the University has been reduced by a corresponding amount as shown below (in millions):

	<b>2003</b>	<b>2002</b>
Gross Commonwealth Appropriations	\$443,375	\$469,477
Plus: Fringe Benefits	88,365	90,904
	<u>531,740</u>	<u>560,381</u>
Less: Tuition Remitted	(84,303)	(95,341)
State Appropriations, Net	<u>\$447,437</u>	<u>\$465,040</u>

**FRINGE BENEFITS**

The University participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the University. Workers' compensation costs are assessed separately based on actual University experience.

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

**INCOME TAX STATUS**

The University of Massachusetts is an agency of the Commonwealth of Massachusetts and is exempt from Federal income tax under Section 115(a) of the Internal Revenue Code. The University Related Organizations are 501(c)(3) organizations and are exempt from Federal Income tax under the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying combined financial statements.

**COMPARATIVE INFORMATION AND RECLASSIFICATIONS**

The financial statements include prior year comparative information. Certain prior year amounts have been reclassified to conform with the current year presentation.

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The University's cash management investment policy authorizes the University to invest in obligations of the U.S. Department of the Treasury, its agencies and instrumentalities, municipal and state bonds, certificates of deposit, commercial paper, banker's acceptances, Eurodollar contracts, corporate bonds, mutual funds, collateralized mortgage obligations, asset backed securities, repurchase agreements, and money market funds. The University's investment policy authorizes the University to invest endowment funds in the above investments as well as common and preferred stock.

At June 30, 2003 and 2002, the carrying amount of the University's bank deposits were \$3.6 million and \$13.5 million, respectively as compared to bank balances of \$7.7 million and \$12.2 million, respectively. The differences between the carrying amount and bank balances were primarily caused by outstanding checks and deposits in-transit. Of such bank balances, \$0.6 million at June 30, 2003 and \$0.5 million at June 30, 2002 are covered by federal deposit insurance. The remaining \$7.1 million at June 30, 2003 and \$11.7 million at June 30, 2002 is uninsured.

Statement No. 3 of the Governmental Accounting Standards Board requires government entities to categorize cash and investments to give an indication of the level of credit risk assumed by the University at year end. Category 1 includes cash and cash equivalents and investments that are insured or registered or for which securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the University's name.

The cost and fair value of cash, cash equivalents and investments (exclusive of cash held by the State Treasurer) at June 30, 2003 are (in thousands):

University:	Category			Total Fair Value	Total Cost
	1	2	3		
Cash and Cash Equivalents	\$3,627			\$3,627	\$3,627
Money Market Instruments	185,841	\$17,657	\$181,301	384,799	384,799
U.S. Government Obligations	103,270	35,308		138,578	138,038
Corporate and Municipal Bonds	116,093		12,691	128,784	129,535
Common and Preferred Stock	4,323		9,336	13,659	14,168
Mutual Funds	47,925			47,925	58,200
Other			1,024	1,024	949
	\$461,079	\$52,965	\$204,352	\$718,396	\$729,316

University Related Organizations:	Category			Total Fair Value	Total Cost
	1	2	3		
Cash and Cash Equivalents	\$1,301			\$1,301	\$1,301
Money Market Instruments	45,450			45,450	46,653
Corporate and Municipal Bonds	55,517			55,517	51,927
Common and Preferred Stock	42,120			42,120	42,687
Mutual Funds		\$3,825		3,825	3,857
Other	4,353			4,353	4,035
	\$148,741	\$3,825		\$152,566	\$150,460

The cost and fair value of cash, cash equivalents and investments (exclusive of cash held by the State Treasurer) at June 30, 2002 are (in thousands):

University:	Category			Total Fair Value	Total Cost
	1	2	3		
Cash and Cash Equivalents	\$13,471			\$13,471	\$13,471
Money Market Instruments	98,076	\$40,551	\$185,420	324,047	324,040
U.S. Government Obligations	44,575	23,463		68,038	67,333
Corporate and Municipal Bonds	202,032		7,669	209,701	208,057
Common and Preferred Stock			13,945	13,945	14,560
Mutual Funds	47,693			47,693	58,200
Other			107	107	105
	\$405,847	\$64,014	\$207,141	\$677,002	\$685,766

University Related Organizations:	Category			Total Fair Value	Total Cost
	1	2	3		
Cash and Cash Equivalents	\$21,195			\$21,195	\$21,195
Money Market Instruments	22,519			22,519	22,473
Corporate and Municipal Bonds	34,331			34,331	33,598
Common and Preferred Stock	61,449			61,449	64,526
Real Estate (Land)	122			122	122
Mutual Funds		\$3,644		3,644	4,477
Other	453			453	445
	\$140,069	\$3,644		\$143,713	\$146,836

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately \$196.9 million at June 30, 2003 and \$202.1 million at June 30, 2002) 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.

### 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 \$26.1 million at June 30, 2003 and \$38.5 million at June 30, 2002. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which will be subsequently utilized to pay for such liabilities.

4. CASH AND SECURITIES HELD BY TRUSTEES

Cash and securities held by trustees primarily consist of unspent loan proceeds and amounts held for the future payment of debt service on such borrowings. At June 30, 2003 there are investments of \$16.5 million available from Master Lease agreements entered into by the University for capital asset purchases at the Boston campus. Additionally, there is \$9.8 million available from bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Note 8), \$0.2 million to be used by the Lowell campus to complete the construction of a new student center in cooperation with the Massachusetts Division of Capital Asset Management and Maintenance (DCAMM), \$7.7 million to be used by the Boston campus to complete construction of a new campus center in cooperation with DCAMM, \$80.9 million to be used by WCCC for capital construction purposes, and \$196.9 million held by trustees related to the Building Authority.

At June 30, 2002 there were investments of \$0.8 million available from Master Lease agreements entered into by the University for capital asset purchases. Additionally, there was \$4.4 million available from bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Notes 8 and 16), \$2.1 million to be used by the Lowell campus to construct a new student center in cooperation with the Massachusetts Division of Capital Asset Management and Maintenance (DCAMM), \$34.1 million to be used by the Boston campus to construct a new campus center in cooperation with DCAMM, \$94.5 million to be used by WCCC for capital construction purposes, and \$202.1 million held by trustees related to the Building Authority.

5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

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

**University:**

	2003	2002
Students Accounts Receivable	\$20,738	\$13,647
Less allowance for uncollectible accounts	(9,101)	(5,621)
	<u>11,637</u>	<u>8,026</u>
Grants and Contracts Receivable	82,328	69,676
Less allowance for uncollectible accounts	(2,060)	(2,054)
	<u>80,268</u>	<u>67,622</u>
Students Loans Receivable	35,002	41,120
Less allowance for uncollectible accounts	(5,537)	(5,897)
	<u>29,465</u>	<u>35,223</u>
Commonwealth Medicine	28,295	24,590
Less allowance for uncollectible accounts	(1,859)	(1,482)
	<u>26,436</u>	<u>23,108</u>
Other	20,416	17,965
Less allowance for uncollectible accounts	(2,031)	(3,095)
	<u>18,385</u>	<u>14,870</u>
Total	\$166,191	\$148,849
Less current portion	(135,440)	(117,253)
Long-term	<u>\$30,751</u>	<u>\$31,596</u>

**Related Organizations:**

	2003	2002
Other	\$1,064	\$1,424
Less allowance for uncollectible accounts	-	-
	<u>1,064</u>	<u>1,424</u>
Less current portion	(447)	(620)
Long-term	<u>\$617</u>	<u>\$804</u>

In connection with the merger of UMass Memorial and the former Clinical Services Division of the University in 1998, the University and UMass Memorial have the following ongoing agreements:

- UMass Memorial has been granted the right to occupy portions of the University's Worcester Medical School campus for a period of 99 years and UMass Memorial has agreed to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial has also agreed to contribute to capital improvements to shared facilities.
- UMass Memorial has agreed to make certain payments to the University and its related organizations, including: 1) an annual fee of \$12.0 million (plus an inflation adjustment), for 99 years as long as the University continues to operate a medical school; 2) a percentage of net operating income of UMass Memorial based upon an agreed upon formula; and, 3) a \$31.5 million contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with the University, the final payment of which was received during April 2001.

- The University will lease certain employees to UMass Memorial or its affiliates during a transition period ending in 2008

The University is reimbursed by, and reimburses UMass Memorial for shared services, leased employees, and other agreed upon activities provided and purchased. For the years ended June 30, 2003 and 2002, the revenues for services provided to UMass Memorial were \$103.4 million and \$106.6 million, respectively. Included in this revenue is payroll paid by the University on behalf of UMass Memorial in an agency capacity in the amount of \$64.0 million for fiscal year 2003 and \$65.0 million for fiscal year 2002. At June 30, 2003 and 2002, the University has recorded a net receivable in the amount of \$25.0 million and \$52.3 million, respectively from UMass Memorial consisting of \$12.8 million and \$28.1 million, respectively related to capital projects at the Medical School, and \$12.2 million and \$16.2 million, respectively in payroll and related fringe charges. The University has recorded a payable at June 30, 2003 and 2002 of \$7.1 million and \$6.0 million, respectively for amounts due to UMass Memorial.

#### 6. RELATED ORGANIZATIONS

Related party activity with The University of Massachusetts Foundation Inc., includes advances under a line of credit, and loan and lease agreements, and investment of the University's endowment assets with the Foundation. As of June 30, 2003, the net assets of the Foundation included as related organizations in the combined financial statements of the University, are \$175.2 million, of which \$176.4 million are restricted funds and (\$1.1) million are unrestricted funds. During the fiscal year ended June 30, 2003, the University received approximately \$11.0 million from the Foundation, and disbursed approximately \$1.3 million to the Foundation. At June 30, 2003, the University's investments include approximately \$26,000 of current restricted funds and \$27.1 million of endowment funds held in a custodial relationship at the Foundation.

As of June 30, 2002, the net assets of the Foundation included as related organizations in the combined financial statements of the University, are \$169.9 million, of which \$170.3 million are restricted funds and (\$0.4) million are unrestricted funds. During the fiscal year ended June 30, 2002, the University received approximately \$11.9 million from the Foundation, and disbursed approximately \$0.8 million to the Foundation. At June 30, 2002, the University's investments include approximately \$0.7 million of current restricted funds and \$27.3 million of endowment funds held in a custodial relationship at the Foundation. Included in Due to Related Organizations is approximately \$94,000 of cash managed by the University on behalf of the Foundation.

The University has entered into a loan agreement with the Foundation in order to refinance a portion of its line of credit and renovate the Hadley Farm. At June 30, 2003 and 2002, \$0.9 million and \$1.3 million respectively is outstanding. The loan bears interest at a fixed rate of 7.5% and is collateralized by the Hadley Farm property and lease. The University leases office space from the Foundation for an annual rent of approximately \$0.3 million. In addition, the University leases the Hadley Farm from the Foundation for an annual rent of approximately \$0.4 million.

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

During 2001, the Worcester Medical School and UMass Memorial formed Public Sector Partners (PSP). PSP is a Massachusetts not-for-profit corporation organized to perform, under the terms of an Interdepartmental Services Agreement (the "Services Agreement") with the Department of Elder Affairs, certain administrative functions related to the implementation of the Commonwealth's pharmacy access program - Prescription Advantage. PSP is governed by a board of trustees that are comprised of representatives from the Worcester Medical School, UMass Memorial and persons independent of both institutions. Accordingly PSP's results of operations and statement of position are not included herein. During 2003 and 2002, the University recognized revenues of approximately \$6.7 million and \$8.5 million, respectively, and expenses of approximately \$12.1 million and \$8.5 million, respectively, related to PSP.

#### 7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2003 is comprised of the following (in thousands):

University:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
	Land	\$20,530	\$946	
Buildings and Improvements	1,296,621	111,624	(\$2,805)	1,405,440
Equipment and Furniture	442,897	44,337	(23,007)	464,227
Software	68,297	12,332		80,629
Library Books	104,618	7,827	(10,970)	101,475
	1,932,963	177,066	(36,782)	2,073,247
Accumulated Depreciation	(1,002,285)	(103,821)	26,964	(1,079,142)
Sub-Total	930,678	73,245	(9,818)	994,105
Construction in Progress	101,414	34,643	(21,083)	114,974
Total	\$1,032,092	\$107,888	(\$30,901)	\$1,109,079

#### University Related Organizations:

University Related Organizations:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
	Land	\$616		
Buildings and Improvements	757		(\$12)	745
Equipment and Furniture	102			102
	1,475		(12)	1,463
Accumulated Depreciation	(251)	(\$37)	12	(276)
Total	\$1,224	(\$37)		\$1,187

Investment in plant activity for the year ended June 30, 2002 is comprised of the following (in thousands):

**University:**

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$17,493	\$3,037		\$20,530
Buildings and Improvements	1,132,352	166,626	(\$2,357)	1,296,621
Equipment and Furniture	402,862	77,629	(37,594)	442,897
Software	37,520	30,811	(34)	68,297
Library Books	103,945	6,837	(6,164)	104,618
	1,694,172	284,940	(46,149)	1,932,963
Accumulated Depreciation	(947,938)	(82,018)	27,671	(1,002,285)
Sub-Total	746,234	202,922	(18,478)	930,678
Construction in Progress	112,795	119,568	(130,949)	101,414
Total	\$859,029	\$322,490	(\$149,427)	\$1,032,092

**University Related Organizations:**

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$616			\$616
Buildings and Improvements	757			757
Equipment and Furniture	102			102
	1,475			1,475
Accumulated Depreciation	(214)	(\$37)		(251)
Total	\$1,261	(\$37)		\$1,224

At June 30, 2003 and 2002, investment in plant included capital lease assets of approximately \$22.3 million and \$28.9 million respectively, net of accumulated depreciation on capital lease assets of approximately \$13.4 million and \$12.0 million, respectively. During the fiscal year ended June 30, 2003 and 2002, construction expenditures on certain projects (that are funded by the University and carried out by the Building Authority) were approximately \$3.2 million and \$45.5 million respectively.

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, 2003 and 2002, the University capitalized net interest costs of \$1.4 million and \$1.1 million respectively.

In 2003, the University revised its estimate of the useful lives of certain components of buildings in which research is conducted. The University believes that componentizing these certain research buildings and developing revised estimates of the useful lives of components represents a better measure of the net book value of the asset. The effect of the change in estimate is to increase 2003 depreciation expense by \$5.7 million, and therefore to decrease the income before other revenues, expenses, gains and losses and the total increase to net assets by the same amount.

8. BONDS PAYABLE

Amounts outstanding at June 30, 2003 are as follows (in thousands):

Issue Borrowing	Original Borrowing	Maturity Date	Interest Rates	Amount Outstanding
University of Massachusetts Building Authority:				
Series 1986-B	\$644	2011	3%	\$261
1989 Fourth Series-B	1,284	2017	3%	754
Series 1991-A	48,885	2004	7.15-7.2%	6,975
1995 Fifth Series-A	23,895	2014	5.25-6.75%	19,280
Series 1995-A	58,315	2016	5.4-5.9%	43,635
Series 1995-B	31,960	2014	4.95-6.88%	24,910
Series 2000-A	46,980	2025	4.3-5.5%	46,980
Series 2000-1	24,145	2020	4.3-5.25%	23,090
Series 2000-2	132,155	2025	4.3-5.5%	117,990
			<b>SUBTOTAL</b>	<b>283,875</b>
University of Massachusetts HEFA:				
2000 Series A	\$40,000	2030	variable	40,000
2001 Series B	11,970	2031	3.75-5.25%	11,775
2002 Series C	35,000	2034	2.35-5.17%	35,000
			<b>SUBTOTAL</b>	<b>86,775</b>
WCCC HEFA:				
Series 2000-A	\$100,000	2029	4.65-6.0%	98,390
Series 2001-B	52,020	2031	3.75-5.25%	51,275
Series 2002-C	70,000	2031	4.0-5.5%	70,000
				219,665
			Less Unamortized Discounts	(1,401)
			<b>SUBTOTAL</b>	<b>218,264</b>
			<b>TOTAL</b>	<b>\$588,914</b>

Bonds payable activity for the year ended June 30, 2003 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
University of Massachusetts Building Authority:				
Series 1986-B	\$290		\$29	\$261
1989 Fourth Series-B	799		45	754
Series 1991-A	13,488		6,513	6,975
1995 Fifth Series-A	20,710		1,430	19,280
Series 1995-A	45,820		2,185	43,635
Series 1995-B	25,610		700	24,910
Series 2000-A	46,980			46,980
Series 2000-1	23,900		810	23,090
Series 2000-2	132,155		14,165	117,990
Subtotal	309,752		25,877	283,875
UMass HEFA:				
2000 Series A	40,000			40,000
2001 Series B	11,970		195	11,775
2002 Series C	35,000			35,000
Subtotal	86,970		195	86,775
WCCC HEFA:				
WCCC 2000 Series A	100,000		1,610	98,390
WCCC 2001 Series B	52,020		745	51,275
WCCC 2002 Series C	70,000			70,000
Less: unamortized discounts	(1,452)		51	(1,401)
Subtotal	220,568		2,406	218,264
Total	\$617,290		\$28,478	\$588,914

Bonds payable activity for the year ended June 30, 2002 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
University of Massachusetts Building Authority:				
Series 1986-B	\$318		\$28	\$290
1989 Fourth Series-B	844		45	799
Series 1991-A	19,570		6,082	13,488
1995 Fifth Series-A	22,065		1,355	20,710
Series 1995-A	47,900		2,080	45,820
Series 1995-B	26,280		670	25,610
Series 2000-A	46,980			46,980
Series 2000-1	24,145		245	23,900
Series 2000-2	132,155			132,155
Subtotal	320,257		10,505	309,752
UMass HEFA:				
2000 Series A	40,000			40,000
2001 Series B	11,970			11,970
2002 Series C		\$35,000		35,000
Subtotal	51,970	35,000		86,970
WCCC HEFA:				
WCCC 2000 Series A	100,000			100,000
WCCC 2001 Series B	52,020			52,020
WCCC 2002 Series C		70,000		70,000
Less: unamortized discounts	(1,246)	(251)	45	(1,452)
Subtotal	150,774	69,749	45	220,568
Total	\$523,001	\$104,749	\$10,550	\$617,290

Maturities and interest on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>
2004	\$22,620	\$30,766
2005	17,430	29,488
2006	18,161	28,634
2007	19,077	27,721
2008	19,998	26,761
2009-2013	114,090	116,846
2014-2018	108,474	85,393
2019-2023	96,780	56,751
2024-2027	75,900	34,719
2028-2033	93,640	10,938
2034-2038	4,145	215
Total	<u>\$590,315</u>	<u>\$448,232</u>

#### **University of Massachusetts Building Authority**

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

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

Pursuant to the authority given by the Building Authority's enabling act, the Commonwealth, acting by and through the Trustees of the University, has guaranteed the payment of principal of and interest on the Building Authority's bonds. (The guarantee is a general obligation of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. As is generally the case with other general obligations of the Commonwealth, funds with which to honor the guarantee, should it be called upon, will be provided by Commonwealth appropriation.) The Building Authority's enabling act provides that the outstanding principal amount of notes and bonds of the Building Authority guaranteed by the Commonwealth cannot exceed \$200.0 million. During fiscal 2001, the Building Authority issued its Series 2000-1, Series 2000-2 and Series 2000-A Bonds, of which the Series 2000-1 and 2000-A are Commonwealth guaranteed. The Series 2000-2 Bonds are collateralized by the University's expendable fund balances as defined.

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.

Aggregate future principal payments of the total University of Massachusetts Building Authority debt for the years ended June 30 are; 2004 - \$18.8 million, 2005 - \$12.8 million, 2006 - \$13.3 million, 2007 - \$14.0 million, and thereafter, \$225.0 million.

A portion of the proceeds of the Building Authority's Project and Refunding Revenue Bonds, Series 1984-A, together with other monies of the Building Authority, were applied to advance refund all bonds then outstanding issued by the Authority prior to May 1, 1984 (the Refunded Obligations). Such proceeds and other monies were applied to the purchase of United States Treasury Obligations, State and Local Government Series and other direct obligations of (or interest in obligations of) the United States (the Securities) with an aggregate market value of approximately \$10.4 million and \$12.6 million at June 30, 2003 and 2002, respectively, which are held by U.S. Bank National Association (the Escrow Agent) in a Special Redemption Fund established under an Escrow Agreement dated May 1, 1984, by and between the Building Authority and the Escrow Agent. The Refunded Obligations outstanding at June 30, 2003 and 2002 totaled approximately \$11.1 million and 13.5 million, respectively. These Refunded Obligations are considered defeased and, accordingly, the liability has been removed from long-term debt.

#### **Massachusetts Health and Educational Facilities Authority**

##### University of Massachusetts Series C

In June 2002, the University issued \$35.0 million of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, University of Massachusetts Issue, Series C (the "Series C Bonds"). The proceeds from this issuance are being used to fund a portion of the costs associated with the construction of a new student center at the Boston campus. The Commonwealth's Division of Capital Asset Management and Maintenance ("DCAMM") is managing the project and the Commonwealth is providing additional funds for the project. The Series C Bonds mature October 1, 2034 and bear interest at fixed interest rates ranging from 2.35% to 5.125%. The Series C Bonds were issued at a net discount of approximately \$488,000. Debt covenants include 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. Principal

payments are made annually and are due on October 1. The Series C Bonds are redeemable prior to maturity beginning on October 1, 2012, at the option of MHEFA and the University, at 100% of face value, plus accrued interest. At June 30, 2003 and 2002, the outstanding principal balance on the Series C Bonds is \$35.0 million.

#### University of Massachusetts Series B

In June 2001, the University issued \$12.0 million of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, University of Massachusetts Issue, Series B (the "Series B Bonds"). The proceeds from this issuance are being used to fund a portion of the costs associated with the construction of a new student center at the Lowell campus. The Commonwealth's Division of Capital Asset Management and Maintenance (DCAMM) is managing the project and the Commonwealth is providing additional funds for the project. The Series B Bonds mature on October 1, 2031 and bear interest at fixed interest rates ranging from 3.75% to 5.13%. The Series B Bonds were issued at a net discount of approximately \$127,000. Debt covenants include 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. Principal payments are made annually and are due on October 1. The Series B Bonds are redeemable prior to maturity beginning on October 1, 2011, at the option of MHEFA and the University, at 100% of face value, plus accrued interest. At June 30, 2003 and 2002, the outstanding principal balance on the Series B Bonds is \$11.8 million and \$12.0 million, respectively.

#### University of Massachusetts Series A

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"). The proceeds from this issuance are being used to fund certain projects including the acquisition and implementation of various administrative technology projects at the University. The Series A Bonds mature on November 1, 2030 and bear interest at a variable weekly rate intended to set the market value equal to the principal amount of the Series A Bonds. Average interest rates during fiscal year 2003 and 2002 were approximately 1.2% and 1.5%, respectively. The University is also obligated for certain ongoing administrative costs including letter of credit, remarketing and trustee fees. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. Interest payments are made monthly and due on the first business day of each month. Principal payments of \$40.0 million are due upon maturity. The Series A Bonds were issued at par. At June 30, 2003 and 2002, the outstanding principal balance on Series A Bonds is \$40.0 million.

The Series A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. Under an irrevocable letter of credit for \$40.6 million, the trustee or remarketing agent is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit extends through March 29, 2006, and carries a variable interest rate equal to the bank rate plus 2% on any unreimbursed amounts. The bank rate was 6.0% and 6.75% at June 30, 2003 and 2002, respectively. At June 30, 2003, there are no amounts outstanding under the letter of credit.

Aggregate principal payments on the Series A Bonds, Series B Bonds and Series C Bonds for the years ended June 30 are; 2004 - \$0.2 million, 2005 - \$0.8 million, 2006 - \$0.8 million, 2007 - \$0.8 million, thereafter - \$84.2 million. At June 30, 2003 and 2002, the estimated fair value of the Series A Bonds, Series B Bonds and Series C Bonds is approximately \$89.2 million and \$86.8 million, respectively.

#### Worcester City Campus Corporation Series C

In April 2002, WCCC issued \$70.0 million MHEFA Revenue Bonds (the "WCCC C Bonds"). The proceeds from this issuance are being used to fund the construction of a new pharmaceutical research and production facility. These bonds bear interest at various fixed rates ranging from 4.0% to 5.5% per year and mature October 1, 2031. Debt covenants include the maintenance of a debt service fund as outlined in the debt agreement. The bonds were issued at a net discount of approximately \$251,000. The WCCC C Bonds are redeemable prior to maturity beginning on October 1, 2012, at the option of MHEFA and WCCC, at par plus accrued interest. At June 30, 2003 and 2002, the aggregate principal amount outstanding on the WCCC C Bonds was \$70.0 million.

#### Worcester City Campus Corporation Series B

In June 2001, the Foundation transferred ownership of its medical research development facility known as Two Biotech Park to WCCC. In exchange for the building, WCCC assumed from the Foundation the remaining debt of \$17.8 million, net (the "Foundation Bonds"), and received the proceeds of the related debt service funds. Concurrent with the transfer, WCCC issued \$52.0 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), Series B (the "WCCC B Bonds"), with maturities from 2002 to 2031 and various fixed interest rates ranging from 3.75% to 5.25%. The WCCC B Bonds represent a transfer obligation of the University whereby, subject to the terms of the financing agreement, the University will be notified upon WCCC's failure to make any payments required by the trust agreement and the University will promptly transfer any amounts unpaid and due by WCCC under such agreement. WCCC deposited approximately \$19.1 million (\$17.0 million from the proceeds of the WCCC Series B Bonds and \$2.1 million from debt service reserves) in an irrevocable trust fund to provide for the payment of interest and principal on the Foundation Bonds through their redemption date of July 1, 2002. The Foundation Bonds and the funds held in the irrevocable trust fund have been derecognized by WCCC in fiscal year 2002 and the Foundation Bonds were redeemed on July 1, 2002. The remaining approximately \$35.0 million of the WCCC B Bonds are being used to finance the construction of a parking garage and the acquisition and installation of equipment at the Worcester campus. The outstanding balance at June 30, 2003 and 2002 is \$35.0 million, respectively.

#### Worcester City Campus Corporation Series A

In March 2000, WCCC issued \$100.0 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts

Project), Series A (the "WCCC A Bonds"). The WCCC A Bonds represent a transfer obligation of the University whereby, subject to the terms of the financing agreement, the University will be notified upon WCCC's failure to make any payments required by the trust agreement and the University will promptly transfer any amounts unpaid and due by WCCC under such agreement. The proceeds from the issuance are being used to fund the construction and equipping of a research facility on the Worcester Medical School campus of the University, which the University has agreed to lease from WCCC. The WCCC A Bonds have maturities from 2002 to 2029 and various fixed interest rates ranging from 4.65% to 6.00%. The outstanding balance at June 30, 2003 and 2002 is \$98.4 million and \$100.0 million, respectively.

Aggregate principal payments on the WCCC A Bonds, WCCC B Bonds and WCCC C Bonds for the years ended June 30 are; 2004 - \$3.6 million, 2005 - \$3.9 million, 2006 - \$4.1 million, 2007 - \$4.2 million, 2008 - \$4.4 million, thereafter \$199.5 million. At June 30, 2003 and 2002, the fair value of the WCCC A Bonds, WCCC B Bonds and WCCC C Bonds is approximately \$252.0 million and \$231.6 million, respectively.

**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 \$15.0 million for 2003 and \$11.2 million for 2002.

Pursuant to the projects administered by the University of Massachusetts Building Authority, the Authority sets fees, rents, rates and other charges for the use of the projects in an amount for each fiscal year that produces revenues in excess of the amounts needed in such fiscal year for debt service on the related bonds, required contributions to the related Section 10 Reserve Fund, expenses for the Bond trustee and any escrow agent. Such excess revenues are held by the University for the account of and on behalf of the Authority. Total applicable pledged revenues were \$47.7 million for 2003 and \$35.5 million for 2002.

**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 \$9.7 million and \$10.4 million for the years ended June 30, 2003 and 2002, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems.

The following is a schedule of future minimum payments under capital and non-cancelable operating leases, with unrelated and related organizations, for the University as of June 30, 2003 (in thousands):

Year	University Capital Leases		TOTAL	Operating Leases
	Master Leases	Other Leases		
2004	\$10,120	\$3,274	\$13,394	\$9,860
2005	8,275	2,783	11,058	8,480
2006	8,275	2,170	10,445	6,314
2007	8,275	1,475	9,750	5,712
2008	8,275	623	8,898	5,329
2009-2012	12,611	64	12,675	33,012
Total Payments	55,831	10,389	66,220	\$68,707
Less: Amount representing interest	(7,321)	(1,215)	(8,536)	
Present Value of Minimum Lease Payments	\$48,510	\$9,174	\$57,684	

Principal and interest payments on capital lease obligations for the next five years and in subsequent five-year periods are as follows (in thousands):

Year	University Capital Leases	
	Principal	Interest
2004	\$11,114	\$2,270
2005	9,164	1,885
2006	8,909	1,527
2007	8,585	1,156
2008	8,146	750
2009-2013	11,766	948
Total Payments	\$57,684	\$8,536

**10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES**

During the year ended June 30, 2003 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

	<u>Beginning Balance</u>	<u>Additions/ Adjustments</u>	<u>Reductions/ Adjustments</u>	<u>Ending Balance</u>
<b>University:</b>				
Capital lease obligations	\$34,109	\$20,270	(\$7,615)	\$46,764
Compensated absences	26,959	2,072	(4,459)	24,572
Workers' compensation	11,884		(387)	11,497
Deferred revenues and credits	8,865	7,009	(5,220)	10,654
Advances and deposits	30,814	976	(72)	31,718
Other Liabilities	3,827	19	(2,933)	913
<b>University Related Organization:</b>				
Due To Related Organizations	\$1,145		(\$356)	\$789
Other Liabilities	2,757	\$201		2,958

During the year ended June 30, 2002 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

	<u>Beginning Balance</u>	<u>Additions/ Adjustments</u>	<u>Reductions/ Adjustments</u>	<u>Ending Balance</u>
<b>University:</b>				
Capital lease obligations	\$40,621	\$3,330	(\$9,842)	\$34,109
Compensated absences	21,693	7,248	(1,982)	26,959
Workers' compensation	12,092		(208)	11,884
Deferred revenues and credits	9,942	4,653	(5,730)	8,865
Advances and deposits	30,644	320	(150)	30,814
Other Liabilities	26,303	1,524	(24,000)	3,827
<b>University Related Organization:</b>				
Due To Related Organizations	\$1,470		(\$325)	\$1,145
Other Liabilities	2,721	\$125	(89)	2,757

#### 11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2003 and 2002 include \$137.3 million and \$142.3 million, respectively, for the employer portion of fringe benefit costs (pension expense, health insurance for active employees and retirees, and unemployment) that was paid directly by the Commonwealth of Massachusetts. Of this amount, \$48.9 million for 2003 and \$51.4 million for 2002 was reimbursed to the Commonwealth and \$88.4 million and \$90.9 million respectively is included in revenue as state appropriations.

At June 30, 2003 and 2002, the University has accrued as a component of other liabilities, approximately \$21.0 million and \$9.7 million, respectively related to fringe benefits and post retirement health benefits associated with the Worcester Medical School campus (see Note 1).

The University has recorded a liability for future expected costs of its Workers' Compensation claims of approximately \$14.1 million as of June 30, 2003 and \$14.0 million as of June 30, 2002. Estimated future payments related to such costs have been discounted at a rate of 6% in computing such liability.

#### 12. POST-RETIREMENT LIABILITY

In fiscal 2002, as a result of completing an actuarial study and analysis estimating the obligation and payments of providing fringe-benefits and enhanced retirement benefits under Section 5 of Chapter 163 of the Acts of 1997 and the September 22, 1992 Memorandum of Understanding between the Commonwealth of Massachusetts Executive Office of Administration and Finance, the Worcester Medical School reduced prior year accrued liabilities in the amount of \$24 million, with a corresponding adjustment in the statement of revenues, expenses and changes in net assets to reduce institutional support expenditures in the amount of \$13.4 million and to record a gain from previously discontinued operations of \$10.6 million.

#### 13. MEDICAL SCHOOL LEARNING CONTRACTS

The University's Medical School enters into learning contracts with certain medical students. These contracts give students the option of deferring a portion of their tuition until after residency training, and canceling all or a portion of their tuition if they practice medicine in the Commonwealth for one year, or for students matriculating after 1990, two or four (depending on conditions) full years in primary care. The University does not record as revenue the portion of tuition deferred under these learning contracts until actual cash repayments are received. The cumulative amount granted under such learning contracts plus accrued interest totaled \$43.7 million and \$41.4 million at June 30, 2003 and 2002, respectively. Cumulative repayments totaled approximately \$22.2 million and \$18.2 million as of June 30, 2003 and 2002, respectively.

#### 14. RETIREMENT PLANS

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of University employees who participate in the State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all non-student employees. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth.

Such pension expense amounted to approximately \$20.3 million and \$58.7 million for the years ended June 30, 2003 and 2002, respectively. The annuity portion of the SERS is funded by employees, who contribute a percentage of their regular compensation. Annual covered payroll approximated 75.1% and 76.5% for the years ended June 30, 2003 and 2002, respectively of annual total payroll for the University. Non-vested faculty and certain other employees of the University can opt out of SERS and participate in a defined contribution plan, the Massachusetts Optional Retirement Plan (ORP). At June 30, 2003 and 2002, there were approximately 1,208 and 1,150 University employees, respectively participating in ORP. The Commonwealth matches 5% of ORP contributions.

The University of Massachusetts Foundation, Inc. has a TIAA-CREF defined contribution pension for its employees. Eligibility begins immediately and the Foundation contribution, based upon a percentage of salaries, was approximately \$32,000 and \$40,000 for the years ended June 30, 2003 and 2002, respectively.

## 15. CONCENTRATION OF CREDIT RISK

The financial instrument that potentially subjects the University to concentrations of credit risk is the receivable from UMass Memorial which is uncollateralized. The receivable from UMass Memorial represents 13% and 26% of total accounts receivable for the University at June 30, 2003 and 2002, respectively.

## 16. COMMITMENTS AND CONTINGENCIES

The Building Authority has outstanding purchase commitments under construction contracts in amounts aggregating approximately \$2.8 million and \$21.0 million at June 30, 2003 and 2002, respectively.

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.

In September 2001, the University of Massachusetts Medical School (UMMS) and UMass Memorial Health Care (UMMHC), its clinical partner, entered into an Agreement for Special Payments between the UMass Memorial Medical Center, Inc. and the University of Massachusetts Medical School to provide for the replacement of the granite façade on the University Campus of the Medical School and Medical Center located in Worcester. Pursuant to the agreement, the granite façade replacement project will be managed by Worcester City Campus Corporation (WCCC), the designated agent for UMMS and UMMHC. Anticipated project costs of \$55.0 million are to be funded by a combination of support from UMMS and UMMHC. Through June 30, 2003, the University has recorded \$30.8 million of capital grants and contracts revenue received from UMMHC in support of the project.

## 17. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The University has two segments that meet the reporting requirements under GASB 35.

The Worcester City Campus Corporation is organized to receive, take title to, hold, manage, develop, improve, demolish, renovate, lease for terms up to 50 years, or otherwise transfer, convey, or deal with any real or personal property conveyed to it including, without limitation, real and personal property utilized at or in connection with the operations of the University. WCCC outstanding revenue bonds were issued pursuant to specific bond indentures which provide that the revenue bonds are to be paid by certain revenues that are pledged to pay debt service.

The following summary financial information for WCCC is presented before elimination of certain intra-University transactions:

<b>Statement of Net Assets at June 30:</b>		
	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Current Assets	\$29,656	\$30,606
Noncurrent Assets	261,474	259,952
Total Assets	<u>\$291,130</u>	<u>\$290,558</u>
<b>Liabilities</b>		
Current Liabilities	\$17,587	\$17,460
Noncurrent Liabilities	214,639	218,213
Total Liabilities	<u>\$232,226</u>	<u>\$235,673</u>
<b>Net Assets</b>	<u>\$58,904</u>	<u>\$54,885</u>
<b>Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:</b>		
	<u>2003</u>	<u>2002</u>
Operating Revenues	\$22,469	\$15,255
Operating Expenses	11,330	9,708
Operating Income	<u>\$11,139</u>	<u>\$5,547</u>
Increase in Net Assets	\$4,019	\$3,372
Beginning Net Assets	54,885	51,513
Ending Net Assets	<u>\$58,904</u>	<u>\$54,885</u>

**Statement of Cash Flows for the year ended June 30:**

	<u>2003</u>	<u>2002</u>
Net Cash Provided by Operating Activities	\$11,139	\$5,547
Net Cash Provided by Noncapital Financing Activities	113	64
Net Cash Used in Investing Activities	(7,846)	(27,500)
Net Cash (Used in)/Provided by Capital and Related Financing Activities	<u>(17,001)</u>	<u>34,832</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	(13,595)	12,943
Beginning Cash and Cash Equivalents	94,493	81,550
Ending Cash and Cash Equivalents	<u><u>\$80,898</u></u>	<u><u>\$94,493</u></u>

The University of Massachusetts Building Authority is empowered to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Building Authority's Enabling Act authorizes it to acquire property from the Commonwealth or others (but the Building Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons and to enter into contracts. In addition, the Enabling Act authorizes the Building Authority to borrow money to finance and refinance projects it undertakes, and to issue and sell its revenue bonds and notes therefore which are payable solely from its revenues.

The following summary financial information for the Building Authority is presented before elimination of certain intra-University transactions:

**Statement of Net Assets at June 30:**

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Current Assets	\$11,470	\$8,232
Noncurrent Assets	370,638	371,396
Total Assets	<u>\$382,108</u>	<u>\$379,628</u>
<b>Liabilities</b>		
Current Liabilities	\$30,490	\$39,073
Noncurrent Liabilities	267,475	285,398
Total Liabilities	<u>\$297,965</u>	<u>\$324,471</u>
<b>Net Assets</b>	<u><u>\$84,143</u></u>	<u><u>\$55,157</u></u>

**Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:**

	<u>2003</u>	<u>2002</u>
Operating Revenues	\$63,883	\$38,383
Operating Expenses	<u>28,161</u>	<u>24,062</u>
Operating Income	\$35,722	\$14,321
Increase in Net Assets	\$28,986	\$8,537
Beginning Net Assets	<u>55,157</u>	<u>46,620</u>
Ending Net Assets	<u><u>\$84,143</u></u>	<u><u>\$55,157</u></u>

**Statement of Cash Flows for the year ended June 30:**

	<u>2003</u>	<u>2002</u>
Net Cash Provided by Operating Activities	\$50,549	\$23,016
Net Cash Provided by Investing Activities	17,454	43,115
Net Cash Used in Capital and Related Financing Activities	<u>(64,481)</u>	<u>(67,547)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	3,522	(1,416)
Beginning Cash and Cash Equivalents	<u>9,934</u>	<u>11,350</u>
Ending Cash and Cash Equivalents	<u><u>\$13,456</u></u>	<u><u>\$9,934</u></u>

**18. SUBSEQUENT EVENT**

On August 7, 2003, the University of Massachusetts Building Authority issued \$138.0 million in Series 2003-1 Bonds. The projects to be financed by these bonds are expected to consist of the construction of parking garages at the Boston and Lowell campuses, construction of the Charlton College of Business and the improvements of athletic fields at the Dartmouth campus, and the construction of an integrated science facility and swing space/art building along with many other improvements and renovations at the Amherst campus.

SUPPLEMENTAL FINANCIAL INFORMATION  
UNIVERSITY RELATED ORGANIZATIONS  
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REPORT OF INDEPENDENT AUDITORS  
on Supplemental Information



PricewaterhouseCoopers LLP  
One International Place  
Boston MA 02110  
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**Report of Independent Auditors**

To the Board of Trustees of the  
University of Massachusetts

The report on our audit of the basic combined financial statements of the University of Massachusetts (the "University"), which references the work of other auditors, as of June 30, 2003 and 2002, and for the years then ended appears on page 2 of this document. That audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental information listed in the accompanying index on page 29 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, and based on the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

December 21, 2003

COMBINING STATEMENTS OF NET ASSETS FOR UNIVERSITY RELATED ORGANIZATIONS  
 as of June 30, 2003 and 2002  
 (in thousands of dollars)

Supplemental Schedule I

	Total June 30, 2003	Eliminations and Adjustments June 30, 2003	The University of Massachusetts Foundation, Inc. June 30, 2003	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2003	Total June 30, 2002	Eliminations and Adjustments June 30, 2002	The University of Massachusetts Foundation, Inc. June 30, 2002	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2002
<b>ASSETS</b>								
<b>Current Assets</b>								
Accounts, Grants and Loans Receivable	\$447		\$447		\$620		\$425	\$195
Pledges Receivable	2,148	(\$3,353)	4,768	\$733	4,586	(\$824)	4,586	824
Due From Related Organizations	2,620	2,620			2,218	2,134	84	
Other Assets	53		20	33	41		20	21
<b>Total Current Assets</b>	<b>5,268</b>	<b>(733)</b>	<b>5,235</b>	<b>766</b>	<b>7,465</b>	<b>1,310</b>	<b>5,115</b>	<b>1,040</b>
<b>Noncurrent Assets</b>								
Cash and Cash Equivalents	1,301			1,301	21,195		20,297	898
Accounts, Grants and Loans Receivable	617		422	195	804		804	
Pledges Receivable	18,709	(9,742)	27,809	642	15,108	(14,976)	28,888	1,196
Investments	151,265	(35,499)	174,556	12,208	122,518	(35,904)	146,838	11,584
Investment In Plant Net of Accumulated Depreciation	1,187		1,187		1,224		1,224	
<b>Total Noncurrent Assets</b>	<b>173,079</b>	<b>(45,241)</b>	<b>203,974</b>	<b>14,346</b>	<b>160,849</b>	<b>(50,880)</b>	<b>198,051</b>	<b>13,678</b>
<b>Total Assets</b>	<b>\$178,347</b>	<b>(\$45,974)</b>	<b>\$209,209</b>	<b>\$15,112</b>	<b>\$168,314</b>	<b>(\$49,570)</b>	<b>\$203,166</b>	<b>\$14,718</b>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Accounts Payable	\$602		\$407	\$195	\$792	(\$90)	\$625	\$257
Accrued Interest Payable	43		43		61		61	
Notes Payable		(\$353)	353			(328)	328	
Due To Related Organizations	856	262		594	799	305		494
Assets Held on Behalf of the University		(27,116)	27,116			(27,950)	27,950	
Deferred Revenues and Credits	1,201		1,201		648		648	
<b>Total Current Liabilities</b>	<b>2,702</b>	<b>(27,207)</b>	<b>29,120</b>	<b>789</b>	<b>2,300</b>	<b>(28,063)</b>	<b>29,612</b>	<b>751</b>
<b>Noncurrent Liabilities</b>								
Notes Payable		(789)	789			(1,145)	1,145	
Due To Related Organizations	789	789			1,145	1,145		
Other Liabilities	2,958	91	2,747	120	2,757	108	2,529	120
<b>Total Noncurrent Liabilities</b>	<b>3,747</b>	<b>91</b>	<b>3,536</b>	<b>120</b>	<b>3,902</b>	<b>108</b>	<b>3,674</b>	<b>120</b>
<b>Total Liabilities</b>	<b>\$6,449</b>	<b>(\$27,116)</b>	<b>\$32,656</b>	<b>\$909</b>	<b>\$6,202</b>	<b>(\$27,955)</b>	<b>\$33,286</b>	<b>\$871</b>
<b>Net Assets:</b>								
Invested in Capital Assets Net of Related Debt Restricted	\$45	\$45			(\$247)	(\$247)		
Nonexpendable	132,180	(18,858)	\$138,261	\$12,777	122,038	(21,615)	\$130,950	\$12,703
Expendable	41,875		40,492	1,383	40,408		39,308	1,100
Unrestricted	(2,202)	(45)	(2,200)	43	(87)	247	(378)	44
<b>Total Net Assets</b>	<b>\$171,898</b>	<b>(\$18,858)</b>	<b>\$176,553</b>	<b>\$14,203</b>	<b>\$162,112</b>	<b>(\$21,615)</b>	<b>\$169,880</b>	<b>\$13,847</b>

COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR UNIVERSITY RELATED ORGANIZATIONS

for the Years Ended June 30, 2003 and 2002  
(in thousands of dollars)

## Supplemental Schedule II

	University of Massachusetts Dartmouth				University of Massachusetts Dartmouth			
	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	Massachusetts Foundation, Inc.	Dartmouth Foundation, Inc.	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	Massachusetts Foundation, Inc.	Dartmouth Foundation, Inc.
	Total June 30, 2003	June 30, 2003	June 30, 2003	June 30, 2003	Total June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002
<b>EXPENSES</b>								
<b>Operating Expenses</b>								
<i>Educational and General</i>								
Public Service	\$4,731	(\$12,784)	\$15,299	\$2,216	\$11,193	(\$10,517)	\$19,384	\$2,326
Depreciation	36		36		37		37	
Scholarships and Fellowships	3,169	(136)	2,881	424	2,300	(903)	2,629	574
<b>Total Operating Expenses</b>	<b>7,936</b>	<b>(12,920)</b>	<b>18,216</b>	<b>2,640</b>	<b>13,530</b>	<b>(11,420)</b>	<b>22,050</b>	<b>2,900</b>
<b>Operating Income/(Loss)</b>	<b>(7,936)</b>	<b>12,920</b>	<b>(18,216)</b>	<b>(2,640)</b>	<b>(13,530)</b>	<b>11,420</b>	<b>(22,050)</b>	<b>(2,900)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>								
Gifts	12,829	(3,225)	13,281	2,773	24,515		21,326	3,189
Investment Income	(3,425)	(185)	(3,463)	223	(7,379)	2,315	(9,180)	(514)
Endowment Income	4,168	(36)	4,204		2,988	(535)	3,523	
Interest on Indebtedness	(86)		(86)		(124)		(124)	
<b>Net Nonoperating Revenues</b>	<b>13,486</b>	<b>(3,446)</b>	<b>13,936</b>	<b>2,996</b>	<b>20,000</b>	<b>1,780</b>	<b>15,545</b>	<b>2,675</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses</b>	<b>5,550</b>	<b>9,474</b>	<b>(4,280)</b>	<b>356</b>	<b>6,470</b>	<b>13,200</b>	<b>(6,505)</b>	<b>(225)</b>
Additions to Permanent Endowments	14,554	4,497	10,057		11,204	1,126	9,826	252
University Related Organization Transactions	(10,391)	(10,391)			(10,385)	(10,385)		
Less: Amounts Earned/Received on Behalf of the University		115	(115)			628	(628)	
Less: Amounts Paid on Behalf of the University		(948)	948			(2,904)	2,904	
Other Additions/Deductions	73	10	63		131		131	
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>4,236</b>	<b>(6,717)</b>	<b>10,953</b>		<b>950</b>	<b>(11,535)</b>	<b>12,233</b>	<b>252</b>
<b>Total Increase in Net Assets</b>	<b>9,786</b>	<b>2,757</b>	<b>6,673</b>	<b>356</b>	<b>7,420</b>	<b>1,665</b>	<b>5,728</b>	<b>27</b>
<b>NET ASSETS</b>								
Net Assets at Beginning of Year	162,112	(21,615)	169,880	13,847	154,692	(23,280)	164,152	13,820
<b>Net Assets at End of Year</b>	<b>\$171,898</b>	<b>(\$18,858)</b>	<b>\$176,553</b>	<b>\$14,203</b>	<b>\$162,112</b>	<b>(\$21,615)</b>	<b>\$169,880</b>	<b>\$13,847</b>

COMBINING STATEMENTS OF CASH FLOWS FOR UNIVERSITY RELATED ORGANIZATIONS  
for the Years Ended June 30, 2003 and 2002  
(in thousands of dollars)

Supplemental Schedule III

	Total	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	University of Massachusetts Dartmouth Foundation, Inc.	Total	Eliminations and Adjustments	The University of Massachusetts Foundation, Inc.	University of Massachusetts Dartmouth Foundation, Inc.
	June 30, 2003	June 30, 2003	June 30, 2003	June 30, 2003	June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Payments to Suppliers	(\$3,155)		(\$2,930)	(\$225)	(\$702)		(\$666)	(\$36)
Payments to Employees	(706)		(706)		(689)		(689)	
Payments for Benefits					(332)		(332)	
Payments for Scholarships and Fellowships	(5,009)		(2,620)	(2,389)	(3,271)		(599)	(2,672)
<b>Net Cash Used by Operating Activities</b>	<b>(8,870)</b>		<b>(6,256)</b>	<b>(2,614)</b>	<b>(4,994)</b>		<b>(2,286)</b>	<b>(2,708)</b>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Gifts and Grants for Other Than Capital Purposes	12,685		9,385	3,300	4,301		519	3,782
Private Gifts for Endowment Purposes	9,758		9,684	74	28,115		27,863	252
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>22,443</b>		<b>19,069</b>	<b>3,374</b>	<b>32,416</b>		<b>28,382</b>	<b>4,034</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>								
Interest on Investments	3,447		3,148	299	4,193		3,874	319
Purchase of Investments	(36,914)		(36,258)	(656)	(10,648)		(9,680)	(968)
<b>Net Cash Used by Investing Activities</b>	<b>(33,467)</b>		<b>(33,110)</b>	<b>(357)</b>	<b>(6,455)</b>		<b>(5,806)</b>	<b>(649)</b>
<b>NET INCREASE IN CASH</b>	<b>(19,894)</b>		<b>(20,297)</b>	<b>403</b>	<b>20,967</b>		<b>20,290</b>	<b>677</b>
Cash - Beginning of the Year	21,195		20,297	898	228		7	221
Cash - End of Year	<b>\$1,301</b>		<b>\$1,301</b>	<b>\$1,301</b>	<b>\$21,195</b>		<b>\$20,297</b>	<b>\$898</b>
<b>RECONCILIATION OF NET OPERATING INCOME/(LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>								
Operating Loss	(\$7,936)	\$12,920	(\$18,216)	(\$2,640)	(\$13,530)	\$11,420	(\$22,050)	(\$2,900)
<i>Adjustments to reconcile net loss to net cash used by Operating Activities:</i>								
Depreciation Expense	36		36		37		37	
<i>Changes in Assets and Liabilities:</i>								
Receivables, net	(803)	(2,060)	1,257		(7,051)		(7,051)	
Due from Related Organizations	(402)	(10,670)	10,268		15,637	(11,420)	27,057	
Other Assets	(12)			(12)	5		3	2
Accounts Payable	(190)	90	(218)	(62)	331		217	114
Accrued Interest Payable	(18)		(18)		(6)		(6)	
Due to Related Organizations	(299)	(299)						
Deferred Revenue	553		553		13		13	
Other Liabilities	201	19	82	100	(430)		(506)	76
<b>Net Cash Used by Operating Activities</b>	<b>(8,870)</b>		<b>(6,256)</b>	<b>(2,614)</b>	<b>(4,994)</b>		<b>(2,286)</b>	<b>(2,708)</b>

Credits:

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