

MEETING OF THE BOARD OF TRUSTEES

December 2, 2015

PRESENT: Trustees Burns, Chisholm, Davis (Vice Chair), Diarra, Lutts, Malcolm, Mattera (Chair), Scott, Segal and President Meservey. Advisory Member Gadenne, Secretary to the Board Montague and Assistant Secretary Sadowski were also present and participating at the meeting.

ABSENT: Trustees Abdoo and Stringer.

Individuals also present and participating in the meeting: Chief of Staff Beth Bower, Vice President of Finance and Business House, General Counsel and Vice President of Administration Keenan, Vice President for Marketing and Communications Torello, Executive Director of Strategic Planning and Decision Support Chunju Chen, Director of External Affairs Adria Leach

The provisions of General Laws, Chapter 30A, having been complied with and a quorum of the Board being present, the Board of Trustees of Salem State University held a meeting in the Petrowski conference room (room 210) of Marsh Hall, Central Campus, Salem, Massachusetts, on December 2, 2015 with Paul Mattera, Chair, presiding.

* * *

I. CALL TO ORDER

Call to Order

Chair Mattera called the meeting to order at 5:00 p.m.

* *

II. CONSENT AGENDA: APPROVAL OF MINUTES & COMMITTEE REPORTS

*Consent Agenda:
Approval of
Minutes &
Committee
Reports*

Chair Mattera read the list of minutes and committee reports listed as Items for inclusion on the Consent Agenda (Attachment A) and asked for any objections or modifications. Trustee Segal requested a correction to the Risk Management & Audit Committee November 18, 2015 meeting minutes. On page 24 of the minutes, the vote taken should refer to the “fiscal year ended 2015” and not “2014”). With no further changes, the chair asked for a motion to approve the Consent Agenda. Upon a motion duly made by Trustee Lancome and seconded by Trustee Burns, it was unanimously

VOTED: To approve the Consent Agenda for the Meeting of December 2, 2015 (CA 16-02).

* * *

III. COMMITTEE ACTIONS:

*Risk
Management &
Audit Committee*

Risk Management & Audit Committee: Trustee Segal began the discussion by recommending acceptance of the two financial audits that had now been completed. With the review complete Chair Mattera asked for any discussion, opposition or abstentions. Hearing none and upon a motion recommended by the Risk Management & Audit Committee it was unanimously:

Voted: **The Risk Management & Audit Committee hereby recommends that the Board of Trustees of Salem State University accept the Salem State University Financial Statement and Management Discussion and Analysis for the fiscal year ended June 30, 2015 (RMA- 16-02)**

Voted: **The Risk Management & Audit Committee hereby recommends that the Board of Trustees of Salem State University accept the Salem State University A-133 audit of federal programs for the fiscal year ended June 30, 2015 (RMA-16-03).**

Finance & Facilities Committee: Trustee Burns presented and discussed the third phase of facility improvements projects recommended by the Finance Committee. Following a brief discussion Chair Mattera asked for any further discussion, opposition or abstentions. Hearing none and upon a motion recommended by the Finance & Facilities Committee it was unanimously:

*Finance &
Facilities
Committee*

Voted: **The Board of Trustees of Salem State University hereby approves Clean Energy Investment Program Phase 3 projects totaling approximately \$5.1 million. Such projects are to be financed by DCAMM as described above. The university will reimburse the Commonwealth for approximately \$2.8 million over 20 years at 3%, with an anticipated annual debt service cost of approximately \$188 thousand funded through the operating budget and energy savings. Further, the Board of Trustees authorizes the president or designees to do all things and take all actions necessary to accomplish this, including entering into agreements with the Commonwealth's Division of Capital Asset Management and Maintenance and Department of Administration and Finance (FF-16-01).**

Executive Committee: Chair Mattera then moved on to the next matter of business and introduced 2 motions to reappoint members to the board of the Salem State University Assistance Corp. (SSUAC). Following a brief discussion Chair Mattera asked for any further discussion, absent any opposition or abstentions it was unanimously:

*Executive
Committee*

Voted: **The Board of Trustees of Salem State University hereby makes the following re-appointment to the Board of Directors of the Salem State University Assistance Corp. (SSUAC) Gordon Hall as chair for a three year term renewable to commence on February 1, 2016 (EX-16-03).**

Voted: **The Board of Trustees of Salem State University hereby makes the following re-appointment to the Board of Directors of the Salem State University Assistance Corp. (SSUAC) Helen Corbett for a three year term renewable to commence on February 1, 2016 (EX-16-04).**

* * *

Commissioner Santiago – As it is the chair’s prerogative to take agenda items out of order, Chair Mattera introduced the board’s special guest Commissioner Santiago of the Massachusetts Board of Higher Education. Dr. Santiago joined the Massachusetts Department of Higher Education in April 2013 as the Senior Deputy Commissioner for Academic Affairs. His past academic appointments include that of Chancellor of the University of Wisconsin – Milwaukee (Wisconsin’s second largest research university). He brings over 30 years of experience in public higher education. Santiago also served as provost and chief operating officer at the University at Albany, (SUNY). He was a professor of economics at UWM and SUNY-Albany and holds a Ph.D. in economics from Cornell University. He is also the author or co-author of six books and has published dozens of articles and book reviews, of which many focus on economic development and the changing socioeconomic status of Latinos in the United States. On two separate occasions, in 1996 and 2011, Santiago has been named one of the 100 most influential Hispanics in the United States by *Hispanic Business* magazine.

Commissioner Santiago thanked the board for their work on the president’s evaluation and acknowledged their thorough effort in addressing the university’s institutional goals as well as the state’s objectives. Commissioner Santiago shared that he planned to visit all of the state campuses and that Salem State was his first stop. He recounted his excellent day on campus first meeting with students for a discussion about the future of higher education then visiting the university blood drive and participating in a university forum followed by a meeting with the president’s Executive Council. He was also pleased to meet with Mayor Driscoll and the Superintendent of School and to have a business luncheon with local business, government and non-profit community leaders. Commissioner Santiago thanked President Meservey for her leadership of the university and again thanked the trustees for their efforts.

V. Report of the President

President Meservey began her report by noting the number of students that are calling attention to the inhospitable environment that may be found on many campuses for students of racial minority backgrounds. The students’ issues vary however there is a common call for action on diversity and need for inclusive campus settings. To that end, the university is moving forward with a campus climate study regarding diversity and inclusion. The study will take some time soon however work has already begun. The university is also in the process of recruiting a chief diversity officer and work is well underway on that effort as well.

* * *

VI. Report of the Chair

Report of the Chair

Chair Mattera announced that due to the length of the meeting agenda there would be no report from the chair.

VII. Old Business:

Old Business

Offsite Meeting - Chair Mattera announced that the Offsite meeting is scheduled for April 1st and that the group should determine how we can most effectively use our time at this event. The Chair proposed a small working group to draft an agenda. The group may want to consider what does the board need to learn as a group? What governance issues do we need to improve upon? How can we work better with students, faculty and staff? Chair Mattera formed an ad hoc committee of

Trustees Malcolm, Lutts and Chisholm to work on the draft agenda to present at the next meeting. Secretary Montague will staff the committee.

VIII. New Business:

New Business

Salem State University Sustainability Special Committee – Chair Mattera detailed the Finance and Facilities Committee recommendation for a committee to move forward on the issue of fossil fuel divestment. He suggested that after a discussion with Committee Chair Burns a more comprehensive approach may bring more satisfactory end result and that he was convening a Salem State University Sustainability Special Committee and charged the group:

In recognition of a request by representatives of Salem State University students and faculty that the university divest from fossil fuels, and in response to the recommendation of the Finance and Facilities Committee, the Chair of the Salem State University Board of Trustees, Paul Mattera, hereby establishes a university-wide special committee to review the university’s progress in advancing sustainability and to offer recommendations to the Board for future action. Included in this review will be an analysis of the complex questions arising from the proposal to divest in the context of best practices in higher education.

Membership of the committee will include; representation from the trustees, administration, faculty, and students. The membership shall include the following positions:
Chair, Board of Trustees Finance & Facilities Committee – This individual will also chair the Special Committee
Vice Chair, Board of Trustees Finance & Facilities Committee
Vice Chair, Board of Trustees
Student Trustee
Vice President for Finance & Business
General Counsel and Vice President for Administration
Faculty Chair, University Sustainability Committee
Chair, All University Committee
President, Student Government Association

Online teaching presentation and discussion – Provost Silva introduced the online teaching presentation and reminded the trustees that interest in learning more about online teaching began at last year’s offsite meeting. He then invited Gail Rankin and Jeanne Corcoran to address the board and share their online teaching demonstration. While there is one official learning management system (LMS) an LMS is a software application for the administration, documentation, tracking, reporting and delivery of electronic educational technology (also called e-learning) courses or training programs. The university’s LMS is Canvas – the system allows for a LOT of flexibility for faculty to create a course experience that’s unique to their desired purposes. Through Canvas, there are multiple ways for faculty to engage students, students to engage faculty, and students to engage other students. Learning becomes a more collaborative experience. As a result of this combination of “common framework” and “faculty-inspired content,” there is no “typical” online learning experience at the university. One of the powers of the LMS is its capacity not only to deliver a learning experience to each individual student but also to capture information of value to the institution about how students “do” online learning and how they engage with the digital assets. With these data, we are better equipped to assess student learning objectives. A brief discussion followed the presentation.

Title IX Training – Trainers Elisa Castillo and Shawn Newton provided a presentation to explain the university’s obligations under Title IX and the Campus Violence Elimination (Save) Act. Title

IX of the Education Amendments of 1972. Title IX prohibits any person from being excluded from participation in; denied the benefits of, or subjected to discrimination with respect to any education program or activity receiving financial assistance on the basis of sex or gender. The SaVe Act amends the Cleary Act, which addresses campus sexual assault policies within the Higher Education Act of 1965. It increases transparency on campus about incidents of sexual violence, guarantees victims enhanced rights, sets standards for disciplinary proceedings and requires campus-wide prevention education programs. Trustees are **Responsible Employees** and are mandated to report sexual assaults, relationship violence, or stalking if disclosed by a student. The Title IX Coordinator is Mark Quigley Assistant Vice President for Human Resources and Equal Opportunity and may be reached at 978.542.6078 or mquigley@salemstate.edu.

* * *

IX. OPEN FORUM

Open Forum

Chair Mattera opened the meeting to questions and comments from the floor and hearing none closed the forum.

* * *

Executive Session

IX. ADJOURNMENT

Adjournment

There being no further business to come before the Board and on a motion duly made by Trustee Segal and seconded by Trustee Davis it was unanimously

VOTED: To adjourn the meeting at 7:50 p.m.

Respectfully submitted,



Patricia Maguire Meservey
President



Lynne Montague
Secretary to the Board of Trustees

REQUEST FOR TRUSTEE ACTION

Date: November 18, 2015
To: Board of Trustees
From: Risk Management and Audit Committee
Subject: FY15 audited financial statements
Requested Action: Discussion/Acceptance

MOTION

The Risk Management and Audit Committee hereby recommends that the Board of Trustees approve the following motions pertaining to the FY15 Salem State University audited financial statements. The auditors met with the Committee on October 5 to review the draft reports in detail and provide the required communications.

Subsequently, the GASB 68 unfunded pension liability amount was changed by the Comptroller's office by \$2,865. The new figure has been incorporated into the final statements. Additionally, it was determined that MSCBA has ownership of the parking garage, so the amounts pertaining to it that had been included in the draft financial statements have been removed. As a result of these two changes since the October 5 draft:

- Total assets decreased by \$25.3 million
- Total liabilities decreased by \$25.5 million
- Total net position increased by \$210 thousand

Recommended motions

The Board of Trustees of Salem State University hereby accepts the Salem State University Financial Statement and Management Discussion and Analysis for the fiscal year ending June 30, 2015. Additionally, the Board of Trustees of Salem State University hereby accepts the Salem State University A-133 audit of federal programs for the fiscal year ending June 30, 2015.

Committee Assigned: Risk Management and Audit

Committee Action:

Date of Action:

Trustee Action:

Trustee Approval Date:

Effective Date:

Signed: _____

Title: Secretary of the Board of Trustees

Date: _____

Salem State University

November 18, 2015

Required Communications

- *AUDITOR'S RESPONSIBILITY UNDER GAAS*

- We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.
- In carrying out this responsibility, we planned and performed the audit to obtain reasonable – not absolute – assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud.
- An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion.

Required Communications - Continued

- *AUDITOR'S RESPONSIBILITY UNDER GAAS – CON'T*
 - We issued an unmodified opinion on the University's financial statements.
 - No material weaknesses/deficiencies were noted within the Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Required Communications - Continued

- *SIGNIFICANT ACCOUNTING POLICIES AND TRANSACTIONS*

Initial Selection of or Changes in Policies

GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement 27* was adopted and implemented for FY 2015. Net position at June 30, 2014 was restated to reflect the College's proportionate share of the net pension obligation for the Massachusetts State Employees' Retirement System.

No other changes in accounting policies. All accounting policies are discussed in Note 1 of the financial statements.

Required Communications - Continued

- *SIGNIFICANT ACCOUNTING POLICIES AND TRANSACTIONS – CONT*

Significant Transactions

- Division of Capital Asset Management and Maintenance (DCAMM) funds used for Clean Energy Investment Program to upgrade campus-wide lighting controls, water conservation controls, motors, pipe insulation, HVAC modifications, and several other energy efficiency upgrades on campus

Required Communications - Continued

- *SIGNIFICANT ACCOUNTING POLICIES AND TRANSACTIONS – CONT*

Audit Adjustments and Uncorrected Misstatements

- 1) Prior Period Adjustment to record effect of the College's net pension obligation for the Massachusetts State Employees' Retirement System based on the adoption of GASB Statement No. 68

| | | |
|------------------------------------|------------|------------|
| Dr. Deferred Outflows of Resources | 1,734,304 | |
| Dr. Net Position | 22,631,382 | |
| Cr. Net pension liability | | 24,365,686 |

- 2) To record FY 2014 pension activity in accordance with GASB 68

| | | |
|------------------------------------|-----------|-----------|
| Dr. Pension expense | 1,962,997 | |
| Dr. Deferred Outflows of Resources | 1,794,930 | |
| Dr. Net pension liability | 2,476,654 | |
| Cr. Deferred Outflows of Resources | | 1,734,304 |
| Cr. Deferred Inflows of Resources | | 4,500,277 |

- 3) To record FY 2015 pension contribution

| | | |
|------------------------------------|-----------|-----------|
| Dr. Deferred Outflows of Resources | 2,436,331 | |
| Cr. Pension expense | | 2,436,331 |

Required Communications - Continued

- *SIGNIFICANT ACCOUNTING POLICIES AND TRANSACTIONS – CONT*

Audit Adjustments and Uncorrected Misstatements Continued

4) To remove parking garage construction and related bonds from books of the University

| | | |
|-------------------------------|------------|------------|
| Dr. Bonds Payable and premium | 25,499,207 | |
| Cr. Cash Held at MSCBA | | 24,445,829 |
| Cr. Interest expense | | 170,868 |
| Cr. Prepaid expense | | 377,446 |
| Cr. Construction in progress | | 505,064 |

5) To record additional adjustments related to amounts owed by MSCBA on garage

| | | |
|-----------------------|--------|--------|
| Dr. Other receivables | 39,962 | |
| Cr. Various expenses | | 39,962 |

There were no uncorrected misstatements that are required to be communicated to the Committee.

Required Communications - Continued

- *Changes to Financial Statements since October meeting*
- Massachusetts pension audit finalized; additional \$2,865 in deferred outflows of resources and deferred inflows of resources based on final internal allocation – no income effect
- Documents showing MSCBA has ownership of the parking garage construction project; parking garage construction and related bond removed from the books of financial statements
- Based on analysis of the agreements of both the parking garage and the new Viking Hall, OCD believes these are capital leases, which means the related liabilities would be on the books of the University. Since neither project was completed as of June 30, 2015, this would be a matter to determine for Fiscal Year 2016.
- The sister institutions within the Massachusetts system have treated similar arrangements with MSCBA as operating leases and therefore do not include the assets and related liabilities on their books. This will be a matter to determine with MSCBA, the State Comptroller's Office and other interested parties.
- Results of the change to the financial statements:
 - Total assets decreased \$25,288,977
 - Total liabilities decreased \$25,499,207
 - Total net position increased \$210,230

Required Communications - Continued

- *MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES*
 - Allowance for doubtful accounts
 - Net Asset Classifications
 - Fringe Benefits
 - Depreciable lives of capital assets
 - Net pension liability

Required Communications - Continued

- *OTHER MATTERS TO BE COMMUNICATED TO THE BOARD*
 - As part of our internal controls testing on the revenue cycle we noted 3 students (out of a sample of 25) who were charged SGA fees at the full-time rate (\$40) instead of the per credit rate (\$3.33) for part-time students. This was a systemic error that is being investigated and corrected by management. The overall effect is negligible, but the result is that certain students were overcharged slightly.

Required Communications - Continued

- *OTHER COMMUNICATIONS*

- Disagreements with management – none
- Consultation with other accountants/auditors – Consulted with the auditors for the Massachusetts pension plan
- Major issues discussed with management prior to retention – None
- Difficulties encountered in performing the audit – None
- Significant written communications between the auditor and management:
 - Engagement letter
 - Management Representation letter

Required Communications - Continued

- *INDEPENDENCE*

- We are not aware of any relationships between O'Connor & Drew and the University that in our professional judgment may reasonably impact our independence.
- Related to our audit for 2015, we are independent with respect to the University within the meaning of the pronouncements of the Independence Standards Board, Government Auditing Standards, and under Rule 101 of the AICPA Code of Professional Conduct.

Required Communications - Continued

- *MANAGEMENT ADVISORY SERVICES/TAX SERVICES*
 - No management advisory services were performed by O'Connor & Drew.
 - O'Connor & Drew performed a single Audit under the guidelines of OMB Circular A-133 for Federal Awards

Financial Statement Fraud Risks

- *PERVASIVE RISK*
 - No pervasive financial statement fraud risks were identified
- *SPECIFIC RISKS PRESUMED BY AUDITING STANDARDS*
 - Risk of misstatement relating to revenue recognition
 - Risk of management override of controls
 - Journal Entries and adjustments
 - Significant accounting estimates
 - Significant unusual transactions
- *UNIVERSITY'S SPECIFIC RISKS*
 - General economic factors affecting all organizations

Financial Highlights

See financial statements

Single Audit under the Guidelines of OMB Circular A-133

- Low Risk Auditee
- Threshold to distinguish between Type A and Type B programs: \$300,000
- Additional programs were tested since Federal guidelines require auditors to exclude large loan programs (SFA cluster) in determining major programs

Single Audit under the Guidelines of OMB Circular A-133

- Major Programs Tested
 - Student Financial Aid Cluster
 - TRIO Cluster (Student Support Services and Upward Bound)
- No findings
- See summary of Auditors' results for more information

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Net Position

June 30, 2015

Assets and Deferred Outflows of Resources

| | After Adjustment | Before Adjustment | Change |
|--|-----------------------|-----------------------|------------------------|
| Current Assets: | | | |
| Cash and equivalents | \$ 8,369,639 | \$ 8,369,639 | \$ - |
| Restricted cash and equivalents | 6,101,326 | 6,101,326 | - |
| Deposits held by State Treasurer | 3,863,536 | 3,863,536 | - |
| Cash held by State Treasurer | 469,687 | 469,687 | - |
| Deposits held by MSCBA and DCAMM | 16,242,716 | 39,242,716 | (23,000,000) |
| Investments | 13,035,406 | 13,035,406 | - |
| Accounts, grants and other receivable, net | 8,230,120 | 8,190,758 | 39,362 |
| Pledges receivable, net | - | - | - |
| Note receivable | - | - | - |
| Loan receivable - current portion | 250,126 | 250,126 | - |
| Other current assets | <u>166,297</u> | <u>543,743</u> | <u>(377,446)</u> |
| Total Current Assets | <u>56,728,853</u> | <u>80,066,937</u> | <u>(23,338,084)</u> |
| Non-Current Assets: | | | |
| Investments | 590,105 | 590,105 | - |
| Loan receivable, net of current portion | 1,938,475 | 1,938,475 | - |
| Pledges receivable, net | - | - | - |
| Note receivables, net of current portion | - | - | - |
| Capital assets, net | 155,388,160 | 155,893,224 | (505,064) |
| Debt service reserve | <u>1,406,835</u> | <u>2,852,664</u> | <u>(1,445,829)</u> |
| Total Non-Current Assets | <u>159,323,575</u> | <u>161,274,468</u> | <u>(1,950,893)</u> |
| Total Assets | <u>216,052,428</u> | <u>241,341,405</u> | <u>(25,288,977)</u> |
| Deferred Outflows of Resources: | | | |
| Contributions made after the plan valuation date | 2,436,331 | 2,436,331 | - |
| Change in actuarial plan assumptions | 246,056 | 246,056 | - |
| Change in proportion of internal allocation | <u>1,548,874</u> | <u>1,548,874</u> | <u>-</u> |
| Total Deferred Outflows of Resources | <u>4,231,261</u> | <u>4,231,261</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 220,283,689</u> | <u>\$ 245,572,666</u> | <u>\$ (25,288,977)</u> |

Liabilities, Deferred Inflows of Resources, and Net Position

| | After <u>Adjustment</u> | Before <u>Adjustment</u> | <u>Change</u> |
|---|----------------------------|-----------------------------|------------------------|
| Current Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 3,054,468 | \$ 3,054,468 | \$ - |
| Accrued payroll | 6,362,920 | 6,362,920 | - |
| Accrued compensated absences | 5,908,154 | 5,908,154 | - |
| Accrued workers' compensation | 256,291 | 256,291 | - |
| Unearned revenues | 6,801,187 | 6,801,187 | - |
| Current portion of note payable | 72,469 | 72,469 | - |
| Current portion of bonds payable | 1,791,058 | 1,913,272 | (122,214) |
| Deposits | <u>1,143,326</u> | <u>1,143,326</u> | <u>-</u> |
| Total Current Liabilities | <u>25,389,873</u> | <u>25,512,087</u> | <u>(122,214)</u> |
| Non-Current Liabilities: | | | |
| Accrued compensated absences | 3,294,730 | 3,294,730 | - |
| Accrued workers' compensation | 920,553 | 920,553 | - |
| Long term portion of note payable | 161,919 | 161,919 | - |
| Long term portion of bonds payable | 42,262,746 | 67,639,739 | (25,376,993) |
| Loans payable - Federal financial assistance programs | 2,290,470 | 2,290,470 | - |
| Net pension liability | 21,889,032 | 21,889,032 | - |
| Other non-current liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Non-Current Liabilities | <u>70,819,450</u> | <u>96,196,443</u> | <u>(25,376,993)</u> |
| Total Liabilities | <u>96,209,323</u> | <u>121,708,530</u> | <u>(25,499,207)</u> |
| Deferred Inflows of Resources: | | | |
| Service concession arrangements | 547,198 | 547,198 | - |
| Deferred gain on bond refunding | 122,186 | 122,186 | - |
| Differences between projected and actual earnings of plan investments | 4,492,699 | 4,492,699 | - |
| Change in proportion from Commonwealth | <u>7,578</u> | <u>7,578</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>5,169,661</u> | <u>5,169,661</u> | <u>-</u> |
| Net Position: | | | |
| Net investment in capital assets | 128,381,296 | 128,210,428 | 170,868 |
| Restricted: | | | |
| Nonexpendable | 739,323 | 739,323 | - |
| Expendable | 4,633,554 | 4,633,554 | - |
| Unrestricted | <u>(14,849,468)</u> | <u>(14,888,830)</u> | <u>39,362</u> |
| Total Net Position | <u>118,904,705</u> | <u>118,694,475</u> | <u>210,230</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 220,283,689</u> | <u>\$ 245,572,666</u> | <u>\$ (25,288,977)</u> |

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Revenues and Expenses

For the Year Ended June 30, 2015

| | After Adjustment | Before Adjustment | Change |
|--|-----------------------|-----------------------|-------------------|
| Operating Revenues: | | | |
| Tuition and fees | \$ 73,257,664 | \$ 73,257,664 | \$ - |
| Less: scholarships and fellowships | <u>(15,360,590)</u> | <u>(15,360,590)</u> | - |
| Net tuition and fees | 57,897,074 | 57,897,074 | - |
| Federal grants and contracts | 13,966,348 | 13,966,348 | - |
| State grants and contracts | 5,728,274 | 5,728,274 | - |
| Private grants and contracts | 87,864 | 87,864 | - |
| Gifts and contributions | - | - | - |
| Sales and services of educational departments | 3,780,390 | 3,780,390 | - |
| Auxiliary enterprises | 16,125,211 | 16,125,211 | - |
| Other operating revenues | <u>476,543</u> | <u>476,543</u> | - |
| Total Operating Revenues | <u>98,061,704</u> | <u>98,061,704</u> | - |
| Operating Expenses: | | | |
| Educational and general: | | | |
| Instruction | 56,305,715 | 56,305,715 | - |
| Public service | 588,061 | 588,061 | - |
| Academic support | 15,345,064 | 15,345,064 | - |
| Student services | 16,646,315 | 16,685,677 | (39,362) |
| Institutional support | 26,103,283 | 26,103,283 | - |
| Operation and maintenance of plant | 13,672,500 | 13,672,500 | - |
| Scholarships | 5,800,876 | 5,800,876 | - |
| Depreciation | 7,655,460 | 7,655,460 | - |
| Auxiliary enterprises | <u>15,647,277</u> | <u>15,647,277</u> | - |
| Total Operating Expenses | <u>157,764,551</u> | <u>157,803,913</u> | <u>(39,362)</u> |
| Net Operating Income (Loss) | <u>(59,702,847)</u> | <u>(59,742,209)</u> | <u>39,362</u> |
| Non-Operating Revenues (Expenses): | | | |
| State appropriations, net | 54,441,708 | 54,441,708 | - |
| Gifts | 1,784,500 | 1,784,500 | - |
| Investment income | 591,642 | 591,642 | - |
| Other non-operating revenue (expense) | - | - | - |
| Interest expense | <u>(984,575)</u> | <u>(1,155,443)</u> | <u>170,868</u> |
| Net Non-Operating Revenues | <u>55,833,275</u> | <u>55,662,407</u> | <u>170,868</u> |
| Increase (Decrease) in Net Position Before Capital Grants | <u>(3,869,572)</u> | <u>(4,079,802)</u> | <u>210,230</u> |
| Capital Grants | <u>846,009</u> | <u>846,009</u> | - |
| Total Increase (Decrease) in Net Position | <u>\$ (3,023,563)</u> | <u>\$ (3,233,793)</u> | <u>\$ 210,230</u> |

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Financial Statements and
Management's Discussion and Analysis**

June 30, 2015

C O N T E N T S

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SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Financial Statements and
Management's Discussion and Analysis**

June 30, 2015

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Additional Report:

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DRAFT

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Salem State University
Salem, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Salem State University (an agency of the Commonwealth of Massachusetts) (the "University"), which comprise the statements of net position as of June 30, 2015, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. We also audited the separate financial statements of the University's component units, Salem State University Assistance Corporation, Inc. (the "Assistance Corp.") and Salem State University Foundation, Inc. (the "Foundation") as of June 30, 2015.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Salem State University as of June 30, 2015, and the respective changes in net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, GASB Statement No. 68, *Accounting and financial Reporting for Pensions – an amendment of GASB Statement No. 27*, is effective for fiscal 2015 and required the College to restate net position as of June 30, 2014 to recognize its proportionate share of the net pension obligation determined for the Massachusetts State Employees' Retirement System. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-21, the schedule of proportionate share of the pension liability on page 68, the schedule of contributions on page 69, and the notes to the required supplementary information on page 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Schedules

Our audit was conducted for the purpose of forming opinions on the University's basic financial statements. The supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

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

Certified Public Accountants**Braintree, Massachusetts**

OPEN

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Introduction

Salem State University (the "University") offers readers this narrative overview and analysis of the financial statements and activities of the University for fiscal years ended June 30, 2015 and 2014. Readers are encouraged to consider the information presented here in conjunction with the single year financial statements and related footnotes for the period ending June 30, 2015. In accordance with Governmental Accounting Standards Board (GASB) requirements, University financial statements report the Assistance Corporation and Foundation as component units.

Background

The University was founded in 1854 as the Salem Normal School, at which time it offered innovative, ground-breaking education for women pursuing careers in education. Today, the University thrives as a comprehensive institution of academic strength offering high quality, balanced education at the undergraduate and graduate levels. The 115 acre University is spread across five sites: North Campus, Central Campus, South Campus, Cat Cove and the O'Keefe Athletic Complex. The curriculum spans the arts, sciences, and professional programs, contained within the College of Arts and Sciences, the Bertolon School of Business, the College of Health and Human Services, the School of Graduate Studies, the School of Continuing and Professional Studies, and the School of Education. The undergraduate level has approximately 6,800 and the graduate level has approximately 1,100 annual Full-Time Equivalent (FTE) credit headcount enrollment.

University students are diverse, hailing from twenty-seven states and fifty-one countries. Thirty-one percent of first year students (freshman and transfer) self-identified as students of color (fall semester 2014). The approximate gender breakdown is 40% male and 60% female.

In support of the University, there are two component units: Salem State University Assistance Corporation (Assistance Corporation) and Salem State University Foundation (Foundation). The Assistance Corporation, formed in 1995 by the legislature, promotes the orderly growth and development of the University. The Foundation, a separate 501(c) (3) corporation is the primary recipient of endowments, alumni funds and various other donations made to benefit the University.

The University's mission and vision statements provide direction in the quest to provide the best education possible for its diverse student body and are as follows:

University Mission

Salem State's mission is to provide a high quality, student-centered education that prepares a diverse community of learners to contribute responsibly and creatively to a global society, and serve as a resource to advance the region's cultural, social and economic development.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Background - (continued)

University Vision

Salem State University will be a premier teaching university that engages students in an inspiring transformational educational experience:

- We put students first in all that we do and are committed to their success;
- We are a community of learners where all faculty, staff and students have the opportunity to grow as individuals;
- We are innovators, offering a unique brand of public higher education that inspires students to reach higher and achieve more;
- We remain true to our heritage as a liberal arts university while we prepare students for today's workforce;
- We serve the communities of the North Shore while we create an ever more globally aware and culturally diverse campus environment;

The mission and vision statements guide decisions by University management on campus, and help to create the environment of student success and continuous improvement in all areas. Giving back to the community is a large part of the Salem State University culture, and thousands of volunteer hours and resources benefit various groups such as Salem Public Schools, Northeast Arc, Lifebridge homeless shelter kitchen, Healing Abuse Working for Change, North Shore Cancer Walk, Boston AIDS Action Committee, American Cancer Society and Horizons for Homeless Children.

Accreditations

The University is accredited by the New England Association of Schools and Colleges (NEASC). In addition, many of the University's programs are accredited by program-specific accrediting bodies.

Significant Events and Accomplishments

Capital Projects

Student Navigation Center, Public Safety Relocation and Canal Street Parking Projects Completed

The Canal Street Parking project was completed during fiscal 2015 in order to replace some of the parking spaces lost as a result of building a new residence hall, Viking Hall. The former Weir property located on Canal Street was converted to surface parking of over 300 spaces. In order to accommodate Viking Hall, Public Safety was relocated to office space in the Central Campus academic building. Student Navigation Center now houses the offices of Admissions (operations), Student Accounts, Clipper Card, Financial Aid, Registrar and Transfer Services.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

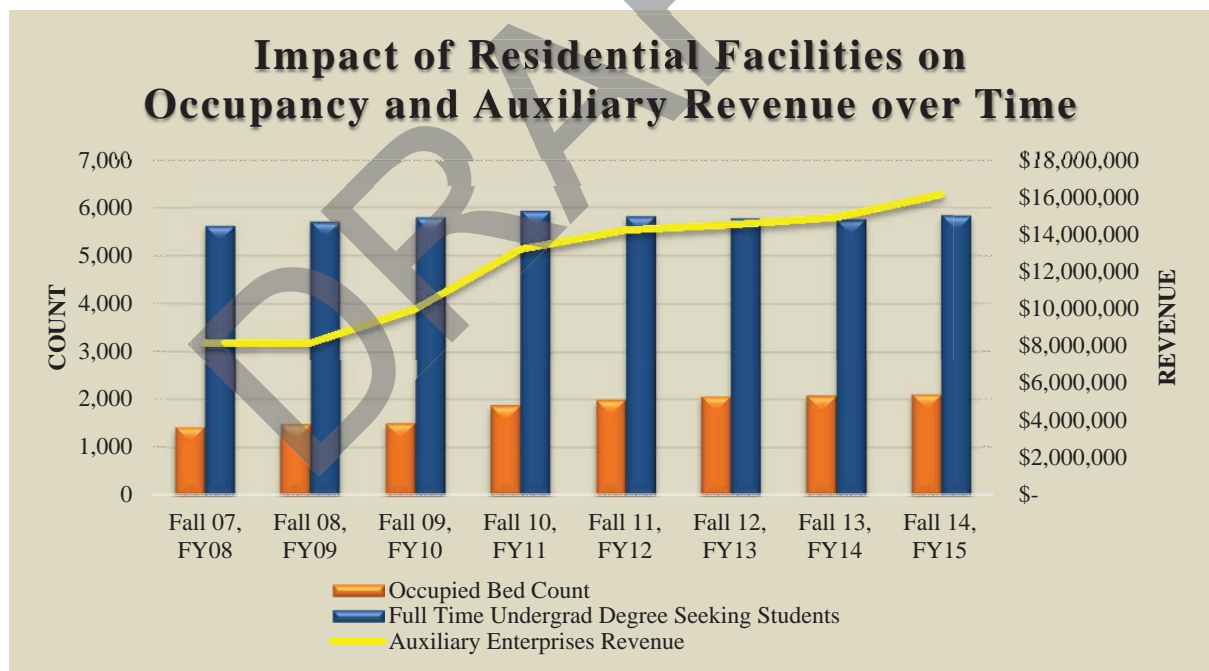
For the Year Ended June 30, 2015

Significant Events and Accomplishments - (continued)

Viking Hall Construction Project

During March 2014 construction commenced for a new 342 bed student dormitory named Viking Hall which is located in Central Campus. The Massachusetts State College Building Authority (MSCBA) issued bonds for this \$52.5 million project. The University pays the MSCBA under the terms of a long term contract. This project was completed during August 2015.

The University has intentionally grown its housing capacity to aid in enrollment management and student success. The chart below shows the relationship between undergraduate student enrollment, residential hall occupancy, and auxiliary revenues over the last eight years.



Sophia Gordon Center for Creative and Performing Arts Theater

(Formerly known as the Main Stage Theatre Conversion Project)

During August 2014 construction commenced for the renovation of the Sophia Gordon Center for Creative and Performing Arts Theater located on the North Campus under the project management of the Division of Capital Asset Management and Maintenance (DCAMM). The total construction project costs are estimated to be approximately \$23.1 million. Of the \$23.1 million, \$18.3 million was funded by the University from the issuance of a MSCBA bond during January 2014. The remainder of \$4.8 million is expected to be funded by capital grants from DCAMM.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Significant Events and Accomplishments - (continued)

Parking Garage Construction Project

During April 2015 construction commenced for a new parking garage located on the North Campus near Peabody Hall. The Massachusetts State College Building Authority (MSCBA) issued bonds for this \$23.0 million project. The University pays the MSCBA under the terms of a long term contract.

Debt Acquisition

Clean Energy Investment Program

During July 2013 and February 2014, the University entered into agreements with DCAMM to undertake a Comprehensive Energy Performance Contracting Project. The project's goal is to achieve energy improvements via upgrades to lighting and lighting controls, water conservation and vending machine controls, motors, steam traps, pipe insulation, kitchen hood controls, energy management system upgrades, high efficiency gas boilers, and HVAC modifications. The project cost owed by the University to DCAMM is approximately \$3.9 million and is being repaid over 15 years.

Comprehensive Capital Campaign

During fiscal year 2015, the campaign raised approximately \$2.0 million for the year. As of June 2015, the cumulative total raised is approximately \$19.1 million towards the \$25 million goal. Thirty-two new scholarships have been funded by this campaign during fiscal 2015. Campaign priorities include Academic Programs, Faculty, Student Experience, Financial Assistance, Annual Support, and Special Initiatives.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Significant Events and Accomplishments - (continued)

GASB No. 68 – Accounting and Financial Reporting for Pensions

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, establishes new standards for how governmental employers (and other entities) that contribute to state and local pension plans report liabilities and plan details on their financial statements. GASB 68 and its required disclosures are mandated to be implemented by the Commonwealth in its fiscal year 2015 financial reports. Additionally, State Universities are required to record in their financial statements a proportionate amount of the State's net pension liability, previously recorded only on the Commonwealth's financial statements. The recording of this pension liability on the financial statements of the University reduced the unrestricted net position as follows:

(In Thousands)

| | Without Pension | Pension Adjustment | With Pension |
|--|----------------------------|-------------------------------|-------------------------|
| Unrestricted Net Position at June 30, 2014 | \$ 8,871 | \$ (22,631) | \$ (13,760) |
| Unrestricted Net Loss for FY 2015 | (1,562) | 473 | (1,089) |
| Unrestricted Net Position at June 30, 2015 | \$ 7,309 | \$ (22,158) | \$ (14,849) |

The total net pension liability balance in the June 30, 2015 financial statements amounted to approximately \$21.9 million.

Special Payment - 9C Reduction

During January 2015, the Commonwealth of Massachusetts mandated a return of appropriated monies or a payment to alleviate the statewide fiscal budget deficit. The University's portion and payment made to the Commonwealth was approximately \$622 thousand. This was recorded as a non-operating expense in the financial statements. Subsequent to year end, the Governor signed a supplemental budget appropriations bill for FY 2015 during November, related to unfunded collective bargaining agreements. The amount to be received by the University is approximately \$413 thousand. This FY 2015 supplemental appropriation is not reflected within the financial statements at June 30, 2015 due to the timing.

Overview of University Financial Statements

Salem State University reports its activity as a business-type activity under GASB using the full accrual measurement focus and basis of accounting. The University is an agency of the Commonwealth of Massachusetts. Therefore, the results of the University's operations, its net position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements on an annual basis.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Overview of University Financial Statements – (continued)

The financial statements and accompanying notes, and supplemental information are presented separately from this discussion and analysis and will provide details not included in the below discussion.

Statement of Net Position Summary & Analysis

The Statement of Net Position presents information on the University's assets and deferred outflows of resources, less its liabilities and deferred inflows of resources, with the residual balance being reported as net position. The University's total net position for fiscal year 2015 declined by \$3.0 million or 2%. Most of this was a reduction in net investment in capital assets (\$2.2 million.) A summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2015 and 2014 (restated for GASB 68) is as follows:

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SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Net Position Summary & Analysis - (continued)

(In Thousands)

| <u>Assets</u> | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> |
|---|-------------------|-------------------|------------------|-----------------|
| Current Assets | \$ 56,729 | \$ 62,687 | \$ (5,958) | -10% |
| Capital Assets (net) | 155,388 | 151,437 | 3,951 | 3% |
| Noncurrent Assets | 3,936 | 4,031 | (95) | -2% |
| Total Assets | 216,053 | 218,155 | (2,102) | -1% |
| Deferred Outflows of Resources | 4,231 | 1,734 | 2,497 | 144% |
| Total Assets and Deferred Outflows | 220,284 | 219,889 | 395 | 0% |
| <u>Liabilities</u> | | | | |
| Current Liabilities | 25,390 | 26,434 | (1,044) | -4% |
| Noncurrent Liabilities | 70,819 | 70,955 | (136) | 0% |
| Total Liabilities | 96,209 | 97,389 | (1,180) | -1% |
| Deferred Inflows of Resources | 5,170 | 571 | 4,599 | 805% |
| <u>Net Position</u> | | | | |
| Net investment in capital assets | 128,381 | 130,540 | (2,159) | -2% |
| Restricted | 5,373 | 5,150 | 223 | 4% |
| Unrestricted | (14,849) | (13,761) | (1,088) | 8% |
| Total Net Position | 118,905 | 121,929 | (3,024) | -2% |
| Total Liabilities, Deferred Inflows and Net Position | \$ 220,284 | \$ 219,889 | \$ 395 | 0% |

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Net Position Summary & Analysis - (continued)

Total assets have decreased by \$2.1 million or 1% since the prior year. The primary changes were a decrease in cash of \$10.1 million, offset by an increase of accounts receivable of \$4.1 million and a net increase in capital assets of \$3.9 million over the prior year. Total liabilities decreased slightly by \$1.2 million (1%) over prior year and is mainly due to the net pension liability decrease of \$2.5 million and the net decrease of other liabilities and increases in unearned revenues of \$2.6 million. These decreases in total liabilities were offset by increased debt owed to DCAMM for the Comprehensive Energy Performance Contracting Project of \$3.9 million. Bond pricing in the market was favorable and the MSCBA did a bond refunding of prior bonds held by the University resulting in a savings of \$.2 million and reducing the bond payable.

It should be noted that accounts receivable (assets) and unearned revenues (liabilities) each increased significantly over the prior year by approximately \$3.8 million and \$4.2 million, respectively. The majority of this increase was due to the University allowing students to register and be billed for the Summer and Fall semesters of the next fiscal year prior to June 30, 2015. This was a new procedure for FY2015, thus those balances were much higher than in FY2014.

For fiscal 2015, total net position amounted to \$118.9 million. This balance would have been \$140.8 million without the adjustment for the net pension liability (GASB 68) of \$21.9 million, which decreased the unrestricted category of the net position. The University's net position in the investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets amounted to \$128.4 million. The net investment in capital assets is 91% of the total net position. This is consistent with prior year trends. The University uses its capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

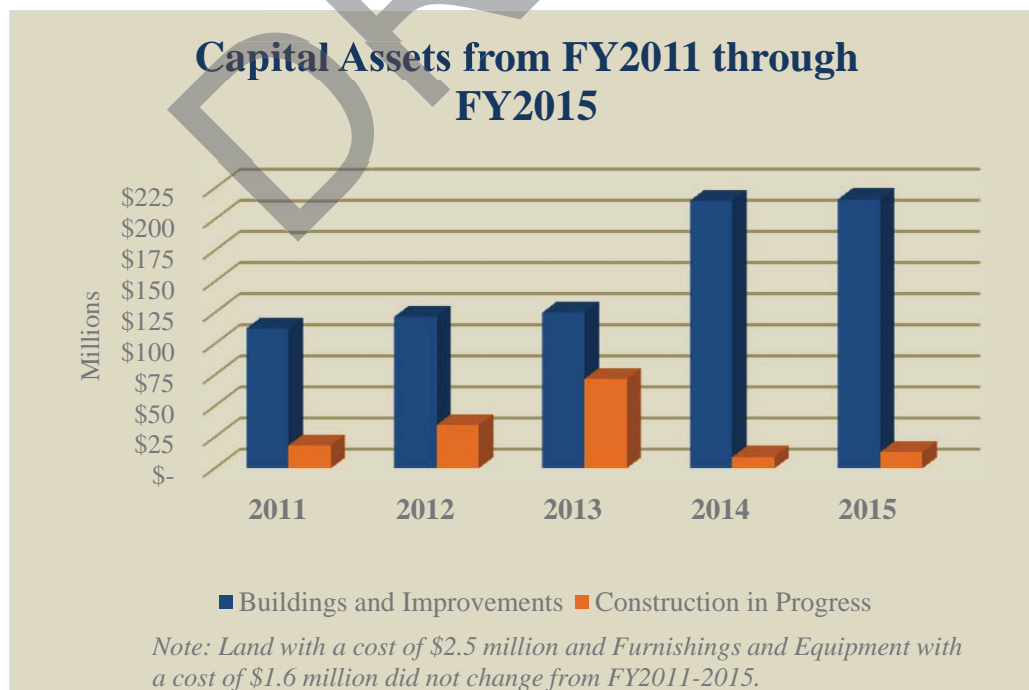
For the Year Ended June 30, 2015

Capital Assets

A summarized comparison of the University's capital assets categories at June 30, 2015 and 2014 is as follows:

| Capital Asset Summary | | | | |
|----------------------------------|-------------------|-------------------|-----------------|-----------|
| <i>(In Thousands)</i> | | | | |
| | 2015 | 2014 | \$ Change | % Change |
| Building and improvements | \$ 216,144 | \$ 215,069 | \$ 1,075 | 0% |
| Construction in Progress | 12,456 | 9,253 | 3,203 | 35% |
| Land | 2,536 | 2,536 | - | 0% |
| Furnishing and Equipment | 1,639 | 1,639 | - | 0% |
| Total | 232,775 | 228,497 | 4,278 | 2% |
| Less: accumulated depreciation | (77,387) | (77,060) | (327) | 0% |
| Total capital assets, net | \$ 155,388 | \$ 151,437 | \$ 3,951 | 3% |

The following graph shows the progression of capital project values over the last five years:



SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Capital Assets – (continued)

Highlights for Capital Assets

The University's total capital assets as of June 30, 2015 increased \$4.0 million over the prior year as a result of the following changes during fiscal 2015:

| Changes in Capital Assets | |
|--|------------------------|
| <i>(In Thousands)</i> | |
| <u>Building and Improvements</u> | |
| Meier Hall Biology Laboratory Renovation | \$ 1,244 |
| Library and Learning Commons Improvements | 1,005 |
| Student Navigation Center (MSCBA Bonds) | 1,728 |
| Public Safety Relocation (MSCBA Bonds) | 2,097 |
| Canal Street Parking (MSCBA Bonds) | 2,076 |
| Equipment purchases for IT and Biology Departments | 1,194 |
| Additions to Buildings and Equipment | 9,344 |
| Disposal of Old Library & Former Police Station | (8,269) |
| Net Additions to Buildings and Equipment | 1,075 |
| <u>Construction in Progress</u> | |
| IT Projects | 1,135 |
| Capitalized Bond Interest | 782 |
| Various Ongoing Projects | 1,286 |
| Additions to Construction in Progress | 3,203 |
| Total Net Asset Additions | 4,278 |
| Additional Depreciation Expense for FY2015 | 7,655 |
| Write Off of Old Library & Former Police Station | (7,328) |
| Net Increase in Accumulated Depreciation | 327 |
| Change in Capital Assets, Net: | <u>\$ 3,951</u> |

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

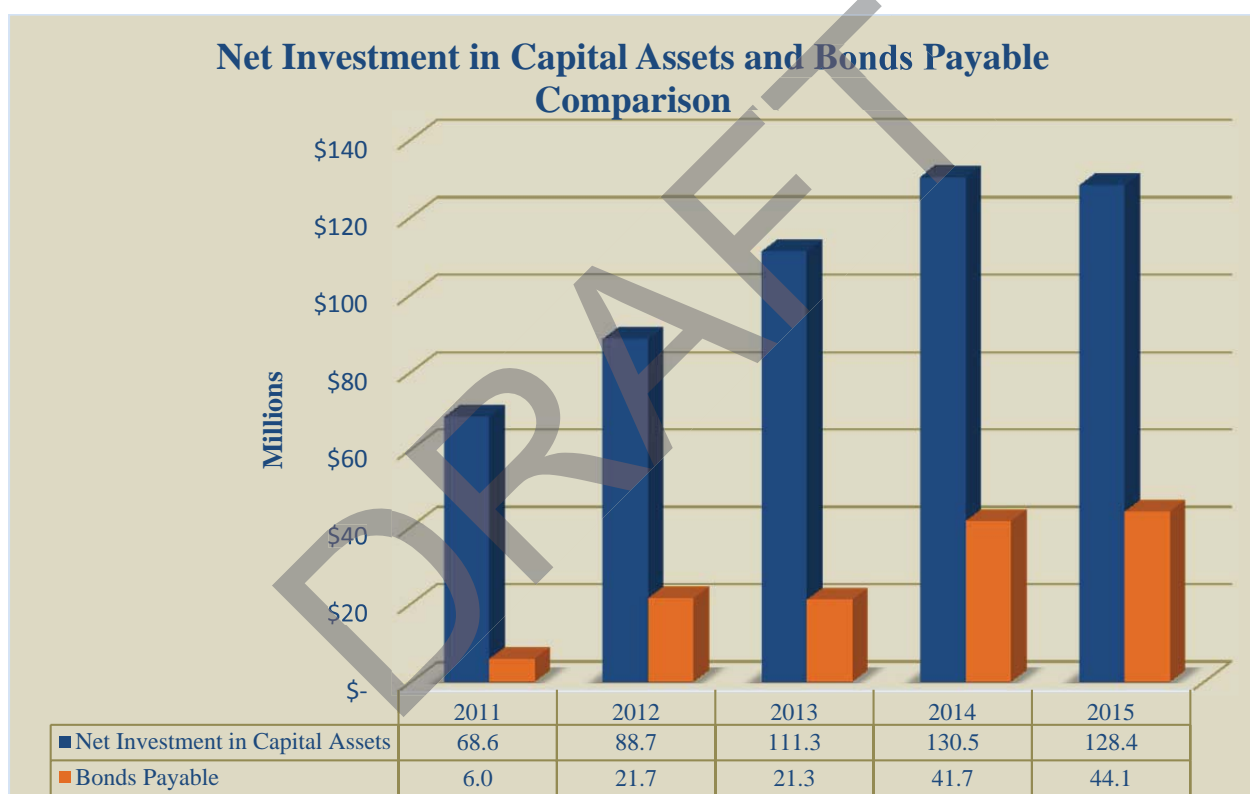
Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Capital Assets – (continued)

Net Investment in Capital Assets and Bonds Payable Comparison

The following graph displays long term debt for Bond Payables and the Net Investment in Capital Assets balances for fiscal years ended 2011 through 2015:



It should be noted that the asset category “Capital assets, net” is not the same as the “Net Investment in Capital Assets” in the net position category. Net Investment in Capital Assets includes the same activity as the Capital Assets but also includes any related debt liabilities and deferred inflow of resources that are attributable to the acquisition, construction or improvement of those capital assets.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis

The Statement of Revenues, Expenses, and Changes in Net Position Analysis shows how the University's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. the accrual for compensated absences).

A summarized comparison of the University's operating and non-operating revenues and expenses and the resulting increase or decrease in net position at June 30, 2015 and 2014 is as follows:

Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis

| | <i>(In Thousands)</i> | | | |
|---|-----------------------|------------------|--------------------|-----------------|
| | <u>2015</u> | <u>2014</u> | <u>\$ Change</u> | <u>% Change</u> |
| <u>Operating Revenues</u> | | | | |
| Tuition and Fees, Net | \$ 57,897 | \$ 54,838 | \$ 3,059 | 6% |
| Federal, State, Private Grants | 19,782 | 18,232 | 1,550 | 9% |
| Sales and Services | 3,780 | 3,642 | 138 | 4% |
| Auxiliary and Other | 16,602 | 15,385 | 1,217 | 8% |
| Total Operating Revenues | <u>98,061</u> | <u>92,097</u> | <u>5,964</u> | <u>6%</u> |
| <u>Operating Expenses</u> | | | | |
| Compensation and benefits | 107,510 | 101,274 | 6,236 | 6% |
| Supplies and services | 32,934 | 32,114 | 820 | 3% |
| Utilities | 4,337 | 3,912 | 425 | 11% |
| Depreciation | 7,655 | 6,899 | 756 | 11% |
| Scholarships | 5,801 | 5,594 | 207 | 4% |
| Change related to GASB 68 pension activity | (473) | - | (473) | 100% |
| Total Operating Expense | <u>157,764</u> | <u>149,793</u> | <u>7,971</u> | <u>5%</u> |
| <u>Non-Operating Revenues (Expenses)</u> | | | | |
| State appropriations, net of special payment | 54,442 | 52,156 | 2,286 | 4% |
| Gifts | 1,784 | 4,242 | (2,458) | -58% |
| Investment Income | 592 | 1,935 | (1,343) | -69% |
| Interest Expense | (985) | (655) | (330) | 50% |
| Total Non-Operating Revenues, Net | <u>55,833</u> | <u>57,678</u> | <u>(1,845)</u> | <u>-3%</u> |
| Capital Grants | 846 | 14,252 | (13,406) | -94% |
| Increase (Decrease) in Net Position | <u>\$ (3,024)</u> | <u>\$ 14,234</u> | <u>\$ (17,258)</u> | |

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

**Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis –
(continued)**

Highlights for Operating Revenues

The increase in total operating revenues of \$6.0 million (6%) over prior year resulted from the following changes:

Tuition and Fees, net: The tuition and fees, net of scholarships and fellowships improved with an increase of \$3.0 million (6%) over prior year. Of this increase, \$1.2 million was for a new capital improvement fee that commenced in FY 2015 to help offset the various construction projects being added by the University.

Federal, State and Private Grants: Federal, state and private grant revenues increased by \$1.5 million (9%). Of this increase, \$0.9 million was from an increase for the University's ESL program and \$0.8 million was from an increase in state grants (e.g. Massachusetts Life Sciences Center grant). A slight decrease in private grants of \$0.1 million was realized.

Sales & Services of Educational Departments- Sales and services of educational departments revenues increased slightly by \$0.1 million (4%) over prior year primarily due to increased ticket sales for University events, vendor sales commissions, parking tickets and other departmental sales.

Auxiliary Enterprises and Other- Auxiliary enterprises and other revenues increase of \$1.2 million over prior year. This was primarily attributable to increased dormitory room rates and occupancy levels that remained well over the design occupancy level while the University awaited the opening of Viking Hall.

Highlights for Operating Expenses

The increase in total operating expenses of \$8.0 million (5%) resulted from the following changes:

Compensation and Benefits: Compensation and benefits increased by \$6.2 million (6%) over prior year primarily due to contractual salary and fringe benefit increases, including retroactive salary increases, and additional overtime pay due to the record-breaking snowfall during the winter. This increase has been partly offset by additional appropriation levels as reflected in non-operating revenues.

Supplies and Services: The \$820 thousand (3%) increase in supplies and services over prior year is primarily due to fixed asset disposals of \$941 thousand, offset by various small reductions in expenses (e.g. legal, hiring recruitment fees) totaling \$101 thousand.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis – (continued)

Utilities: The \$425 thousand (11%) increase in utility costs over prior year is primarily due to electricity costs as the new Library and the Fitness Center were occupied during fiscal 2015.

Depreciation: The \$756 thousand (11%) increase in depreciation expense over prior year is primarily due to the increase in buildings and building improvements. Projects that were previously included in construction in progress have been completed and have begun to be depreciated in fiscal 2015.

Scholarships: The increase of \$207 thousand (4%) for scholarships over prior year helps meet the needs of students.

Change related to GASB 68 pension activity: The \$473 thousand reduction in pension expense resulted from the adoption of GASB 68. Since this is the first year GASB 68 has been adopted, there is no information provided by the State Comptroller's Office to disclose what the pension expense amount was in fiscal 2014. Therefore, this pension expense amount for fiscal 2014 is unknown rather than zero in the above Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis.

Highlights for Non-Operating Revenues (Expenses)

The overall decrease in non-operating revenues (expenses) of \$1.8 million (3%) resulted from the following net changes:

State Appropriations and Special Payment to State: State appropriations increased by \$2.9 million (4%) over prior year primarily to support employee payroll and related fringe benefit costs. This increase in State appropriations was offset by the special payment of \$622 thousand that the Commonwealth of Massachusetts required to help alleviate the statewide fiscal budget deficit.

Gifts: Gifts decreased by \$2.5 million (58%) versus the prior year. A significant gift (\$3.0 million) had been received as a contribution in fiscal year 2014 for the Sophia Gordon Center for Creative and Performing Arts Theater (formerly known as Main Stage Theater renovation project), which did not recur at the same level in fiscal year 2015.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Revenues, Expenses, and Changes in Net Position Summary & Analysis – (continued)

Investment income – The \$1.3 million (69%) decrease in investment income over last year was primarily attributable to unrealized losses on investments due to market conditions. The unrealized losses were offset by small increases in interest and dividend income and realized gains over the prior fiscal year.

Interest expense – The \$330 thousand (50%) increase in interest expense over prior year is due to the increased debt acquired by the University for construction projects. It should be noted that \$782 thousand of interest incurred during fiscal 2015 was capitalized into the asset account construction in progress instead of being expensed. This interest capitalization is required by accounting standards related to ongoing construction projects not yet completed (i.e. Sophia Gordon Center for Creative and Performing Arts Theater).

Statement of Cash Flows

The Statement of Cash Flows is reported on the direct method. The direct method portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and fees) and disbursements (e.g., cash paid to employees for services).

A summarized comparison of the University's cash flows and the resulting increase or decrease in cash at June 30, 2015 and 2014 follows. The overall decrease is a result of acquisition of capital assets and payment of debt service. It should be noted that for the presentation below, the appropriations are shown in Operating Activities rather than Non-Capital Financing Activities because the state appropriations are intended to support operations. According to accounting standards, *the appropriations are required to be presented in Non-Capital Financing Activities on the Cash Flow Statement of the Financial Statements.*

Summary of Cash Flows

| | <i>(In Thousands)</i> | | | |
|--|-----------------------|------------------|------------------|-----------------|
| | <u>6/30/2015</u> | <u>6/30/2014</u> | <u>\$ Change</u> | <u>% Change</u> |
| Operating Activities | \$ 901 | 1,428 | (527) | -36.9% |
| Non Capital Financing Activities | 394 | 3,225 | (2,831) | -87.8% |
| Capital Financing Activities | (11,772) | 7,902 | (19,674) | -249.0% |
| Investing Activities | 361 | (297) | 658 | -221.5% |
| Net Increase (Decrease) in Cash & Equivalents | <u>\$ (10,116)</u> | <u>12,258</u> | <u>(22,374)</u> | <u>-182.5%</u> |

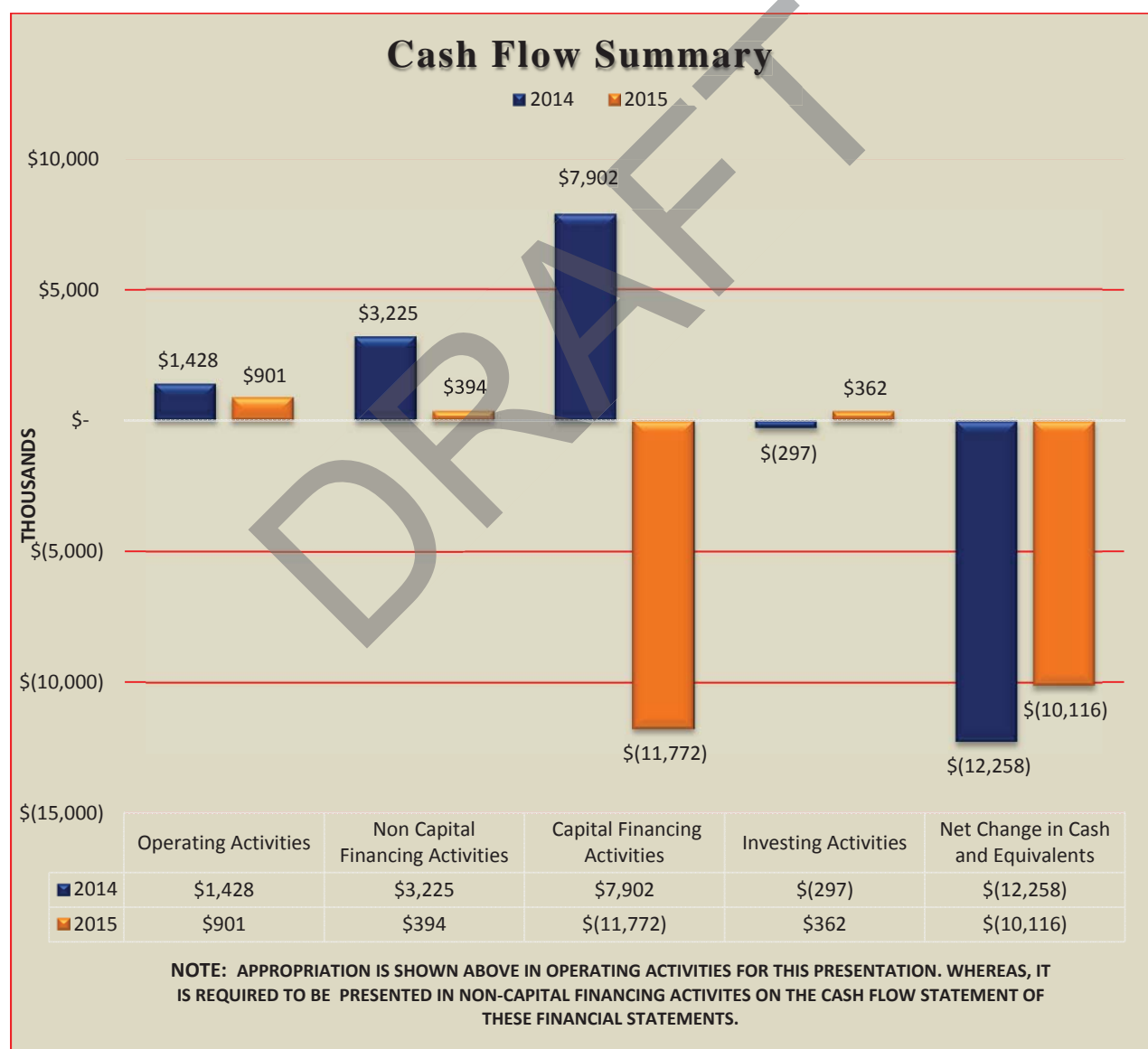
SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Cash Flows - (continued)

The following graph compares the amounts generated by the cash flow categories for fiscal years 2015 and 2014:



SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Statement of Cash Flows - (continued)

Highlights for Cash Flows

The overall decrease in cash and cash equivalents for fiscal 2015 amounted to \$10.1 million and is primarily associated with decreases in capital financing activities:

- Cash payments for the purchases of capital assets of \$7.1 million, primarily for MSCBA projects. (See page 11 for details of capital assets added during FY 2015)
- Cash payments for bond principal of \$1.4 million, primarily for MSCBA and DCAMM related debt. The amount paid for principal increased from prior year by \$664 thousand due to the additional debt acquired for construction projects.
- Cash payments for interest amounted to \$3.2 million mainly for MSCBA and DCAMM related debt. The amount paid for interest during fiscal 2015 increased from prior year by \$2.5 million (76%) due to the additional debt acquired for various construction projects (*The bond debt added was \$19 million in FY 2014 and \$4 million in FY 2015*).

Certain non-cash activity that is not reported in the statement of cash flow is as follows:

- The MSCBA made a bond refunding for the 2005A and 2006A bonds during December 2014 and saved the University approximately \$127 thousand by reducing its total outstanding debt owed on these bonds.
- Existing capital assets were disposed of during fiscal 2015, generating a \$941 thousand write-off of remaining net book value, in order to accommodate the building of the new parking garage.

Ratio Analysis

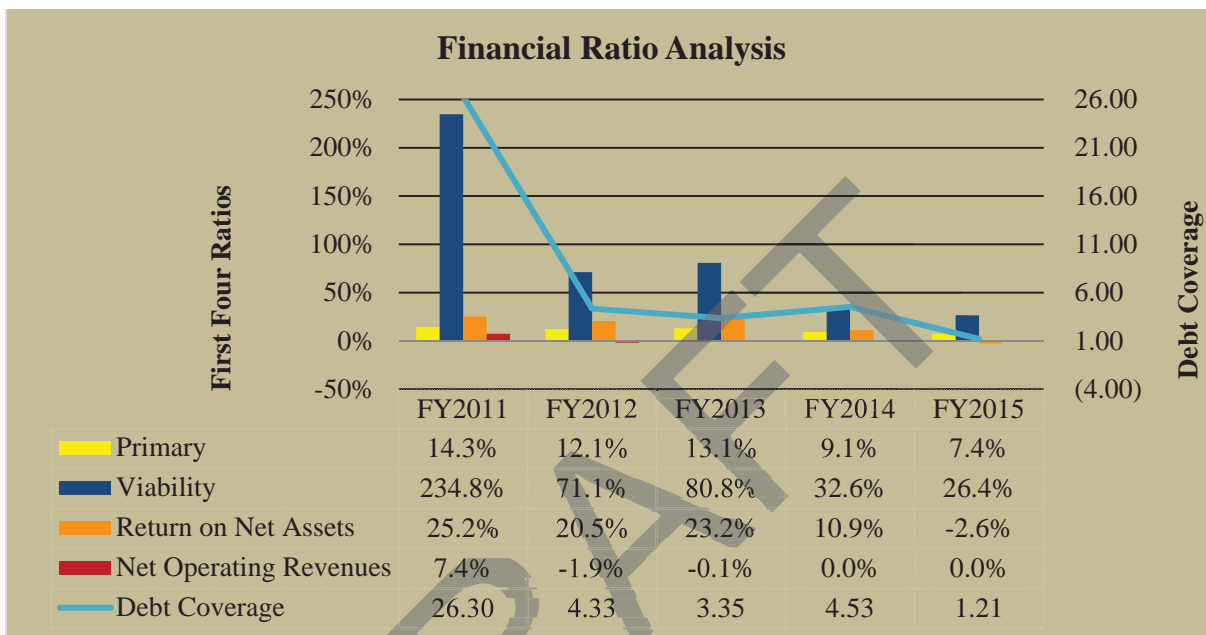
Ratio analysis is a management tool which indicates the University's effective use of its resources, its overall financial viability, its direction in achieving institutional strategic goals, and its ability to meet short and long term obligations in a managed fashion. Ratios are also useful in analyzing trends of an institution over time. A one-year fluctuation in a ratio may be indicative of an aberration for that year or may indicate a relevant trend. The ratios presented here are calculated without the inclusion of the University's component units and without factoring in the effect of the implementation of GASB 68.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Ratio Analysis - (continued)



Comments on Ratio Trends

Primary

This ratio provides a snapshot of the University's financial strength and flexibility by indicating how long it may be able to operate using expendable reserves without relying on additional new assets generated by operation.

Viability

This ratio measures a university's management of resources, including debt, and the availability of expendable net assets (cash and other liquid assets) to pay off long term debt.

Return on Net Position

This ratio measures asset performance and management. By measuring total economic return, this ratio indicates whether a university's resources are growing, and if the university is better off financially than in previous years.

Debt Service Coverage

This ratio measures actual margin of protection for annual debt service payments from annual operations. The higher the number, the better able the institution can cover its debt obligations.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2015

Looking Ahead to FY16

The University opened Viking Hall (residence hall) during fiscal year 2016 and expects to complete and open the Parking Garage as well. A major redesign of the website to support recruitment and enrollment activities will be undertaken and funded by draws on the investment portfolio.

Requests for Further Information

This financial report is designed to provide a general overview of Salem State University's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President for Finance and Business/Chief Financial Officer, 352 Lafayette Street, Salem, Massachusetts 01970-5353.

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SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Net Position

June 30, 2015

Assets and Deferred Outflows of Resources

| | <u>Primary Government</u> | <u>Component Units</u> |
|--|-------------------------------|----------------------------|
| | <u>University</u> | <u>Combined</u> |
| Current Assets: | | |
| Cash and equivalents | \$ 8,369,639 | \$ 1,356,481 |
| Restricted cash and equivalents | 6,101,326 | 1,073,166 |
| Deposits held by State Treasurer | 3,863,536 | - |
| Cash held by State Treasurer | 469,687 | - |
| Deposits held by MSCBA and DCAMM | 16,242,716 | - |
| Investments | 13,035,406 | - |
| Accounts, grants and other receivable, net | 8,230,120 | 17,045 |
| Pledges receivable, net | - | 1,690,618 |
| Note receivable | - | 106,667 |
| Loan receivable - current portion | 250,126 | - |
| Other current assets | <u>166,297</u> | <u>19,426</u> |
| Total Current Assets | <u>56,728,853</u> | <u>4,263,403</u> |
| Non-Current Assets: | | |
| Investments | 590,105 | 26,662,137 |
| Loan receivable, net of current portion | 1,938,475 | - |
| Pledges receivable, net | - | 1,648,025 |
| Note receivables, net of current portion | - | 297,778 |
| Capital assets, net | 155,388,160 | 10,301,838 |
| Debt service reserve | <u>1,406,835</u> | <u>-</u> |
| Total Non-Current Assets | <u>159,323,575</u> | <u>38,909,778</u> |
| Total Assets | <u>216,052,428</u> | <u>43,173,181</u> |
| Deferred Outflows of Resources: | | |
| Contributions made after the plan valuation date | 2,436,331 | - |
| Change in actuarial plan assumptions | 246,056 | - |
| Change in proportion of internal allocation | <u>1,548,874</u> | <u>-</u> |
| Total Deferred Outflows of Resources | <u>4,231,261</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 220,283,689</u> | <u>\$ 43,173,181</u> |

Liabilities, Deferred Inflows of Resources, and Net Position

| | <u>Primary Government</u> | <u>Component Units</u> |
|---|-------------------------------|----------------------------|
| | <u>University</u> | <u>Combined</u> |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 3,054,468 | \$ 475,442 |
| Accrued payroll | 6,362,920 | - |
| Accrued compensated absences | 5,908,154 | - |
| Accrued workers' compensation | 256,291 | - |
| Unearned revenues | 6,801,187 | - |
| Current portion of note payable | 72,469 | 141,968 |
| Current portion of bonds payable | 1,791,058 | 318,197 |
| Deposits | <u>1,143,326</u> | <u>-</u> |
| Total Current Liabilities | <u>25,389,873</u> | <u>935,607</u> |
| Non-Current Liabilities: | | |
| Accrued compensated absences | 3,294,730 | - |
| Accrued workers' compensation | 920,553 | - |
| Long term portion of note payable | 161,919 | 1,505,090 |
| Long term portion of bonds payable | 42,262,746 | 2,290,846 |
| Loans payable - Federal financial assistance programs | 2,290,470 | - |
| Net pension liability | 21,889,032 | - |
| Other non-current liabilities | <u>-</u> | <u>31,630</u> |
| Total Non-Current Liabilities | <u>70,819,450</u> | <u>3,827,566</u> |
| Total Liabilities | <u>96,209,323</u> | <u>4,763,173</u> |
| Deferred Inflows of Resources: | | |
| Service concession arrangements | 547,198 | - |
| Deferred gain on bond refunding | 122,186 | - |
| Differences between projected and actual earnings of plan investments | 4,492,699 | - |
| Change in proportion from Commonwealth | <u>7,578</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>5,169,661</u> | <u>-</u> |
| Net Position: | | |
| Net investment in capital assets | 128,381,296 | 6,045,737 |
| Restricted: | | |
| Nonexpendable | 739,323 | 18,481,983 |
| Expendable | 4,633,554 | 12,996,408 |
| Unrestricted | <u>(14,849,468)</u> | <u>885,880</u> |
| Total Net Position | <u>118,904,705</u> | <u>38,410,008</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 220,283,689</u> | <u>\$ 43,173,181</u> |

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Revenues and Expenses

For the Year Ended June 30, 2015

| | Primary Government <u>University</u> | Component Units <u>Combined</u> |
|--|--|---------------------------------------|
| Operating Revenues: | | |
| Tuition and fees | \$ 73,257,664 | \$ - |
| Less: scholarships and fellowships | <u>(15,360,590)</u> | <u>-</u> |
| Net tuition and fees | 57,897,074 | - |
| Federal grants and contracts | 13,966,348 | - |
| State grants and contracts | 5,728,274 | - |
| Private grants and contracts | 87,864 | - |
| Gifts and contributions | - | 3,362,160 |
| Sales and services of educational departments | 3,780,390 | - |
| Auxiliary enterprises | 16,125,211 | 1,468,965 |
| Other operating revenues | <u>476,543</u> | <u>457,392</u> |
| Total Operating Revenues | <u>98,061,704</u> | <u>5,288,517</u> |
| Operating Expenses: | | |
| Educational and general: | | |
| Instruction | 56,305,715 | - |
| Public service | 588,061 | 1,555,505 |
| Academic support | 15,345,064 | - |
| Student services | 16,646,315 | - |
| Institutional support | 26,103,283 | 819,036 |
| Operation and maintenance of plant | 13,672,500 | - |
| Scholarships | 5,800,876 | 330,255 |
| Depreciation | 7,655,460 | 167,458 |
| Auxiliary enterprises | <u>15,647,277</u> | <u>1,235,568</u> |
| Total Operating Expenses | <u>157,764,551</u> | <u>4,107,822</u> |
| Net Operating Income (Loss) | <u>(59,702,847)</u> | <u>1,180,695</u> |
| Non-Operating Revenues (Expenses): | | |
| State appropriations, net | 54,441,708 | 131,147 |
| Gifts | 1,784,500 | - |
| Investment income | 591,642 | 359,860 |
| Other non-operating revenue (expense) | - | 3,600 |
| Interest expense | <u>(984,575)</u> | <u>(170,659)</u> |
| Net Non-Operating Revenues | <u>55,833,275</u> | <u>323,948</u> |
| Increase (Decrease) in Net Position Before Capital Grants | (3,869,572) | 1,504,643 |
| Capital Grants | <u>846,009</u> | <u>-</u> |
| Total Increase (Decrease) in Net Position | <u>\$ (3,023,563)</u> | <u>\$ 1,504,643</u> |

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Changes in Net Position

For the Year Ended June 30, 2015

| | University | | | | |
|--|-------------------------------------|-----------------------------|--------------------------|------------------------|-----------------------|
| | Net Investment in Capital Assets | Restricted Nonexpendable | Restricted Expendable | Unrestricted | Total |
| Balance at June 30, 2014, as previously reported | \$ 130,538,766 | \$ 722,872 | \$ 4,427,261 | \$ 8,870,751 | \$ 144,559,650 |
| Prior period adjustment - Adoption of new accounting principle (Note 2) | - | - | - | (22,631,382) | (22,631,382) |
| Balance at June 30, 2014, as restated | 130,538,766 | 722,872 | 4,427,261 | (13,760,631) | 121,928,268 |
| Changes in net position for 2015 | (2,157,470) | 16,451 | 206,293 | (1,088,837) | (3,023,563) |
| Balance, June 30, 2015 | <u>\$ 128,381,296</u> | <u>\$ 739,323</u> | <u>\$ 4,633,554</u> | <u>\$ (14,849,468)</u> | <u>\$ 118,904,705</u> |
| | Component Units | | | | |
| | Net Investment in Capital Assets | Restricted Nonexpendable | Restricted Expendable | Unrestricted | Total |
| Balance, June 30, 2014 | \$ 5,604,349 | \$ 17,552,278 | \$ 13,081,664 | \$ 667,074 | \$ 36,905,365 |
| Changes in net position for 2015 | 441,388 | 929,705 | (85,256) | 218,806 | 1,504,643 |
| Balance, June 30, 2015 | <u>\$ 6,045,737</u> | <u>\$ 18,481,983</u> | <u>\$ 12,996,408</u> | <u>\$ 885,880</u> | <u>\$ 38,410,008</u> |

See accompanying notes to financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows

For the Year Ended June 30, 2015

| | <u>University</u> |
|--|-----------------------------|
| Cash Flows from Operating Activities: | |
| Tuition and fees | \$ 57,768,095 |
| Grants and contracts | 19,624,084 |
| Payments to suppliers and vendors | (36,730,024) |
| Payments to employees | (89,252,225) |
| Payments for benefits | (8,379,284) |
| Payments to students | (5,800,876) |
| Loans issued to students | (354,417) |
| Collection of loans to students | 388,870 |
| Auxiliary enterprises receipts | 16,002,662 |
| Sales and services of educational departments | 3,833,465 |
| Other | <u>574,401</u> |
| Net Cash Applied to Operating Activities | <u>(42,325,249)</u> |
| Cash Flows from Non-Capital Financing Activities: | |
| State appropriations | 43,226,888 |
| Tuition remitted to state | (769,606) |
| Special payments to state (9C reduction) | (622,233) |
| Gifts | <u>1,784,500</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>43,619,549</u> |
| Cash Flows from Capital Financing Activities: | |
| Purchases of capital assets | (7,148,056) |
| Principal paid on capital leases and bonds payable | (1,403,097) |
| Interest paid on capital leases and bonds payable | <u>(3,220,845)</u> |
| Net Cash Provided by Capital Financing Activities | <u>(11,771,998)</u> |
| Cash Flows from Investing Activities: | |
| Interest on investments | 490,098 |
| Proceeds from sale of investments | 4,372,433 |
| Purchase of investments | <u>(4,500,854)</u> |
| Net Cash Provided by Investing Activities | <u>361,677</u> |
| Net Increase in Cash and Equivalents | (10,116,021) |
| Cash and Equivalents, Beginning of the Year | <u>45,162,925</u> |
| Cash and Equivalents, End of the Year (Note 16) | <u>\$ 35,046,904</u> |

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows - Continued

For the Year Ended June 30, 2015

| | <u>University</u> |
|---|------------------------|
| Reconciliation of Net Operating Loss to Net Cash | |
| Applied to Operating Activities: | |
| Net operating loss | \$ (59,702,847) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | |
| Depreciation | 7,655,460 |
| Bad debts | 22,722 |
| Fringe benefits provided by State | 11,837,053 |
| Loss on disposal of capital assets | 940,701 |
| Gain on bond refunding | 127,277 |
| Changes in assets and liabilities: | |
| Accounts receivable | (4,043,520) |
| Accounts payable and accrued liabilities | (585,859) |
| Accrued payroll and benefits | (2,062,431) |
| Other assets | 122,436 |
| Other liabilities | (43,529) |
| Loans to/from students | 55,909 |
| Deposits | (534,522) |
| Unearned revenues | 4,359,235 |
| Net pension activity | <u>(473,334)</u> |
| Net Cash Applied to Operating Activities | <u>\$ (42,325,249)</u> |

See accompanying notes to financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows - Continued

For the Year Ended June 30, 2015

| | <u>University</u> |
|--|------------------------|
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | |
| Net operating loss | \$ (59,702,847) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | |
| Depreciation | 7,655,460 |
| Bad debts | 22,722 |
| Fringe benefits provided by State | 11,837,053 |
| Loss on disposal of capital assets | 940,701 |
| Gain on bond refunding | 127,277 |
| Changes in assets and liabilities: | |
| Accounts receivable | (4,043,520) |
| Accounts payable and accrued liabilities | (585,859) |
| Accrued payroll and benefits | (2,062,431) |
| Other assets | 122,436 |
| Other liabilities | (43,529) |
| Loans to/from students | 55,909 |
| Deposits | (534,522) |
| Unearned revenues | 4,359,235 |
| Net pension activity | <u>(473,334)</u> |
| Net Cash Applied to Operating Activities | <u>\$ (42,325,249)</u> |

See accompanying notes to financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Combining Statement of Net Position of Major Component Units

June 30, 2015

| | <u>Assets</u> | | |
|--|-------------------------------------|---------------------------------------|--------------------------------|
| | <u>2015</u> <u>Foundation</u> | <u>2015</u> <u>Assistance Corp</u> | <u>2015</u> <u>Combined</u> |
| Current Assets: | | | |
| Cash and equivalents | \$ 1,004,877 | \$ 351,604 | \$ 1,356,481 |
| Restricted cash and equivalents | 1,073,166 | - | 1,073,166 |
| Accounts, grants and other receivable, net | - | 17,045 | 17,045 |
| Pledges receivable, net | 1,690,618 | - | 1,690,618 |
| Notes receivable | 106,667 | - | 106,667 |
| Other current assets | 19,426 | - | 19,426 |
| Total Current Assets | <u>3,894,754</u> | <u>368,649</u> | <u>4,263,403</u> |
| Non-Current Assets: | | | |
| Investments | 26,662,137 | - | 26,662,137 |
| Pledges receivable, net of current portion | 1,648,025 | - | 1,648,025 |
| Notes receivables, net of current portion | 297,778 | - | 297,778 |
| Capital assets, net | - | 10,301,838 | 10,301,838 |
| Total Non-Current Assets | <u>28,607,940</u> | <u>10,301,838</u> | <u>38,909,778</u> |
| Total Assets | <u>\$ 32,502,694</u> | <u>\$ 10,670,487</u> | <u>\$ 43,173,181</u> |
| | <u>Liabilities and Net Position</u> | | |
| Current Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 381,887 | \$ 93,555 | \$ 475,442 |
| Current portion of notes payable | - | 141,968 | 141,968 |
| Current portion of bond payable | - | 318,197 | 318,197 |
| Total Current Liabilities | <u>381,887</u> | <u>553,720</u> | <u>935,607</u> |
| Non-Current Liabilities: | | | |
| Notes payable less current portion | - | 1,505,090 | 1,505,090 |
| Bond payable less current portion | - | 2,290,846 | 2,290,846 |
| Other non-current liabilities | - | 31,630 | 31,630 |
| Total-Non Current Liabilities | <u>-</u> | <u>3,827,566</u> | <u>3,827,566</u> |
| Total Liabilities | <u>381,887</u> | <u>4,381,286</u> | <u>4,763,173</u> |
| Net Position: | | | |
| Net investment in capital assets | - | 6,045,737 | 6,045,737 |
| Restricted: | | | |
| Nonexpendable | 18,481,983 | - | 18,481,983 |
| Expendable | 12,996,408 | - | 12,996,408 |
| Unrestricted | 642,416 | 243,464 | 885,880 |
| Total Net Position | <u>32,120,807</u> | <u>6,289,201</u> | <u>38,410,008</u> |
| Total Liabilities and Net Position | <u>\$ 32,502,694</u> | <u>\$ 10,670,487</u> | <u>\$ 43,173,181</u> |

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Combining Statement of Revenues, Expenses and Changes in Net Position
of Major Component Units**

For the Year Ended June 30, 2015

| | <u>2015</u> <u>Foundation</u> | <u>2015</u> <u>Assistance Corp</u> | <u>2015</u> <u>Combined</u> |
|--|----------------------------------|---------------------------------------|--------------------------------|
| Operating Revenues: | | | |
| Gifts and contributions | \$ 3,362,160 | \$ - | \$ 3,362,160 |
| Auxiliary enterprises | - | 1,468,965 | 1,468,965 |
| Other operating revenues | - | <u>457,392</u> | <u>457,392</u> |
| Total Operating Revenues | <u>3,362,160</u> | <u>1,926,357</u> | <u>5,288,517</u> |
| Operating Expenses: | | | |
| Educational and general: | | | |
| Public service | 1,555,505 | - | 1,555,505 |
| Institutional support | 819,036 | - | 819,036 |
| Scholarships | 330,255 | - | 330,255 |
| Depreciation and amortization | 2,068 | 165,390 | 167,458 |
| Auxiliary enterprises | - | <u>1,235,568</u> | <u>1,235,568</u> |
| Total Operating Expenses | <u>2,706,864</u> | <u>1,400,958</u> | <u>4,107,822</u> |
| Net Operating Income | <u>655,296</u> | <u>525,399</u> | <u>1,180,695</u> |
| Non-Operating Revenues (Expenses): | | | |
| State appropriations, net | - | 131,147 | 131,147 |
| Investment income | 359,860 | - | 359,860 |
| Other non-operating revenue | - | 3,600 | 3,600 |
| Interest expense | - | <u>(170,659)</u> | <u>(170,659)</u> |
| Net Non-Operating Revenues (Expenses) | <u>359,860</u> | <u>(35,912)</u> | <u>323,948</u> |
| Total Increase in Net Position | <u>\$ 1,015,156</u> | <u>\$ 489,487</u> | <u>\$ 1,504,643</u> |

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies**

Organization

Salem State University (the “University”) is a public, state-assisted university, located in Salem, Massachusetts and governed by a local Board of Trustees under the direction of the Massachusetts Department of Higher Education. The University is empowered to award baccalaureate and master’s degrees in education, business and arts and sciences, as well as conduct programs of continuing education. The University is accredited by the New England Association of Schools and Colleges.

Basis of Presentation and Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

The following discretely presented component units have been aggregated into a single combined column:

The Salem State University Foundation, Inc. (the “Foundation”) was formed in 1977 to render financial assistance and support to the educational programs and development of the University. The Foundation is legally separate from the University, and the University is not financially accountable for the Foundation. The Foundation has been included because of the nature and significance of its relationship with the University. Complete financial statements can be obtained from the Foundation’s administrative offices in Salem, Massachusetts.

In 1995, Salem State University Assistance Corporation (the “Assistance Corporation”) was formed as a result of legislation established by the Commonwealth of Massachusetts. The Assistance Corporation was created to promote the orderly growth and development of the University and to assist the University in securing physical and financial resources necessary for the acquisition and development of a site formerly known as the GTE Sylvania plant. In June 2012, legislation was approved further defining the parameters of this “site” to include other such properties determined by the Assistance Corporation to fulfill its mission.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation and Accounting - Continued

The Assistance Corporation owns and operates commercial rental properties at this site in Salem, Massachusetts. The Assistance Corporation is legally separate from the University, and the University is not financially accountable for the Assistance Corporation.

The Assistance Corporation has been included because of the nature and significance of its relationship with the University. Complete financial statements can be obtained from the Assistance Corporation's administrative offices in Salem, Massachusetts.

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Direct expenses are those that are clearly identifiable with a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are reported as general revenue.

The University has determined that it functions as a business-type activity, as defined by GASB. The effect of inter-fund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management's discussion and analysis, basic financial statements and required supplementary information. The University presents statements of net position, revenues, expenses and changes in net position and cash flows on a combined University-wide basis.

The University's policies for defining operating activities in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities including the University's operating and capital appropriations from the Commonwealth of Massachusetts as well as special payments from the University to the Commonwealth, net investment income, gifts and interest.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies - Continued**

Net Position

Resources are classified for accounting purposes into the following four net position categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted - nonexpendable: Net position subject to externally imposed conditions that the University must maintain in perpetuity, such as the University's permanent endowment funds.

Restricted - expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the University's Board of Trustees.

The University has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds.

Cash and Equivalents

The University's cash and equivalents are cash on hand, cash and deposits held with the Commonwealth's Treasurer, Massachusetts State College Building Authority (MSCBA) and the Division of Capital Asset Management and Maintenance (DCAMM), which are short term, highly liquid investments with original maturities of three months or less from the date of acquisition.

Allowance for Doubtful Accounts

Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks in the loan and receivable portfolio, the estimated value of underlying collateral, and current economic conditions.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies - Continued**

Investments

Investments in marketable securities are stated at fair value. Dividends, interest, and net realized and unrealized gains or losses on investments are reported in the statements of revenues, expenses, and changes in net position. Gains and losses on the disposition of investments are determined based on specific identification of securities sold. Investment income is recognized when earned.

Capital Assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the Commonwealth owns all the assets. Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Educational resource materials are capitalized and amortized over a five-year period. University capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The University does not have collections of historical treasure, works of art, or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

Deposits Held by Other State Agencies

Funds held by the Massachusetts State College Building Authority (MSCBA) and the Division of Capital Asset Management and Maintenance (DCAMM) are primarily for ongoing construction projects.

Pensions

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employees' Retirement System plan ("SERS") and the additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies - Continued**

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 the University's actual experience.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2015. Compensated sick leave represents 20% of amounts earned by those employees with ten or more years of state service at the end of each year. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

Deposits and Unearned Revenues

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred. Funds received in advance from various grants and contracts are deferred. Deposits and unearned revenues are recorded as revenue when earned.

Student Fees

Student tuition and other fees are presented net of scholarships and fellowships applied to students' accounts. Other scholarships or financial aid in excess of tuition and fees are generally reflected as expenses.

Tax Status

The University is an agency of the Commonwealth of Massachusetts and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements

GASB 72, *Fair Value Measurement and Application*, is effective for periods beginning after June 15, 2015. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation methodologies should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value which are as follows: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable, directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumptions about certain factors affecting the value of the asset or liability. Management is in the process of evaluating the implementation of this Statement, but does not expect any material effect to its financial position.

GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; The provisions of this Statement applicable to the University are effective for periods beginning after June 15, 2015. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 68 is effective for the fiscal year ended June 30, 2015. Management has not yet evaluated the effects of the implementation of GASB Statement 73.

GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements - Continued

standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Management is currently reviewing this pronouncement, implementation of which must be applied retroactively.

Note 2 - **Implementation of Newly Effective Accounting Standard**

As a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, the College has restated net position in the statement of net position by \$22,631,382 as of June 30, 2014. The prior period restatement of net position reflects the recognition of a net pension liability as of June 30, 2014, as required by the application of GASB 68.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 2 - **Implementation of Newly Effective Accounting Standard - Continued**

| | As Previously <u>Reported</u> | <u>Restated</u> |
|---------------------------|----------------------------------|-----------------|
| As of June 30, 2014: | | |
| Deferred outflow | \$ - | \$ 1,734,304 |
| Net pension liability | \$ - | \$ 24,365,686 |
| Unrestricted net position | \$ 8,870,751 | \$ (13,760,631) |

Note 3 - **Cash and Equivalents**

Custodial risk is the risk associated with the failure of a depository financial institution. The occurrence of such an event would limit the University's recovery of funds deposited with the institution to those amounts covered by the Federal Deposit Insurance Corporation (FDIC) and other third party insurance in effect at the time of the failure. The University's goal is to mitigate as much custodial risk associated with its cash assets as possible. Deposits in the bank in excess of the insured amounts are uninsured and uncollateralized.

The University places funds with the Massachusetts Municipal Depository Trust (MMDT). The MMDT is an instrumentality of the Treasurer of the Commonwealth and therefore not covered by FDIC insurance and its political Sub-divisions. It is designed as a legal means to temporarily invest available cash in safe, liquid and high yield investment vehicles by offering participation in a diversified portfolio of high quality money market instruments.

At June 30, 2015, the carrying amounts of the University's deposits, net of deposits and disbursements in transit, were \$35,046,904. Of the carrying amounts, \$9,087,092 was held by MMDT at June 30, 2015. Included in the \$35,046,094 total are amounts held in deposit by the MSCBA and DCAMM as follows:

| | |
|-------|----------------------|
| MSCBA | \$ 986,004 |
| DCAMM | <u>15,256,712</u> |
| | <u>\$ 16,242,716</u> |

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 3 - **Cash and Equivalents - Continued**

At June 30, 2015, the University had deposits of \$5,509,169 held in a money market account which was insured by a third party up to a maximum of \$5.4 million.

The University maintains a \$50,000 target balance in its clearing account which is fully covered under FDIC limits. Any amounts greater than the target balance are transferred based on an overnight purchase agreement. The investments in these agreements are U.S. agency issued securities fully backed by the U.S. Government.

Amounts remaining that may be exposed to custodial risk at June 30, 2015 were \$323,819, which are primarily maintained as part of the University's investment portfolio.

Note 4 - **Cash Held By State Treasurer**

Accounts payable and accrued salaries to be funded by cash forwarded by the University to and held by the State Treasurer for payment of so-called 'non-appropriated' liabilities at June 30, 2015 through Massachusetts Management Accounting Reporting System (MMARS) were recorded in the sum of \$3,863,536.

Accounts payable and accrued salaries to be funded by state appropriations at June 30, 2015 were \$469,687.

Note 5 - **Investments**

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2015, the entire balance of investments was \$13,625,511. These holdings represent investments that are insured, registered and held by the University's investment agent in the University's name. At June 30, 2015, there were no individual investments that represented 5% or more of the University's portfolio. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal policies approved by the University's Board of Trustees.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 5 - **Investments - Continued**

University - Continued

Investments of the University are exposed to interest rate and market risk. They are stated at fair market value and consist of the following:

June 30, 2015 Investment Maturity in Years

| <u>Investment Type:</u> | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1-5</u> | <u>6-10</u> | <u>More Than 10</u> |
|--------------------------------|-----------------------------|---------------------------|---------------------|--------------------|----------------------------|
| Debt Securities | \$ 4,600,405 | \$ 485,721 | \$ 3,366,607 | \$ 748,077 | \$ - |
| Bond mutual funds | 59,026 | 2,988 | 56,038 | - | - |
| U.S. agencies | <u>198,799</u> | <u>34,408</u> | <u>145,529</u> | <u>18,862</u> | <u>-</u> |
| Subtotal | <u>4,858,230</u> | <u>\$ 523,117</u> | <u>\$ 3,568,174</u> | <u>\$ 766,939</u> | <u>\$ -</u> |
| Equity securities | 8,342,504 | | | | |
| Exchange traded funds | <u>424,777</u> | | | | |
| Totals | <u>\$ 13,625,511</u> | | | | |

The following table summarizes the quality ratings of the University's debt investments at June 30, 2015:

| | <u>Quality Ratings</u> | | | | | | | | | | |
|-------------------|-------------------------------|-----------------------|-------------------------|-------------------------|-------------------------|-----------------------|-----------------------|-----------------------|------------------------|-------------------------|-------------------------|
| | <u>Fair Value</u> | <u>B2 MDYS</u> | <u>Baa1 MDYS</u> | <u>Baa2 MDYS</u> | <u>Baa3 MDYS</u> | <u>A1 MDYS</u> | <u>A2 MDYS</u> | <u>A3 MYDS</u> | <u>AA1 MDYS</u> | <u>AGCY MDYS</u> | <u>Not Rated</u> |
| Debt securities | \$ 4,600,405 | \$ 409,049 | \$ 462,076 | \$ - | \$ 101,740 | \$ 1,072,873 | \$ 709,810 | \$ 803,847 | \$ 180,336 | \$ 203,438 | \$ 657,236 |
| Bond mutual funds | 59,026 | 5,880 | - | - | - | 35,462 | - | - | - | - | 17,684 |
| U.S. agencies | <u>198,799</u> | <u>19,253</u> | <u>-</u> | <u>25,271</u> | <u>-</u> | <u>-</u> | <u>25,175</u> | <u>25,424</u> | <u>-</u> | <u>75,547</u> | <u>28,129</u> |
| Totals | <u>\$ 4,858,230</u> | <u>\$ 434,182</u> | <u>\$ 462,076</u> | <u>\$ 25,271</u> | <u>\$ 101,740</u> | <u>\$ 1,072,873</u> | <u>\$ 770,447</u> | <u>\$ 829,271</u> | <u>\$ 180,336</u> | <u>\$ 278,985</u> | <u>\$ 703,049</u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 5 - **Investments - Continued**

Foundation

Investments of the Foundation are stated at fair market value and consist of the following at June 30, 2015:

| | |
|-----------------------------|----------------------|
| U.S. Government obligations | \$ 372,203 |
| Corporate bonds | 4,572,711 |
| Money market | 3,254,422 |
| Certificate of deposit | 116,586 |
| Mutual funds | 10,320,038 |
| Common stock | 8,024,529 |
| Other | <u>1,648</u> |
| | <u>\$ 26,662,137</u> |

Investment Return

The following schedule summarizes the investment return in the statements of revenue and expenses for the University and Foundation for the year ended June 30, 2015:

| | <u>University</u> | <u>Component Units</u> |
|---|-------------------|----------------------------|
| Interest and dividends | \$ 484,582 | \$ 530,432 |
| Net realized and unrealized gains and losses | <u>107,060</u> | <u>(170,572)</u> |
| | <u>\$ 591,642</u> | <u>\$ 359,860</u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 6 - **Accounts Receivable**

The accounts receivable balance was comprised of the following at June 30, 2015:

| | |
|---------------------------------------|----------------------------|
| Student accounts receivable | \$ 13,274,108 |
| Grants receivable | 1,290,868 |
| Other | <u>683,111</u> |
| | 15,248,087 |
| Less: allowance for doubtful accounts | <u>(7,017,967)</u> |
| Total Accounts Receivable | \$ <u><u>8,230,120</u></u> |

Note 7 - **Pledges Receivable and Notes Receivable**

Pledges Receivable - Foundation

Unconditional promises to give of the Foundation consisted of the following as of June 30, 2015:

| | |
|---|----------------------------|
| Receivable in less than one year | \$ 1,690,618 |
| Receivable in one to five years | 1,662,382 |
| Receivable after five years | 330,000 |
| Less: Allowance for doubtful accounts | <u>(85,000)</u> |
| Net unconditional promises to give | 3,598,000 |
| Less: discount to net present value at 3% | <u>(259,357)</u> |
| Net contributions receivable | \$ <u><u>3,338,643</u></u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 7 - **Pledges Receivable and Notes Receivable - Continued**

Notes Receivable - Foundation

During 2014, the Foundation provided a loan of \$600,000 to the Assistance Corporation to be used to purchase a property that was then leased to the University. The loan consisted of two notes; the first in the amount of \$200,000, requiring monthly principal payments of \$5,555 plus interest at 1.25%, maturing in August, 2016; the second in the amount of \$400,000, requiring monthly principal payments of \$3,333 plus interest at 6.98% through August 2018, at which point the interest will be adjusted to the Federal Home Loan Bank of Boston Classic Rate for five year maturities (2.09% at June 30, 2014) plus 475 basis points. This note matures in August, 2023. Funding was provided from the Foundation's investment portfolios and all repayments, including principal and interest, will be reinvested therein.

Future minimum maturities of the notes receivable for years subsequent to June 30, 2015 are as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|-------------------|
| 2016 | \$ 106,667 |
| 2017 | 51,111 |
| 2018 | 40,000 |
| 2019 | 40,000 |
| 2020 | 40,000 |
| Thereafter | <u>126,667</u> |
| Total | <u>\$ 404,445</u> |

Note 8 - **Loans Receivable and Payable**

Loans payable and receivable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Loan Program ("NSL"). The Federal Government originally provided the majority of the funds to support these programs. Under certain conditions loan payments from students made under those programs may be re-loaned after collection. The portion of the Perkins and NSL Programs provided by the Federal Government is refundable to the Federal Government upon the ending ("liquidation") of the University's participation in the programs.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 8 - **Loans Receivable and Payable - Continued**

Amounts that would have to be repaid to the Federal Government upon liquidation by the University at June 30, 2015 are \$1,541,964 for Perkins and \$748,506 for NSL, and they are included as a non-current liability in the financial statements, aggregating \$2,290,470 for 2015.

The prescribed practices for the Perkins and NSL programs do not provide for accrual of interest on student loans receivable or for the provision of an allowance for doubtful loans. Accordingly, interest on loans is recorded as received, and loan balances are reduced subsequent to the determination of their lack of collectability and have been accepted (assigned) by the Department of Education. Management closely monitors outstanding balances and assigns loans to the Department of Education based upon such factors as student payment history, current status of applicable students, and the results of collection efforts.

Loans receivable include the following at June 30, 2015:

| | |
|------------------------------|----------------------------|
| Perkins | \$ 1,505,610 |
| Nursing | 657,381 |
| Other | <u>25,610</u> |
| Total loans receivable | 2,188,601 |
| Less: amount due in one year | <u>(250,126)</u> |
| Long-Term Loans Receivable | \$ <u>1,938,475</u> |

The Federal law authorizing the disbursing of Perkins loans expired on September 30, 2015. As of October 1, 2015, the University is prohibited from issuing new Perkins loans to students who have not received them prior to October 1, 2014. As of the date of the financial statements, the Perkins loans program has not been re-authorized and no guidance has been provided from the Department of Education regarding the status of the program.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 9 - **Capital Assets**

Capital asset activity for the University for the year ended June 30, 2015 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
|---------------------------------|------------------------------|---------------------|---------------------|--------------------------|---------------------------|
| Capital assets not depreciated: | | | | | |
| Land | \$ 2,536,173 | \$ - | \$ - | \$ - | \$ 2,536,173 |
| Construction in progress | <u>9,252,945</u> | <u>11,445,037</u> | <u>-</u> | <u>(8,242,096)</u> | <u>12,455,886</u> |
| Total not depreciated | <u>11,789,118</u> | <u>11,445,037</u> | <u>-</u> | <u>(8,242,096)</u> | <u>14,992,059</u> |
| Capital assets depreciated: | | | | | |
| Buildings | 186,983,922 | - | (8,269,152) | 8,149,904 | 186,864,674 |
| Building improvements | 28,085,337 | 1,102,193 | - | 92,192 | 29,279,722 |
| Furniture and equipment | <u>1,638,552</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,638,552</u> |
| Total depreciated | <u>216,707,811</u> | <u>1,102,193</u> | <u>(8,269,152)</u> | <u>8,242,096</u> | <u>217,782,948</u> |
| Total capital assets | <u>228,496,929</u> | <u>12,547,230</u> | <u>(8,269,152)</u> | <u>-</u> | <u>232,775,007</u> |
| Less: accumulated depreciation: | | | | | |
| Buildings | 55,087,739 | 5,928,652 | (7,328,451) | - | 53,687,940 |
| Building improvements | 21,236,043 | 1,605,955 | - | - | 22,841,998 |
| Furniture and equipment | <u>736,056</u> | <u>120,853</u> | <u>-</u> | <u>-</u> | <u>856,909</u> |
| Total accumulated depreciation | <u>77,059,838</u> | <u>7,655,460</u> | <u>(7,328,451)</u> | <u>-</u> | <u>77,386,847</u> |
| Capital Assets, Net | <u>\$ 151,437,091</u> | <u>\$ 4,891,770</u> | <u>\$ (940,701)</u> | <u>\$ -</u> | <u>\$ 155,388,160</u> |

During the year ended June 30, 2015, buildings with a net value of \$940,701 were demolished for the purpose of MSCBA building a residence hall for the University. This remaining net book value has been recorded as an operating expense in the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 9 - **Capital Assets - Continued**

Capital asset activity of the component units for the year ended June 30, 2015 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Ending Balance</u> |
|---------------------------------|------------------------------|---------------------|---------------------------|
| Capital assets not depreciated: | | | |
| Land | \$ <u>6,987,769</u> | \$ <u>-</u> | \$ <u>6,987,769</u> |
| Total not depreciated | <u>6,987,769</u> | <u>-</u> | <u>6,987,769</u> |
| Capital assets depreciated: | | | |
| Buildings | 1,170,018 | | 1,170,018 |
| Building improvements | 4,205,155 | 9,786 | 4,214,941 |
| Furniture and equipment | <u>226,354</u> | <u>3,176</u> | <u>229,530</u> |
| Total depreciated | <u>5,601,527</u> | <u>12,962</u> | <u>5,614,489</u> |
| Total capital assets | <u>12,589,296</u> | <u>12,962</u> | <u>12,602,258</u> |
| Less: accumulated depreciation: | | | |
| Buildings | 469,025 | 29,250 | 498,275 |
| Building improvements | 1,472,097 | 126,418 | 1,598,515 |
| Furniture and equipment | <u>191,840</u> | <u>11,790</u> | <u>203,630</u> |
| Total accumulated depreciation | <u>2,132,962</u> | <u>167,458</u> | <u>2,300,420</u> |
| Capital assets, net | \$ <u>10,456,334</u> | \$ <u>(154,496)</u> | \$ <u>10,301,838</u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 10 - Unearned Revenues

Unearned revenues include tuition received in advance from students for summer courses commencing after June 30, the subsequent fall semester, and grant funds received in advance.

Unearned revenues of the University include the following at June 30, 2015:

| | |
|------------------------|----------------------------|
| Tuition and fees | \$ 6,457,873 |
| Grants | <u>343,314</u> |
| Total Unearned Revenue | \$ <u>6,801,187</u> |

Note 11 - Long-Term Liabilities

Long-term liabilities of the University at June 30, 2015 consist of:

| | Beginning Balance (Restated) | Additions | Reductions | Ending Balance | Current Portion |
|-----------------------------------|---|----------------------------|----------------------------|-----------------------------|----------------------------|
| Bonds and loans payable: | | | | | |
| Bonds payable | \$ 37,796,160 | \$ 3,985,962 | \$ 1,459,290 | \$ 40,322,832 | \$ 1,591,795 |
| Bond premiums | 3,930,239 | - | 199,267 | 3,730,972 | 199,263 |
| Loans payable | 2,319,172 | - | 28,702 | 2,290,470 | - |
| Note payable | 305,465 | - | 71,077 | 234,388 | 72,469 |
| Net pension liability | <u>24,365,686</u> | <u>-</u> | <u>2,476,654</u> | <u>21,889,032</u> | <u>-</u> |
| Total bonds and loans payable | <u>68,716,722</u> | <u>3,985,962</u> | <u>4,234,990</u> | <u>68,467,694</u> | <u>1,863,527</u> |
| Other long-term liabilities: | | | | | |
| Accrued compensated absences | 8,642,313 | 560,571 | - | 9,202,884 | 5,908,154 |
| Workers' compensation | <u>1,018,694</u> | <u>158,150</u> | <u>-</u> | <u>1,176,844</u> | <u>256,291</u> |
| Total other long-term liabilities | <u>9,661,007</u> | <u>718,721</u> | <u>-</u> | <u>10,379,728</u> | <u>6,164,445</u> |
| Total Long-Term Liabilities | \$ <u>78,377,729</u> | \$ <u>4,704,683</u> | \$ <u>4,234,990</u> | \$ <u>78,847,422</u> | \$ <u>8,027,972</u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - **Long-Term Liabilities - Continued**

Bonds Payable

Over the past ten years, the University, in association with the Massachusetts State College Building Authority (MSCBA), the Massachusetts Development Finance Agency (MDFA) and the Commonwealth of Massachusetts Division of Capital Asset Management and Maintenance (DCAMM) have entered into financing and construction agreements for various campus projects. The projects are as follows:

O'Keefe Athletic Complex Fields

During fiscal year 2005, the University entered into an agreement with the MSCBA to initiate a construction project to upgrade the University's athletic field at the O'Keefe Athletic Complex. The scope of the services provided by MSCBA included planning and design as well as project management and construction. The project was completed during fiscal year 2006. The source of financing for the project is based on the issuance of Project Revenue Bonds issued by MSCBA on behalf of the University (Series 2005A via First Albany Capital, Public Finance). Through its agreement with MSCBA, the University has an agreement to re-pay this debt in semi-annual installments, which started June 30, 2005 and ends June 30, 2025, at an annual variable coupon rate averaging approximately 4.25%. These bonds were refunded during the year ended June 30, 2015 as described in Note 12.

Central Campus Athletic Field and Tennis Court

During fiscal year 2006, the MSCBA issued Project 2006A bonds to support a project for the construction of a multi-purpose athletic field and tennis courts on the Central Campus of the University. The University has an agreement with the MSCBA to re-pay this debt in semi-annual installments, which started May 1, 2006 and ends May 1, 2026, as an annual coupon rate of approximately 4.26%.

Clean Renewable Energy Initiatives

During fiscal year 2008 the MDFA issued Clean Renewable Energy Bonds totaling \$214,500 on behalf of the University. The proceeds from this issue were used to install solar panels on various buildings on campus. Through its agreement with MDFA, the University agreed to re-pay this interest free debt with annual principal installments of \$14,300. The term of the issue is from December 31, 2007 to December 31, 2020.

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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

Clean Renewable Energy Initiatives - Continued

In September 2010, the Commonwealth of Massachusetts issued Clean Renewable Energy Bonds (CREBS) at 3.5%. From this bond issue, the University received \$289,995 for the purpose of acquiring and installing solar panels on the O'Keefe Center. The University makes semi-annual payments of interest and principal. The bond holder is Century Bank. The term of the bond extends to May 2027.

Harold E. and Marilyn J. Gassett Fitness & Recreation Center at the O'Keefe Athletic Complex

In January of 2012, the MSCBA issued 2012A Project Bonds. The University was allotted \$16,028,603 for the construction of a Fitness Center as part of the O'Keefe Athletic Complex. The University's portion of this issue consisted of principal of \$14,230,000 with a premium of \$1,798,603. The term of this debt extends to June 30, 2036 with a true interest cost (TIC) of 3.94%.

With this issue, the 2005 and 2006 bond issues were refinanced at the lower TIC. This resulted in lower interest payments on both the 2005 and 2006 bond issues starting with the MSCBA 2012 spring assessment until the respective maturity date of each bond. The Debt Service Reserve for the 2005 bond was also reduced by approximately \$159,000 leaving a balance of \$88,612. A Debt Service Reserve remains for the 2006 bond in the amount of \$247,737, which is unchanged from fiscal year 2012.

Sophia Gordon Center for Creative and Performing Arts Theater and Other Projects

During January 2014, the MSCBA issued 2014 project bonds on behalf of the University. These bond proceeds along with other University funds are being used to fund the construction of various projects on campus. These projects include the creation of the Student Navigation Center (complete), comprehensive renovations to the Sophia Gordon Center for Creative and Performing Arts Theater (in process), relocation of the Public Safety station (complete) and the development and creation of a parking lot on Assistance Corporation owned land (Note 24). These bonds consist of principal in the amount of \$19,030,000, issued at a premium of \$2,243,187. The average annual coupon rate is approximately 4.0% over the life of the issue, and the term of this debt extends to June 30, 2033.

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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

Clean Energy Investment Program

During July 2013, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project – Phase 1 (the project). In addition, during February 2014, the University entered into a second Memorandum of Agreement with DCAMM related to the same project but known as Phase 2. The project's goal is to upgrade the University campus wide lighting and lighting controls, water conservation and vending machine controls, motors, steam traps, pipe insulation, kitchen hood controls, energy management system upgrades, high efficiency gas boilers, and HVAC modifications. The total project cost for Phase 1 is \$1,694,560 and is to be repaid over 15 years at 4.0% interest per annum. Annual payments of principal and interest for Phase 1 in the amount of \$152,411 commenced in January 2015. The total project cost for Phase 2 is \$2,291,401 and is to be repaid over 15 years at 3.75% interest per annum. Annual payments of principal and interest for Phase 2 in the amount of \$202,505 commenced in January 2015.

During the year ended June 30, 2015, DCAMM expended all funds owed by the University (Total of \$3,985,962 for Phase 1 and 2). During fiscal 2015, the University received approximately \$750,000 of capital grants toward this project.

Debt Service Reserves

Debt service reserves are held by the MSCBA for past bond issuances and amounted to \$1,406,835 at June 30, 2015.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - Long-Term Liabilities - Continued

Bonds Payable - Continued

Maturities of the bonds payable subsequent to June 30, 2015 are as follows:

| Years Ending <u>June 30,</u> | <u>Principal</u> | <u>Amortization of Premium</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|------------------------------------|----------------------|----------------------|
| 2016 | \$ 1,591,795 | \$ 199,263 | \$ 962,133 | \$ 2,753,191 |
| 2017 | 1,649,256 | 199,263 | 1,844,576 | 3,693,095 |
| 2018 | 1,751,172 | 199,263 | 1,776,201 | 3,726,636 |
| 2019 | 1,831,098 | 199,263 | 1,695,966 | 3,726,327 |
| 2020 | 1,922,623 | 199,263 | 1,615,455 | 3,737,341 |
| 2021-2024 | 8,567,061 | 797,052 | 5,553,655 | 14,917,768 |
| 2025-2029 | 11,254,827 | 961,827 | 4,553,006 | 16,769,660 |
| 2030-2034 | 9,785,000 | 829,016 | 1,825,000 | 12,439,016 |
| 2035-2039 | <u>1,970,000</u> | <u>146,762</u> | <u>124,375</u> | <u>2,241,137</u> |
| Total | <u>\$ 40,322,832</u> | <u>\$ 3,730,972</u> | <u>\$ 19,950,367</u> | <u>\$ 64,004,171</u> |

Notes Payable

During September 2013 a note payable was acquired for \$363,653 to purchase various equipment for use in the Gassett Fitness Center. The note payable term is for five years, requires monthly payments of \$6,364, has an average interest rate of 2% and is payable through August 2018. The annual principal payments on this note are as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|-------------------|
| 2016 | \$ 72,469 |
| 2017 | 73,887 |
| 2018 | 75,333 |
| 2019 | <u>12,699</u> |
| Total | <u>\$ 234,388</u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - **Long-Term Liabilities - Continued**

Long Term Debt - Assistance Corporation

Capital debt for the Assistance Corporation at June 30, 2015 consisted of:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|---------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Notes payable | \$ 1,785,445 | \$ - | \$ 138,387 | \$ 1,647,058 | \$ 141,968 |
| Bonds payable | \$ 3,066,540 | \$ - | \$ 457,497 | \$ 2,609,043 | \$ 318,197 |

Note Payable - Assistance Corporation

In August 2013, assets consisting of land and buildings were purchased and completely financed through two promissory notes totaling \$600,000. Under the terms of the first promissory note, the Assistance Corporation agreed to pay the Salem State University Foundation \$400,000 plus interest accruing at 6.98% per annum. Principal payments in the amount of \$3,333 plus interest are due monthly. Under the agreement, the interest rate will be adjusted so that it is equal to 475 basis points above the Federal Home Loan Bank of Boston Classic rate for 5 year maturities. The entire outstanding principal balance of the note along with any accrued interest is due on August 2023. Under the terms of the second promissory note, the Assistance Corporation agreed to pay the Salem State University Foundation \$200,000 plus interest accruing at 1.25% per annum. Principal payments in the amount of \$5,556 plus interest are due monthly. The entire outstanding principal balance of the note along with any accrued interest is due in August of 2016.

During the year ended June 30, 2013, the Assistance Corporation refinanced its outstanding debt with the proceeds of a mortgage from another financial institution. The loan is a five year adjustable rate mortgage due September 2022 with a 25-year amortization. Under the terms of this loan, the Assistance Corporation borrowed \$1,300,000, drawing down \$1,261,056 to pay off its existing loan. An additional \$38,944 was drawn down during fiscal year 2014. Payments in the amount of \$6,856, including principal and interest at 3.95% are due monthly through August 2017 at which time the interest rate will be adjusted to 4.625% for the remainder of the term. A final balloon payment representing the outstanding balance is due in September 2022. The loan is secured by a mortgage on real estate owned by the Assistance Corporation.

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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - **Long-Term Liabilities - Continued**

Note Payable - Assistance Corporation - Continued

The annual debt service requirements to maturity for the capital debt are as follows:

| Years Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|-------------------|
| 2016 | \$ 141,968 | \$ 70,325 |
| 2017 | 86,656 | 65,586 |
| 2018 | 69,048 | 69,274 |
| 2019 | 70,420 | 64,894 |
| 2020 | 71,857 | 60,673 |
| 2021-2022 | <u>1,207,109</u> | <u>167,595</u> |
| Total | \$ <u>1,647,058</u> | \$ <u>498,347</u> |

Bonds Payable - Assistance Corporation

In August 2010, HEFA issued Revenue Bonds, Salem State University Assistance Corporation Issue, Series 2010A bearing interest at 3.26% with a maturity date of September 15, 2020 in the amount of \$4,700,000. HEFA sold the bonds to TD Bank and loaned the proceeds to the Assistance Corporation. The loan proceeds were used to acquire additional rental property that would be leased to the University for approximately \$4,500,000 and to pay for associated financial and closing costs.

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Notes to the Financial Statements - Continued

June 30, 2015

Note 11 - **Long-Term Liabilities - Bonds Payable - Continued**

Bonds Payable - Assistance Corporation - Continued

Subsequent to June 30, 2015, principal and interest payments on the revenue bond payable for the next five years and thereafter are as follows:

| Years Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|-------------------|
| 2016 | \$ 318,197 | \$ 80,328 |
| 2017 | 328,727 | 69,799 |
| 2018 | 339,605 | 58,921 |
| 2019 | 350,843 | 47,683 |
| 2020 | 362,453 | 36,073 |
| 2021 | <u>909,218</u> | <u>7,159</u> |
| Total | \$ <u>2,609,043</u> | \$ <u>299,963</u> |

Note 12 - **Pensions**

Defined Benefit Plan Description

The Commonwealth makes contributions on behalf of the University for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$4,331,123 for the year ended June 30, 2015. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement system.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Pensions - Continued**

Defined Benefit Plan Description - Continued

Certain employees of the University participate in a cost-sharing multiple-employer defined benefit pension plan – the Massachusetts State Employees’ Retirement System (SERS) – administered by the Massachusetts State Board of Retirement (the “Board”), which is a public employee retirement system (PERS). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits through the plan, regardless of the status of the employers’ payment of its pension obligations to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

SERS does not issue a stand-alone financial statement.

Benefit Provisions

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

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

Contributions

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

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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Pensions - Continued**

Contributions - Continued

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

| <u>Hire Date</u> | <u>Percent of Compensation</u> |
|--------------------|---|
| Prior to 1975 | 5% of regular compensation |
| 1975 – 1983 | 7% of regular compensation |
| 1984 – 6/30/1996 | 8% of regular compensation |
| | 9% of regular compensation except for State Police which is 12% of regular compensation |
| 7/1/1996 – present | An additional 2% of regular compensation in excess of \$30,000 |
| 1979 – present | |

The University is required to contribute at an actuarially determined rate; the rate was 10.39% of annual covered payroll for the fiscal year ended June 30, 2015. The University contributed \$2,436,331 for the fiscal year ended June 30, 2015, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2015, the University reported a liability of \$21,889,032 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability was measured as of June 30, 2014, the measurement date, and the total pension liability were used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The University's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts', including collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2014. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2014 relative to total contributions of all participating employers for that fiscal year. At June 30, 2014, the University's proportion was 0.30%.

For the year ended June 30, 2015, the University recognized pension expense of \$1,962,997. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Pensions - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources:

| | |
|--|---------------------|
| Contributions made after the plan valuation date | \$ 2,436,331 |
| Changes in plan actuarial assumptions | 246,056 |
| Changes in proportion | <u>1,548,874</u> |
| Total | \$ <u>4,231,261</u> |

Deferred Inflows of Resources:

| | |
|---|---------------------|
| Net differences between projected and actual earnings on plan investments | \$ 4,492,699 |
| Changes in proportion | <u>7,578</u> |
| Total | \$ <u>4,500,277</u> |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - Continued

Contributions of \$2,436,331 are reported as deferred outflows of resources related to pensions resulting from the College contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending
June 30,

| | |
|------|-----------------------|
| 2016 | \$ (725,985) |
| 2017 | (725,985) |
| 2018 | (725,985) |
| 2019 | (725,985) |
| 2020 | <u>198,593</u> |
| | \$ <u>(2,705,347)</u> |

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Pensions - Continued**

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|----------------|
| Inflation | 3.00% |
| Salary increases | 3.50% to 9.00% |
| Investment rate of return | 8.00% |

Mortality rates were based on pre-retirement of RP-2000 Employees table projected 20 years with Scale AA (gender distinct) and post-retirement of Healthy Annuitant table projected 15 years with Scale AA (gender distinct).

The actuarial assumptions used in the January 1, 2014 valuation rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of actuarial experience study performed as of January 1, 2014.

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

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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Pensions - Continued**

Actuarial Assumptions - Continued

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term expected real rate of return</u> |
|--------------------------|--------------------------|---|
| Global Equity | 43% | 7.20% |
| Core Fixed Income | 13% | 2.50% |
| Hedge Funds | 10% | 5.50% |
| Private Equity | 10% | 8.80% |
| Real Return | 10% | 6.30% |
| Value Added Fixed Income | 10% | 6.30% |
| Timber/Natural Resources | <u>4%</u> | 5.00% |
| | <u>100%</u> | |

Discount Rate

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

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Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Pensions - Continued**

Sensitivity of the Net Pension Liability to changes in the Discount Rate

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate of 8.0 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

| 1.00% Decrease (7.00%) | Current Discount Rate (8.00%) | 1.00% Increase (9.00%) |
|---------------------------|----------------------------------|---------------------------|
| \$ 31,689,115 | \$ 21,889,032 | \$ 13,477,014 |

Note 13 - **Deferred Inflows of Resources**

Service Concession Arrangements

Deferred inflows of resources include contributions made by certain vendors. The University's food service operations are managed under an agreement by an outside party. In accordance with an agreement and subsequent amendments, the vendor has made several contributions over the period from January 2002 through January 2013 totaling \$3,630,000.

The term of the agreement was extended until 2022, and the amortization tables were adjusted accordingly. Either party may terminate this agreement at any time, without cause, by providing sixty days written notice. In the event of termination, the unamortized portion is to be returned. At June 30, 2015, the unamortized portion of these contributions approximated \$354,000. Amounts received from other vendors at June 30, 2015 approximated \$193,000.

Bond Refunding

During December 2014, the MSCBA refunded the bonds for the Athletic Complex Fields and Central Campus Athletic Field and Tennis Court (Note 11) and resulted in a gain by reducing the amount the University owed by approximately \$128,000. The unamortized portion of this gain approximates \$122,000 at June 30, 2015 and is included in the deferred inflows of resources total in the financial statements. The principal reduction for these bonds totaled approximately \$216,000 which was due to a \$128,000 gain on the refunding and \$88,000 of the University's cash reserves held by MSCBA.

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Notes to the Financial Statements - Continued

June 30, 2015

Note 14 - **Rental Income**

The Assistance Corporation has long-term operating leases with lessees. Minimum future rentals under the non-cancellable operating leases subsequent to June 30, 2015 are as follows:

| Years Ending <u>June 30,</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2016 | \$ 1,124,268 |
| 2017 | 833,241 |
| 2018 | 736,814 |
| 2019 | 669,929 |
| 2020 | 602,146 |
| Thereafter | <u>255,746</u> |
| Total | \$ <u>4,222,144</u> |

In accordance with the terms of the HEFA bond payable (Note 11), base rent on the property acquired through this mortgage is paid directly to TD Bank as debt service. The University, at its sole option, may pay additional base rent to reduce the principal balance of the mortgage.

Note 15 - **Operating Leases**

The University has numerous operating leases for property at various locations from the Assistance Corporation and for equipment from outside vendors. These leases expire in 2020. Future minimum payments related to these leases are as follows:

| Years Ending <u>June 30,</u> | <u>Assistance Corporation</u> | <u>Outside Vendors</u> | <u>Total</u> |
|---------------------------------|-----------------------------------|----------------------------|---------------------|
| 2016 | \$ 1,497,064 | \$ 471,620 | \$ 1,968,684 |
| 2017 | 1,400,432 | 355,960 | 1,756,392 |
| 2018 | 1,267,968 | 61,521 | 1,329,489 |
| 2019 | 953,479 | 7,031 | 960,510 |
| 2020 | <u>460,836</u> | <u>-</u> | <u>460,836</u> |
| Total | \$ <u>5,579,779</u> | \$ <u>896,132</u> | \$ <u>6,475,911</u> |

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Notes to the Financial Statements - Continued

June 30, 2015

Note 16 - **Restricted Net Position**

The University is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are comprised of the following at June 30, 2015:

| | |
|---|---------------------|
| Restricted - nonexpendable: | |
| Scholarships and fellowships | \$ <u>739,323</u> |
| Restricted - expendable: | |
| Scholarships, fellowships, loans, research grants and contracts | \$ <u>4,633,554</u> |

The Foundation's restricted - nonexpendable and expendable net position consists of investments to be utilized for various scholarships and program support.

Note 17 - **Cash Flow Information**

Cash and equivalents are comprised of the following at June 30, 2015:

| | |
|----------------------------------|----------------------|
| Cash and equivalents | \$ 8,369,639 |
| Restricted cash and equivalents | 6,101,326 |
| Deposits held by State Treasurer | 3,863,536 |
| Cash held by State Treasurer | 469,687 |
| Deposits held by MSCBA and DCAMM | <u>16,242,716</u> |
| Total | <u>\$ 35,046,904</u> |

The following summarizes non-cash transactions for the years ended June 30, 2015:

| | |
|---|----------------------|
| Fringe benefits provided by the state | \$ <u>11,837,053</u> |
| Acquisition of capital assets through DCAMM | \$ <u>5,399,174</u> |

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Notes to the Financial Statements - Continued

June 30, 2015

Note 18 - **Commitments and Contingencies**

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Commonwealth is self-insured.

Various lawsuits are pending or threatened against the University which arise in the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened which would materially affect the University's financial position.

The University receives significant financial assistance from Federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditure resulting from such audits become a liability of the University. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

The University participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for the future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The University is obligated to accept as payment of tuition the amount determined by this Program without regard to standard tuition rate in effect at the time of the individual's enrollment at the University. The effect of the program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the University.

The U.S. Environmental Protection Agency (EPA) notified the University in August 1998 that it is a potential responsible party with respect to environmental impacts resulting from contaminated soil upon the removal of underground oil tanks in 1991. The EPA has not closed out their investigation. During fiscal year 2015, the University paid no remediation costs and received no communication from Federal or state agencies. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 19 - **Operating Expenses**

The University's operating expenses, on a natural classification basis, are comprised of the following at June 30, 2015:

| | |
|-----------------------------|------------------------------|
| Compensation and benefits | \$ 107,036,247 |
| Supplies and services | 32,934,647 |
| Utilities | 4,337,321 |
| Depreciation | 7,655,460 |
| Scholarships and fellowship | <u>5,800,876</u> |
| Total | \$ <u>157,764,551</u> |

Note 20 - **Fringe Benefit Program**

The University participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension, and workers' compensation benefits. Health insurance costs for active employees and retirees are paid through a fringe benefit rate charged to the University by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net assets and the results of current year operations, due to the adoption of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions.

The overall fringe benefit charge increased from 27.68% in 2014 to 28.86% in 2015 including 1.42% and 1.59% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 7.93% in 2014 to 10.39% in 2015. In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 20 - **Fringe Benefit Program - Continued**

Insurance

The Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, participating municipalities, and retired municipal employees and teachers in certain governmental units.

Health coverage options include an Indemnity plan, Preferred Provider-type Organizations (PPO), an Exclusive Provider Organization (EPO), and multiple HMO plans. The GIC also manages basic and optional life insurance coverage. As part of its UniCare State indemnity and active employee Tufts Health plans, it manages mental health/substance abuse benefits and also manages pharmacy benefits for the indemnity plans. For active state employees only, the GIC offers a long-term disability (LTD) program, two pre-tax employee programs – Health Care Spending Account (HCSA) and Dependent Care Assistance Program (DCAP), and for managers, legislators, legislative staff and certain Executive Office staff, a dental/vision plan. The GIC also offers a discount vision and a dental plan for Commonwealth retirees.

As of June 30, 2015, the University had paid all amounts charged to it through the Commonwealth's fringe benefit recovery program.

Note 21 - **Massachusetts Management Accounting Reporting System (MMARS)**

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus-based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting Reporting System (MMARS), using the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. The amounts reported on MMARS meet the guidelines of the Comptroller's Guide for Higher Education Audited Financial Statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 21 - **Massachusetts Management Accounting Reporting System (MMARS) - Continued**

The University's state appropriations are composed of the following at June 30, 2015:

| | |
|--|--------------------------|
| Direct unrestricted appropriations | \$ 43,996,494 |
| <u>Add:</u> | |
| Fringe benefits for benefited employees on the state payroll | 11,837,053 |
| <u>Less:</u> | |
| Special payment to state (9C reduction) | (622,233) |
| Day school tuition remitted to the state and included in tuition and fee revenue | <u>(769,606)</u> |
| Total unrestricted appropriations | \$ <u>54,441,708</u> |

A reconciliation between the University and MMARS fund 901 activity as of June 30, 2015 is as follows (unaudited):

| | |
|------------------------|-----------------------|
| Revenue per MMARS | \$ 110,635,495 |
| Revenue per University | \$ <u>110,635,495</u> |
| Difference | \$ _____ |

During fiscal year 2015, the University was required to transfer to the State \$622,233 in accordance with 9C requirements. This amount is included as a non-operating expenditure in the Statement of Revenues, Expenses and Changes in Net Position.

Note 22 - **Pass-Through Student Federal Loans**

The University distributed approximately \$45,813,000 for the year ended June 30, 2015, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included as revenues and expenses or as cash receipts and cash disbursements in the accompanying financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 23 - **Massachusetts State College Building Authority**

The Massachusetts State College Building Authority (MSCBA) was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth as a public instrumentality for the general purpose of providing residence halls for use by students of the state universities of the Commonwealth, as well as major construction projects on their campuses. The residence halls are leased from the MSCBA for various terms, allowing for periods of up to forty years.

The University is charged a semi-annual revenue assessment that is based on a certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls, as well as debt service on instruments issued for dormitory and other major construction projects for the University. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls, as well as other major construction performed on campus, which has included athletic field construction and repair. Certain of these obligations are guaranteed by the Commonwealth, while others are not. For those not guaranteed, the revenues of the underlying assets are pledged against the bonds.

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations, other major renovations and improvements for the University for the year ended June 30, 2015 were \$9,681,042, respectively, and are included in the auxiliary enterprise, and institutional support category in the accompanying statements of revenues and expenses and changes in net position. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

Note 24 - **Assistance Corporation Parking Lot**

As part of the January 2014 bond issuance for the Mainstage Theatre and Other Projects, the University has obtained MSCBA bond financing of \$1,920,000 for the development and creation of a parking lot on Assistance Corporation owned land (Note 10). The parking lot has been completed as of June 30, 2015.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 25 - **Subsequent Events**

Bookstore

The University entered into a management services agreement (the “agreement”) along with nine other institutions within the Commonwealth of Massachusetts (the “institutions”) for the management of its bookstores by its existing vendor. The agreement is effective July 1, 2015 and expiring June 30, 2020, unless sooner terminated as provided for in the agreement, and containing automatic one year renewals requiring 120 days written notice by either party. The agreement provides for minimum annual guarantee payments for the institutions of three million dollars in total in years one and two. Minimum annual guarantee payments in subsequent years, including renewal years, will be 95% of the preceding years’ actual commission payment. If any single institution terminates its involvement in the agreement, the payments shall then be based on the percentage of commissionable sales, and the minimum annual guarantee shall not apply. In addition, the University will receive a one-time bonus of \$353,000 subject to amortization over the initial life of the agreement and annual Textbook Scholarships of approximately \$9,630.

Property Purchase

The University closed on the purchase of a property on Loring Avenue on behalf of the Assistance Corporation, in whose name the property was purchased under. The cost of the property approximated \$330,000 and the funds used to pay for this property were obtained from the MSCBA, as part of an agreement with the University. The agreement between the University and the MSCBA allotted for \$1,090,000 in funds to be used for property purchases as they occurred and these funds to be used by the University are to be repaid to the MSCBA semi-annually commencing in November 2015.

Parking Garage

During fiscal year 2015, the University entered into a forty year lease agreement with MSCBA for the use of a parking garage. Future minimum payments are \$1 per year plus assessments made by MSCBA. As of June 30, 2015, the parking garage project is in the construction phase and is expected to be completed during November 2015.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2015

Note 25 - **Subsequent Events - Continued**

Viking Hall

During fiscal year 2015, the University entered into a forty year lease agreement with MSCBA for the use of a residence hall, Viking Hall. Future minimum payments are based upon assessments made by MSCBA. As of June 30, 2015, the project is in the construction phase and is expected to be completed during November 2015.

DRAFT

**REQUIRED SUPPLEMENTARY
INFORMATION**

DRAFT

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of the Net Pension Liability (Unaudited)

Valuation was performed as of January 1, 2014 and adjusted through June 30, 2014 (measurement date)

| | |
|--|---------------|
| Proportion of the collective net pension liability | 0.295% |
| Proportionate share of the collective net pension liability | \$ 21,889,032 |
| Covered-employee payroll | \$ 21,870,164 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 100.09% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.32% |

DRAFT

Notes:

The Schedule is intended to show ten years. Information is only available for one year.
The valuation was performed as of January 1, 2014 and adjusted through June 30, 2014.

See accompanying notes to the required supplemental information.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions (Unaudited)

For the Year Ended June 30, 2015

| | |
|--|--------------------|
| Contractually required contribution | \$ 2,436,331 |
| Contributions in relation to the contractually required contribution | <u>(2,436,331)</u> |
| Contribution excess | <u><u>\$ -</u></u> |
| Covered-employee payroll | \$ 23,448,807 |
| Contribution as a percentage of covered-employee payroll | 10.39% |

DRAFT

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an actually determined contribution rate each year

The Schedule is intended to show ten years. Information is only available for one year.

See accompanying notes to the required supplemental information.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2015

Note 1 - **Change in Assumptions**

Changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statement of net position. The University's proportionate share of the net pension liability and the results of changes in assumptions is .295%, as shown on the Schedule of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the University to total contributions by all participating State Agencies.

The University's portion of these amounts is as follows:

| | |
|---|------------|
| 1. Changes in assumptions | \$ 300,735 |
| 2. Recognized in current year pension expense | 54,679 |
| 3. Deferred outflow of resources | 246,056 |

SUPPLEMENTAL SCHEDULES

DRAFT

SALEM STATE UNIVERSITY
 (an agency of the Commonwealth of Massachusetts)

Schedule of Net Position
Dormitory Trust Fund Report (Unaudited)

June 30, 2015

| <u>Assets</u> | |
|---|----------------------------|
| Assets: | |
| Cash and equivalents | \$ 1,306,375 |
| Accounts receivable, net | 572,197 |
| Other receivables, net | <u>21,526</u> |
| Total Assets | <u>\$ 1,900,098</u> |
| <u>Liabilities and Net Position</u> | |
| Liabilities: | |
| Accounts payable | \$ 175,833 |
| Accrued payroll and fringe benefits | 89,741 |
| Dormitory deposits | 299,599 |
| Accrued compensated absences | <u>245,078</u> |
| Total Liabilities | 810,251 |
| Net Position | <u>1,089,847</u> |
| Total Liabilities and Net Position | <u>\$ 1,900,098</u> |

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Revenues, Expenses, and Changes in Net Position
Dormitory Trust Fund Report (Unaudited)

For the Year Ended June 30, 2015

| | |
|--|----------------------------|
| Revenues: | |
| Student fees | \$ 15,790,400 |
| Commissions | 64,328 |
| Rentals | 229,160 |
| Interest | 190 |
| Other | <u>-</u> |
| Total Revenues | <u>16,084,078</u> |
| Expenses: | |
| Regular employee compensation | 2,099,263 |
| Regular employee related expenses | 2,828 |
| Special employee compensation | 624,913 |
| Pension and insurance related | 575,869 |
| Administrative | 218,434 |
| Facility operational | 160,599 |
| Energy and space rental | 1,680,614 |
| Consultant services | 1,250 |
| Operational services | 153,496 |
| Equipment purchase | 15,320 |
| Equipment maintenance | 867,770 |
| Scholarships and fellowships | 846,965 |
| Loans and special payments | 9,226,903 |
| Information technology | <u>53,984</u> |
| Total Expenses | <u>16,528,208</u> |
| Excess of Revenues over Expenses | (444,130) |
| Net Transfers | <u>198,075</u> |
| Total Increase (Decrease) in Net Position | <u>(246,055)</u> |
| Net Position, Beginning of Year | <u>1,335,902</u> |
| Net Position, End of Year | <u>\$ 1,089,847</u> |

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of
Salem State University
Salem, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salem State University (the "University"), which comprise the statements of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated OPEN.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Salem State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Salem State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants
Braintree, Massachusetts

OPEN

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**INDEPENDENT AUDITORS' REPORTS AS
REQUIRED BY OFFICE OF MANAGEMENT AND
BUDGET (OMB) CIRCULAR A-133 AND
GOVERNMENT AUDITING STANDARDS AND
RELATED INFORMATION**

JUNE 30, 2015

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Independent Auditors' Reports as Required by Office of Management and
Budget (OMB) Circular A-133 and *Government Auditing Standards* and
Related Information**

June 30, 2015

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|--|-----|
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| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 4-5 |
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees of
Salem State University
Salem, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited Salem State University's (an agency of the Commonwealth of Massachusetts) (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Salem State University's major Federal programs for the year ended June 30, 2015. Salem State University's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Salem State University's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Salem State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Salem State University's compliance.

Opinion on Each Major Federal Program

In our opinion, Salem State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Salem State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Salem State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Salem State University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of Salem State University as of and for the year ended June 30, 2015, and have issued our report thereon dated October 7, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The

information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Certified Public Accountants
Braintree, Massachusetts**

October 7, 2015

Draft

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Board of Trustees of
Salem State University
Salem, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salem State University (the "University"), which comprise the statements of net position as of June 30, 2015, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated October 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Salem State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Salem State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Certified Public Accountants
Braintree, Massachusetts**

October 7, 2015

Draft

SALEM STATE UNIVERSITY
 (an agency of the Commonwealth of Massachusetts)

Schedule of Current Year Findings and Questioned Costs

June 30, 2015

Summary of Auditors' Results

Financial Statements

| | |
|---|---------------|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to the financial statements noted? | No |

Federal Award

| | |
|--|------------|
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |

SALEM STATE UNIVERSITY
 (an agency of the Commonwealth of Massachusetts)

Schedule of Current Year Findings and Questioned Costs - Continued

June 30, 2015

Major programs of Salem State University include:

| <u>Program Title</u> | <u>CFDA Number</u> |
|--|--------------------|
| Student Financial Assistance Cluster: | |
| Federal Supplemental Education Opportunity Grant Program | 84.007 |
| Federal Work Study Program | 84.033 |
| Federal Perkins Loans | 84.038 |
| Federal Pell Grant Program | 84.063 |
| Federal Direct Student Loans | 84.268 |
| Teacher Education Assistance for College and Higher Education | 84.379 |
| Nursing Student Loan Program | 93.364 |
| TRIO Cluster | |
| Student Support Services | 84.042A |
| Upward Bound | 84.047A |

The dollar threshold to distinguish between Type A and Type B programs is \$300,000.

The Office of Management and Budget (OMB) has minimum requirements for a recipient of Federal funds to be considered a low-risk auditee. The University does qualify as a low-risk auditee.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Current Year Findings and Questioned Costs - Continued

June 30, 2015

The University does not have any current year findings and questioned costs related to Federal awards.

Draft

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Prior Year Findings and Questioned Costs

June 30, 2015

Finding number: 2014-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: Multiple
Award year: 2014

Condition

Federal regulations state that any unearned Title IV grant or loan assistance received by a student must be refunded to the Title IV programs upon a student's withdrawal from the institution. The academic institution is responsible for the calculation of the earned and unearned portion of Title IV assistance using a standard Return of Title IV Funds form ("R2T4"). In our testing sample of 10 students who were determined to have withdrawn from the University, we noted two students for whom funds were not returned within the required 45 days. Our audit disclosed that the funds were not returned until 120 days and 162 days after the 45 day disbursement timeframe, respectively. The total amount to return was \$3,889.

Auditors' Current Year Comment

Our current year testing revealed no findings in this area.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Expenditures</u> |
|---|------------------------|---------------------------------|
| <u>Student Financial Assistance Cluster:</u> | | |
| <i>U.S. Department of Education:</i> | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | \$ 407,038 |
| Federal Work-Study Program | 84.033 | 389,493 |
| Federal Pell Grant Program | 84.063 | 11,498,262 |
| Federal Direct Student Loans | 84.268 | 45,812,773 |
| Federal Perkins Loans | 84.038 | 245,275 |
| Teacher Education Assistance for College and Higher Education (TEACH) Grants | 84.379 | 20,857 |
| <i>U.S. Department of Health and Human Services:</i> | | |
| Nursing Student Loans | 93.364 | 123,500 |
| Total Student Financial Assistance Cluster | | <u>58,497,198</u> |
| <u>TRIO Cluster</u> | | |
| <i>U.S. Department of Education:</i> | | |
| Support Services | 84.042A | 426,778 |
| Upward Bound | 84.047A | 308,791 |
| Total Trio Cluster | | <u>735,569</u> |
| <u>Non-Cluster</u> | | |
| <i>U.S. National Science Foundation</i> | | |
| Geosciences | 47.050 | 23,474 |
| Total U.S. National Science Foundation | | <u>23,474</u> |
| <i>U.S. Small Business Administration</i> | | |
| Small Business Development Center (Passed through from University of Massachusetts Amherst) | 59.037 | 387,431 |
| Jobs Bill (Passed through from University of Massachusetts Amherst) | 59.xxx | 5,000 |
| Offshore Mussel Aquaculture (Passed through from University of Massachusetts Amherst) | 59.xxx | 43,467 |
| Fullbright Visiting Scholar (Passed through from University of Massachusetts Amherst) | 59.xxx | 93,569 |
| Total U.S. Small Business Administration | | <u>529,467</u> |
| <i>U.S. Department of Education:</i> | | |
| English Language Acquisition National Professional Development Program | 84.195N | 7,595 |
| English Language Acquisition State Grants | 84.365 | 597,566 |
| Total U.S. Department of Education | | <u>605,161</u> |
| <i>U.S. Department of Health and Human Services:</i> | | |
| Child Welfare Research Training or Demonstration | 93.648 | 25,217 |
| Total Expenditures of Federal Awards | | <u>\$ 60,416,086</u> |

See accompanying notes to schedule of expenditure of Federal awards.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2015

Note 1 - **Basis of Presentation**

The accompanying schedule of expenditures of Federal awards (the "Schedule") includes the Federal grant activities of Salem State University (the "University") (an agency of the Commonwealth of Massachusetts) and is presented on the accrual basis of accounting.

For purposes of the Schedule, Federal awards include all grants, contracts, and similar agreements entered into directly between the University, agencies, departments of the Federal government, and all subawards to the University by non-Federal organizations pursuant to Federal grants, contracts, and similar agreements.

Note 2 - **Federal Direct Student Loans Program**

The University disbursed \$45,812,773 of loans under the Federal Direct Student Loans program, which includes Stafford Subsidized and Unsubsidized Loans and Parents' Loans. It is not practical to determine the balances of loans outstanding to students of the University under this program as of June 30, 2015. The University is responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the University's financial statements.

Note 3 - **Federal Perkins and Nursing Student Loan Programs**

During the year ended June 30, 2015, \$245,275 in loans was advanced under the Federal Perkins Loan Program, and \$123,500 in loans was advanced under the Nursing Loan Program. As of June 30, 2015 loan balances receivable under the Perkins and Nursing Loan Programs were \$1,505,610 and \$657,381, respectively.

Minutes omitted here

REQUEST FOR TRUSTEE ACTION

Date: November 18, 2015
To: Board of Trustees
From: Finance and Facilities Committee
Subject: Clean Energy Investment Program Phase 3
Requested Action: Discussion/Acceptance

BACKGROUND

Salem State University is collaborating with the Commonwealth’s Division of Capital Asset Management and Maintenance (DCAMM) on a third phase of facility improvement projects that will reduce energy consumption and costs and address important deferred maintenance needs. The project is funded by several sources as shown below.

| CEIP Phase 3 - | Amount |
|--|------------------|
| Funding Sources: | |
| DCAMM Deferred maintenance Contribution | 2,050,003 |
| Rebates & Incentives | 260,339 |
| CEIP Financing: Salem State to repay Treasurer (20 years, 3%) | 2,801,951 |
| Total Initial Funding | <u>5,112,293</u> |
| | |
| Total Installed Cost of Project * | <u>5,112,293</u> |
| | |
| Estimated annual debt service (P&I) on CEIP Financing | 188,335 |
| | |
| * Not in above: post-install costs, funded by Salem State | 142,790 |

DCAMM will pay for the Phase 3 project through a Deferred Maintenance Contribution, rebates and incentives that will be paid to the university and transferred to DCAMM, and through an extension of credit to the university under the Commonwealth Energy Investment Program (CEIP) funds available from the State Treasurer. The university must repay the Treasurer in annual installments over 20 years at 3% as outlined in a Memorandum of Agreement between the Department of Administration and Finance and the university. Exact terms of the agreement depend on the final project costs. The estimated annual debt service is \$188,335 per year. Savings in energy costs are anticipated to contribute to repayment of the debt. To the degree that the projects are designed to create efficiencies in the residence halls, the appropriate cost will be charged to the residence hall trust fund.

Implementation of the project will be handled by Constellation Energy, an energy services company that has completed Phase 1 and Phase 2 projects at Salem State. Constellation has conducted a campus-wide investment grade audit of facilities to identify projects that will pay for themselves through energy savings that are at least 10% greater than the repayment amount. Constellation is required to provide calculations annually to demonstrate that the projected savings are being realized.

There are several Energy Control Measures (ECM's) included in this project including lighting upgrades, extending the energy management system on campus, water efficiency upgrades, vending machine controls, transformer upgrades, a cogeneration heating system, and O'Keefe Ice Rink replacement. The O'Keefe Rink replacement is a priority because the equipment is nearing the end of its useful life. There are small leaks in the coolant lines embedded in the rink floor which impact our ability to maintain the proper quality of ice. The rink is critical for the Athletics program and is at risk of failing without notice.

The projects selected are important to the university because they save energy and also address deferred maintenance that the university does not have available funding to undertake on its own. The university seeks to prudently manage its debt portfolio. The availability of DCAMM deferred maintenance contribution funds to pair with the rebates/incentives and financed amount makes this a compelling case for use of debt financing to accomplish this work.

MOTION

The Finance and Facilities Committee hereby recommends that the Board of Trustees approve the following motion pertaining to a Phase 3 Clean Energy Investment Program project to be undertaken with the Division of Capital Asset Management and Maintenance (DCAMM).

Recommended motion

The Board of Trustees of Salem State University hereby approves Clean Energy Investment Program Phase 3 projects totaling approximately \$5.1 million. Such projects are to be financed by DCAMM as described above. The university will reimburse the Commonwealth for approximately \$2.8 million over 20 years at 3%, with an anticipated annual debt service cost of approximately \$188 thousand funded through the operating budget and energy savings. Further, the Board of Trustees authorizes the president or designees to do all things and take all actions necessary to accomplish this, including entering into agreements with the Commonwealth's Division of Capital Asset Management and Maintenance and Department of Administration and Finance.

Committee Assigned: Finance and Facilities

Committee Action: Approved

Date of Action: November 18, 2015

Trustee Action:

Trustee Approval Date:

Effective Date:

Signed: _____

Title: Secretary of the Board of Trustees

Date: _____