



SUBJECT: Risk Management and Audit Committee Meeting Report for October 10, 2019

The Risk Management and Audit Committee of the Board of Trustees met on Thursday, October 10, 2019, in the Paul Petrowski Conference Room located in Marsh Hall on the Central Campus of Salem State University.

Present for the Committee: Trustees Lutts (chair), DeSimone, Chair Mattera (ex-officio, via phone); President Keenan (ex-officio), Vice President House (committee co-liaison), staff associate Beaulieu. Also participating was Assistant Vice President/University Controller Bethoney.

Absent for the Committee: Trustees Katzman, Zahlaway-Belsito (vice chair)

Trustee Lutts, committee chair, called the meeting to order at 4:02 pm.

*In accordance with the Open Meeting Law all votes taken during this meeting, in which a member participated remotely, were by roll call vote.

FY19 audits for discussion and acceptance

Representatives from O'Connor & Drew, the university's external auditing firm were present including David DiIulis, managing partner and Zach Laflash, audit manager.

Required communications (Attachment A) noted an unmodified opinion (clean) issued on the university's financial statements and no material weaknesses regarding internal controls.

The university draft financial statements for fiscal year ending June 30, 2019 and 2018 (Attachment B) along with the management's discussion and analysis and related footnotes were reviewed. The independent auditors' reports as required by the uniform guidance and government auditing standards and related information (Attachment C) includes a report on federal programs and internal controls. There were two findings disclosed that are required to be reported in accordance with the Uniform Guidance. These findings are common and have either been addressed or management has put a plan of action in place. No material weaknesses and no significant deficiencies regarding internal control over the federal programs had been identified.

Audits have been previously presented to the committee and board as drafts. Going forward audits will be presented as final if complete. Audits not considered complete will be presented as a draft.

Trustee Lutts **MOVED** that the Risk Management and Audit Committee hereby recommends the Board of Trustees approve the following motion pertaining to the FY19 Salem State University audited financial statements, **SECONDED** by Trustee DeSimone:

Recommended motion

The Board of Trustees of Salem State University hereby accepts the following draft audits:

Salem State University Financial Statements and Management's Discussion and Analysis June 30, 2019 and 2018

Independent Auditor's Reports as Required by the Uniform Guidance and Government Auditing Standards, June 30, 2019

Further, the Board of Trustees delegates authority to accept the final financial statement package to Vice President Karen House, with the proviso that significant changes from the draft statements, if any, be discussed first with the chair of the Risk Management and Audit committee. Further, the trustees acknowledge that Vice President House and her team will submit the audit to the Commonwealth by its October 15, 2019 deadline.

A roll call vote was taken

Voting in the affirmative: DeSimone, Lutts, Mattera (via phone)

Voting against: None

The motion passed.

As a best practice, the university's management team and visitors voluntarily left the room to provide the trustees with an opportunity for a discussion with the auditors without the presence of management.

There being no further business to come before the committee, Trustee Lutts moved, and Trustee DeSimone seconded a motion to adjourn.

MOTION: To adjourn the meeting.

On a voice vote, the motion passed unanimously.

The meeting adjourned at 5:11 pm.

Prepared by D. Beaulieu, staff associate, finance and facilities

Salem State University

October 10, 2019

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Required Communications

AUDITORS' 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

AUDITORS' RESPONSIBILITY UNDER GAAS - Continued

- We issued an unmodified opinion on the University's financial statements.
- No material weaknesses/significant deficiencies were noted within the Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Findings while performing the Single Audit:
 - Timely return of federal awards for a withdrawn student
 - Timely return of unclaimed Title IV funds

Required Communications - Continued

Significant Accounting Policies and Transactions

- Initial Selection of or Changes in Policies
 - All accounting policies are discussed in Note 1 of the financial statements.
- Significant Transactions:
 - None noted
- 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 2019, 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

Significant Accounting Policies and Transactions – Continued

- Audit Adjustments and Uncorrected Misstatements
 - There were no audit differences recorded as a result of the audit that are required to be communicated to the Committee.
 - There were no uncorrected misstatements that are required to be communicated to the Committee.

Required Communications - Continued

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

- Allowance for doubtful accounts
- Depreciable lives of capital assets
- Fringe benefits
- Net position classifications
- Net pension liability
- Net OPEB liability

OTHER COMMUNICATIONS

- Disagreements with management – None
- Consultation with other accountants/auditors:
 - Auditors for the Massachusetts State Employees' Retirement and OPEB Plans
- 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
 - Uniform Guidance Report

Required Communications - Continued

OTHER MATTERS

- During June 2019 a balance of approximately \$850,000, due to JPMorgan was paid twice by the University. This amount was initially paid based on available online account activity and then, due to employee vacations, it was submitted and approved for payment by alternative University employee's when then invoice was received in the mail. The University had internal controls in place (Supervisory review) and discovered the duplicate payment and recorded this amount as a prepaid asset in the 6/30/19 financial statements. The University communicated with the vendor to have this payment applied to July charges. The University has revised their procedures to ensure this error does not occur in future periods.

MANAGEMENT ADVISORY SERVICES/TAX SERVICES

- No management advisory services were performed by O'Connor & Drew during 2018.
- O'Connor & Drew performed a Single Audit as required by the Uniform Administrative Requirements, Cost Principles, and Audit Requirements.



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
 - Revenue recognition
 - Significant accounting estimates
 - Significant unusual transactions

UNIVERSITY'S SPECIFIC RISKS

- General economic factors affecting all entities

GASB Statement 87, *Leases*

- Effective for periods beginning after December 15, 2019
- A lease will be defined as a contract that conveys control of the right to use another entity's nonfinancial asset (e.g. building) for a period of time
- GASB 87 will require lessees to recognize on their balance sheet the rights as an asset and obligations as a liability
- Leases with terms of less than twelve months will not be required to be recognized on the balance sheet under GASB 87
- Currently, leases that meet the capital lease test in which the lessee has ownership rights are recognized on the balance sheet. Leases that do not meet the capital lease test are not recognized on the balance sheet but their terms are disclosed in the notes to the financial statement

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

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

JUNE 30, 2019

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

Financial Statements

June 30, 2019 and 2018

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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 "Commonwealth") (the "University"), and its discretely presented component units, the Salem State University Foundation, Inc. (the "Foundation") and Salem State University Assistance Corporation (the "Assistance Corp.") which comprise the statements of net position as of June 30, 2019, and 2018, the related statements of revenues, expenses and changes in net position, cash flows, combining statements of net position of major component units, combining statements of revenues and expenses of major component units for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors consider 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Salem State University and its discretely presented major component units as of June 30, 2019 and 2018, and the respective changes in net position and, where applicable, cash flows, combining statements of net position of major component units and combining statements of revenues, expenses and changes in net position of major component units for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information as listed in the table of contents 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions of the University's basic financial statements. The supplemental schedules listed in the accompanying table of contents, which are the responsibility of management, 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 **DATE** on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**Certified Public Accountants
Braintree, Massachusetts**

DATE

SALEM STATE UNIVERSITY

(an agency of the Commonwealth of Massachusetts)

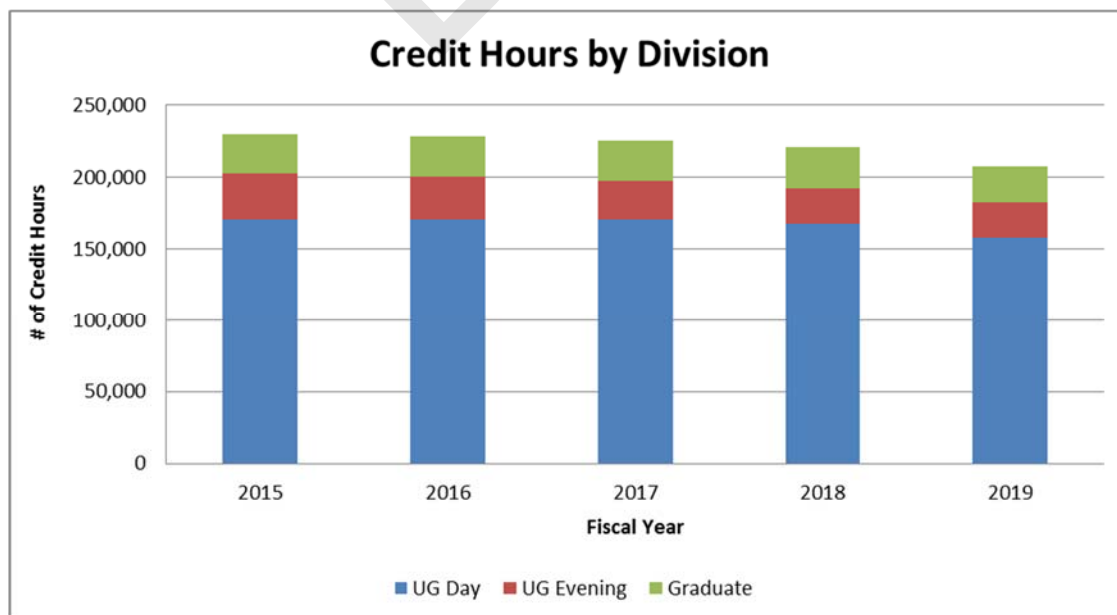
Management's Discussion and Analysis - Continued (Unaudited)

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, 2019 and 2018. Readers are encouraged to consider the information presented here in conjunction with the financial statements and related footnotes. In accordance with Governmental Accounting Standards Board ("GASB") requirements, the University financial statements report the Salem State University Assistance Corporation ("Assistance Corporation") and Salem State University Foundation, Inc. ("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 education at the undergraduate and graduate levels. The 115 acre University is spread across six sites: North Campus, Central Campus, South Campus, School of Social Work & International Programs, 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 Maguire Meservey College of Health and Human Services, the School of Education, the School of Graduate Studies and the School of Continuing and Professional Studies. The undergraduate level has approximately 5,893 and the graduate level has approximately 874 Fall Full-Time Equivalent ("FTE") credit enrollment. Total credit hour enrollment by division for the past five years is shown below:



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

Management's Discussion and Analysis - Continued
(Unaudited)

University students are diverse, hailing from 37 states and 56 countries. Forty point six percent of first year students (freshman and transfer) self-identified as students of color (fall semester 2018). The approximate gender breakdown is 37% male and 63% female.

In support of the University, there are two component units. The Salem State University Assistance Corporation (SSUAC, or the Assistance Corporation), formed in 1995 by the legislature, promotes the orderly growth and development of the University. The Salem State University Foundation (SSU Foundation, or 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.

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 an environment of student success and inclusive excellence.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Accreditations

The University is accredited by the New England Commission of Higher Education (“NECHE”) and the next comprehensive review will occur in Spring 2021. In addition, many of the University’s programs are accredited by program-specific accrediting bodies.

Significant Events and Accomplishments

The university’s strategic plan was completed during FY 2018 and established four strategic goal areas. Developed through an inclusive and collaborative process, the four strategic goals of the university’s plan are identified below. In addition, several other planning efforts have been underway, including enrollment and marketing planning, a financial aid leveraging study, academic program net revenue analysis, and evaluation of opportunities to expand on-line or hybrid delivery options. These studies have culminated in purposeful action steps to ensure the quality of programs, success of students, and vitality of the university’s finances in the long run. Overarching goals of the strategic plan include:

Financial Vitality: Strengthen Salem State’s financial foundation, align resources with priorities, and foster innovation to drive new revenue streams. Identify and implement additional opportunities to contain, reduce, or avoid future growth in costs. We must continue to work towards establishing a stronger financial base, by strategically growing enrollment, diversifying program delivery, and generating new sources of revenue. Current Business Intelligence efforts will provide the roadmap.

In FY19, enrollment was below projections, yet the university managed to close the budget gap primarily through stringent cost controls over compensation costs. A cautiously prudent hiring strategy was in place for most of the fiscal year which allowed vacancies to be prioritized for refilling according to the university’s strategic priorities and operational needs. At the end of the year, 68 vacant positions were abolished leading into the FY20 budget year. A Voluntary Separation Incentive Program (VSIP) was offered which resulted in 82 qualified employees applying to separate or retire from their positions during FY20, to allow the university to better adjust its workforce to the realities of lower enrollment.

A number of important analyses and reports were developed within the university’s Power BI environment, positioning academic as well as administrative leaders to better determine which action steps will result in improved outcomes for students and better cost control for the university. Examples include the net revenue analysis (by academic program), average class size report, bottleneck courses, and the like.

Collaboration, Inclusion and Stewardship: Foster a university-wide culture of inclusion, accountability, collaboration, and stewardship. The pace of change in higher education requires a coordinated, committed and collaborative process of relationship- and trust-building among faculty, staff, students and external partners. The Campus Climate Study results will help guide us.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Under interim leadership, the diversity and inclusion office continued its work to strengthen the university's position as an inclusive organization serving students, faculty, and staff. The university began participating in the National Coalition Building Institute (NCBI). Salem State actively collaborates with other institutions as a member of the Leading for Change Higher Education diversity coalition hosted by Bridgewater State University. University-wide training and dialogues were offered during a two day professional development series in May. For this program, the keynote lecture and subsequent conversations were presented by Dr. Damon Williams, a nationally recognized expert in strategic diversity leadership, educational achievement, and organizational change

Academic Excellence: Develop and support high-quality academic programs and innovative educational experiences that equip Salem State graduates to thrive in an evolving workforce and to navigate confidently in an increasingly complex and global society. Our continued successes in academic excellence require support for faculty development in aid of pedagogical and curricular innovation (including alternative modes of course delivery), as well as greater connection to regional opportunities for experiential learning, continuing scholarship, and civic engagement.

Examples of progress made in this arena during FY2019 include the following. Salem State continued to move appropriate courses into a hybrid delivery mode, providing a balance of in-person and on-line engagement to better meet the needs of our diverse students who often juggle class attendance with work and family responsibilities. A seamless pathways partnership was forged with nearby North Shore Community College (NSCC) to help NSCC students to bridge their college progression from two -year to four-year more effectively, as well as to achieve operating efficiencies between the two organizations. The Center for Civic Engagement completed an exhaustive review of current practices, policies, and student experiences as part of an initiative to seek Carnegie recognition for the extent to which civic engagement is woven throughout the university. Faculty received NOAA grant support for evaluation of emerging technologies for seafood cultivation on the environment and whales.

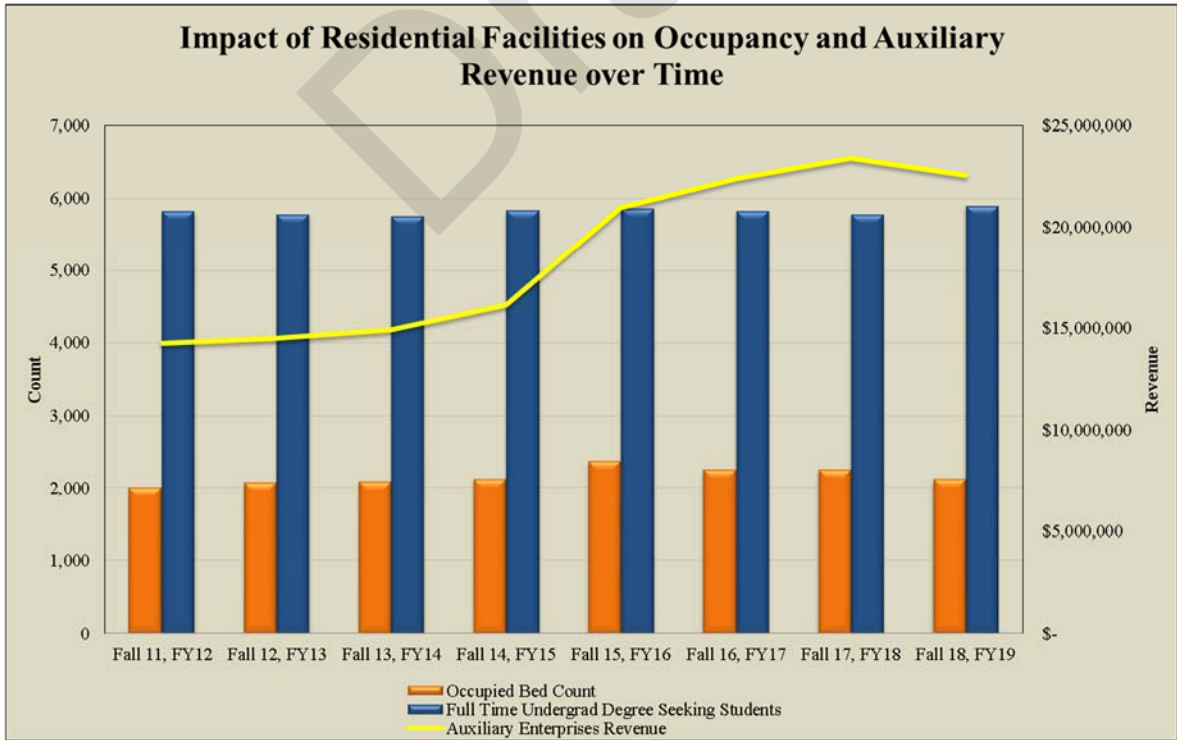
Student Success: Create a challenging and supportive learning environment that fully engages students in their learning and promotes attainment of academic, personal, and career goals. We aim to foster a supportive environment for student growth in the context of the North Shore's shifting demographics and evolving economic trends, with an eye toward providing nimbler responses to the needs of our students and their future employers.

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

Management’s Discussion and Analysis - Continued
(Unaudited)

Despite the hiring freeze (or chill), the student life division re-organized itself to better support student needs. During FY19, the university assessed its dining program and made a decision to significantly modernize the offerings, moving to a 24/7 operation which will be in place for FY20. Additionally, the dining contract was re-bid, resulting in a new service provider joining the campus as of June 1. Regionalize workforce needs (and future expected growth) relate directly to the university’s programs in healthcare/STEM. Work on a strategy to design and fund necessary improvements to facilities, including science labs, continued, under the auspices of the Commonwealth’s “Readiness Study” led by the Division of Capital Asset Maintenance and Management.

The University has intentionally grown its housing capacity to aid in enrollment management and student success. However, consistent with our experience that housing occupancy tends to be fairly stable as a percentage of overall undergraduate enrollment, enrollment decreases have led to declines in housing revenues. While much of the housing stock is in relatively new and attractive facilities, some of the older buildings have substantial deferred maintenance. During summer of 2019, a major overhaul of plumbing and bathrooms was completed for Peabody and Bowditch residence halls. A strategy for the future of the Bates Housing complex anticipates potential divestment (sale) of the property in the next several years. The chart below shows the relationship between undergraduate student enrollment, residential hall occupancy, and auxiliary revenues over the last eight years.



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

Management's Discussion and Analysis - Continued
(Unaudited)

Overview of University Financial Statements

Salem State University reports its activity as a business-type activity under GASB using the economic resources measurement focus and full accrual basis of accounting. The University is an agency of the Commonwealth of Massachusetts. Therefore, the results of the University's operations and non-operating activities, 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.

The financial statements, 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 2019 increased \$4.6 million compared to fiscal year 2018, excluding the impact of the current year expenses for pensions and other post-employment benefits (see below).

GASB No. 68 and 75 - Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits ("OPEB")

The Governmental Accounting Standards Board (GASB) issued two standards that materially impacted the presentation of the university's financial statements over the last several years, notably GASB Statement No. 68 - Accounting and Financial Reporting for Pensions and GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (commonly referred to as OPEB.). GASB 68 was implemented by Salem State University in its FY 2015 financial statements which required, among other impacts, restating the net position as of June 30, 2014. GASB 75 was implemented by Salem State University in its FY 2018 financial statements which required, among other things, restating net position as of July 1, 2016 in order to provide comparability with FY 2018.

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

Management's Discussion and Analysis - Continued
(Unaudited)

The table below shows the impact of GASB 68 (Pension) and GASB 75 (OPEB) on the Statements of Net Position and Revenues, Expenses & Changes in Net Position for FY 2019 and FY 2018.

	FY 2019	FY 2018
<i>(In Thousands)</i>		
Statement of Net Position (Balance Sheet)		
Deferred Outflows (like an Asset):		
GASB 68 - Pension	\$ 11,757	\$ 14,492
GASB 75 - Other Post Employment Benefits	15,522	10,960
Total deferred outflows	27,279	25,452
Net Pension & OPEB liability (Non-Current Liability):		
GASB 68 - Pension	(45,108)	(44,564)
GASB 75 - Other Post Employment Benefits	(79,230)	(86,678)
Total Net Pension & OPEB Liability	(124,338)	(131,242)
Deferred Inflows (like a Liability):		
GASB 68 - Pension	(5,225)	(4,749)
GASB 75 - Other Post Employment Benefits	(24,710)	(10,175)
Total deferred inflows	(29,935)	(14,924)
Net position impact - decrease	\$ (126,994)	\$ (120,714)
One-year Change	(6,280)	(8,082)
Statement of Revenues, Expenses & Changes in Net Position		
Pension & OPEB Expenses:*		
GASB 68 - Pension	\$ 3,755	\$ 3,583
GASB 75 - Other Post Employment Benefits	2,525	4,499
Total Net Pension & OPEB Expense	\$ 6,280	\$ 8,082

* These Pension and OPEB amounts are related solely to the GASB 68 & 75 adjustments and have been allocated among the Operating Expense categories.

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

Management's Discussion and Analysis - Continued
(Unaudited)

The table below shows the impact of GASB 68 (Pension) and GASB 75 (OPEB) on unrestricted net position for the years as presented.

Unrestricted Net Position Impacted by GASB 68 (Pension) and 75 (OPEB)					
<i>(In Thousands)</i>					
	Without Pension & OPEB	Pension Adjustment	OPEB Adjustment	With Pension and OPEB	Difference
Unrestricted Net Position at June 30, 2017	\$ 4,818	\$ (31,238)	\$ (81,394)	\$ (107,814)	
Unrestricted net increase (decrease) for FY 2018	<u>3,869</u>	<u>(3,583)</u>	<u>(4,499)</u>	<u>(4,213)</u>	
Unrestricted Net Position at June 30, 2018	8,687	(34,821)	(85,893)	(112,027)	\$ (120,714)
Unrestricted net increase (decrease) for FY 2019	<u>5,017</u>	<u>(3,755)</u>	<u>(2,525)</u>	<u>(1,263)</u>	
Unrestricted Net Position at June 30, 2019	<u>\$ 13,704</u>	<u>\$ (38,576)</u>	<u>\$ (88,418)</u>	<u>\$ (113,290)</u>	<u>\$ (126,994)</u>

The total net pension liability balance in the June 30, 2019 and 2018 financial statements amounted to approximately \$45.1 million and \$44.6 million, respectively. The total net OPEB liability balance in the June 30, 2019 and 2018 financial statements amounted to approximately \$79.2 million and \$86.7 million, respectively.

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

Management's Discussion and Analysis - Continued
(Unaudited)

A summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2019, 2018 and 2017 is as follows:

Statement of Net Position Summary & Analysis

(In Thousands)

<u>Assets</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$ 56,789	\$ 44,435	\$ 39,909
Capital Assets (net)	164,375	169,691	172,648
Noncurrent Assets	<u>5,162</u>	<u>3,854</u>	<u>3,956</u>
Total Assets	<u>226,326</u>	<u>217,980</u>	<u>216,513</u>
Deferred Outflows of Resources	<u>27,279</u>	<u>25,451</u>	<u>21,809</u>
Total Assets and Deferred Outflows	<u>\$ 253,605</u>	<u>\$ 243,431</u>	<u>\$ 238,322</u>
<u>Liabilities</u>			
Current Liabilities	\$ 26,912	\$ 24,041	\$ 23,685
Noncurrent Liabilities	<u>170,221</u>	<u>178,926</u>	<u>180,479</u>
Total Liabilities	<u>197,133</u>	<u>202,967</u>	<u>204,164</u>
Deferred Inflows of Resources	<u>34,128</u>	<u>15,668</u>	<u>4,888</u>
<u>Net Position</u>			
Net investment in capital assets	129,002	130,219	131,099
Restricted	6,632	6,604	5,985
Unrestricted	<u>(113,290)</u>	<u>(112,027)</u>	<u>(107,814)</u>
Total Net Position	<u>22,344</u>	<u>24,796</u>	<u>29,270</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 253,605</u>	<u>\$ 243,431</u>	<u>\$ 238,322</u>

Total assets increased in FY 2019 by \$10.2 million or 4.2% over the prior year compared with a 0.7% increase of \$1.5 million in FY 2018. Most of the changes within the asset categories are associated with increases in cash and investments offset by a decrease in capital asset driven by depreciation outpacing the capital asset additions. Total liabilities decreased in FY 2019 by \$5.8 million or 2.9% over prior year. This change is primarily attributable to the decrease in the OPEB liability of \$7.5 million offset by an increase in accrued payroll of \$2.1 million due to the recording of a retroactive payroll for faculty raises.

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

For fiscal 2019, 2018 and 2017, total net position amounted to \$22.3 million, \$24.8 million and \$29.3 million, respectively. The University's net position in the investment in capital assets (e.g. land, buildings and equipment) less any related debt used to acquire those assets is the largest positive component of the total net position, which is consistent with prior years and is detailed below in the next section. 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, such as room rents, auxiliary and other fees, since the capital assets themselves cannot be used to satisfy these liabilities.

Capital Assets

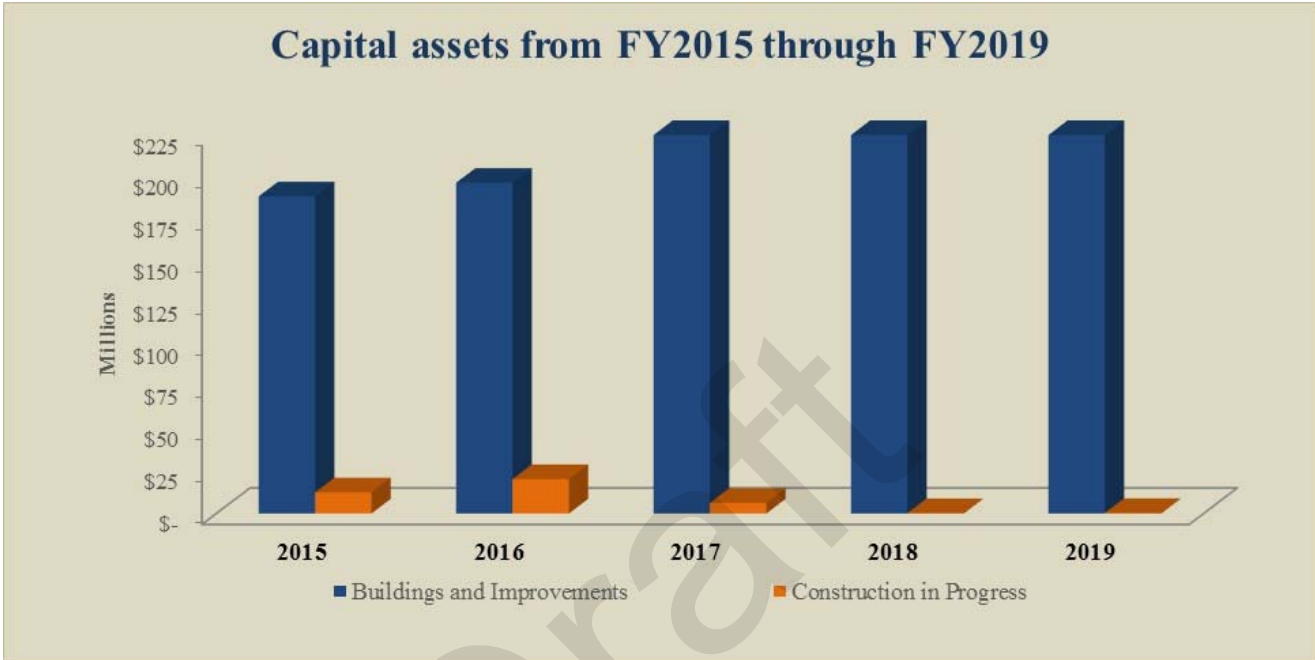
A summarized comparison of the University's capital assets categories at June 30, 2019, 2018 and 2017 is as follows:

Capital Asset Summary			
	<i>(In Thousands)</i>		
	2019	2018	2017
Building and improvements	\$ 241,833	\$ 238,793	\$ 227,079
Construction in Progress	320	187	6,372
Land	2,536	2,536	2,536
Furniture and Equipment	31,545	30,818	30,401
Total	<u>276,234</u>	<u>272,334</u>	<u>266,388</u>
Less: accumulated depreciation	<u>(111,859)</u>	<u>(102,643)</u>	<u>(93,740)</u>
Total capital assets, net	<u><u>\$ 164,375</u></u>	<u><u>\$ 169,691</u></u>	<u><u>\$ 172,648</u></u>

SALEM STATE UNIVERSITY
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Management’s Discussion and Analysis - Continued
(Unaudited)

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



SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Capital Assets Changes

The University's total capital asset changes as of June 30, 2019, 2018 and 2017 are depicted below:

Changes in Capital Assets

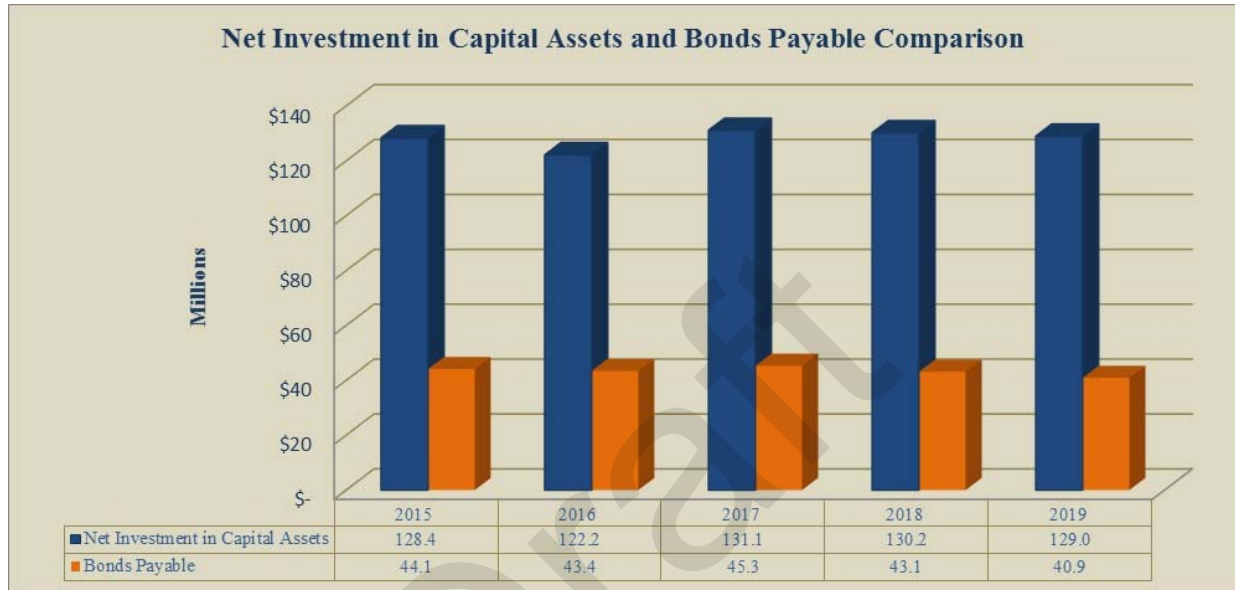
	(In Thousands)		
	2019	2018	2017
<u>Building and Land Improvements</u>			
Sophia Gordon Center	\$ 268	\$ 824	\$ 27,005
331 Lafayette Street	-	1,236	-
Meier Hall Renovation/Roof Repair	1,609	557	-
Library and Learning Commons Improvements	327	152	272
Administration Building Renovation	-	-	1,736
Sullivan Building Renovation	341	-	-
Steam Pipe Repairs	-	430	366
O'Keefe Improvements	-	810	-
Equipment purchases for IT and Biology Departments	-	1,421	-
Comprehensive Energy Performance Contract Project	298	5,577	317
Various Other Improvements	197	708	820
Net Additions to Buildings and Improvements	3,040	11,715	30,516
<u>Construction in Progress ("CIP")</u>			
Sophia Gordon Center	268	824	10,709
Various Ongoing Renovation Projects	2,607	2,716	908
Comprehensive Energy Performance Contract Project	298	2,126	3,920
IT Projects	-	78	1,178
Capitalized Bond Interest (For Sophia Gordon Center)	-	-	452
Additions to Construction in Progress	3,173	5,744	17,167
Transfer of Construction in Progress to Capital Assets	(3,040)	(11,929)	(31,157)
Net Additions (Reductions) to CIP	133	(6,185)	(13,990)
<u>Furniture & Equipment</u>			
Solar Panels	195	-	-
O'Keefe, Dining, IT & Art Design	532	416	642
Maintenance Equipment	-	-	252
Net Additions to Furniture and Equipment	727	416	894
Total Net Asset Additions	3,900	5,946	17,420
Depreciation Expense for the Year	9,216	8,903	8,477
Net Increase (Decrease) in Capital Assets	\$ (5,316)	\$ (2,957)	\$ 8,943

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Net Investment in Capital Assets and Bonds Payable Comparison

The following graph displays long-term debt for Bond Payables on the university's books and the Net Investment in Capital Assets balances for fiscal years ended 2015 through 2019:



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.

Statements of Revenues and 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 last three fiscal years. 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).

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

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, 2019, 2018 and 2017 is as follows. Note that this information includes the impact of the Pension and OPEB accounting standards:

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

	<i>(In Thousands)</i>		
	2019	2018	2017
<u>Operating Revenues</u>			
Tuition and Fees, Net	\$ 68,192	\$ 69,566	\$ 66,893
Federal, State, and Private Grants	19,902	19,472	19,306
Sales and Services	1,054	1,296	1,333
Auxiliary and Other	22,678	23,876	22,762
Total Operating Revenues	<u>111,826</u>	<u>114,210</u>	<u>110,294</u>
<u>Operating Expenses</u>			
Compensation, benefits and other *	125,277	125,843	122,984
Supplies and services	39,137	38,659	37,324
Utilities	4,213	4,107	4,179
Depreciation	9,216	8,903	8,477
Scholarships	7,135	6,185	5,627
Total Operating Expenses	<u>184,978</u>	<u>183,697</u>	<u>178,591</u>
<u>Non-Operating Revenues (Expenses)</u>			
State appropriations	65,735	60,128	58,768
Contribution to the Assistance Corporation	-	-	(897)
Gifts	2,429	2,160	1,801
Investment Income	2,111	1,511	1,755
Interest Expense	(1,642)	(1,736)	(1,157)
Total Non-Operating Revenues, Net	<u>68,633</u>	<u>62,063</u>	<u>60,270</u>
Capital Grants	2,067	2,950	7,711
Increase (Decrease) in Net Position	<u>\$ (2,452)</u>	<u>\$ (4,474)</u>	<u>\$ (316)</u>

* This total is comprised of the following:

Compensation and Benefits	\$ 116,326	\$ 117,761	\$ 118,273
Retroactive compensation for prior years	2,671	-	-
Pension and OPEB expense	6,280	8,082	4,711
	<u>\$ 125,277</u>	<u>\$ 125,843</u>	<u>\$ 122,984</u>

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Highlights for Operating Revenues

The decrease in total operating revenues of \$2.4 million (2.1%) in FY19 and the increase of \$3.9 million (3.6%) in FY 2018 resulted primarily from the following changes:

Tuition and Fees, net: The tuition and fees, net of scholarships and fellowships decreased by 2.0% in FY 2019 (\$1.4 million) and increased by 4.0% in FY 2018 (\$2.7 million). The decrease in FY 2019 over prior year is due to declining enrollments while the increase in FY 2018 over prior year due to increases in fee rates as well as new fees.

Federal, State and Private Grants: Federal, state and private grant revenues remained stable for FY 2019 when compared to FY 2018 and FY 2017.

Auxiliary Enterprises and Other: Auxiliary enterprises and other revenues decreased in FY 2019 by \$1.2 million (5.0%) over prior year primarily due to lower dormitory occupancy and student fees for permits, meals and ancillary revenue. In FY 2018, auxiliary and other revenues increased \$1.1 million (4.9%) over the prior year and was primarily due to increases in dormitory room revenue of \$0.7 million and student fees for permits, meals and ancillary revenue of \$0.4 million.

Highlights for Operating Expenses

The increase in total operating expenses of \$1.3 million (0.7%) and \$5.1 million (2.9%) in FY 2019 and FY 2018, respectively, over prior year resulted primarily from the following changes:

Compensation and Benefits: Compensation and benefits increased during FY 2019 by \$1.2 million (1.0%) compared to FY 2018 which decreased by \$0.5 million (0.4%) over prior year. FY 2018 does not reflect salary increases for three union labor contracts that expired, whereas FY 2019 does reflect \$2.7 million in expense of these increases which was paid retroactively. These additional payments were offset by lower salaries due to the hiring freeze discussed earlier.

Depreciation: Depreciation for buildings and building improvements increased \$313 thousand (3.5%) in FY 2019 over the prior year. Projects that were previously included in construction in progress were completed and began to be depreciated in fiscal 2019. For similar reasons during FY 2018, depreciation increased \$426 thousand (5.0%) over the prior year.

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Changes in Pension and OPEB Activity: The fifth year of adoption of GASB 68 for pensions resulted in an expense of \$3.8 million in FY 2019, a small increase as compared to the prior year. This is due to changes in salaries and in the discount rate utilized in calculating the pension liability, as provided by the Comptroller's Office.

The second year of adoption of GASB 75 for other post-employment benefits resulted in an expense of \$2.5 million, which was a decrease of \$2.0 million, as compared to the prior year. This is due to changes in benefits and in the discount rate utilized in calculating the pension liability, as provided by the Comptroller's Office.

Highlights for Non-Operating Revenues (Expenses)

The increase in non-operating revenues (expenses) in FY 2019 and FY 2018 of \$6.6 million (10.6%) and \$1.8 million (3.0%), respectively, resulted primarily from the following net changes:

State Appropriations: State appropriations increased by \$5.6 million (9.3%) and \$1.4 million (2.3%) in FY 2019 and FY 2018, respectively, over prior year primarily to support employee payroll and related fringe benefit costs. General Appropriation Act (GAA) funding increased by 12.4% or \$5.5 million for FY 2019. Approximately \$4.2 million of the appropriations increase was related to payroll and fringe benefits. Greater than half (53.6%) of the University's payroll and fringe is funded by state operating appropriation.

Gifts: Gift revenue is a variable source. During FY 2019, gifts increased over the prior year by \$269 thousand (12.5%) primarily due to the transfer to the university of \$600 thousand in funds received by the Salem State University Foundation to support debt service for the Sophia Gordon Center offset by lower gift contributions. During FY 2018, gifts increased over the prior year by \$359 thousand (19.9%).

Investment Income: Investment income increased by \$600 thousand in 2019 compared to a decrease of \$244 thousand in FY 2018 and is attributable to fluctuating market conditions.

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Managed Revenue and Expense Report

The university operates using an internal Managed Revenues and Expenses Report format which is not intended to conform to Generally Accepted Accounting Principles (GAAP); this report distinguishes between managed and non-cash revenue and expense activity. The Managed Revenues and Expenses format allows the reader to focus on the elements of financial activity that university administration must control and manage while displaying certain non-cash GAAP based revenue and expense items in a section at the bottom. Importantly, Managed Revenue and Managed Expense are calculated on an accrual basis; thus, they are not intended to represent cash in and cash out. To illustrate, while the Managed Net Income figure for FY2019 is \$10.5 million, the actual increase in cash for the year is \$7.8 million. Other classification differences between the management report and GAAP basis report exist. For example, in the management report all financial aid expenses are displayed as a deduction from revenue rather than how they are reported in the GAAP report as a contra revenue in some cases and an expense in other cases.

Managed Net Income, before "Non-Cash Revenues/(Expense), has grown over the last two years, primarily due to tight expense control and favorable state general appropriations. For FY19, Managed Net Income was \$10.6 million, a 5.6% increase over the prior year. At the bottom line, Increase (Decrease) in Net Position per the management report is the same as per the GAAP-basis audited Statement of Revenues and Expenses for completed years. Each of the three years reflects a total decrease in Net Position. For both FY19 and FY18, the change in net position would have been positive without the non-cash expenses that were recorded as required by GASB 68 Pension and GASB 75 OPEB. The next page shows the Managed Revenue and Expense report for the three fiscal years 2019, 2018 and 2017.

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Management's Discussion and Analysis - Continued
(Unaudited)

The description of the Managed Revenue and Expense Report below is on the preceding page and must be read to understand the intent and meaning of this non-GAAP report.

Managed Revenue and Expense Format

	<i>(In Thousands)</i>		
	FY2019	FY2018	FY2017
Managed Revenue:			
Net Tuition and Fees	\$ 61,057	\$ 63,381	\$ 61,239
Federal, State, Private Grants	19,901	19,472	19,306
Auxiliary Enterprises	22,569	23,423	22,519
State General Appropriations	65,735	60,128	58,768
Other Revenue	5,291	5,859	4,422
Total Managed Revenue	<u>174,553</u>	<u>172,263</u>	<u>166,254</u>
<i>Year over Year Change</i>	<i>1.3%</i>	<i>3.6%</i>	<i>4.6%</i>
Managed Expenses:			
Compensation	118,997	117,761	118,273
Support	19,222	18,366	17,992
Facility-related	25,772	26,138	24,669
Total Managed Expenses	<u>163,991</u>	<u>162,265</u>	<u>160,934</u>
<i>Year over Year Change</i>	<i>1.1%</i>	<i>0.8%</i>	<i>4.5%</i>
Managed Net Income	<u>10,562</u>	<u>9,998</u>	<u>5,320</u>
Non-Cash Revenue/(Expenses):			
Capital Grants	2,067	2,950	7,711
Depreciation	(9,215)	(8,903)	(8,477)
Contributions to SSUAC	-	-	(896)
Unrealized Gains/Losses	414	(437)	737
GASB 68 Pension	(3,755)	(3,583)	(4,711)
GASB 75 OPEB	(2,525)	(4,499)	
Total Non-Cash Revenue/(Expenses)	<u>(13,014)</u>	<u>(14,472)</u>	<u>(5,636)</u>
<i>Year over Year Change</i>	<i>-10.1%</i>	<i>156.8%</i>	<i>-56.2%</i>
Total Increase/(Decrease) in Net Position	<u>\$ (2,452)</u>	<u>\$ (4,474)</u>	<u>\$ (316)</u>

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

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 decrease in cash at June 30, 2019, 2018 and 2017 follows. *It should be noted that for the presentation below, the appropriations are shown in Operating Activities rather than Non-Capital Financing Activities since the State appropriations are intended and used to support operations.* According to accounting standards, on the Cash Flow Statement of the Financial Statements, the appropriations are presented as required in Non-Capital Financing Activities.

Summary of Cash Flows

	<i>(In Thousands)</i>		
	2019	2018	2017
Operating Activities	\$ 11,006	\$ 8,417	\$ 4,194
Non Capital Financing Activities	1,454	1,358	(419)
Capital Financing Activities	(5,080)	(6,972)	(9,088)
Investing Activities	432	250	539
Net Increase/(Decrease) in Cash	\$ 7,812	\$ 3,053	\$ (4,774)

Highlights for Cash Flows

The overall increase in cash and cash equivalents for FY 2019 amounted to approximately \$7.8 million. The increase is associated with generation of cash from operating activities primarily, increases in appropriations offset by decreases in payroll related expenses, which exceeded uses of cash for capital financing activities.

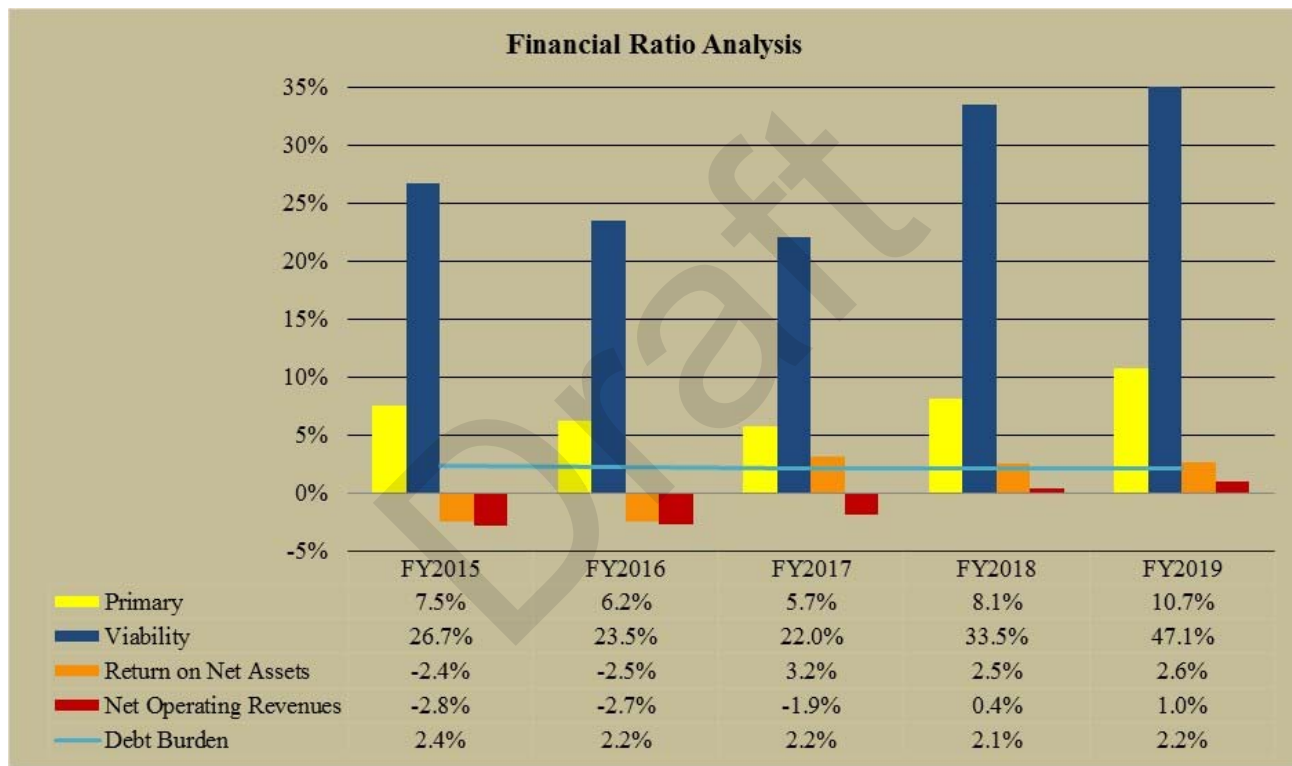
The overall increase in cash and cash equivalents of approximately \$3.1 million in FY 2018 is primarily associated with operations, notably increases in auxiliary enterprise receipts, appropriations and gifts, exceeding uses of cash for capital financing activities. The overall decrease in cash and cash equivalents for FY 2017 amounted to approximately \$4.8 million and is primarily associated with the purchases of capital assets and repayment of bond principal and interest.

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

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 and 75.



Primary

This ratio provides a snapshot of an institution's financial strength and flexibility. The ratio indicates how long the college could operate using unrestricted and restricted expendable reserves without relying on additional new assets generated by operations. SSU's FY2019 ratio of 10.7% suggests the university could cover expenses from reserves for over one month (10.7% of 12 months = 1.3 months). Trend analysis indicates whether an institution has increased its net worth in proportion to its rate of growth. A negative or decreasing trend indicates a weakening financial condition.

Ratio Calculation = Unrestricted & Restricted Expendable Net Position / Total Operating Expenses plus Interest Expense

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Viability

This ratio measures the availability of expendable net assets to pay off long term debt should the university need to settle its obligations as of the balance sheet date. A ratio of 1:1 or greater indicates an institution has sufficient net position to satisfy debt requirements. However, many public institutions can operate effectively at a ratio far less than 1:1. The university's viability ration at FY 2019 grew to 47.1% and has increased 25.1% in the past two years.

Ratio Calculation = Unrestricted & Restricted Expendable Net Position / Total Long-Term Debt

Return on Net Assets

This ratio reports whether an institution's resources are growing and if it is financially better off than in previous years by measuring total economic return. It is important to assess this ratio as a linear trend – an increasing trend indicates an increase in net position and an increased likelihood that the institution is able to set aside financial resources to strengthen future flexibility. Single year events, like a substantial gift or extreme investment performance, can cause significant year-to-year volatility. For the last three fiscal years, the university has had a positive return (2.6% in FY2019, 2.5% for FY2018, and 3.2% for FY2017.)

Ratio Calculation = Increase (Decrease) in Net Position / Beginning of Year Net Position

Net Operating Revenues

This ratio indicates whether operating activities resulted in a surplus or deficit. It measures financial performance by answering the question "Did the university live within its means during a fiscal year?" A positive ratio indicates the university experienced an operating surplus; a continuing decline or pattern of deficits indicates financial problems. In FY2019, Salem State had a positive net operating revenue of 1.0%

Ratio Calculation = Revenue (Loss) before Capital Grants / Adjusted Total Revenues

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Debt Burden

This ratio expresses annual debt service payments as a percent of total expenses. It measures an institution's ability to repay debt service on all outstanding debt and its impact on the institution's overall budget.

Ratio Calculation = Annual Debt Service/Total Expenses

This numerator is annual debt service for debt on the university's books only, thus, it excludes debt issued by the Massachusetts State College Building Authority to fund its residence halls operated by the university on our campus. As a general guideline, it is believed that if more than 5% of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs would be compromised. The university's debt burden ratio for FY19 is 2.2%, where it has hovered over the last four fiscal years.

Draft

SALEM STATE UNIVERSITY
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Management's Discussion and Analysis - Continued
(Unaudited)

Looking Ahead to FY 2020

In the next fiscal year the university will continue to execute its strategic plan, focusing on academic excellence; student success; collaboration, inclusion, and stewardship; and financial vitality. Areas of focus will include:

- Increasing student satisfaction and retention by implementing a Student Success Management System (SSMS) and an updated dining experience. With the imminent termination of the university's current student tracking program, MAP-Works, the university fast tracked its efforts with EAB to provide a new and more powerful SSMS that allow us to add visibility to high-risk students, negative trending risks and to target interventions with students across multiple support services.
- Investing in enrollment management methodologies including enhanced website activity and tracking, identification and engagement of prospective students, deposit campaigns and multiple financial aid leveraging techniques.
- Planning for the university's next fundraising campaign.
- Expanding our inclusive excellence initiative by initiating a national search for a new Chief Diversity and Inclusion Officer and a Director for Education and Training to lead the National Coalition Building Initiatives (NCBI), in addition to ongoing training and development available to all campus constituencies.
- Utilizing business intelligence (BI) data and reports to enhance academic program development for data-driven, academic program planning. With the rollout of this recent BI initiative to the faculty and staff, we expect to see positive operational efficiencies by identifying class offering distribution issues, excess scheduled sections, and course and program-level bottlenecks. In addition, the BI tools allow enrollment management to respond more quickly and responsively to changes in enrollment-related activity.
- Selectively refilling positions vacated by VSIP participants and reorganizing as appropriate to leverage this opportunity to reposition the university as a smaller organization.
- Applying for funding to support Project BOLD: A Campus Unification and Modernization project. This is an outcome of the DCAMM Readiness Study undertaken during FY19.
- Continuing to pursue and deepen the Seamless Pathways Partnership with North Shore Community College.

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 Facilities/CFO, 352 Lafayette Street, Salem, Massachusetts 01970-5353

SALEM STATE UNIVERSITY
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Statements of Net Position

June 30, 2019 and 2018

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>		<u>Component Units</u>	
	<u>2019 University</u>	<u>2018 University</u>	<u>2019 Combined</u>	<u>2018 Combined</u>
Current Assets:				
Cash and cash equivalents	\$ 23,891,121	\$ 15,367,405	\$ 2,631,870	\$ 2,250,754
Restricted cash and cash equivalents	3,115,918	3,213,500	792,157	717,772
Deposits held by State Treasurer	603,317	2,850,506	-	-
Cash held by State Treasurer	2,773,393	1,106,109	-	-
Deposits held by MSCBA and DCAMM	937,682	971,179	-	-
Investments	15,623,134	14,121,886	-	-
Accounts, grants and other receivable, net	6,184,917	6,517,553	13,831	14,410
Pledges receivable, net	-	-	580,651	672,225
Due from service concession vendor	2,325,000	-	-	-
Note receivable	-	-	-	40,000
Loans receivable	229,797	250,410	-	-
Other current assets	1,104,833	47,106	31,497	4,396
Total Current Assets	56,789,112	44,445,654	4,050,006	3,699,557
Non-Current Assets:				
Investments	830,181	667,464	32,320,558	31,457,365
Loans receivable, net of current portion	1,633,194	1,702,383	-	-
Pledges receivable, net	-	-	3,462,275	3,857,094
Due from service concession vendor, net of current portion	1,225,000	-	-	-
Note receivable, net of current portion	-	-	-	166,667
Capital assets, net	164,375,370	169,690,567	11,469,326	11,618,094
Debt service reserve	1,473,340	1,473,340	-	-
Total Non-Current Assets	169,537,085	173,533,754	47,252,159	47,099,220
Total Assets	226,326,197	217,979,408	51,302,165	50,798,777
Deferred Outflow of Resources:				
Deferred outflows for pensions	11,756,866	14,492,026	-	-
Deferred outflows for other post employment benefits	15,522,192	10,959,514	-	-
Total Deferred Outflows of Resources	27,279,058	25,451,540	-	-
Total Assets and Deferred Outflows of Resources	\$ 253,605,255	\$ 243,430,948	\$ 51,302,165	\$ 50,798,777

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Units	
	2019 University	2018 University	2019 Combined	2018 Combined
Current Liabilities:				
Accounts payable and accrued expenses	\$ 5,160,033	\$ 4,486,501	\$ 400,785	\$ 335,697
Accrued payroll	9,966,395	7,850,759	-	-
Accrued compensated absences	5,635,319	5,865,631	-	-
Accrued workers' compensation	262,149	263,326	-	-
Unearned revenues	3,143,216	3,025,622	76,452	27,153
Note payable	225,986	19,032	27,389	66,127
Bonds payable	2,265,171	2,169,871	384,000	366,725
Deposits	253,667	360,700	-	-
Total Current Liabilities	26,911,936	24,041,442	888,626	795,702
Non-Current Liabilities:				
Accrued compensated absences	3,971,465	3,725,574	-	-
Accrued workers' compensation	936,006	946,651	-	-
Notes payable, net of current portion	236,024	-	1,093,274	1,287,476
Bond payable, net of current portion	38,600,359	40,865,545	236,517	775,854
Loans payable - Federal financial assistance programs	2,139,865	2,145,448	-	-
Net pension liability	45,107,543	44,564,278	-	-
Net other post employment benefits liability	79,229,826	86,677,734	-	-
Other non-current liabilities	-	-	146,086	22,139
Total Non-Current Liabilities	170,221,088	178,925,230	1,475,877	2,085,469
Total Liabilities	197,133,024	202,966,672	2,364,503	2,881,171
Deferred Inflows of Resources:				
Service concession arrangements	4,194,479	745,820	-	-
Deferred inflows for pensions	5,224,193	4,747,854	-	-
Deferred inflows for other post employment benefits	24,709,754	10,174,577	-	-
Total Deferred Inflows of Resources	34,128,426	15,668,251	-	-
Net Position:				
Net investment in capital assets	129,002,204	130,219,350	9,728,146	9,121,912
Restricted:				
Nonexpendable	971,914	866,367	24,360,307	23,618,957
Expendable	5,659,632	5,737,349	12,335,620	12,772,099
Unrestricted	(113,289,945)	(112,027,041)	2,513,589	2,404,638
Total Net Position	22,343,805	24,796,025	48,937,662	47,917,606
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 253,605,255	\$ 243,430,948	\$ 51,302,165	\$ 50,798,777

SALEM STATE UNIVERSITY
 (an agency of the Commonwealth of Massachusetts)
Statements of Revenues and Expenses
For the Years Ended June 30, 2019 and 2018

	<u>Primary Government</u>		<u>Component Units</u>	
	<u>2019 University</u>	<u>2018 University</u>	<u>2019 Combined</u>	<u>2018 Combined</u>
Operating Revenues:				
Tuition and fees	\$ 87,523,360	\$ 88,009,192	\$ -	\$ -
Less: scholarships and fellowships	(19,331,472)	(18,442,753)	-	-
Net tuition and fees	68,191,888	69,566,439	-	-
Federal grants and contracts	14,493,633	14,514,728	-	-
State grants and contracts	5,248,385	4,669,873	-	-
Private grants and contracts	158,612	287,535	-	-
Gifts and contributions	-	-	1,777,094	1,703,556
Sales and services of educational departments	1,054,161	1,295,944	-	-
Auxiliary enterprises	22,569,201	23,423,196	2,073,474	1,932,069
Other operating revenues	109,203	452,743	87,649	68,723
Total Operating Revenues	111,825,083	114,210,458	3,938,217	3,704,348
Operating Expenses:				
Educational and general:				
Instruction	65,921,431	66,193,228	-	-
Public service	1,710,140	1,609,283	1,364,805	1,553,939
Academic support	18,050,608	17,560,046	-	-
Student services	20,045,574	19,189,208	-	-
Institutional support	25,305,296	26,751,743	1,123,572	709,430
Operation and maintenance of plant	18,733,141	17,666,843	-	-
Scholarships	7,135,368	6,185,534	535,354	497,287
Depreciation	9,215,510	8,902,845	153,705	161,727
Auxiliary enterprises	18,860,989	19,638,761	1,763,137	1,602,668
Total Operating Expenses	184,978,057	183,697,491	4,940,573	4,525,051
Net Operating Income (Loss)	(73,152,974)	(69,487,033)	(1,002,356)	(820,703)
Non-Operating Revenues (Expenses):				
State appropriations, net	65,735,152	60,128,013	333,330	338,049
Gifts	2,429,070	2,160,161	-	-
Investment income	2,111,093	1,511,417	1,773,550	2,262,026
Other non-operating revenue	-	-	-	1,815
Interest expense	(1,641,868)	(1,736,609)	(84,468)	(114,483)
Net Non-Operating Revenues	68,633,447	62,062,982	2,022,412	2,487,407
Increase (Decrease) in Net Position Before Capital Grants	(4,519,527)	(7,424,051)	1,020,056	1,666,704
Capital grants	2,067,307	2,950,203	-	-
Total Increase (Decrease) in Net Position	\$ (2,452,220)	\$ (4,473,848)	\$ 1,020,056	\$ 1,666,704

See accompanying notes to the financial statements.
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SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Changes in Net Position

For the Years Ended June 30, 2019 and 2018

	<u>University</u>				<u>Total</u>
	<u>Net Investment in Capital Assets</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	
Balance at June 30, 2017	\$ 131,099,107	\$ 810,323	\$ 5,174,752	\$(107,814,309)	\$ 29,269,873
Changes in net position for 2018	(879,757)	56,044	562,597	(4,212,732)	(4,473,848)
Balance at June 30, 2018	130,219,350	866,367	5,737,349	(112,027,041)	24,796,025
Changes in net position for 2019	(1,217,146)	105,547	(77,717)	(1,262,904)	(2,452,220)
Balance, June 30, 2019	<u>\$ 129,002,204</u>	<u>\$ 971,914</u>	<u>\$ 5,659,632</u>	<u>\$(113,289,945)</u>	<u>\$ 22,343,805</u>

	<u>Component Units</u>				<u>Total</u>
	<u>Net Investment in Capital Assets</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	
Balance, June 30, 2017	\$ 8,686,073	\$ 23,048,262	\$ 12,580,873	\$ 1,935,694	\$ 46,250,902
Changes in net position for 2018	435,839	570,695	191,226	468,944	1,666,704
Balance, June 30, 2018	9,121,912	23,618,957	12,772,099	2,404,638	47,917,606
Changes in net position for 2019	606,234	741,350	(436,479)	108,951	1,020,056
Balance, June 30, 2019	<u>\$ 9,728,146</u>	<u>\$ 24,360,307</u>	<u>\$ 12,335,620</u>	<u>\$ 2,513,589</u>	<u>\$ 48,937,662</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	Primary Government	
	2019 University	2018 University
Cash Flows from Operating Activities:		
Tuition and fees	\$ 68,195,281	\$ 68,614,993
Grants and contracts	20,090,898	19,460,215
Payments to suppliers and vendors	(43,786,393)	(41,939,359)
Payments to employees	(89,405,586)	(90,903,191)
Payments for benefits	(10,355,639)	(11,205,287)
Payments to students	(7,135,368)	(6,185,534)
Loans issued to students	(143,500)	(287,316)
Collection of loans to students	229,798	316,097
Auxiliary enterprises receipts	22,606,260	23,488,503
Sales and services of educational departments	1,057,624	1,311,895
Other	90,375	342,178
Net Cash Applied to Operating Activities	<u>(38,556,250)</u>	<u>(36,986,806)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	49,562,182	45,404,188
Tuition remitted to State	(943,711)	(926,090)
Student interest received (paid)	(186)	(34,149)
Gifts	2,398,353	2,318,535
Net Cash Provided by Non-Capital Financing Activities	<u>51,016,638</u>	<u>46,762,484</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(1,692,999)	(3,196,369)
Principal paid on bonds payable and notes payable	(1,998,646)	(1,826,339)
Interest paid on bonds and notes payable	(1,860,907)	(1,949,078)
Proceeds from bond financing	472,624	-
Net Cash Applied to Capital Financing Activities	<u>(5,079,928)</u>	<u>(6,971,786)</u>
Cash Flows from Investing Activities:		
Investment income	1,026,212	613,290
Proceeds from sale of investments	6,846,110	7,081,327
Purchase of investments	(7,440,050)	(7,444,561)
Net Cash Provided by Investing Activities	<u>432,272</u>	<u>250,056</u>
Net Increase in Cash and Equivalents	7,812,732	3,053,948
Cash and Cash Equivalents, Beginning of the Year	<u>23,508,699</u>	<u>20,454,751</u>
Cash and Cash Equivalents, End of the Year	\$ 31,321,431	\$ 23,508,699

See accompanying notes to the financial statements.

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

Statements of Cash Flows - Continued

For the Years Ended June 30, 2019 and 2018

	Primary Government	
	2019 University	2018 University
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (73,152,974)	\$ (69,487,033)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	9,215,510	8,902,845
Bad debts	766,771	717,039
Fringe benefits provided by State	17,116,681	15,649,915
Changes in assets and liabilities:		
Accounts receivable	(393,960)	(1,418,077)
Accounts payable and accrued liabilities	551,679	359,575
Accrued payroll and benefits	2,119,393	447,993
Due from service concession vendor	(3,550,000)	-
Other assets	(1,057,727)	3,908
Loans to/from students	89,802	64,263
Deposits	(107,033)	61,022
Unearned revenues	117,594	(117,628)
Deferred inflows	18,460,175	13,654,009
Deferred outflows	(1,827,518)	(4,950,746)
Net pension activity	543,265	(2,409,118)
Net OPEB activity	(7,447,908)	1,535,227
Net Cash Applied to Operating Activities	<u>\$ (38,556,250)</u>	<u>\$ (36,986,806)</u>

Cash Flow Information

	Primary Government	
	2019 University	2018 University
For purposes of the statement of cash flows, cash and equivalents are comprised of the following at June 30:		
Cash and cash equivalents	\$ 23,891,121	\$ 15,367,405
Restricted cash and cash equivalents	3,115,918	3,213,500
Deposits held by State Treasurer	603,317	2,850,506
Cash held by State Treasurer	2,773,393	1,106,109
Deposits held by MSCBA and DCAMM	937,682	971,179
	<u>\$ 31,321,431</u>	<u>\$ 23,508,699</u>

Schedule of noncash investing and financing activities

	Primary Government	
	2019 University	2018 University
Acquisition of capital assets	\$ 3,900,313	\$ 6,160,286
Accounts payable beginning of year	128,791	115,077
Accounts payable end of year	(268,798)	(128,791)
Payments made by DCAMM	(2,067,307)	(2,950,203)
Cash payments for capital assets	<u>\$ 1,692,999</u>	<u>\$ 3,196,369</u>
Unrealized gain (loss) on marketable securities	<u>\$ 412,602</u>	<u>\$ (438,220)</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 17,116,681</u>	<u>\$ 15,649,915</u>

See accompanying notes to the financial statements.

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

Combining Statements of Net Position of Major Component Units

June 30, 2019 and 2018

	<u>Assets</u>					
	2019			2018		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Current Assets:						
Cash and cash equivalents	\$ 2,120,022	\$ 511,848	\$ 2,631,870	\$ 1,767,235	\$ 483,519	\$ 2,250,754
Restricted cash and cash equivalents	792,157	-	792,157	717,772	-	717,772
Accounts, grants and other receivable, net	-	13,831	13,831	-	14,410	14,410
Pledges receivable, net	580,651	-	580,651	672,225	-	672,225
Note receivable	-	-	-	40,000	-	40,000
Other current assets	31,497	-	31,497	4,396	-	4,396
Total Current Assets	3,524,327	525,679	4,050,006	3,201,628	497,929	3,699,557
Non-Current Assets:						
Investments securities	32,320,558	-	32,320,558	31,457,365	-	31,457,365
Pledges receivable, net of current portion	3,462,275	-	3,462,275	3,857,094	-	3,857,094
Note receivables, net of current portion	-	-	-	166,667	-	166,667
Capital assets, net	-	11,469,326	11,469,326	-	11,618,094	11,618,094
Total Non-Current Assets	35,782,833	11,469,326	47,252,159	35,481,126	11,618,094	47,099,220
Total Assets	\$ 39,307,160	\$ 11,995,005	\$ 51,302,165	\$ 38,682,754	\$ 12,116,023	\$ 50,798,777
	<u>Liabilities and Net Position</u>					
Current Liabilities:						
Accounts payable and accrued expenses	\$ 351,537	\$ 49,248	\$ 400,785	\$ 262,031	\$ 73,666	\$ 335,697
Unearned revenues	35,140	41,312	76,452	27,153	-	27,153
Note payable	-	27,389	27,389	-	66,127	66,127
Bond payable	-	384,000	384,000	-	366,725	366,725
Total Current Liabilities	386,677	501,949	888,626	289,184	506,518	795,702
Non-Current Liabilities:						
Note payable, net of current portion	-	1,093,274	1,093,274	-	1,287,476	1,287,476
Bond payable, net of current portion	-	236,517	236,517	-	775,854	775,854
Other non-current liabilities	-	146,086	146,086	-	22,139	22,139
Total Non-Current Liabilities	-	1,475,877	1,475,877	-	2,085,469	2,085,469
Total Liabilities	386,677	1,977,826	2,364,503	289,184	2,591,987	2,881,171
Net Position:						
Net investment in capital assets	-	9,728,146	9,728,146	-	9,121,912	9,121,912
Restricted:						
Nonexpendable	24,360,307	-	24,360,307	23,618,957	-	23,618,957
Expendable	12,335,620	-	12,335,620	12,772,099	-	12,772,099
Unrestricted	2,224,556	289,033	2,513,589	2,002,514	402,124	2,404,638
Total Net Position	38,920,483	10,017,179	48,937,662	38,393,570	9,524,036	47,917,606
Total Liabilities and Net Position	\$ 39,307,160	\$ 11,995,005	\$ 51,302,165	\$ 38,682,754	\$ 12,116,023	\$ 50,798,777

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
 (an agency of the Commonwealth of Massachusetts)
Combining Statements of Revenues and Expenses
of Major Component Units

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Operating Revenues:						
Gifts and contributions	\$ 1,777,094	-	\$ 1,777,094	\$ 1,703,556	\$ -	\$ 1,703,556
Auxiliary enterprises	-	2,073,474	2,073,474	-	1,932,069	1,932,069
Other operating revenues	-	87,649	87,649	-	68,723	68,723
Total Operating Revenues	1,777,094	2,161,123	3,938,217	1,703,556	2,000,792	3,704,348
Operating Expenses:						
Educational and general:						
Public service	1,364,805	-	1,364,805	1,553,939	-	1,553,939
Institutional support	1,123,572	-	1,123,572	709,430	-	709,430
Scholarships	535,354	-	535,354	497,287	-	497,287
Depreciation and amortization	-	153,705	153,705	-	161,727	161,727
Auxiliary enterprises	-	1,763,137	1,763,137	-	1,602,668	1,602,668
Total Operating Expenses	3,023,731	1,916,842	4,940,573	2,760,656	1,764,395	4,525,051
Net Operating Income (Loss)	(1,246,637)	244,281	(1,002,356)	(1,057,100)	236,397	(820,703)
Non-Operating Revenues (Expenses):						
State appropriations, net	-	333,330	333,330	-	338,049	338,049
Contribution to the Assistance Corporation	-	-	-	-	-	-
Investment income	1,773,550	-	1,773,550	2,262,026	-	2,262,026
Other non-operating revenue	-	-	-	-	1,815	1,815
Interest expense	-	(84,468)	(84,468)	-	(114,483)	(114,483)
Net Non-Operating Revenues	1,773,550	248,862	2,022,412	2,262,026	225,381	2,487,407
Total Increase in Net Position	526,913	493,143	1,020,056	1,204,926	461,778	1,666,704
Net Position, Beginning of Year	38,393,570	9,524,036	47,917,606	37,188,644	9,062,258	46,250,902
Net Position, End of Year	\$ 38,920,483	\$ 10,017,179	\$ 48,937,662	\$ 38,393,570	\$ 9,524,036	\$ 47,917,606

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2019 and 2018

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

Organization

Salem State University (the “University”) is a public, State-supported, comprehensive four-year 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 Commission of Higher Education.

Basis of Presentation and Accounting

The University is an agency of the Commonwealth of Massachusetts (the “State” or the “Commonwealth”). The accompanying financial statements reflect only the transactions of the University and its discretely presented component units. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the University had been operated independently of the State.

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, 2019 and 2018

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 and 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.

During the years ended June 30, 2019 and 2018, the Foundation distributed scholarships in the amount of \$535,354 and \$497,287, respectively, directly to students of the University. Complete financial statements for the Foundation and the Assistance Corporation can be obtained from the Office of the Vice President for Finance and Business, Salem State University, 352 Lafayette Street, Salem, MA 01970.

The University has determined that it functions as a business-type activity, as defined by the Governmental Accounting Standards Board ("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 and expenses, changes in net position and cash flows on a combined University-wide basis.

The University's 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 GASB. 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.

Salem State University Foundation, as a nonprofit organization, reports under Financial Accounting Standards Board ("FASB") guidance on financial reporting for Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than the reclassification of certain items, no modifications have been made to the Foundation's financial information in the University's financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Basis of Presentation and Accounting - continued

The University's policy for defining operating activities in the statements of revenues and expenses are those that generally result from exchange transactions such as the payment received for services and payment made for the purchases of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts and interest expense.

The accompanying statements of revenues and expenses demonstrate the degree to which the direct expenses of a given function are offset by programs revenues. Direct expenses are those that are 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 instead reported as general revenue.

In accordance with the requirements of the Commonwealth of Massachusetts, the University's operations are accounted for in several trust funds. All of those trust funds have been consolidated and are included in these financial statements.

Net Position

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following three 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 or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position.

Restricted:

Nonexpendable - Component of net position whose net assets are subject to externally-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Expendable - Component of net position whose use by the University is subject to externally-imposed stipulations that can be fulfilled by the actions of the University pursuant to those stipulations or that expire by the passage of time.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Basis of Presentation and Accounting - continued

Unrestricted: All other categories of net position. Unrestricted net assets may be designed for specific purposes by action of management or the Board of Trustees.

When both restricted and unrestricted resources are available for use, it is the University's policy to use the restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents and Deposits

The University's cash and cash equivalents are considered cash on hand, cash deposits held with the Commonwealth's State Treasurer and Receiver-General, 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.

Accounts Receivable

Accounts receivable are stated at the amount the University expects to collect from outstanding balances. Provisions for losses on accounts 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.

Pledges Receivable - Foundation

Unconditional promises to give that are expected to be collected or paid within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue or expense. Conditional promises to give are not included in support until the conditions are substantially met.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies - Continued

Investments

Investments held with the Commonwealth's State Treasurer and Receiver-General in the Massachusetts Municipal Depository Trust ("MMDT") are reported at amortized cost. The MMDT is an investment pool for political subdivisions in the Commonwealth that was designed as a legal means to safely invest temporarily available cash. Its primary purpose is to provide a safe, liquid, high-yield investment vehicle offering participation in a diversified portfolio of high quality money market instruments. The MMDT, an instrumentality of the State Treasurer, is not a bank, savings institution or financial institution, and is not subject to FDIC insurance. MMDT operates as a qualifying external investment pool and is valued by MMDT's management on an amortized cost where the net asset value is \$1 per share.

Investments include marketable debt and equity securities which are carried at their readily determinable fair values. Realized and unrealized gains and losses are included in non-operating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets.

Dividends, interest and net gains or losses on investments are reported in the Statement of Revenues and Expenses. Any net earnings not expended are included in net position categories as follows:

- i. as increases in restricted - nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- ii. as increases in restricted - expendable net position if the terms of the gift or the University's interpretation of relevant state law impose restrictions on the current use of income or net gains. The University has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should be classified as restricted - expendable; and,
- iii. as increases in unrestricted net position in all other cases.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Investments - continued

Massachusetts General Law, Chapter 15, grants authority to the University's Board of Trustees to administer the general business of the University. Inherent in this is the authority to invest the funds of the University. Chapter 15 further grants the Trustees the authority to delegate to the President any said powers or responsibilities. The Board of Trustees of Salem State University has delegated the authority to make specific investment decisions to the President of the University and the Finance Committee of the Board of Trustees. The University's investments consist of debt, marketable equity securities, mutual funds and other investments which are carried at their fair values. The primary cash equivalent funds are within the MMDT, the external investment pool for political subdivisions of the Commonwealth.

The Foundation's investments consist of debt, marketable equity securities, mutual funds and other investments which are carried at their fair value. Unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in unrestricted net position, unless a donor or law temporarily (expendable) or permanently (non-expendable) restricts their use. Gains and losses on the disposition of investments are principally determined based on the first-in, first-out method or specific identification of securities sold. Investment income is recognized when earned. Dividends are recorded on the ex-dividend date.

Loans Receivable and Payable

Loans receivable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Student Loan Program ("NSL"). The Federal Government provides the majority of the funds to support these programs. Loan payments received from students made under the Perkins and NSL loan programs provided by the Federal Government is refundable to the Federal Government upon ending (liquidation) of the University's participation in the programs. The amount due to the Federal Government upon liquidation is included as a noncurrent liability in the accompanying financial statements. See Note 7 for changes in the Perkins Loan Program.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Loans Receivable and Payable- continued

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 uncollectability and have been accepted (assigned) by the Department of Education and the Department of Health and Human Services. 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.

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 assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, construction in process, buildings, building and land improvements and furniture and equipment, are reported in the statement of net position at cost or fair market value, if donated. Capital assets are defined by the University as assets with an initial individual cost of more than \$50,000 for equipment and \$100,000 for Buildings and improvements in accordance with the Commonwealth's capitalization policy.

The University does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets, with the exception of land, are depreciated using the straight-line method over estimated useful lives which range from 3 to 40 years.

The land on which the residence halls stand is leased by the MSCBA from the Commonwealth of Massachusetts at a yearly cost of one dollar. The residence halls have various lease terms and can be extended at the end of these terms for additional 10-year periods each.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Capital Assets - continued

The University, in accordance with a management and services agreement between the MSCBA and the Commonwealth of Massachusetts, is charged a semi-annual revenue assessment which is based on a certified occupancy report, the current rent schedule and the design capacity for each of the residence halls. 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. The revenue assessment amounts are included in the residential life auxiliary enterprises in the accompanying statements of revenue and expenses. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA. It is not practical to determine specific asset cost or liability attributable to the University. The leases, therefore, are accounted for under the operating method for financial statement purposes.

The Assistance Corporation capitalizes property and equipment in excess of \$1,000. Purchased property and equipment is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets.

Contributions - Foundation

In-kind rent and services contributed are recorded as contributions in revenues and other support at their fair market values on the date of receipt. The related expenses or assets are also recorded depending on the form of benefits received.

Deposits Held by Other State Agencies

Funds held by the MSCBA and the DCAMM are primarily for ongoing construction projects and are from bond proceeds and University sources.

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
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Postemployment Benefits Other Than Pensions (“OPEB”)

For purposes of measuring the University's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Retirees' Benefit Trust (“SRBT”) and additions to/deductions from SRBT’s fiduciary net position have been determined on the same basis as they are reported by SRBT. For this purpose, SRBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fringe Benefits

The University participates in the Commonwealth’s fringe benefit programs, including health insurance, unemployment, and 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 30th each year. 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 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.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Interest Costs and Capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2019 and 2018, total interest costs incurred were approximately \$1,642,000 and \$1,737,000, respectively. There was no interest costs capitalized in 2019 or 2018.

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, net position classification, and determining the net pension and OPEB liabilities.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

New Governmental Accounting Pronouncements – continued

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of net position and a statement of changes in net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Statement. Management is in the process of evaluating this Statement and has not yet determined its impact on the financial statements.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

New Governmental Accounting Pronouncements – continued

GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* is effective for periods beginning after December 15, 2019. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period and requires that interest cost incurred before the end of a construction period be recognized as an expense for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The university is in the process of evaluating this standard and does not currently expect a material impact.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Note 2 - **Cash and Cash Equivalents and Deposits**

The carrying amounts of the University's cash and cash equivalents and deposits, net of amounts in transit at June 30, 2019 and 2018 were \$27,007,039 and \$18,580,905 respectively. This includes amounts held in deposit at MMDT of \$21,938,352 and \$13,619,472 as of June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, the University had deposits of \$5,126,699 and \$5,064,476, respectively, held in a money market account which was insured by a third party up to a maximum of \$5 million.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Cash and Cash Equivalents and Deposits - Continued**

Custodial Credit Risk

Custodial credit 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 MMDT, which is an instrumentality of the Treasurer of the Commonwealth and therefore is 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.

The University does not have a formal policy with respect to the custodial credit risk. Custodial credit risk is that, in the event of a failure of the counterparty, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Amounts remaining that may be exposed to custodial risk at June 30, 2019 and 2018 were \$211,252 and \$422,245, respectively, which are primarily maintained as part of the University's investment portfolio.

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.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Cash and Cash Equivalents and Deposits – Continued**

Credit Risk

The University is required to comply with the Commonwealth of Massachusetts' deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. State Statutes permit investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The University has also adopted its own formal investment policy, the objectives of which are: safety of principal; liquidity for operating needs; and return on investment. The University's investment policy generally limits the maturities of investments to not more than seven years. The University may also appoint a professional fund manager and invest in equity and bond funds. Eligible investments shall be consistent with those permitted by State Statutes.

As of June 30, 2019, and 2018, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$21,938,352 and \$13,619,472, respectively. At June 30, 2019, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 74% at 30 days or less; 18% at 31-90 days; 5% at 91-180 days and 3% at 181 days or more. At June 30, 2018, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 71% at 30 days or less; 20% at 31-90 days; 9% at 91-180 days.

Note 3 - **Cash and Deposits Held By State Treasurer**

Cash forwarded by the University to and held by the State Treasurer for payment of so-called "non-appropriated" liabilities at June 30, 2019 and 2018 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sums of \$603,317 and \$2,850,506, respectively.

Liabilities to be funded by state appropriations at June 30, 2019 and 2018 were \$2,773,393 and \$1,106,109, respectively.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments**

The University investments have been categorized based upon the fair value hierarchy in accordance with GASB 72 below. The Foundation follows similar guidance in accordance with Financial Accounting Standards Codification ASC 820-10 which prioritizes the inputs to valuation techniques used to measure fair value of investment assets into three levels also.

Level 1 - Observable market prices (unadjusted) in active markets for identical assets or liabilities that the University can access at measurement date.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by observable market data.

Mutual funds and common stock are valued at daily closing prices as reported by the fund while common stocks and corporate bonds are valued either by using pricing models maximizing the use of observable inputs for similar securities or valued by the investment manager. The stock and mutual funds are classified as Level 1 are deemed to be actively traded. U.S. Government obligations are valued using quoted prices, documented trade history in the security, and pricing models maximizing the use of observable inputs. Corporate bonds are valued as Level 2 based on the closing price reported in the active market in which the individual securities are traded.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

University

The University's investments at fair value measurement are as follows at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
International equities	\$ 580,149	\$ -	-	\$ 580,149
U.S. equities	886,751	-	-	886,751
Corporate bonds	591,636	-	-	591,636
U.S. Treasuries	1,312,334	-	-	1,312,334
International emerging	728,435	-	-	728,435
Small and Mid Cap equities	309,560	-	-	309,560
Short-term fixed income	11,113	-	-	11,113
Total mutual funds	<u>4,419,978</u>	-	-	<u>4,419,978</u>
Common stocks	7,294,601	-	-	7,294,601
Corporate bonds	-	4,738,736	-	4,738,736
Total investment assets	<u>\$11,714,579</u>	<u>\$ 4,738,736</u>	<u>-</u>	<u>\$16,453,315</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

University - continued

The University's investments at fair value measurement are as follows at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 1,044,578	\$ -	\$ -	\$ 1,044,578
U.S. equities	852,932	-	-	852,932
Global equities (US & international)	498,496	-	-	498,496
Corporate bonds	502,235	-	-	502,235
U.S. Treasuries	654,026	-	-	654,026
International emerging	313,863	-	-	313,863
Small Cap equities	306,837	-	-	306,837
Short-term fixed income	207,774	-	-	207,774
Total mutual funds	4,380,741	-	-	4,380,741
Common stocks	6,317,319	-	-	6,317,319
Corporate bonds	-	4,091,290	-	4,091,290
Total investment assets	<u>\$ 10,698,060</u>	<u>\$ 4,091,290</u>	<u>\$ -</u>	<u>\$ 14,789,350</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

Foundation

The Foundation's investments at fair value measurement are as follows at June 30, 2019:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 15,908,765	\$ -	\$ -	\$ 15,908,765
Corporate bonds		6,922,618		6,922,618
Mutual funds:				-
U.S. bonds and notes	2,457,209	-	-	2,457,209
International emerging	969,618	-	-	969,618
Corporate bonds	822,408	-	-	822,408
International equities	790,752	-	-	790,752
Large cap equities	556,740	-	-	556,740
Small and mid-cap equities	402,123	-	-	402,123
Total mutual funds	5,998,850	-	-	5,998,850
Exchange-traded funds	1,786,359	-	-	1,786,359
Money market	1,413,563	-	-	1,413,563
Variable rate bonds	128,035	-	-	128,035
Certificates of deposits	-	116,586	-	116,586
State municipal bonds	45,282	-	-	45,282
Other	-	500	-	500
Total assets at fair value	<u>\$ 25,280,854</u>	<u>\$ 7,039,704</u>	<u>\$ -</u>	<u>\$ 32,320,558</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments – Continued**

Foundation - continued

The Foundation's investments at fair value measurement are as follows at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 9,982,330	\$ -	\$ -	\$ 9,982,330
Corporate bonds	-	6,958,125	-	6,958,125
Mutual funds:				
International equities	3,246,112	-	-	3,246,112
U.S. equities	2,531,940	-	-	2,531,940
Large cap equities	1,204,789	-	-	1,204,789
International emerging	993,606	-	-	993,606
Short-term fixed income	704,492	-	-	704,492
International bonds	658,007	-	-	658,007
Hard assets	654,906	-	-	654,906
Corporate bonds	530,669	-	-	530,669
Fixed income	497,192	-	-	497,192
Small and mid-cap equities	429,136	-	-	429,136
U.S. bonds and notes	250,227	-	-	250,227
Total mutual funds	11,701,076	-	-	11,701,076
Money market	2,031,476	-	-	2,031,476
U.S. Government obligations	667,272	-	-	667,272
Certificates of deposits	-	116,586	-	116,586
Other	-	500	-	500
Total assets at fair value	<u>\$ 24,382,154</u>	<u>\$ 7,075,211</u>	<u>\$ -</u>	<u>\$ 31,457,365</u>

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2019 and 2018, investments totaled \$16,453,315 and \$14,789,350, respectively. These holdings represent investments that are insured, registered and held by the University's investment agent in the University's name. At June 30, 2019 and 2018, 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
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **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, 2019 Investment Maturity in Years					
Investment Type:	Fair Value	Less than 1	1-5	6-10	> 10
Corporate bonds	\$ 4,738,736	\$ 350,160	\$ 4,247,740	\$ 140,836	\$ -
Corporate bond funds	591,636	-	-	11,450	580,186
Short-term fixed income	11,113	-	11,113	-	-
U.S. Treasuries	1,312,334	-	720,647	591,687	-
Total fixed income	6,653,819	<u>\$ 350,160</u>	<u>\$ 4,979,500</u>	<u>\$ 743,973</u>	<u>\$ 580,186</u>
Equity securities	9,799,496				
Total investments	<u>\$ 16,453,315</u>				

June 30, 2018 Investment Maturity in Years					
Investment Type:	Fair Value	Less than 1	1-5	6-10	> 10
Corporate bonds	\$ 4,091,290	\$ 248,808	\$ 3,524,627	\$ 317,855	\$ -
Corporate bond funds	502,235	-	14,513	470,422	17,300
Short-term fixed income	207,774	-	207,774	-	-
U.S. Treasuries	654,026	-	347,801	306,225	-
Total fixed income	5,455,325	<u>\$ 248,808</u>	<u>\$ 4,094,715</u>	<u>\$ 1,094,502</u>	<u>\$ 17,300</u>
Equity securities	9,334,025				
Total investments	<u>\$ 14,789,350</u>				

SALEM STATE UNIVERSITY
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Notes to the Financial Statements –Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

University - continued

The following table summarizes the quality ratings of the University's debt investments at June 30, 2019:

	Quality Ratings								
	Fair Value	Ba2	Baa1	Baa2	Baa3	A1	A2	A3	Not Rated
Corporate bonds	\$ 4,738,736	\$ 149,179	\$ 925,099	\$ 1,885,591	\$ 205,126	\$ 396,318	\$ 588,181	\$ 589,242	\$ -
Corporate bond funds	591,636	-	-	-	-	-	-	-	591,636
Short-term fixed income	11,113	-	-	-	-	-	-	-	11,113
U.S. Treasuries	1,312,334	-	-	-	-	-	-	-	1,312,334
Totals	\$ 6,653,819	\$ 149,179	\$ 925,099	\$ 1,885,591	\$ 205,126	\$ 396,318	\$ 588,181	\$ 589,242	\$ 1,915,083

The following table summarizes the quality ratings of the University's debt investments at June 30, 2018:

	Quality Ratings							
	Fair Value	Ba2	Baa1	Baa2	A1	A2	A3	Not Rated
Corporate bonds	\$ 4,091,290	\$ 145,671	\$ 1,336,842	\$ 1,762,990	\$ 24,843	\$ 223,610	\$ 597,334	\$ -
Corporate bond funds	502,235	-	-	-	-	-	-	502,235
Short-term fixed income	207,774	-	-	-	-	-	-	207,774
U.S. Treasuries	654,026	-	-	-	-	-	-	654,026
Totals	\$ 5,455,325	\$ 145,671	\$ 1,336,842	\$ 1,762,990	\$ 24,843	\$ 223,610	\$ 597,334	\$ 1,364,035

Investment Income, net

The following schedule summarizes the investment income in the statements of revenues and expenses for the University for the years ended June 30:

	University 2019	University 2018	Foundation 2019	Foundation 2018
Interest and dividends	\$ 1,111,204	\$ 696,883	\$ 773,550	\$ 689,064
Net realized and unrealized gains	1,070,027	882,074	1,142,080	1,680,080
Investment fees	(70,138)	(67,540)	(142,080)	(107,118)
Total investment income	\$ 2,111,093	\$ 1,511,417	\$ 1,773,550	\$ 2,262,026

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 5 - **Accounts, Grants and Other Receivables**

The accounts, grants and other receivables balances were comprised of the following at June 30:

	2019	2018
Student accounts	\$ 9,960,346	\$ 12,535,024
Grants	524,924	752,514
Other	1,026,368	894,959
Total gross receivables	11,511,638	14,182,497
Less: allowance for doubtful accounts	(5,326,721)	(7,664,944)
Total accounts, grants and other receivables, net	\$ 6,184,917	\$ 6,517,553

Note 6 - **Pledges Receivable and Notes Receivable**

Pledges Receivable - Foundation

Pledges receivable for the Foundation consisted of the following as of June 30 and are expected to be realized as follows:

	2019	2018
Receivable in less than one year	\$ 580,651	\$ 672,225
Between one to five years	3,791,494	4,320,771
Receivable after five years	13,917	17,417
Less: allowance for doubtful accounts	(85,000)	(85,000)
Total pledges receivables	4,301,062	4,925,413
Less: discount to net present value at 3%	(258,136)	(396,094)
Pledges receivable, net	4,042,926	4,529,319
Less: current portion of receivable	(580,651)	(672,225)
Long-term pledges receivable, net	\$ 3,462,275	\$ 3,857,094

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 6 - **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 (3.17% and 2.28% at June 30, 2017 and 2016, respectively) 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.

In July 2018, the remaining balance on the note receivable was paid in full.

Note 7 - **Loans Receivable and Payable**

Loans receivable and payable 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. 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.

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 were eligible to receive a spring semester Perkins loan disbursement. No further extensions were granted for the program as of the date of issuance of these financial statements.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 7 - **Loans Receivable and Payable - Continued**

Loans receivable from students include the following at June 30:

	<u>2019</u>	<u>2018</u>
Perkins	\$ 1,202,153	\$ 1,363,700
Nursing	660,838	589,093
Total loans receivable	<u>1,862,991</u>	<u>1,952,793</u>
Less: amount due in one year	<u>(229,797)</u>	<u>(250,410)</u>
Long-term loan receivables	<u>\$ 1,633,194</u>	<u>\$ 1,702,383</u>

As of June 30, amounts that are expected to be repaid to the Federal Government by the University upon ending of the University's participation in the program (liquidation), are as follows:

	<u>2019</u>	<u>2018</u>
Perkins	\$ 1,375,155	\$ 1,374,294
Nursing	764,710	771,154
Total loans payable	<u>\$ 2,139,865</u>	<u>\$ 2,145,448</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Capital Assets**

University

Capital asset activity for the University for the year ended June 30, 2019 is as follows:

	Beginning Balance	Additions	Transfer to Capital Assets	Ending Balance
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	186,624	3,173,181	(3,040,240)	319,565
Total capital assets not depreciated	<u>2,722,797</u>	<u>3,173,181</u>	<u>(3,040,240)</u>	<u>2,855,738</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	148,663,439	-	3,040,240	151,703,679
Furniture and equipment	30,817,575	727,132	-	31,544,707
Total capital assets depreciated	<u>269,610,949</u>	<u>727,132</u>	<u>3,040,240</u>	<u>273,378,321</u>
Total capital assets	<u>272,333,746</u>	<u>3,900,313</u>	<u>-</u>	<u>276,234,059</u>
Less: accumulated depreciation:				
Buildings	28,755,005	1,928,973	-	30,683,978
Building improvements	46,780,847	6,265,653	-	53,046,500
Furniture and equipment	27,107,327	1,020,884	-	28,128,211
Total accumulated depreciation	<u>102,643,179</u>	<u>9,215,510</u>	<u>-</u>	<u>111,858,689</u>
Capital assets, net	<u>\$ 169,690,567</u>	<u>\$ (5,315,197)</u>	<u>\$ -</u>	<u>\$ 164,375,370</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Capital Assets - Continued**

University - continued

Capital asset activity for the University for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions/ (Reductions)	Transfer to Capital Assets	Ending Balance
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	6,371,516	5,743,946	(11,928,838)	186,624
Total capital assets not depreciated	<u>8,907,689</u>	<u>5,743,946</u>	<u>(11,928,838)</u>	<u>2,722,797</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	136,949,564	(214,963)	11,928,838	148,663,439
Furniture and equipment	30,401,235	416,340	-	30,817,575
Total capital assets depreciated	<u>257,480,734</u>	<u>201,377</u>	<u>11,928,838</u>	<u>269,610,949</u>
Total capital assets	<u>266,388,423</u>	<u>5,945,323</u>	<u>-</u>	<u>272,333,746</u>
Less: accumulated depreciation:				
Buildings	26,826,030	1,928,975	-	28,755,005
Building improvements	41,060,591	5,720,256	-	46,780,847
Furniture and equipment	25,853,713	1,253,614	-	27,107,327
Total accumulated depreciation	<u>93,740,334</u>	<u>8,902,845</u>	<u>-</u>	<u>102,643,179</u>
Capital assets, net	<u>\$ 172,648,089</u>	<u>\$ (2,957,522)</u>	<u>-</u>	<u>\$ 169,690,567</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Capital Assets - Continued**

Assistance Corporation

Capital asset activity of the Assistance Corporation for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets not depreciated:			
Land	\$ 8,161,482	\$ -	\$ 8,161,482
Total capital assets not depreciated	<u>8,161,482</u>	<u>-</u>	<u>8,161,482</u>
Capital assets depreciated:			
Buildings	1,785,560	-	1,785,560
Building improvements	4,232,314	3,626	4,235,940
Furniture and equipment	197,630	1,311	198,941
Total capital assets depreciated	<u>6,215,504</u>	<u>4,937</u>	<u>6,220,441</u>
Total capital assets	<u>14,376,986</u>	<u>4,937</u>	<u>14,381,923</u>
Less accumulated depreciation:			
Buildings	614,020	44,639	658,659
Buildings improvements	1,954,804	106,678	2,061,482
Furniture and equipment	190,068	2,388	192,456
Total accumulated depreciation	<u>2,758,892</u>	<u>153,705</u>	<u>2,912,597</u>
Capital assets, net	<u>\$ 11,618,094</u>	<u>\$ (148,768)</u>	<u>\$ 11,469,326</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Capital Assets - Continued**

Assistance Corporation - continued

Capital asset activity of the Assistance Corporation for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets not depreciated:			
Land	\$ 8,161,482	\$ -	\$ 8,161,482
Total capital assets not depreciated	<u>8,161,482</u>	<u>-</u>	<u>8,161,482</u>
Capital assets depreciated:			
Buildings	1,785,560	-	1,785,560
Building improvements	4,214,941	17,373	4,232,314
Furniture and equipment	191,112	6,518	197,630
Total capital assets depreciated	<u>6,191,613</u>	<u>23,891</u>	<u>6,215,504</u>
Total capital assets	<u>14,353,095</u>	<u>23,891</u>	<u>14,376,986</u>
Less accumulated depreciation:			
Buildings	569,381	44,639	614,020
Buildings improvements	1,843,556	111,248	1,954,804
Furniture and equipment	184,228	5,840	190,068
Total accumulated depreciation	<u>2,597,165</u>	<u>161,727</u>	<u>2,758,892</u>
Capital assets, net	<u>\$ 11,755,930</u>	<u>\$ (137,836)</u>	<u>\$ 11,618,094</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses include the following at June 30, 2019 and 2018:

	2019	2018
Accounts payable - trade	\$ 3,476,593	\$ 2,678,429
Accrued interest payable	361,316	379,470
Tuition due to state	108,358	94,996
Other	1,213,766	1,333,606
Total accounts payable and accrued expenses	\$ 5,160,033	\$ 4,486,501

Note 10 - **Unearned Revenues**

Unearned revenues include tuition received in advance from students for courses commencing after June 30 primarily for following fiscal year's summer and fall semesters revenue and grant funds received in advance. Unearned revenues of the University include the following at June 30:

	2019	2018
Tuition and fees	\$ 2,723,377	\$ 2,514,395
Grants	419,839	511,227
Total unearned revenue	\$ 3,143,216	\$ 3,025,622

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Long-Term Liabilities**

Long-term liabilities of the University at June 30, 2019 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 39,853,368	\$ -	\$ 1,969,000	\$ 37,884,368	\$ 2,064,279
Bond premiums	3,182,048	-	200,886	2,981,162	200,892
Loans payable	2,145,448	-	5,583	2,139,865	-
Note payable	19,032	472,624	29,646	462,010	225,986
Total bonds, loans and note payable	<u>45,199,896</u>	<u>472,624</u>	<u>2,205,115</u>	<u>43,467,405</u>	<u>2,491,157</u>
Other long-term liabilities:					
Accrued compensated absences	9,591,205	15,579	-	9,606,784	5,635,319
Workers' compensaton	1,209,977	-	11,822	1,198,155	262,149
Net pension liability	44,564,278	543,255	-	45,107,533	-
Net OPEB liability	86,677,734	-	7,447,908	79,229,826	-
Total other long-term liabilities	<u>142,043,194</u>	<u>558,834</u>	<u>-</u>	<u>135,142,298</u>	<u>5,897,468</u>
Total long-term liabilities	<u>\$ 187,243,090</u>	<u>\$ 1,031,458</u>	<u>\$ 2,205,115</u>	<u>\$ 178,609,703</u>	<u>\$ 8,388,625</u>

Long-term liabilities of the University at June 30, 2018 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 41,819,483	\$ -	\$ 1,966,115	\$ 39,853,368	\$ 1,968,979
Bond premiums	3,382,940	-	200,892	3,182,048	200,892
Loans payable	2,190,173	-	44,725	2,145,448	-
Note payable	94,244	-	75,212	19,032	19,032
Total bonds, loans and note payable	<u>47,486,840</u>	<u>-</u>	<u>2,286,944</u>	<u>45,199,896</u>	<u>2,188,903</u>
Other long-term liabilities:					
Accrued compensated absences	9,760,216	-	169,011	9,591,205	5,865,631
Workers' compensaton	1,177,318	32,659	-	1,209,977	263,326
Net pension liability	46,973,396	-	2,409,118	44,564,278	-
Net OPEB liability	83,576,460	3,101,274	-	86,677,734	-
Total other long-term liabilities	<u>141,487,390</u>	<u>3,133,933</u>	<u>2,578,129</u>	<u>142,043,194</u>	<u>6,128,957</u>
Total long-term liabilities	<u>\$ 188,974,230</u>	<u>\$ 3,133,933</u>	<u>\$ 4,865,073</u>	<u>\$ 187,243,090</u>	<u>\$ 8,317,860</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Bonds Payable - University

Over the past 13 years, the University, in association with the MSCBA, DCAMM and the Massachusetts Development Finance Agency (“MDFA”), has 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%. The outstanding balance of this obligation including unamortized bond premium was \$1,248,368 and \$1,428,553 at June 30, 2019 and 2018, respectively.

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, at an annual coupon rate of approximately 4.26%. The outstanding balance of this obligation including unamortized bond premium was \$1,621,503 and \$1,812,335 at June 30, 2019 and 2018, respectively.

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. The outstanding balance of this obligation was \$42,900 and \$57,200 at June 30, 2019 and 2018, respectively.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Long-Term Liabilities - 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. The outstanding balance of the obligation was \$136,468 and \$153,528 at June 30, 2019 and 2018, respectively.

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%. The outstanding balance of this obligation including unamortized bond premium was \$13,097,469 and \$13,615,849 at June 30, 2018 and 2017, respectively.

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 \$66,505. A debt service reserve remains for the 2006 bond in the amount of \$245,737, which is unchanged from fiscal year 2012.

Sophia Gordon Center for Creative and Performing Arts Theatre 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, comprehensive renovations to the Sophia Gordon Center for Creative and Performing Arts Theatre, relocation of the Public Safety station and the development and creation of a parking lot on Assistance Corporation owned land. 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. The outstanding balance of this obligation including unamortized bond premium was \$17,387,404 and \$18,262,953 at June 30, 2019 and 2019, respectively. A debt service reserve remains for the 2014 bonds in the amount of \$1,161,098.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Land Acquisition Bond

In addition to the MSCBA issued 2014 project bonds, the MSCBA held additional bond proceeds for the University to use for future land acquisitions. These bond proceeds were used for land acquisitions on behalf of the Assistance Corporation during the 2016 fiscal year. This bond amount consists of principal in the amount of \$1,090,000, issued at a premium of \$53,758. The average annual coupon rate is approximately 4.8% over the life of the issue, and the term of this debt extends to June 30, 2048. The outstanding balance of this obligation including unamortized bond premium was \$1,077,242 and \$1,093,865 at June 30, 2019 and 2018, respectively.

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.

During March 2016, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project - Phase 3 (the project). The project's goal is a comprehensive energy and water saving performance contract which includes ice rink renovations, lighting upgrades, EMS and HVAC upgrades.

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 \$2,291,402 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. The total project cost for the University for Phase 3 is \$2,801,950 and will be repaid over 20 years at 3.0% interest per annum commenced on January 1, 2018. The annual payments of principal and interest for Phase 3 amount to \$188,335 per annum. The outstanding balance of the obligations for Phase 1, 2 and 3 was \$5,489,583 and \$5,831,064 at June 30, 2019 and 2018, respectively.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Property Acquisition - Garage Bond

MSCBA held excess bond proceeds on behalf of the University for future real estate Acquisitions. These bond proceeds were used for property acquisitions on behalf of the Assistance Corporation during June 2017. This bond amount consists of principal in the amount of \$764,593 and \$780,069 as of June 30, 2019 and 2018, respectively. There was a reduction of this bond by MSCBA during 2018. The average annual coupon rate is approximately 5.0% over the life of the issue, and the term of this debt extends to June 30, 2044.

Debt Service Reserves

Total debt service reserves held by the MSCBA for past bond issuances amount to \$1,473,340 at June 30, 2019 and 2018.

Bond Payable Maturities

Maturities of the bonds payable subsequent to June 30, 2019 are as follows:

Years Ending June 30,	Principal	Amortization of Premium	Interest	Total
2020	\$ 2,064,279	\$ 200,892	\$ 1,788,802	\$ 4,053,973
2021	2,153,821	200,892	1,696,180	4,050,893
2022	2,243,219	200,892	1,604,842	4,048,953
2023	2,334,294	200,892	1,498,991	4,034,177
2024	2,460,024	200,892	1,388,063	4,048,979
2025-2029	12,163,639	969,953	5,192,402	18,325,994
2030-2034	10,868,586	837,169	2,289,249	13,995,004
2035-2039	2,876,782	154,915	386,960	3,418,657
2040-2044	479,721	8,145	126,965	614,831
2045-2048	240,003	6,520	27,675	274,198
Total	<u>\$ 37,884,368</u>	<u>\$ 2,981,162</u>	<u>\$ 16,000,129</u>	<u>\$ 56,865,659</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Notes Payable University

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. This note was paid in full in August of 2018.

During June of 2019, a note payable was acquired for \$472,624 to purchase computer equipment. The note payable term is for four years, requires annual principal payments of \$127,051 plus interest, has an average interest rate of 5.1% and is payable through June 2022. The annual principal payments on this note are as follows:

Years Ending June 30,	Principal	Interest
2020	\$ 225,986	\$ 17,501
2021	115,097	11,953
2022	120,927	6,124
Total	<u>\$ 462,010</u>	<u>\$ 35,578</u>

Long-term Liabilities - Assistance Corporation

Long-term liabilities for the Assistance Corporation at June 30, 2019 consisted of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-Current Portion
Notes Payable	\$ 1,353,603	\$ -	\$ 232,940	\$ 1,120,663	\$ 27,389	\$ 1,093,274
Bonds payable	1,142,579	-	522,062	620,517	384,000	236,517
Other non-current	22,139	168,913	3,654	187,398	41,312	146,086
Total	<u>\$ 2,518,321</u>	<u>\$ 168,913</u>	<u>\$ 758,656</u>	<u>\$ 1,928,578</u>	<u>\$ 452,701</u>	<u>\$ 1,475,877</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Long-term liabilities for the Assistance Corporation at June 30, 2018 consisted of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-Current Portion
Notes payable	\$ 1,422,166	\$ -	\$ 68,563	\$ 1,353,603	\$ 66,127	\$ 1,287,476
Bonds payable	1,647,691	-	505,112	1,142,579	366,725	775,854
Other non-current	26,953	970	5,784	22,139	-	22,139
Total	<u>\$ 3,096,810</u>	<u>\$ 970</u>	<u>\$ 579,459</u>	<u>\$ 2,518,321</u>	<u>\$ 432,852</u>	<u>\$ 2,085,469</u>

Notes Payable Assistance Corporation

The Assistance Corporation has a promissory note outstanding with the Salem State University Foundation (“the Foundation”). Under the terms of this promissory note, the Assistance Corporation agreed to pay the Foundation \$400,000 plus interest accruing at 6.98% per annum. During the year ending June 30, 2019, the remaining balance of this note was paid off.

The Assistance Corporation maintains a loan with a bank. The loan is a five-year adjustable rate mortgage due September 2022 with a 25-year amortization. Payments in the amount of \$6,625, including principal and interest at 4.625% are due monthly. 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.

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

Years Ending June 30,	Principal	Interest
2020	\$ 27,389	\$ 52,110
2021	28,844	50,654
2022	30,226	49,272
2023	1,034,204	12,193
Total	<u>\$ 1,120,663</u>	<u>\$ 164,229</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Bonds Payable Assistance Corporation

In August 2010, the Higher Education Funding Agency (“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 financing and closing costs. This property is currently being leased under an agreement with Salem State University. Subsequent to June 30, 2019, principal and interest payments on the revenue bond payable for the remaining amounts due are as follows:

Years Ending June 30,	Principal	Interest
2020	\$ 384,000	\$ 14,525
2021	236,517	1,662
Total	<u>\$ 620,517</u>	<u>\$ 16,187</u>

Unearned Revenue

The Assistance Corporation has a lease agreement with the University for the use of a building until August 2023. Included in this balance is \$167,059 representing the prepayment of rent for this agreement.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions**

Defined Benefit Plan Description

Certain employees of the University participate in a cost-sharing multiple-employer defined benefit pension plan – the Massachusetts State Employees’ Retirement System – 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.

The Massachusetts State Employees’ Retirement System does not issue stand-alone financial statements. Additional information regarding the Plan is contained in the Commonwealth’s financial statements, which is available on-line from the Office of State Comptroller’s website.

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 Massachusetts State Legislature (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 are not eligible for retirement until they have reached age 60.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions - Continued**

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.

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 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30,000

The Commonwealth does not require the University to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$8,671,164, \$8,336,988, and \$7,462,847 the years ended June 30, 2019, 2018 and 2017, respectively.

For employees covered by SERS but not paid from state appropriations, the University is required to contribute at an actuarially determined rate. The rate was 12.06%, 11.78%, and 9.95% of annual covered payroll for the fiscal years ended June 30, 2018, 2017, and 2016, respectively. The University contributed \$2,764,339, \$3,117,853, and \$2,716,688 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 68% of total related payroll for fiscal years ended 2019, 2018 and 2017, respectively.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions - Continued**

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and 2018, the University reported a liability of \$45,107,533 and \$44,564,278 respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The University's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the University for the fiscal years 2019 and 2018, respectively. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal years. At June 30, 2019 and 2018, the University's proportion was 0.341% and 0.347%, respectively.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions - Continued**

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – continued

For the years ended June 30, 2019 and 2018, the University recognized pension expense, as a result of GASB 68, of \$3,754,764 and \$3,583,131, respectively. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

<u>Deferred Outflows of Resources Related to Pension</u>	<u>2019</u>	<u>2018</u>
Difference between expected and actual experience	\$ 1,430,429	\$ 1,723,036
Change in plan actuarial assumptions, net	4,571,369	4,637,593
Changes in proportion from Commonwealth	121,654	152,634
Changes in proportion due to internal allocation	2,869,075	4,860,910
Contributions subsequent to the measurement date	<u>2,764,339</u>	<u>3,117,853</u>
Total deferred outflows related to pension	<u>\$11,756,866</u>	<u>\$14,492,026</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions - Continued**

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – continued

	<u>2019</u>	<u>2018</u>
<u>Deferred Inflows of Resources Related to Pension</u>		
Difference between expected and actual experience	\$ 919,294	\$ 1,212,481
Net differences between projected and actual earnings on pension plan investments	1,567,892	530,984
Changes in proportion from Commonwealth	8,574	15,886
Changes in proportion due to internal allocation	<u>2,728,433</u>	<u>2,988,503</u>
Total deferred inflows related to pension	<u>\$ 5,224,193</u>	<u>\$ 4,747,854</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions - Continued**

The University's contributions of \$2,764,339 and \$3,117,853 made during the fiscal years ending 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. 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 <u>June 30,</u>	
2020	\$ 2,842,441
2021	1,308,073
2022	(639,396)
2023	99,786
2024	<u>157,430</u>
	<u>\$ 3,768,334</u>

Actuarial Assumptions

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

	<u>2019</u>	<u>2018</u>
Measurement date	June 30, 2018	June 30, 2017
Inflation on the first \$13,000 of allowance	3.00%	3.00%
Salary increases	4.00% to 9.00%	4.00% to 9.00%
Investment rate of return	7.35%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions - Continued**

For measurement dates June 30, 2018 and 2017, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees Table projected with Scale MP-2016 and set forward 1 year for females
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant Table projected with Scale MP-2016 and set forward 1 year for females
- Disability - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

The 2019 pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 2018 and rolled forward to June 30, 2018. The 2018 pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 2017 and rolled forward to June 30, 2017.

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, are summarized in the following table:

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions – Continued**

2019		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39.0%	5.0%
Portfolio Completion Strategies	13.0%	3.7%
Core Fixed Income	12.0%	0.9%
Private Equity	12.0%	6.6%
Real Estate	10.0%	3.8%
Value Added Fixed Income	10.0%	3.8%
Timberland/Natural Resources	4.0%	3.4%
	100.0%	
2018		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0%	5.0%
Portfolio Completion Strategies	13.0%	3.6%
Core Fixed Income	12.0%	1.1%
Private Equity	11.0%	6.6%
Real Estate	10.0%	3.6%
Value Added Fixed Income	10.0%	3.8%
Timberland/Natural Resources	4.0%	3.2%
Hedge Funds	0.0%	3.6%
	100.0%	

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 – **Pensions – Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.35% and 7.50% at June 30, 2019 and 2018, respectively. 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 pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity 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 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 at June 30:

2019		
	Current Discount Rate	
1.00% Decrease	7.35%	1.00% Increase
6.35%	7.35%	8.35%
\$ 60,797,427	\$45,107,533	\$ 31,701,141
2018		
	Current Discount Rate	
1.00% Decrease	7.50%	1.00% Increase
6.50%	7.50%	8.50%
\$ 60,694,691	\$44,564,278	\$ 31,570,844

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits**

Plan Description

As an agency of the Commonwealth, certain employees of the University participate in the Commonwealth's single employer defined benefit-OPEB plan – the State Retirees' Benefit Trust ("SRBT"). Benefits are managed by the Group Insurance Commission ("GIC") and investments are managed by the Pension Reserves Investment Management ("PRIM") Board. The GIC has representation on the Board of Trustees of the State Retirees' Benefits Trust ("Trustees").

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Management of the SRBT is vested with the board of trustees, which consists of seven members (or their designatee) and includes the Secretary of Administration and Finance, the Executive Director of the GIC, the Executive Director of PERAC, the State Treasurer, the Comptroller, one person appointed by the Governor and one person appointed by the State Treasurer. These members elect one person to serve as chair of the board.

The SRBT does not issue a stand-alone audited financial statements, but is reflected as a fiduciary fund in the Commonwealth's audited financial statements.

Benefits Provided

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 are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2019 and 2018 and as of the valuation date (January 1, 2018 and 2017), participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

Effective beginning in fiscal year 2014, by statute the Commonwealth is required to allocate, to the SRBT, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in fiscal year 2014 to 100% by fiscal year 2023. In fiscal year 2018 and 2017, 30% and 10%, respectively, of tobacco settlement proceeds or approximately \$75 million and \$25 million, respectively, was allocated to the SRBT. The percentage of proceeds to be transferred to the SRBT in fiscal year 2018 and 2017 was set at 30% and 10% respectively, overriding existing statute.

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The University is required to contribute based on Massachusetts General Laws; the rate was 8.79% and 8.92% of annual covered payroll for the fiscal years ended June 30, 2019 and 2018, respectively. The University contributed \$2,015,741 and \$2,360,585 for the fiscal years ended June 30, 2019 and 2018, respectively, equal to 100% of the required contribution for the year.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the University reported a liability of \$79,229,826 and \$86,677,734 respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The University's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the University's share of total covered payroll for the fiscal years ended June 30, 2018 and 2017. The University's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2018 and 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the University's proportion was 0.531% and 0.496%, respectively.

For the years ended June 30, 2019 and 2018 the University recognized OPEB expense of \$2,524,591 and \$4,498,327, respectively. The University reported deferred outflows and deferred inflows of resources related to OPEB from the following sources at June 30:

	<u>2019</u>	<u>2018</u>
<u>Deferred Outflows of Resources Related to OPEB</u>		
Contributions subsequent to the measurement date	\$ 2,015,741	\$ 2,360,585
Differences between expected and actual experience	962,317	-
Changes in the proportion from Commonwealth	254,622	181,407
Changes in the proportion due to internal allocation	<u>12,289,512</u>	<u>8,417,522</u>
Total deferred outflows related to OPEB	<u>\$ 15,522,192</u>	<u>\$ 10,959,514</u>
	<u>2019</u>	<u>2018</u>
<u>Deferred Inflows of Resources Related to OPEB</u>		
Net differences between projected and actual earnings on OPEB plan investments	\$ 197,839	\$ 158,141
Differences between expected and actual experience	169,111	199,288
Changes in OPEB plan actuarial assumptions	<u>24,342,804</u>	<u>9,817,148</u>
Total deferred inflows related to OPEB	<u>\$ 24,709,754</u>	<u>\$ 10,174,577</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

Contributions

The University's contribution of \$2,015,741 and \$2,360,585 for the years ended June 30, 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in each of the succeeding years. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,	
2020	\$ (2,527,240)
2021	(2,527,240)
2022	(2,527,240)
2023	(2,013,988)
2024	<u>(1,607,595)</u>
	<u><u>\$ (11,203,303)</u></u>

Actuarial Assumptions

The total OPEB liability for 2019 and 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2018	June 30, 2017
Inflation	3.00%	3.00%
Salary increases	4.0% per year	4.5% per year
Investment rate of return	7.35%, net of OPEB plan investment expense, including inflation	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.0%, decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023 then decreasing 0.25% each year to an ultimate rate of 5.0% in 2025 for Medical; 5.0% for EGWP; 5.0% for administrative costs	8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for Medical; 5.0% for EGWP; 5.0% for administrative costs

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

Actuarial Assumptions- continued

The mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% of current and future contingent eligible participants will elect health care benefits at age 65, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

	<u>Retirement Age</u>	
	<u>Under 65</u>	<u>Age 65+</u>
Indemnity	40.0%	85.0%
POS/PPO	50.0%	0.0%
HMO	10.0%	15.0%

The actuarial assumptions used in the January 1, 2018 and 2017 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2016 and 2015 through December 31, 2017 and 2016, depending upon the criteria being evaluated. As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2017 and 2016 actuarial valuation to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

Actuarial Assumptions- continued

The long-term expected rate of return on OPEB 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.

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2019 and 2018, are the same as discussed in the pension footnote number 13.

Discount Rate

The discount rates used to measure the total OPEB liability for 2019 and 2018 was 3.95% and 3.63%, respectively. These rates were based on a blend of the Bond Buyer Index rates of 3.87% and 3.58%, respectively as of the measurement dates and the expected rates of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2025 and 2023 for the fiscal years 2019 and 2018, respectively. Therefore, the long-term expected rate of return on OPEB plan investments of 7.35% and 7.50%, respectively, per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the University's proportionate share of the net OPEB liability, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

2019		
1.00% Decrease	Current Discount Rate	1.00% Increase
2.95%	3.95%	4.95%
\$ 93,556,831	\$ 79,229,826	\$ 67,775,600
2018		
1.00% Decrease	Current Discount Rate	1.00% Increase
2.63%	3.63%	4.63%
\$ 102,893,403	\$ 86,677,734	\$ 73,785,013

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 – **Other Post-Employment Benefits - Continued**

Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

The following presents the University's proportionate share of the net OPEB liability, as well as what the University's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2019		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
2.95%	3.95%	4.95%
\$ 65,826,309	\$ 79,229,826	\$ 96,727,511
2018		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
2.63%	3.63%	4.63%
\$ 71,714,801	\$ 86,677,734	\$ 106,368,048

(A) - Current healthcare cost trend rates, as disclosed on page 83

(B) - 1-percentage decrease in current healthcare cost trend rate,
as disclosed on page 83

(C) - 1-percentage increase in current healthcare cost trend rate,
as disclosed on page 83

Note 14 - **Deferred Inflows of Resources**

Service Concession Arrangements - Chartwells

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 October 2015 totaling \$4,380,000.

The term of the agreement was extended until 2022, and the amortization tables were adjusted accordingly. During fiscal year ending June 30, 2019 the University terminated its agreement with its food service vendor, returning the unearned revenue as part of this agreement which amounted to an unamortized balance of \$393,255.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 14 - **Deferred Inflows of Resources – Continued**

Service Concession Arrangements - Aramark

The University entered into a 10 year agreement with a new food service provider that provides for annual commissions and capital investments for the campus facilities. During fiscal 2019 the University received \$500,000 as commissions paid in advance. This advance was a partial payment of the minimum \$1,500,000 in commissions expected to be received annually commencing in fiscal 2020. Capital investments will total \$3,550,000 which will be received over the next two fiscal years. Of this amount \$2,050,000 has been earmarked for certain projects while \$1,500,000 represents an unrestricted grant. These amounts will be subject to amortization.

Future amounts due from service contracts as of June 30, 2019 totaled \$3,550,000, of which \$2,325,000 is collectible in fiscal year 2020 with the remaining \$1,225,000 collectible in fiscal year 2021.

Service Concession Arrangements - Other

Amounts related to agreements with other vendors at June 30, 2019 and 2018 approximated \$159,000 and \$245,000, respectively.

Service Concession Arrangements - Capital Assets

The University reports the carrying value of the capital assets relating to service concession arrangements of approximately \$923,000 and \$991,000 at June 30, 2019 and 2018, respectively.

Note 15 - **Rental Income**

Assistance Corporation

The Assistance Corporation has long-term operating leases agreements with lessees that expire at various dates through October 2041. Minimum future rentals under the non-cancellable operating leases as of June 30, 2019 are as follows:

Years Ending June 30,	Amount
2020	\$ 1,688,098
2021	1,372,561
2022	851,196
2023	864,336
2024	807,988
Thereafter	17,533,914
Total	<u>\$ 23,118,093</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 15 - **Rental Income - Continued**

Assistance Corporation - continued

The base rent under one of the lease agreements with the University is equal to the monthly debt service on the debt held by TD Bank. The terms of the lease agreement require the University to remit monthly rent directly to TD Bank. The University, at its discretion, may make additional rent payments to be applied to the outstanding debt balance.

Note 16 - **Operating Lease Commitments**

The University has numerous operating leases for property at various locations from the Assistance Corporation and for equipment from outside vendors. These leases contain options to extend from one to five years, and contain escalation clauses for increases in base rent.

The leases expire in various years through 2042. Future minimum payments related to these leases are as follows:

Years Ending June 30,	Assistance Corporation	Outside Vendors	Total
2020	\$ 1,711,272	\$ 351,704	\$ 2,062,976
2021	1,313,742	48,704	1,362,446
2022	850,293	38,164	888,457
2023	871,550	24,068	895,618
2024	807,988	5,500	813,488
Thereafter	16,842,832	-	16,842,832
Total	<u>\$ 22,397,677</u>	<u>\$ 468,140</u>	<u>\$ 22,865,817</u>

The rent expense on these leases amounted to approximately \$1,807,673 and \$1,589,909 for fiscal years 2019 and 2018, respectively.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 17 - **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:

	2019	2018
Restricted - nonexpendable:		
Scholarship and fellowship	\$ 971,914	\$ 866,367
Restricted - expendable:		
Scholarship, fellowship loans, research grants and contracts	\$ 5,659,632	\$ 5,737,349

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

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 becomes 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.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 18 - **Commitments and Contingencies – Continued**

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 rates 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 2019 and 2018, 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.

Retroactive payments were made when the contracts were ratified, signed, formally approved and funding occurred. The university has paid the MSCA faculty union retroactive compensation subsequent to yearend and has recorded the liability as of the date of these financial statements as of June 30, 2019 of approximately \$2.4 million.

Note 19 - **Operating Expenses**

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

	2019	2018
Compensation and benefits	\$ 125,276,572	\$ 125,842,882
Supplies and services	39,137,165	38,659,003
Utilities	4,213,442	4,107,227
Depreciation	9,215,510	8,902,845
Scholarships and fellowships	7,135,368	6,185,534
Total operating expenses	\$ 184,978,057	\$ 183,697,491

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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.

The overall fringe benefit charge increased from 34.86% in 2018 to 34.89% in 2019 which includes 1.73% and 1.66% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 11.78% in 2018 to 12.06% in 2019. In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2019, 2018, and 2017 were \$5,213,093, \$5,963,606, and \$6,528,137, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

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, retirees, 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.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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.

The GIC administers a plan included within the State Retiree Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution ratios. The GIC does not issue separately audited financial statements. The financial position and results of operations of the plan are incorporated in the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

The GIC is a quasi-independent state agency governed by an 17-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2019 and 2018, the GIC provided health insurance for its members through indemnity, PPO and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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, 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.

The University’s state appropriations are composed of the following at June 30:

	2019	2018
General Appropriations	\$ 48,609,850	\$ 44,505,633
Other Appropriations	952,332	898,555
Total Appropriations	49,562,182	45,404,188
 <u>Add:</u>		
Fringe benefits for benefited employees on the state payroll	17,116,681	15,649,915
 <u>Less:</u>		
Day school tuition remitted to the state and included in tuition and fee revenue	(943,711)	(926,090)
Total unrestricted appropriations	\$ 65,735,152	\$ 60,128,013

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

	2019	2018
Revenue per MMARS	\$ 123,528,274	\$ 129,190,586
Revenue per University	123,528,274	129,190,586
Difference	-	-

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

The University distributed approximately \$46,313,000 and \$49,909,000 for the years ended June 30, 2019 and 2018, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included in the accompanying financial statements.

Note 23 - **Massachusetts State College Building Authority (“MSCBA”)**

The 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 and other facilities 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 10 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.

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 and other major renovations and improvements for the University for the years ended June 30, 2019 and 2018 were \$14,681,608 and \$14,354,200, respectively, and are included in auxiliary enterprises and operation and maintenance of plant in the accompanying statements of revenues and expenses. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Draft

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

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.341%	0.347%	0.341%	0.389%	0.295%
Proportionate share of the collective net pension liability	\$ 45,107,543	\$ 44,564,278	\$ 46,973,396	\$ 44,297,126	\$ 21,889,032
College's covered payroll	\$ 26,467,350	\$ 27,303,392	\$ 25,885,577	\$ 23,448,807	\$ 21,870,164
College's proportionate share of the net pension liability as a percentage of its covered payroll	170.43%	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	67.91%	67.21%	63.48%	67.87%	76.32%

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 2,764,339	\$ 3,117,853	\$ 2,716,688	\$ 2,446,187	\$ 2,436,331
Contributions in relation to the statutorily required contribution	<u>(2,764,339)</u>	<u>(3,117,853)</u>	<u>(2,716,688)</u>	<u>(2,446,187)</u>	<u>(2,436,331)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 22,921,548	\$ 26,467,350	\$ 27,303,397	\$ 25,885,577	\$ 23,448,807
Contribution as a percentage of covered payroll	12.06%	11.78%	9.95%	9.45%	10.39%

Notes:

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

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information - Pension (Unaudited)

June 30, 2019 and 2018

Note 1 - **Change in Plan Actuarial and Assumptions**

Measurement date – June 30, 2018

The investment rate of return changed from 7.50% to 7.35%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

The mortality rate assumptions were changed as follows:

- Disabled members – the amount reflects the same assumptions as for superannuation retirees, but with an age set forward of one year

Measurement date – June 30, 2017

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Disability – did not change

Measurement date – June 30, 2016

The assumption for salary increases changed from a range of 3.5% to 9.0% depending on group and length of service to a range of 4.0% to 9.0% depending on group and length of service.

Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (“ORP”) to transfer to the SERS and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS increased by approximately 400 million as of June 30, 2016.

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

Notes to the Required Supplementary Information - Pension (Unaudited)

June 30, 2019 and 2018

Note 1 - **Change in Plan Actuarial and Assumptions - Continued**

Measurement date – June 30, 2015

The discount rate to calculate the pension liability decreased from 8.0% to 7.5%

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (“ERI”) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability – was changed from RP-2000 table projected 5 years with Scale AA (gender distinct) set forward three years for males to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

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

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

Year ended	June 30, 2019	June 30, 2018	June 30, 2017
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016
Valuation date	January 1, 2018	January 1, 2017	January 1, 2016
Proportion of the collective net OPEB liability	0.531%	0.496%	0.441%
Proportionate share of the collective net OPEB liability	\$ 79,229,826	\$ 86,677,734	\$ 83,576,460
College's covered payroll	\$ 26,467,350	\$ 27,303,392	\$ 25,885,577
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	299.35%	317.46%	322.87%
Plan fiduciary net position as a percentage of the total OPEB liability	7.38%	5.39%	5.39%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - OPEB (Unaudited)

Massachusetts State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 2,015,741	\$ 2,360,585	\$ 2,181,990
Contributions in relation to the statutorily required contribution	<u>(2,015,741)</u>	<u>(2,360,585)</u>	<u>(2,181,990)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 22,921,548	\$ 26,467,350	\$ 25,885,577
Contribution as a percentage of covered payroll	8.79%	8.92%	8.43%

Notes:

Employers participating in the Massachusetts State Retirees' Benefit Trust are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information – OPEB (Unaudited)

June 30, 2019 and 2018

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2019

Assumptions:

Change in Trend on Future Costs

The healthcare trend rate decreased from 8.5% to 8.0%, which impact the high cost excise tax.

Change in Mortality Rates

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members – would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year

Change in Discount Rate

The discount rate was increased to 3.95% (based upon a blend of the Bond Buyer Index rate (3.87%) as of the measurement date as required by GASB Statement 74.

Fiscal year June 30, 2018

Assumptions:

Change in Discount Rate

The discount rate was increased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.58%) as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%.

**SUPPLEMENTARY
INFORMATION**

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

Schedules of Net Position
Dormitory Trust Fund Report (Unaudited)

June 30, 2019 and 2018

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and equivalents	\$ 1,285,324	\$ 1,721,284
Accounts receivable, net	208,440	213,955
Other receivables, net	-	3,640
Total Assets	\$ 1,493,764	\$ 1,938,879
	<u>Liabilities and Net Position</u>	
Liabilities:		
Accounts payable	\$ 115,051	\$ 85,856
Accrued payroll and fringe benefits	108,950	122,641
Accrued compensated absences	301,058	254,431
Total Liabilities	525,059	462,928
Net Position	968,705	1,475,951
Total Liabilities and Net Position	\$ 1,493,764	\$ 1,938,879

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

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

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues:		
Student fees	\$ 19,122,363	\$ 19,747,000
Less: scholarships and fellowships	(1,964,365)	(1,225,911)
Commissions	52,791	62,135
Rentals	<u>258,026</u>	<u>173,852</u>
 Total Revenues	 <u>17,468,815</u>	 <u>18,757,076</u>
Expenses:		
Regular employee compensation	2,170,128	2,264,418
Regular employee related expenses	109	413
Special employee compensation	747,517	782,093
Pension and insurance related	742,475	742,724
Administrative	42,855	824,048
Facility operational	118,048	169,237
Energy and space rental	1,580,547	1,461,606
Operational services	58,223	54,093
Equipment purchase	18,975	73,971
Equipment maintenance	707,094	776,273
Loans and special payments	12,548,745	12,213,027
Information technology	<u>17,950</u>	<u>12,186</u>
 Total Expenses	 <u>18,752,666</u>	 <u>19,374,089</u>
Excess of Expenses over Revenues Before Transfers	(1,283,851)	(617,013)
Net Transfers	<u>776,605</u>	<u>793,205</u>
 Total Increase (Decrease) in Net Position	 <u>(507,246)</u>	 <u>176,192</u>
Net Position, Beginning of Year	<u>1,475,951</u>	<u>1,299,759</u>
Net Position, End of Year	<u>\$ 968,705</u>	<u>\$ 1,475,951</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***

**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, 2019, the related statements of revenues, expenses and changes in net position, cash flows, the combining statements of net position of major component units, and combining statements of revenues and expenses of major component units 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 **DATE**. We also performed the audit of the Salem State University Foundation and the Salem State University Alumni Association's financial statements, as of and for the year ended June 30, 2019.

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 an opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University'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 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 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**

DATE

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

**INDEPENDENT AUDITORS' REPORTS AS REQUIRED
BY THE UNIFORM GUIDANCE AND *GOVERNMENT*
AUDITING STANDARDS AND RELATED
INFORMATION**

JUNE 30, 2019

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

**Independent Auditors' Reports as Required by the Uniform Guidance and
Government Auditing Standards and Related Information**

June 30, 2019

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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 (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. The 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 the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 the 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 the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2019-001 through 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the 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 the 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 the Uniform Guidance, 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 the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University, as of and for the year ended June 30, 2019. We issued our report thereon dated **DATE**, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Certified Public Accountants
Braintree, Massachusetts**

DATE

**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, 2019, the related statements of revenues, expenses and changes in net position, cash flows, the combining statements of net position of major component units, and combining statements of revenues and expenses of major component units 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 **DATE**.

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 an opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University '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 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 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**

DATE

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Federal Expenditures	Passed Through to Subrecipients
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	\$ 408,263	\$ -
Federal Work-Study Program	84.033	N/A	N/A	352,504	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	1,363,700	-
Federal Perkins Loan Program (current year expenditure)	84.038	N/A	N/A	-	-
Federal Pell Grant Program	84.063	N/A	N/A	12,320,749	-
Federal Direct Student Loans	84.268	N/A	N/A	46,313,343	-
Teachers Education Assistance for College Grant	84.379	N/A	N/A	10,785	-
Nursing Student Loans (beginning of year)	93.364	N/A	N/A	589,093	-
Nursing Student Loans (current year expenditures)	93.364	N/A	N/A	143,500	-
Total Student Financial Assistance Cluster				61,501,937	-
TRIO CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Student Support Services	84.042	N/A	N/A	510,015	-
Upward Bound	84.047	N/A	N/A	296,322	-
Total TRIO Cluster				806,337	-

See accompanying notes to the schedule of expenditures of federal awards.

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Federal Expenditures	Passed Through to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER					
National Science Foundation:					
Direct Awards:					
Agricultural Research	47.076	N/A	N/A	11,752	-
Geosciences	47.050			21,914	
Learning of Physics and Programing	47.076	N/A	N/A	24,267	-
Subtotal - Direct Awards				<u>57,933</u>	<u>-</u>
U.S. Department of the Interior					
Direct Awards:					
Organization of American Historians	15.946	N/A	N/A	15,260	-
Subtotal - Direct Awards				<u>15,260</u>	<u>-</u>
U.S. Department of Health and Human Services					
Direct Awards:					
Phonological Research	93.173	N/A	N/A	43,100	-
Subtotal - Direct Awards				<u>43,100</u>	<u>-</u>
Total Research and Development Cluster				<u>116,293</u>	<u>-</u>
NON-CLUSTER					
U.S. Small Business Administration					
Pass-through Awards:					
Small Business Development Center	59.037	University of Massachusetts	N/A	292,006	-
Subtotal - Pass-through Awards				<u>292,006</u>	<u>-</u>

See accompanying notes to the schedule of expenditures of federal awards.

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Federal Expenditures	Passed Through to Subrecipients
National Oceanic and Atmospheric Administration					
Direct Awards:					
Center for Sponsored Coastal Ocean Research	11.478	N/A	N/A	29,007	-
Subtotal - Direct Awards				29,007	-
National Endowment for the Humanities:					
Direct Awards:					
Promotion of the Humanities Federal/State Partnership	45.129	N/A	N/A	29,412	-
Subtotal - Direct Awards				29,412	-
U.S. Department of Justice:					
Direct Awards:					
Violence Against Women	16.525	N/A	N/A	68,072	-
Subtotal - Direct Awards				68,072	-
Total Non-Cluster				418,497	-
Total Federal Funds				\$ 62,843,064	\$ -

See accompanying notes to the schedule of expenditures of federal awards.

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

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Salem State University (the “University”) under programs of the Federal Government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

Note 3 - **Indirect Cost Rate**

The University has elected to not use the 10-percent de minimis cost rate allowed under the Uniform Guidance.

Note 4 - **Federal Student Loan Programs**

Perkins Loan Program

The Federal Perkins Loan Program (“Perkins”) is administered directly by the University and balances and transactions relating to this program are included in the University’s basic financial statements. During the year ended June 30, 2019 there were no loans advanced under the Perkins program and no administrative costs were incurred. As of June 30, 2019, loan balances receivable, under Perkins was \$1,202,153.

There was no federal capital contribution or match by the University during the current year.

Nursing Student Loans

The Nursing Student Loan Program is administered by Salem State University. Fiscal year 2019 activity included loan funds disbursed of \$143,500. As of June 30, 2019, the loan balances receivable for this program was \$660,838.

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

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 4 - **Federal Student Loan Programs - Continued**

Direct Student Loan Program

The University disbursed \$46,313,343 of loans under the Federal Direct Student Loans program, which include Stafford Subsidized and Unsubsidized Loans and Parent Plus Loans. It is not practical to determine the balances of the loans outstanding to students of the University under the program as of June 30, 2019. The University is only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the University's financial statements.

Draft

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section I – Summary of Auditors’ Results:

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Noncompliance material to the financial statements noted? yes no

Federal Awards

Type of auditors’ report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes no

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Teachers Education Assistance for College Grant	84.379
Nursing Student Loans	93.364

Dollar threshold used to distinguish between
type A and type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

yes no

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Section II – Financial Statement Findings:

None

Draft

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs:

Finding number: 2019-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: 84.063
Award year: 2019

Criteria

According to 34 C.F.R. Section 668.22(j)(1):

An institution must return the amount of Title IV funds from which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew.

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 twenty-five 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 35 and 40 days after the 45-day disbursement timeframe. The total amount to return was \$6,011.

Cause

During the Spring 2019 semester the University discovered the academic calendar set-up within the software used to calculate the earned portion of federal aid for withdrawn students was using an incorrect number of days for spring break. The University corrected this error within its system and proceeded to review all previously completed R2T4 forms in order to return the correct aid within the 45-day limit. During this time the two students above were incorrectly marked as completed and the error was not realized by the school until the 45-day disbursement timeframe has passed.

Effect

The University did not complete the R2T4 Form or return the unearned portion of aid within the established time frame.

Questioned Costs

None - Funds have been returned.

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Perspective

Our sample was not, and was not intended to be, statistically valid. Of twenty-five students selected for testing, aid for two students (8%) was not returned within the required 45 days.

Identification as a Repeat Finding, if applicable

See finding 2018-001 included in Management's Summary Schedule of Prior Audit Findings.

Recommendation

The University should review their current procedures to ensure students who withdraw from the University have the appropriate Title IV aid returned within the established timeframe described above.

Views of Responsible Officials and Implementation Dates

The University agrees with this finding. The financial aid office is now using a two-step review to verify accuracy in all calendar functions. The first review is performed between financial aid and registrar during annual system set up and the second review is performed by R2T4 staff at the start of each term. The first review for 2019-20 academic year was completed upon discovery of the error noted in this finding and the second review task was performed prior to the start of the Fall 2019 term. These steps will be repeated prior to each term moving forward.

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Finding number: 2019-002
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: 84.268
Award year: 2019

Criteria

According to 34 CFR 668.164(l):

- (1) Notwithstanding any State law (such as a law that allows funds to escheat to the State), an institution must return to the Secretary any title IV, Higher Education Act (“HEA”) program funds, except Federal Work Study (“FWS”) program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, the institution is required to return only the Federal portion of the payroll disbursement.
- (2) If an EFT to a student's or parent's financial account is rejected, or a check to a student or parent is returned, the institution may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the institution does not make another attempt, the funds must be returned to the Secretary before the end of this 45-day period.
- (3) If a check sent to a student or parent is not returned to the institution but is not cashed, the institution must return the funds to the Secretary no later than 240 days after the date it issued the check.

Condition

Federal regulations require an institution to return unclaimed Title IV funds issued by check or EFT within 240 days. During our testing, we noted 1 student, out of a sample of 10, that had unclaimed funds exceeding the federal day limit.

Cause

During the audit it was noted this student’s outstanding refund check had been omitted from the outstanding listing of outstanding Federal refund checks the University had been monitoring for aging.

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Effect

The University did not return Title IV unclaimed funds to the Department of Education within the required 240-day time frame.

Questioned Costs

There was 1 outstanding check totaled \$1,671, which pertained specifically to federal-sourced funds.

Perspective

Our sample was not, and was not intended to be, statistically valid. Of the 10 students selected for testing, 1 student, or 10% of our sample, had unclaimed funds pertaining to federal sources that were not returned to the Department of Education within the 240-day required time frame.

Identification as a Repeat Finding, if applicable

Not applicable

Recommendation

The University should examine its policies and procedures related to unclaimed funds including the process and time frame for identifying aged balances and the process for cancelling checks and returning funds to the Department of Education.

Views of Responsible Officials and Implementation Dates

The University agrees with this finding and has returned these funds. The University has reviewed and revised its policies and procedures related to unclaimed funds.

Management's Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding number: 2018-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: Multiple
Award year: 2018

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 14 students who were determined to have withdrawn from the University, we noted one student for whom funds were not returned within the required 45 days. Our audit disclosed that the funds were not returned until 85 days after the 45-day disbursement timeframe. The total amount to return was \$851.

Current Year Status

As noted in finding 2019-001 there was one student whose aid was not returned within the established timeframe.

Management's Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding number: 2018-002
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: 84.063
Award year: 2018

Condition

Federal regulations state that a school must designate a capable individual as the coordinating official whose responsibilities include, but are not limited to, resolving discrepancies between conflicting information received by offices within the institution. Our testing of forty students with enrollment status changes noted one instance where the withdrawal date reported to the National Student Loan Data System ("NSLDS") was inconsistent with the withdrawal date used by the University in the Return of Title IV Funds form ("R2T4") calculation.

Current Year Status

Corrective action was taken during the year.

Management's Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding number: 2018-003
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: 84.063
Award year: 2018

Condition

The Financial Aid Office is responsible for completing the Return of Title IV calculation to determine how much Title IV aid the student earned and how much the University must return to the Department of Education. Once the Return of Title IV calculation is completed, the University is responsible for adjusting the student's billing statement and returning unearned Title IV funds through the U.S. Department of Education's Grant Management System ("G5"). The University has 45 days from the date they determined the student withdrew to return any unearned portions of Title IV funds. During our testing of fourteen students we noted one student where the aid returned was different than the amount correctly calculated on the R2T4. The actual amount of aid returned was \$1,610 whereas the correct amount of aid that should have been returned was \$1,645.76. The University corrected this error in August 2018.

Current Year Status

Corrective action was taken during the year.

Management's Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding number: 2018-004
Federal agency: U.S. Department of Education
Programs: Trio Cluster
CFDA #'s: 84.042
Award year: 2018

Condition

The Student Support Services (“SSS”) department at the University is responsible for compiling the necessary information required to complete the annual performance report (“APR”), as well as preparing and filing the APR. During our testing of thirty SSS students we noted one instance where an individual was included as a continuing participant for the academic year after they had graduated from the University.

Current Year Status

Corrective action was taken during the year.

Draft

Management's Corrective Action Plan
Year Ended June 30, 2019

Finding number: 2019-001
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: 84.063
Award year: 2019

Corrective Action

As a result of this issue, the financial aid office is now using a two-step review process to verify accuracy in all calendar functions. The first review is performed between financial aid and registrar during the annual system set up and the second review is performed by R2T4 staff at the start of each term. The first review for 2019-20 award year was completed upon discovery of calendar issue noted in finding 2019-001. The second review, performed by staff who complete the R2T4 calculations, was completed prior to the start of the Fall 2019 semester and will be repeated prior to each term moving forward.

Timeline for Implementation of Corrective Action Plan:

Corrective action was taken during the year.

Contact Person:

Bonnie Galinski
Associate Vice President

Management's Corrective Action Plan
Year Ended June 30, 2019

Finding number: 2019-002
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: 84.268
Award year: 2013

Corrective Action

As a result of this finding the University has revised its procedures to ensure all outstanding Federal refund checks are included on the report used to monitor outstanding Federal Aid refunds to ensure they are properly handled within the established timeframes.

Timeline for Implementation of Corrective Action Plan:

Corrective action was taken during the year.

Contact Person:

Bonnie Galinski
Associate Vice President

Russell J. Bethoney
University Controller