
SUBJECT: Risk Management and Audit Committee Meeting Report for October 28, 2020

In accordance with the General Laws of the Commonwealth of Massachusetts, Chapter 30A and amended by Executive Order No. __, issued March 13, 2020, suspending parts of the Open Meeting Law to allow public remote participation and participation by the public body remotely the Risk Management and Audit Committee of the Board of Trustees met remotely on Wednesday, October 28, 2020. All votes taken during this meeting were by roll call vote.

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

Absent for the Committee: None

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

FY20 audit for discussion and acceptance

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

Required communications (Attachment A) noted an unmodified opinion (clean) issued on the university's financial statements and no material weaknesses regarding internal controls. The auditors have not received guidance to test the disbursement of CARES Act funds which will delay the Uniform Guidance (Single Audit). This report is due March 31, 2021.

A PowerPoint presentation on the flow of the meeting (Attachment B) was displayed. Challenges of FY2020, notable financial events and financial ratio analysis were discussed. Additional detail on the ratio calculations and other measurements (Attachment C) were presented.

A walkthrough of the FY2020 audited financial statements (Attachment D) included highlights of additional descriptions and meanings of the notes to the financial statements. The OPEB numbers were restated in the FY19 financials due to an error in the OPEB calculation performed by the actuary engaged by the Commonwealth of Massachusetts.

The auditors thanked the Board and Vice President House, Assistant Vice President/Controller Bethoney, and their team.

Trustee Butts **MOVED** that the Risk Management and Audit Committee hereby approves the following motion pertaining to the FY20 Salem State University audited financial statements, **SECONDED** by Trustee Katzman:

MOTION

The Risk Management and Audit Committee hereby accepts the Salem State University Financial Statements and Management’s Discussion and Analysis June 30, 2020.

Further, Vice President Karen House will ensure the financial statements are distributed to the full Board of Trustees. The RMA Committee acknowledges that Vice President House and her team will submit the audit to the Commonwealth by its October 30, 2020 deadline.

A roll call vote was taken.

Voting in the affirmative: Butts, Contreras, Katzman, Mattera

Voting against: None

The motion passed.

Auditors discussion with trustees

As a best practice, the university’s management team and visitors voluntarily left the meeting 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 Katzman **MOVED**, and Trustee Mattera **SECONDED** a motion to adjourn.

MOTION: To adjourn the meeting.

A roll call vote was taken.

Voting in the affirmative: Butts, Contreras, Katzman, Mattera

Voting against: None

The meeting adjourned at 5:34 pm.

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

Salem State University

October 28, 2020

25 Braintree Hill Office Park, Suite 102
Braintree, MA 02184
617.471.1120



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

Required Communications - Continued

Significant Accounting Policies and Transactions

- Initial Selection of or Changes in Policies
 - The Commonwealth of Massachusetts elected to early implement GASB No. 84-*Fiduciary Activities* for the years ending June 30, 2020. Management has examined the funds held by the University and determined these amounts to be immaterial for both of the years ended June 30, 2020 and 2019. As a result, the fiduciary activities have not been presented as separate statements within the University's June 30, 2020 Audited Financial Statements.
 - With the exception of GASB No. 84 discussed above there were no changes in accounting policies. All accounting policies are discussed in Note 1 of the financial statements.
- Significant Transactions- Prior Period Adjustment
 - As disclosed in Note 2, in August 2020, Management of the University was notified of an error in the OPEB calculation performed by the actuary engaged by the Commonwealth of Massachusetts. This error resulted in OPEB expense for the year ended June 30, 2019 to be understated by approximately \$3.4 million.

Required Communications - Continued

Significant Accounting Policies and Transactions – Continued

- Independence
 - We are not aware of any relationships between O'Connor & Drew and the University that in our professional judgment may reasonably impact our independence.
 - Related to our audit for 2020, 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.

- 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

Required Communications - Continued

MANAGEMENT ADVISORY SERVICES/TAX SERVICES

- No management advisory services were performed by O'Connor & Drew during 2020.
- O'Connor & Drew performed a Single Audit as required by the Uniform Administrative Requirements, Cost Principles, and Audit Requirements.
 - Waiting on audit guidance from Department of Education to perform audit of CARES funds expended by the University in fiscal year 2020.
 - The final results of the Single Audit will be discussed at a later meeting.

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, 2021
- 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

Board of Trustees Risk Management and Audit Committee October 28, 2020

Karen House
Vice President for Finance and Facilities

Flow of the meeting

- Chair convenes
- Auditors – required communication
- VP House comments – FY20 including ratios
- Auditors review of audit and statements
- Management exit the meeting
- Adjourn

FY20

- Challenging year, but we held our own
- Notable events (financially)
 - Continued enrollment decline
 - VSIP
 - Dining accounting change
 - Covid & move to remote operations
 - CARES funding
 - Commonwealth error in FY19 OPEB balances (restatement)

Traditional Ratios

- Primary and Viability ratios improved
- Return on Net Assets and Net Operating Revenues worsened, but still positive
- Debt Burden (on-book) remained constant

Additional Ratios

- Debt Service Burden (on & off book) > 10%
- Spendable Cash & Investments to Total Debt increased slightly
- Operating Cash Flow Margin declined slightly to 3.31%, still positive
- Debt to FTE and Debt as % of Tuition/Fees worsened (declining enrollment)
- Change in Operating Revenue increased to \$4.5M

Appreciation

- Controller Russell Bethoney
- Finance area staff
- Remote but effective!



Salem State University

Ratio Calculations & Other Measurements

As of June 30, 2020

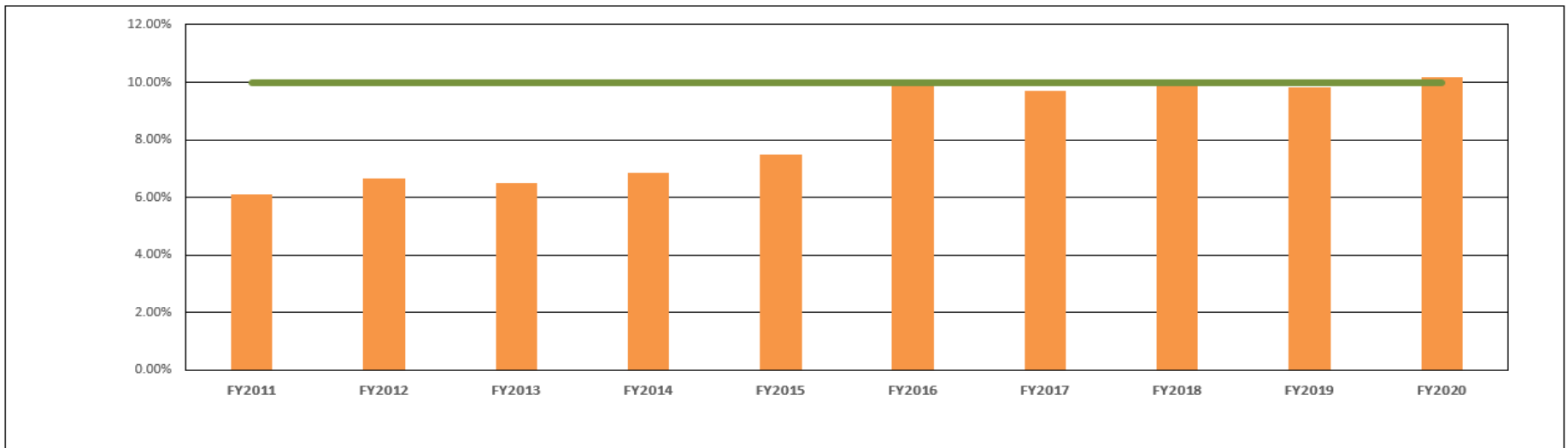
Introduction

- ❖ Calculations were prepared by PFM from FY2011 through FY2016. Salem State University prepared the calculations for FY2017 through FY2020 based on audited figures.
- ❖ Calculations do not include the Foundation or Assistance Corporation component units of Salem State University.
- ❖ Calculations are based on Moody's scorecard methodology.
- ❖ Calculations include all debt that is owed for both on and off (MSCBA) the University's books.
- ❖ Calculations that require operating revenues include appropriations which is in accordance with Moody's. Whereas, the University's operating revenues as disclosed in our financial statements exclude appropriations from operating revenues in accordance with Governmental Accounting Standards.

Annual Debt Service Burden (Debt Service to Revenue)

Measures the University's ability to repay its debt obligations from operating revenue. Calculated as Total Annual Debt Service divided by Total Operating Revenue. As a general guideline, this ratio should be no higher than 10% as depicted by green line in the graph below.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Total Annual Debt Service	\$ 8,484,165	\$ 8,974,656	\$ 8,975,468	\$ 9,900,620	\$ 11,408,212	\$ 15,936,951	\$ 16,393,677	\$ 17,329,235	\$ 17,414,239	\$ 17,912,083
Total Operating Revenue	\$ 138,594,588	\$ 134,442,702	\$ 137,672,616	\$ 144,253,046	\$ 152,503,412	\$ 160,621,207	\$ 169,062,145	\$ 174,338,471	\$ 177,560,237	\$ 175,842,757
Debt Service to Revenue (Total Debt)	6.12%	6.68%	6.52%	6.86%	7.48%	9.92%	9.70%	9.94%	9.81%	10.19%
Benchmark	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

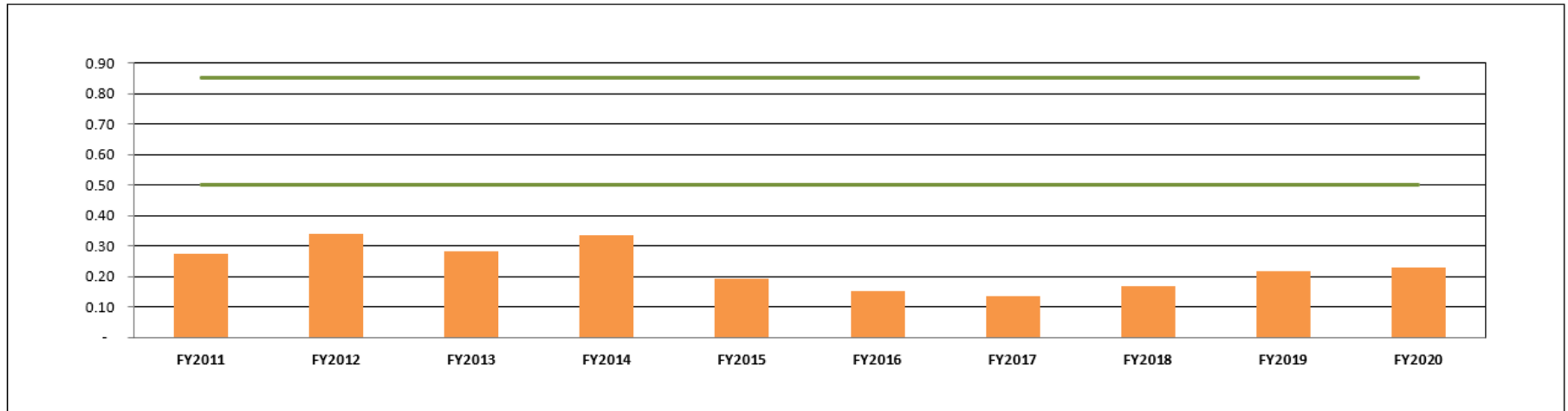


Salem State University Institutional Affordability: Annual Debt Service to Revenue

Spendable Cash & Investments to Total Debt

Measures the University's ability to repay its debt obligations from wealth that can be accessed over time or for a specific purpose. Calculated as cash and investments plus funds held in trust by others plus pledges receivable reported in permanently restricted net position less funds permanently restricted by third parties (permanently restricted net position) divided by total debt (principal) outstanding. This ratio should range between 0.50x and 0.85x as depicted by the green lines in the graph below.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Spendable Cash & Investments	\$ 39,206,761	\$ 52,914,753	\$ 43,509,864	\$ 57,902,039	\$ 47,933,092	\$ 36,855,794	\$ 33,188,471	\$ 37,431,682	\$ 46,802,832	\$ 48,137,973
Total Debt Outstanding	\$ 143,059,239	\$ 156,832,951	\$ 154,290,929	\$ 173,292,405	\$ 248,762,940	\$ 244,277,530	\$ 242,184,323	\$ 223,208,506	\$ 216,807,142	\$ 210,425,844
Spendable Cash & Investments to Total Debt	0.27	0.34	0.28	0.33	0.19	0.15	0.14	0.17	0.22	0.23
Benchmark	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Benchmark	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85

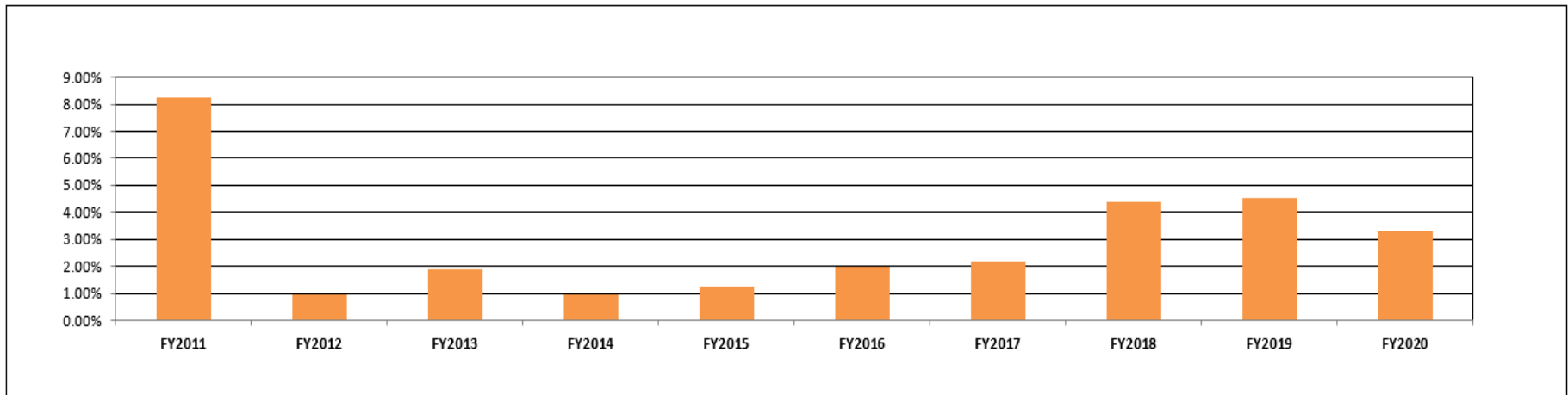


Salem State University - Spendable Cash & Investment to Total Debt

Operating Cash Flow Margin

Measures net income (before non-cash expenses) relative to operating revenue to indicate the amount of cash the University generates to support its strategic and capital investments. Calculated as operating revenue less operating expenses plus depreciation, and any additional, unusually large non-cash expenses (GASB 68 Pension and GASB 75 Other Post Employment Benefits), divided by operating revenue. This ratio should show an improving, positive trend over the course of multi-year period.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Operating Cash Flow	\$ 11,448,244	\$ 1,312,231	\$ 2,614,998	\$ 1,359,426	\$ 1,920,987	\$ 3,162,927	\$ 3,658,791	\$ 7,625,281	\$ 8,077,044	\$ 6,033,548
Operating Revenue	\$ 138,594,588	\$ 134,442,702	\$ 137,672,616	\$ 144,253,046	\$ 152,503,412	\$ 160,621,207	\$ 169,062,145	\$ 174,338,471	\$ 177,560,237	\$ 182,077,257
Operating Cash Flow Margin without GASB 68 and GASB 75	8.26%	0.98%	1.90%	0.94%	1.26%	1.97%	2.16%	4.37%	4.55%	3.31%



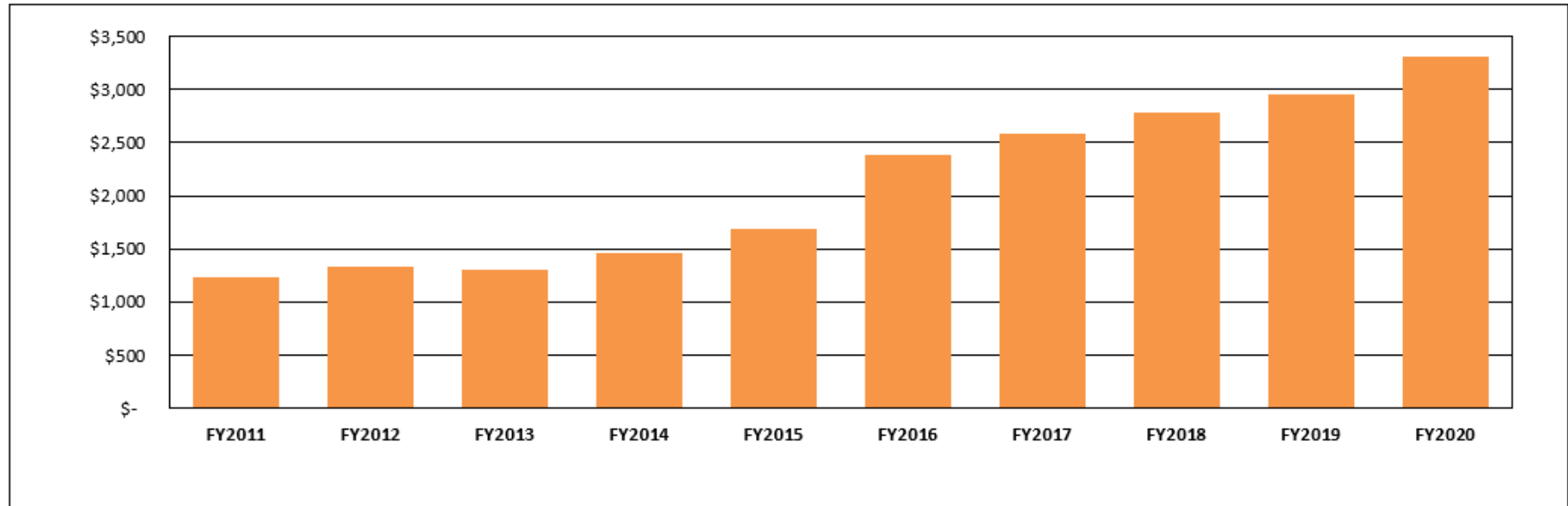
Salem State University Operations - Operating Cash Flow Margin (Without GASB 68 Pension and GASB 75 OPEB)

Note: The increases in FY2011 are primarily due to additional revenue from ARRA funding under a federal stimulus plan (\$7.4 million in FY 2011). Additionally, during FY2011 the opening of Marsh Hall for the first time added 525 beds to the campus (\$4.2 million) and there was an increase in Appropriations (\$4.6 million) for FY2011. In FY20, due to COVID – 19, the University received \$6.2 million in CARES Grant funding, of which half was distributed directly to students.

Annual Debt Service to Full Time Equivalent (FTE) Undergraduate Enrollment

Measures the effective amount of the University's debt obligations that each undergraduate student is effectively covering in any given year. Calculated as Annual Debt Service divided by Undergraduate FTE.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Annual Debt Service (Total Debt)	\$ 8,484,165	\$ 8,974,656	\$ 8,975,468	\$ 9,900,620	\$ 11,408,212	\$ 15,936,951	\$ 16,393,677	\$ 17,329,235	\$ 17,414,239	\$ 17,912,083
Annual FTE Undergraduate Enrollment	6,865	6,773	6,870	6,753	6,757	6,674	6,358	6,231	5,893	5,402
Debt Service per FTE Undergraduate	\$ 1,236	\$ 1,325	\$ 1,306	\$ 1,466	\$ 1,688	\$ 2,388	\$ 2,578	\$ 2,781	\$ 2,955	\$ 3,316

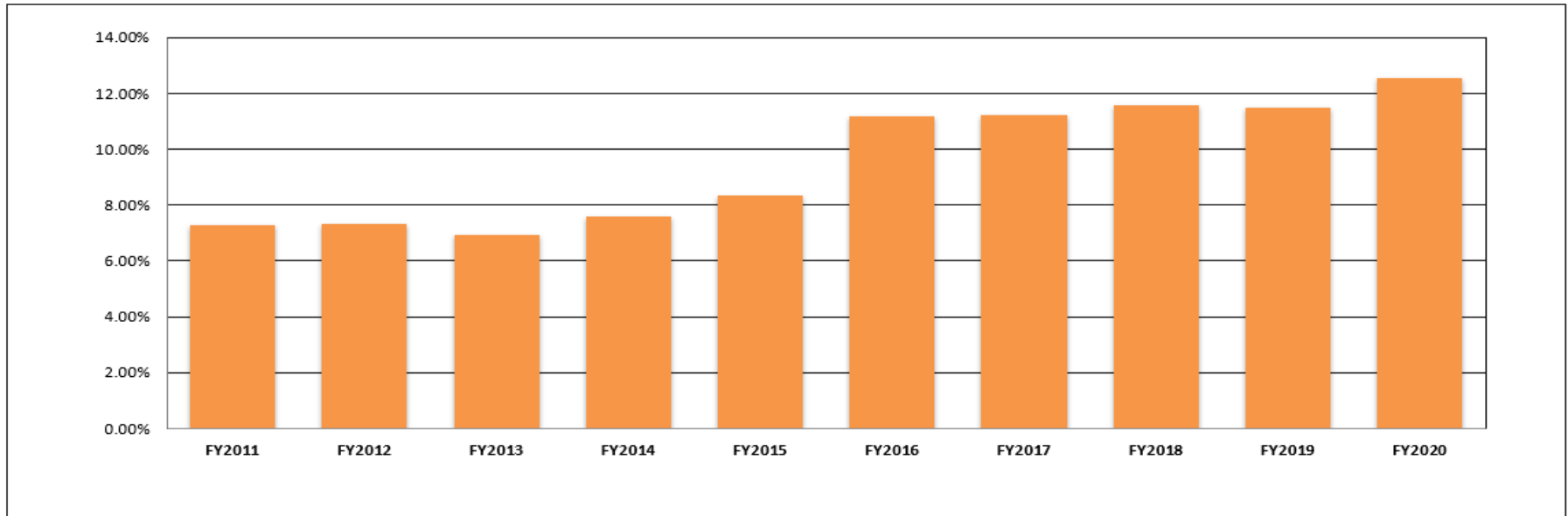


Salem State University Student Affordability - Annual Debt Service to FTE

Annual Debt Service per FTE as related to Undergraduate Tuition & Fees

Measures the proportion of the annual debt service as a percentage of Undergraduate student rates.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Annual Debt Service per FTE Undergrad	\$ 1,236	\$ 1,325	\$ 1,306	\$ 1,466	\$ 1,688	\$ 2,388	\$ 2,578	\$ 2,781	\$ 2,955	\$ 3,316
Tuition + Mandatory Fees + Average Housing + Meal Rates	\$ 17,014	\$ 18,116	\$ 18,804	\$ 19,294	\$ 20,252	\$ 21,391	\$ 22,934	\$ 24,009	\$ 25,679	\$ 26,431
Annual Debt Service per FTE Undergraduate	7.26%	7.31%	6.95%	7.60%	8.34%	11.16%	11.24%	11.58%	11.51%	12.55%

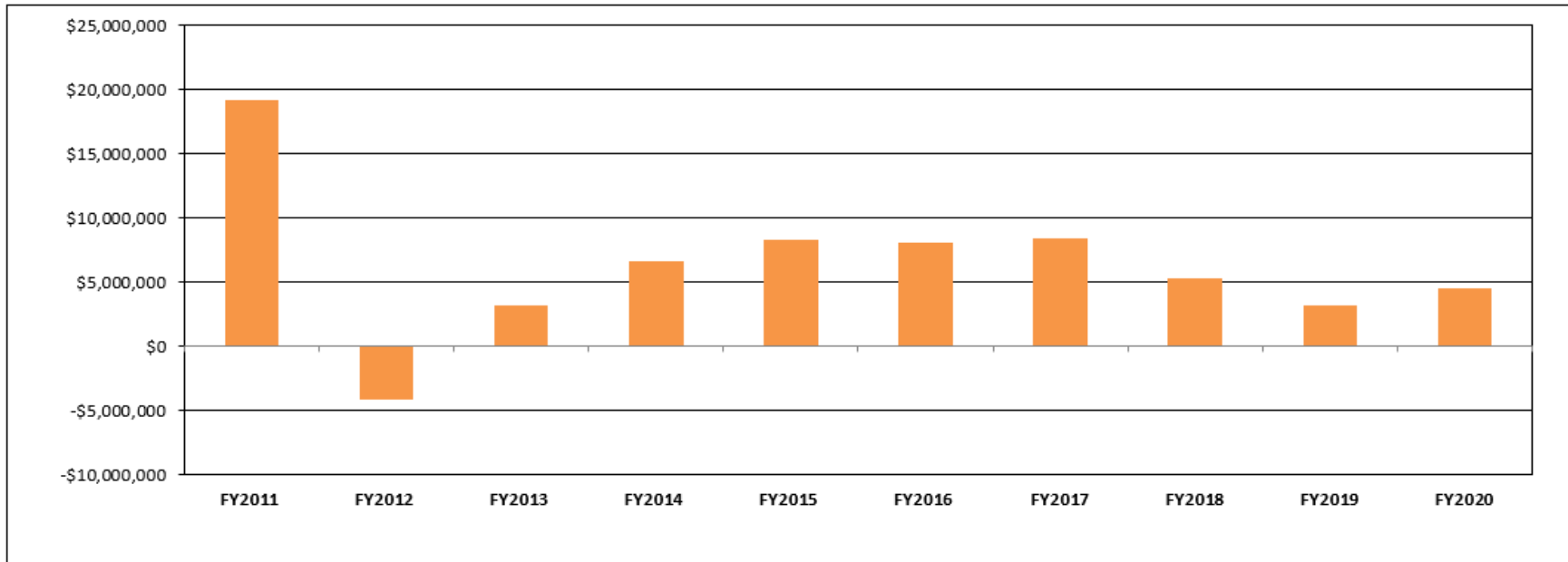


Salem State University Student Affordability - Annual Debt Service per FTE Undergraduate Tuition, Fees, Room & Board

Change in Operating Revenue

The increase or decrease in operating revenues from the prior year is depicted below.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Change in Operating Revenue from Prior Year	\$ 19,141,912	\$ (4,151,886)	\$ 3,229,914	\$ 6,580,430	\$ 8,250,366	\$ 8,117,795	\$ 8,440,938	\$ 5,276,326	\$ 3,221,766	\$ 4,517,020



Change in Operating Revenue - Increase (Decrease)

Note: The significant increase in FY2011 is primarily due to additional revenue from ARRA funding under a federal stimulus plan (\$7.4 million in FY2011) as well as the opening of Marsh Hall for the first time that added 525 beds to the campus (\$4.2 million) and an increase in Appropriations of (\$4.6 million).

Appendix

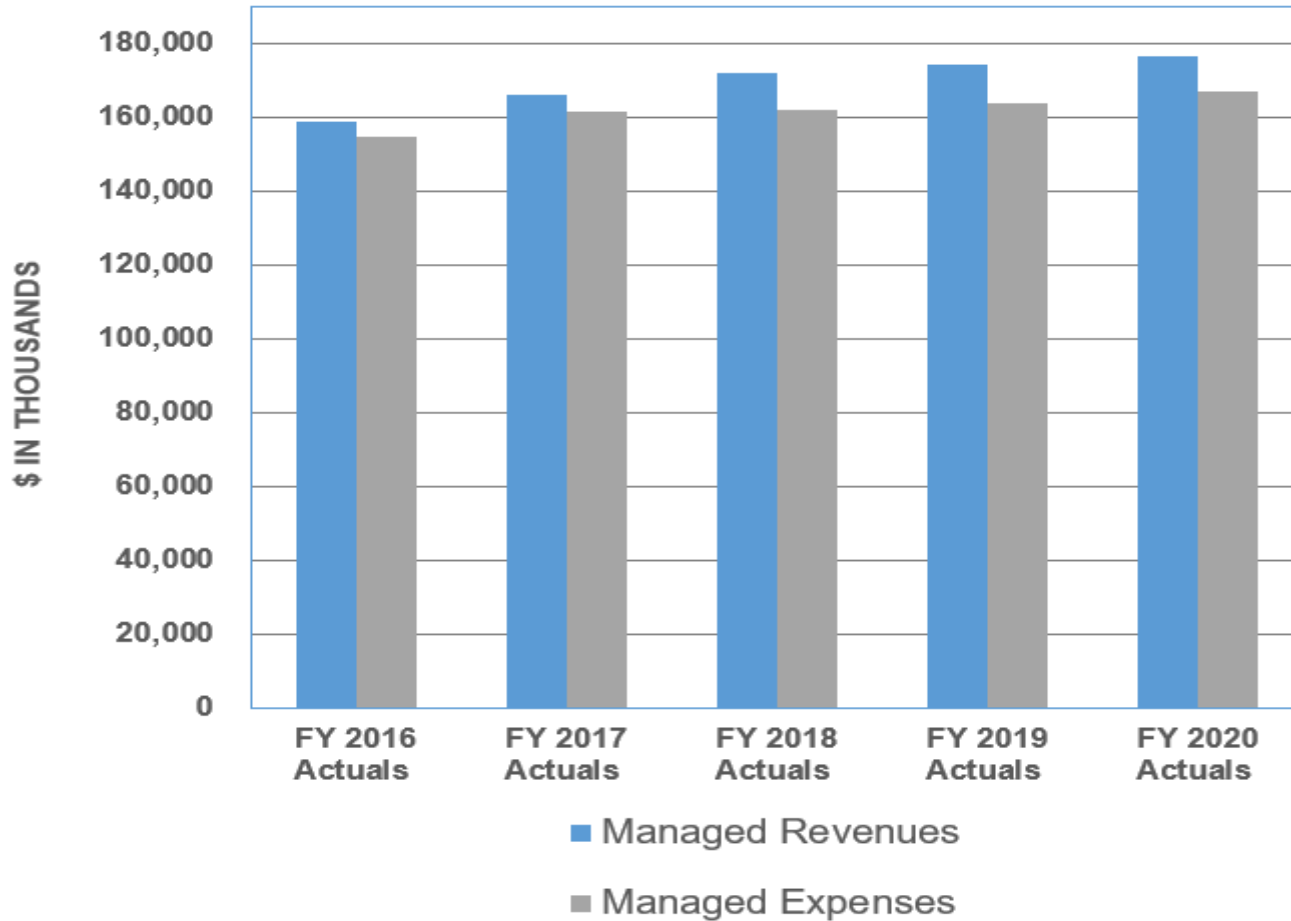
Managed Revenues and Expenses

Managed Revenue and Expenses FY 2016 thru FY 2020

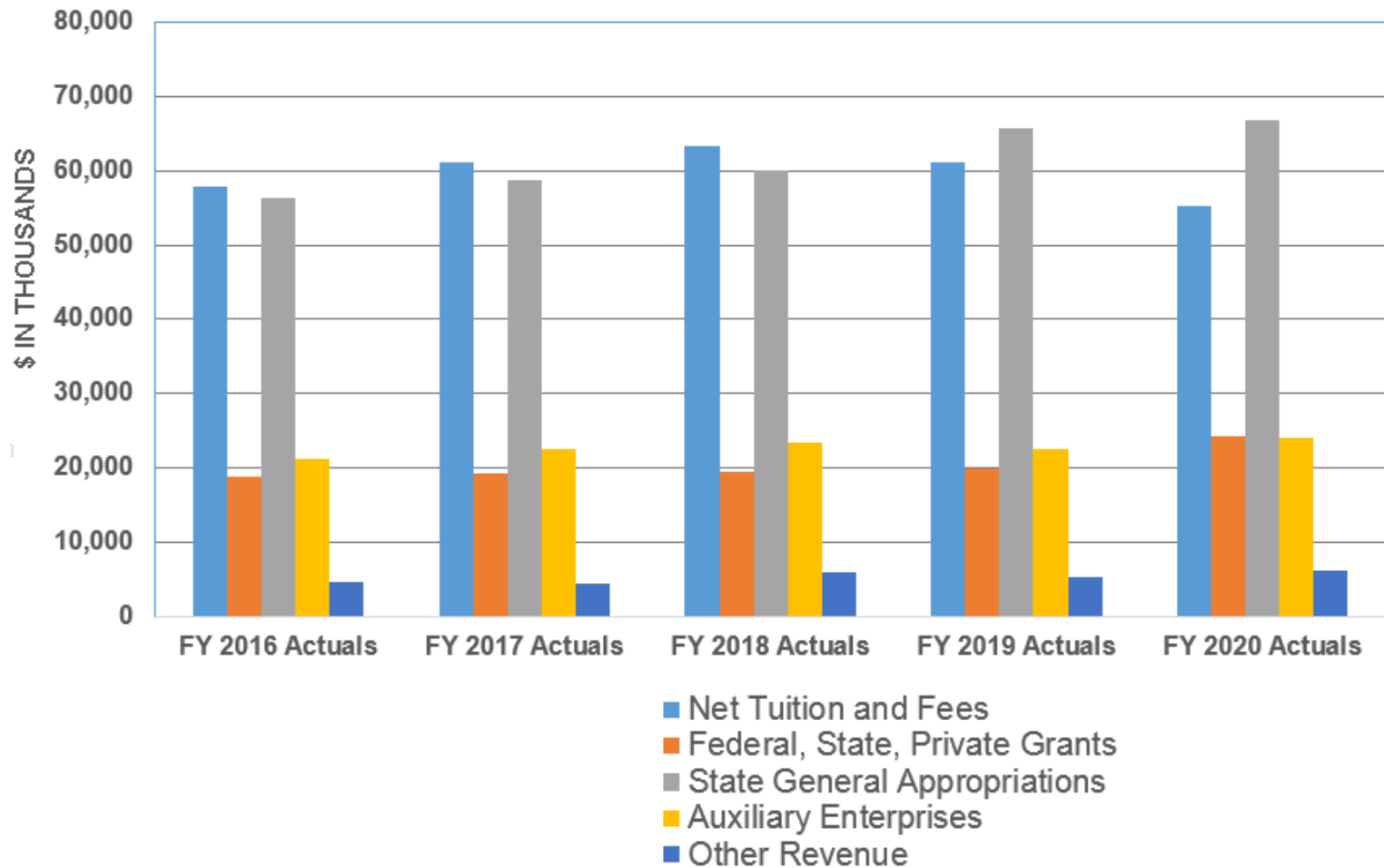
(in thousands)

<u>Account Description</u>	<u>FY 2016</u> <u>Year End</u>	<u>FY 2017</u> <u>Year End</u>	<u>FY 2018</u> <u>Year End</u>	<u>FY 2019</u> <u>Year End</u>	<u>FY 2020</u> <u>Year End</u>
<u>Managed Revenues:</u>					
Net Tuition and Fees	\$ 57,896	\$ 61,239	\$ 63,381	\$ 61,057	\$ 55,450
Federal, State, Private Grants and Assistance	18,820	19,306	19,472	19,901	24,342
Auxiliary Enterprises	21,149	22,519	23,423	22,569	24,083
State General Appropriations	56,416	58,768	60,128	65,735	66,737
Other Revenue	4,593	4,422	5,858	5,291	6,065
Total Managed Revenues	158,874	166,254	172,263	174,552	176,676
<i>Year over Year Change</i>	<i>5.8%</i>	<i>4.6%</i>	<i>3.6%</i>	<i>1.3%</i>	<i>1.2%</i>
<u>Managed Expenses:</u>					
Compensation	112,436	118,273	117,761	118,997	119,890
Support	18,568	17,991	18,365	19,220	22,867
Facility-related	23,845	25,566	26,138	25,772	24,376
Total Managed Expenses	154,850	161,831	162,264	163,990	167,134
<i>Year over Year Change</i>	<i>6.5%</i>	<i>4.5%</i>	<i>0.3%</i>	<i>1.1%</i>	<i>1.9%</i>
Managed Net Income	4,024	4,424	9,998	10,563	9,542
<u>Non-Cash Revenues/(Expenses):</u>					
Capital Grants	783	7,711	2,950	2,067	1,560
Depreciation	(7,877)	(8,477)	(8,903)	(9,216)	(9,276)
Unrealized Gains/Losses	(487)	738	(438)	413	345
GASB 68 Pension	(4,368)	(4,711)	(3,583)	(3,755)	(3,123)
GASB 75 OPEB			(4,498)	(5,888)	(1,093)
Total Non-Cash Revenues/(Expenses)	(11,949)	(4,739)	(14,472)	(16,378)	(11,587)
<i>Year over Year Change</i>	<i>55.2%</i>	<i>-60.3%</i>	<i>205.4%</i>	<i>13.2%</i>	<i>-29.3%</i>
Total Increase/(Decrease) in Net Position	\$ (7,925)	\$ (316)	\$ (4,474)	\$ (5,816)	\$ (2,044)

Five-Year Managed Revenue & Expense Trends

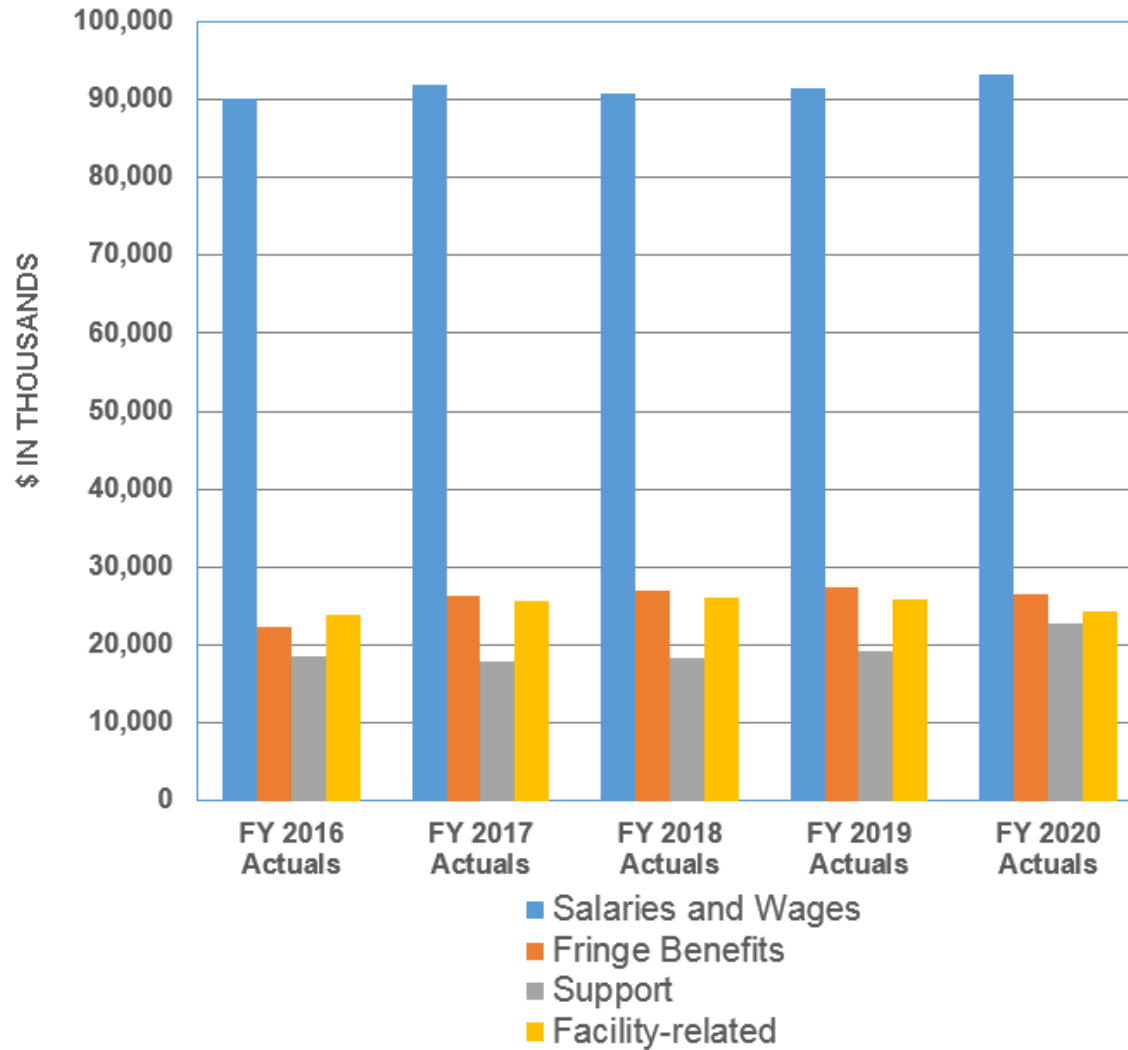


Five-Year Managed Revenue Trends



Note: FY20 includes \$6.2 million of CARES grant funds in Federal, State, Private Grants above.

Five-Year Managed Expense Trends



Note: In FY20 Compensation includes incentive payments associated with the Voluntary Separation Incentive Program in which 82 employees participated. In addition, Support includes \$6.3M in dining expenses which reflects a new accounting treatment for the dining contract. In prior years, dining revenue and expenses were shown net, solely within expenses.

RMA 30 of 145

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

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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

Financial Statements

June 30, 2020 and 2019

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-28
Financial Statements:	
Statements of Net Position	29-30
Statements of Revenues and Expenses	31
Statements of Changes in Net Position	32
Statements of Cash Flows	33-34
Combining Statements of Net Position of Major Component Units	35
Combining Statements of Revenues and Expenses of Major Component Units	36
Notes to the Financial Statements:	
Note 1- Summary of Significant Accounting Policies	37-49
Note 2- Prior Period Adjustment	49
Note 3- Cash and Cash Equivalents and Deposits	50-51
Note 4- Cash and Deposits Held by State Treasurer	51
Note 5- Investments	52-58
Note 6- Accounts, Grants and Other Receivables	59
Note 7- Pledges Receivable	59
Note 8- Loans Receivable and Payable	60
Note 9- Capital Assets	61-64
Note 10- Accounts Payable and Accrued Expenses	65
Note 11- Unearned Revenue	65
Note 12- Long- Term Liabilities	66-73
Note 13- Pensions	74-80
Note 14- Other Post-Employment Benefits	81-88
Note 15- Deferred Inflows of Resources	89

Note 16- Rental Income	89-90
Note 17- Operating Lease Commitments	90
Note 18- Restricted Net Position	91
Note 19- Commitments and Contingencies	91-92
Note 20- Operating Expenses	92
Note 21- Fringe Benefit Program	93-94
Note 22- Massachusetts Management Accounting Reporting Reporting System (“MMARS”)	95
Note 23- Pass-Through Student Federal Loans	96
Note 24- Massachusetts State College Building Authority (“MSCBA”)	96
Note 25- Subsequent Events	97
Required Supplementary Information:	
Schedules of Proportionate Share of Net Pension Liability (Unaudited)	98
Schedules of Contributions - Pension (Unaudited)	99
Notes to the Required Supplementary Information - Pension (Unaudited)	100-101
Schedules of Proportionate Share of Net OPEB Liability (Unaudited)	102
Schedules of Contributions - OPEB (Unaudited)	103
Notes to the Required Supplementary Information - OPEB (Unaudited)	104-105
Supplementary Information:	
Schedules of Net Position – Dormitory Trust Fund Report (Unaudited)	106
Schedules of Revenues, Expenses, and Changes in Net Position – Dormitory Trust Fund Report (Unaudited)	107
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	108-109



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, 2020, and 2019, the related statements of revenues and expenses, changes in net position, cash flows, combining statements of net position of major component units, and 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 opinions 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the University restated prior year balances with regards to the University's Other Post-Employment Benefits liability and the related deferred inflows and outflows. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

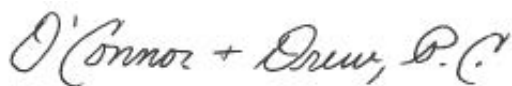
Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of 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 October 26, 2020 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**

October 26, 2020

SALEM STATE UNIVERSITY

(an agency of the Commonwealth of Massachusetts)

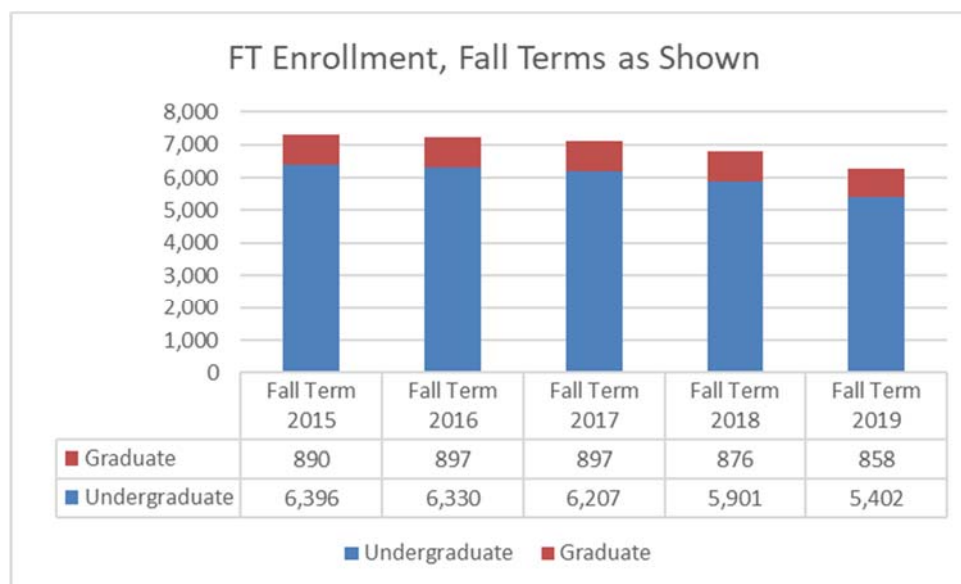
Management's Discussion and Analysis - Continued (Unaudited)

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, 2020 and 2019. 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, Salem State, which is one of the most diverse state universities in the Commonwealth, thrives as a comprehensive institution of academic strength offering high quality education at the undergraduate and graduate levels. Salem State is located on 115 acres, which is spread across six sites: North Campus, Central Campus, South Campus, School of Social Work and 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 Social Work, the School of Graduate Studies and the School of Continuing and Professional Studies. For Fall 2019 semester, Full-Time Equivalent (FTE) Enrollments were 5402 (undergraduate) and 858 (graduate). Total FTE enrollment 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 32 states and 54 countries. Nearly 40% of our first-year students (freshman and transfer) have self-identified as students of color (fall semester 2019). The approximate gender breakdown is 37% male and 63% female.

The university has six residence halls with capacity to house more than 2,500 students and 65 student groups and clubs. Salem State fields men's and women's teams in 15 sports which compete in the: Eastern Collegiate Athletic Conference (ECAC) Division III, the Little East Conference (LEC), the Massachusetts State College Athletic Conference (MASCAC), the National Collegiate Athletic Conference (NCAA) Division III, and the New England College Athletic Conference (NECAC). In addition, students participate in 10 intramural/club teams.

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 majority of the university's living alumni (more than 62,000), 50,000 remain in Massachusetts.

Mission and Strategic Plan

Salem State'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.

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

Management's Discussion and Analysis - Continued
(Unaudited)

- 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's 2018-21 Four Strategic Goals

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.

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.

Collaboration, Inclusion and Stewardship

Foster a university-wide culture of inclusion, accountability, collaboration, and stewardship.

Financial Vitality and Sustainability

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.

Accreditation

The University is accredited by the New England Commission of Higher Education ("NECHE") and the next comprehensive review will occur in April 2021. To prepare for this assessment, the university is currently engaged in a cross-campus evaluative process and will be filing a report with NECHE in January 2021. In addition, many of the university's programs are accredited by program-specific accrediting bodies.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Significant Events and Accomplishments

Salem State has many academic accomplishments to celebrate during FY20. What follows is a short list representing a range of academic programs and faculty members:

- **Salem State University Hosts Cabot Wealth Management Lab Dedication**
Salem State's Bertolon School of Business welcomed the addition of the Cabot Wealth Management Lab in early October 2019. The lab is equipped with 12 Bloomberg Terminals, a software platform that is widely recognized as the market standard for financial industries and gives business students access to data and tools used by investment professionals, allowing the next generation of Salem State students to access the world of finance at their fingertips.
- **Salem State Theatre Students Win 14 Awards at Regional Theater Festival**
Students from Salem State's theatre and speech communication program were victorious at the regional Kennedy Center American College Theater Festival (KCACTF), with seven students winning a total of 14 regional awards in various competitions, including acting, directing and playwriting. Among the group, four students moved on to the national finals in Washington D.C. and two received Las Vegas-based internships.
- **Salem State Professor Sara Moore Named Among Outstanding Women in Higher Education by Diverse: Issues in Higher Education**
Moore was nominated for her work directing a Critically Engaged Civic Learning (CECL) project for which students in her public sociology course worked with third graders from Salem's Horace Mann School on a collaborative photography project that explored food justice and health equity in Salem.
- **Local Historian and Salem State Alumna Jen Ratliff Discovers Burial Site on Collins Cove**
Ratliff, a Salem State alumna and local historian who works in the Salem State Archives, discovered the remains of a burial site while walking in Collins Cove last year. The site is now recognized as the last evidence of Salem's 19th-century Almshouse and its graveyard.
- **Salem State University Receives Carnegie Community Engagement Classification**
In February, Salem State announced that it is one of the 119 newly and reclassified U.S. colleges and universities to receive the Carnegie Community Engagement Classification, which indicates the significant institutional commitment to community and civic engagement. Receiving Carnegie Classification puts Salem State among a total of 359 institutions nationally and just 26 in Massachusetts with this designation.

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

Management's Discussion and Analysis - Continued
(Unaudited)

- **North Shore Leaders to Collaborate on Frederick E. Berry Institute of Politics and Civic Engagement**
The Berry Institute engages and inspires a diverse community of leaders to pursue public service, commemorating the legacy of State Senator Frederick E. Berry. With a \$200,000 state appropriation, community and university leaders built the Frederick E. Berry Institute of Politics and Civic Engagement at Salem State University (The Berry Institute). The appropriation for the institute was sponsored by State Senator (Second Essex) Joan Lovely and State Representative (7th Essex District-Salem) Paul Tucker, both alumni of Salem State University, following advocacy from local community members.
- **Geography and Sustainability Students Win First Place in Regional Geography Bowl**
Salem State's team placed first in the annual New England - St. Lawrence Valley (NESTVAL) Geographical Society Conference GeoBowl. There were six teams in the World Geography Bowl with four competitive rounds for each team. The Salem State team was 4-0 through the rounds and then did superbly in the championship. The team included geo-information science (GIS) graduate students Georgie Driver and Victor Pavao, and undergraduate GIS and geography and sustainability students Zach Serino and Michelle Mazares-Monga. Victor was the MVP for the tournament, scoring the most points individually out of all participants.
- **Vikings Respond to Community Needs**
Salem State's academic, facilities and health services departments pooled together their Personal Protective Equipment (PPE) resources for external donation. The effort resulted in gathering nearly 34,000 gloves, over 1,100 gowns, 920 medical masks, 139 procedure masks with visors, 80 N95 face masks, 45 nasal cannula, 29 nasopharyngeal swab sets, and 300 shoe covers for distribution to medical institutions and local nonprofits that serve others in the region.
- **Salem State Alumna Awarded Teaching Fellowship by French Government**
Salem State University alumna Giana DiGiulio '17, a communications major and French minor, was selected for the Teaching Assistant Program in France. This competitive fellowship is awarded by the French government and provides recent college graduates the opportunity to live and work abroad.
- **Political Science Professor Jennifer Jackman and Partners Awarded Woods Hole Sea Grant**
Woods Hole Sea Grant announced the award of a grant for a community-based research project on attitudes towards seals and sharks led by political science professor Jennifer Jackman in collaboration with researchers from the University of Massachusetts Boston, Center for Coastal Studies, Cape Cod Commercial Fishermen's Alliance, Atlantic White Shark Conservancy, and Center for Animals and Public Policy of the Cummings School of Veterinary Medicine at Tufts University. The research team is slated to administer surveys to residents, tourists and commercial fishermen on Cape Cod in summer 2020 and implement an engagement plan in 2021.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Impact of COVID-19

Academic and Operational

There has been no other event that has had more significant impact on our campus during the past year than the COVID-19 pandemic. In March 2020, the university moved to all remote learning for the remainder of the spring semester. This meant that nearly all students left campus and faculty members had to quickly adjust to a new modality. Salem State then refunded housing, dining and parking fees to students. The university immediately implemented a care case management system to support students during this transition. As Salem State serves a large Pell eligible student population (37% of all undergraduates), more direct measures were launched such as a large laptop loan program and hotspots so that students could access the internet and continue their studies. In addition, most administrative and support services were also conducted remotely. Basically, COVID changed how the entire university operated.

President John Keenan launched a taskforce to manage all aspects of how the pandemic affected campus. Putting the safety of the entire campus community first, this group quickly tackled all operational aspects—academics, health services, COVID-19 testing, student life, facilities and new sanitizing measures, faculty and staff supports—while working to keep students engaged. The university's summer session I classes were also completely provided through remote instruction and summer II had limited in-person classes to allow Salem State to test the procedures that had been put in place. At the time of this report, the university's conservative approach has worked and there are a limited number of coronavirus cases on campus. More information can be found about these efforts, including community communications, at salemstate.edu/covid19.

Voluntary Separation Incentive Program (VSIP)

During FY20, the university implemented a voluntary separation incentive program which resulted in the retirement or separation of 82 benefitted employees. A fraction of the vacated positions were approved to be refilled and/or reorganized, given operational requirements. A significant goal of this VSIP program was to reduce future labor costs, given enrollment reductions, and the program met its budgetary target.

Fundraising Campaign

During FY20, the governing boards of both the Salem State University and the Salem State University Foundation approved the launching of a major fundraising campaign. In its quiet phase, the campaign has successfully solicited several major gifts. The goals of the campaign include financial aid, high-impact retention practices, SSU Bold (a capital project described below) and unrestricted funds.

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

Management's Discussion and Analysis - Continued
(Unaudited)

SSU BOLD: A Campus Unification and Modernization Project

SSU BOLD addresses the major capital needs of the university identified in the Campus Master Vision (Sasaki, 2013) by establishing a compact and efficient campus core while maximizing programmatic synergies and streamlining operations. This exciting and transformative project enhances the overall campus experience for all students and positions us well to serve the North Shore region and prepare its future workforce.

In essence, BOLD takes a multipronged approach to achieving our capital goals in a way that utilizes SSU's and the Commonwealth's resources in the most efficient way for both time and budget. It includes the sale of South Campus; the renovation of the Horace Mann Building; the construction of a Meier Hall Addition, which will house much needed, new wet labs for our life sciences; and the repurposing of underutilized space in the Frederick E. Berry Library and Learning Commons for instruction.

BOLD supports the university's strategic plan, which was created through a campus-wide collaboration that states Salem State's position is a focus on "science and healthcare with a liberal arts foundation." BOLD directly supports the growing demand for qualified, high-skilled workforces in the biotech, life science and healthcare industries in our region. The 2018 Northeast Labor Market Blueprint states that healthcare is facing significant workforce development challenges. Additionally, the North Shore is seeing an increase in the workforce needs of the life science industry, which includes lab technicians, lab technologists and biological technicians. Similar to the rest of the Commonwealth, the Northeast Region has seen a growth in healthcare related occupations since 2012, and projections in these areas suggest there will continue to be a demand for healthcare professionals in the years to come with a projected growth of 12 percent overall, roughly 10,770 jobs, by 2022.

SSU BOLD includes several components that follow the university's master vision:

- Salem of South Campus—This unifies our campus to allow for increased collaboration across academic departments and more flexibility for our students.
 - Additionally, it eliminates over \$80 million in deferred maintenance and the need for future investments in buildings that have outlived their purpose.
 - Recent legislation signed by Governor Baker allows Salem State to use proceeds from the sale of this property by the Division of Capital Asset Management for reinvestment into our physical plant.
- Renovation of the vacant Horace Mann Building—Recently returned to Salem State for our use by the city of Salem, this renovation addresses the major upgrades needed to open it for university use, while allowing us to build new nursing and occupational therapy labs as well as classrooms.
- Science addition to Meier Hall—This addition addresses the long overdue need for modernized life sciences wet labs. It is the most efficient way to provide these much-needed facilities, which would cost more in both budget and time if they were forced to be retrofit within the existing Meier Hall building.

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

Management's Discussion and Analysis - Continued
(Unaudited)

- Repurpose space—The Berry Library and Learning Commons has underutilized space that can be better used to offer increasingly innovative and impactful instruction.

The university is working with state partners and donors to secure funding to support SSU BOLD through multiple sources, including the Division of Capital Asset Management major capital project process, the sale of South Campus and through fundraising efforts. SSU BOLD is considered a crucial part of the university's plan to chart a sustainable path forward.

Diversity and Inclusion

As much as 2020 has been marked by the COVID-19 pandemic, it has also been a year of reckoning when it comes to anti-Black racism in our country. President Keenan has asked for a complete review of the university's policies for the presence of structural racism, to remove procedures that may have an inequitable and negative impact on students, faculty and staff of color. This effort is consistent with the Department of Higher Education Commissioner Carlos Santiago's focus on a statewide audit for policies and initiatives that systemically exacerbate racial inequity.

As one of the most diverse state universities in the Commonwealth, Salem State also has a responsibility to ensure that all students graduate at a similar rate. Although the university has experienced good results in this work previously, these rates are starting to slip. The university is being more proactive about reaching out to our Black and Latinx student to ensure they have all the tools and supports they need to succeed.

Although hiring has remained limited in recent years, Salem State has made good progress in diversifying the faculty and staff populations. The percentage of full-time faculty that identify as a member of a minority group increased from 15% in 2015 to 23% in 2020. For staff members, these numbers rose from 15% to 21% during the same time period.

The university participated 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 are regularly offered.

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. The seamless pathways partnership with nearby North Shore Community College (NSCC) helps NSCC students to bridge their college progression from a two- to four-year degree more effectively, as well as to achieve operating efficiencies between the two organizations.

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.

CARES Assistance

As a result of the COVID-19 crisis, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted and created the Higher Education Emergency Relief Fund (HEERF) and the University was awarded approximately \$6.5 million of which 50% is required to be distributed to students affected by the COVID-19 crisis as emergency financial aid and the other 50% was available to the University to cover costs due to the COVID-19 crisis. As of June 30, 2020, the University received and expended approximately \$3.1 million for emergency grants to students and received approximately \$3.1 million for institutional costs. The remaining \$0.3 million will be received and expended in FY 2021.

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 unrestricted net position for fiscal year 2020 increased \$4.9 million compared to fiscal year 2019, 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 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (commonly referred to as OPEB.). GASB No. 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)

During August 2020 the University was notified by the Commonwealth's Comptroller's Office that the GASB 75 OPEB information used in our June 30, 2019 financial statements were determined to be incorrectly accounted for by the actuary. Effectively, the OPEB liability was significantly understated as a liability at June 30, 2019. Consequently, we have restated the OPEB amounts presented at June 30, 2019 in this year's financial statements. To correct the error, the OPEB liability increased by \$19.5 million, the deferred inflow/outflow change had a net decrease of approximately \$ 16.1 million and the OPEB expense increased by \$3.4 million at June 30, 2019. 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 2020 and FY 2019 as well as the restatement of FY2019 due to the error discussed above.

	FY 2020	Restated FY 2019	Prior Year FS FY 2019
	<i>(In Thousands)</i>		
<u>Statement of Net Position (Balance Sheet)</u>			
Deferred Outflows (like an Asset):			
GASB 68 - Pension	\$ 8,000	\$ 11,757	\$ 11,757
GASB 75 - Other Post Employment Benefits	13,979	15,617	15,522
Total deferred outflows	<u>21,979</u>	<u>27,374</u>	<u>27,279</u>
Net Pension & OPEB liability (Non-Current Liability):			
GASB 68 - Pension	(40,624)	(45,108)	(45,108)
GASB 75 - Other Post Employment Benefits	(76,583)	(98,704)	(79,230)
Total Net Pension & OPEB Liability	<u>(117,207)</u>	<u>(143,812)</u>	<u>(124,338)</u>
Deferred Inflows (like a Liability):			
GASB 68 - Pension	(9,074)	(5,225)	(5,225)
GASB 75 - Other Post Employment Benefits	(30,270)	(8,694)	(24,710)
Total deferred inflows	<u>(39,344)</u>	<u>(13,919)</u>	<u>(29,935)</u>
Net position impact - (Decrease)	<u>\$ (134,572)</u>	<u>\$ (130,357)</u>	<u>\$ (126,994)</u>
One-year Change	(4,215)	(9,643)	(6,280)
<u>Statement of Revenues, Expenses & Changes in Net Position</u>			
Pension & OPEB Expenses:*			
GASB 68 - Pension	\$ 3,123	\$ 3,755	\$ 3,755
GASB 75 - Other Post Employment Benefits	1,092	5,888	2,525
Total Net Pension & OPEB Expense	<u>\$ 4,215</u>	<u>\$ 9,643</u>	<u>\$ 6,280</u>

* 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
Unrestricted Net Position at June 30, 2018	\$ 8,687	\$ (34,821)	\$ (85,893)	\$ (112,027)
Unrestricted net increase (decrease) for FY 2019, Restated	5,017	(3,755)	(5,888)	(4,626)
Unrestricted Net Position at June 30, 2019, Restated	13,704	(38,576)	(91,781)	(116,653)
Unrestricted net increase (decrease) for FY 2020	4,935	(3,123)	(1,092)	720
Unrestricted Net Position at June 30, 2020	\$ 18,639	\$ (41,699)	\$ (92,873)	\$ (115,933)

The net pension liability balance in the June 30, 2020 and 2019 financial statements amounted to approximately \$40.6 million and \$45.1 million, respectively. The total net OPEB liability balance in the June 30, 2020 and 2019 financial statements amounted to approximately \$76.6 million and \$98.7 million, respectively. Combined, the pension and OPEB liabilities at June 30, 2020 were \$117.2 million and \$143.8 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, 2020, 2019 and 2018 is as follows. Note that this information includes the impact of the Pension and OPEB accounting standards:

Statement of Net Position Summary & Analysis

	<i>(In Thousands)</i>		
	2020	(Restated) 2019	2018
<u>Assets</u>			
Current Assets	\$ 56,784	\$ 56,789	\$ 44,435
Capital Assets (net)	159,761	164,375	169,691
Noncurrent Assets	3,643	5,162	3,854
Total Assets	<u>220,188</u>	<u>226,326</u>	<u>217,980</u>
Deferred Outflows of Resources	<u>22,043</u>	27,374	25,451
Total Assets and Deferred Outflows	<u>\$ 242,231</u>	<u>\$ 253,700</u>	<u>\$ 243,431</u>
<u>Liabilities</u>			
Current Liabilities	\$ 25,535	\$ 26,912	\$ 24,041
Noncurrent Liabilities	160,344	189,695	178,926
Total Liabilities	<u>185,879</u>	<u>216,607</u>	<u>202,967</u>
Deferred Inflows of Resources	<u>39,416</u>	18,112	15,668
<u>Net Position</u>			
Net investment in capital assets	125,110	129,002	130,219
Restricted	7,759	6,632	6,604
Unrestricted	<u>(115,933)</u>	<u>(116,653)</u>	<u>(112,027)</u>
Total Net Position	<u>16,936</u>	<u>18,981</u>	<u>24,796</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 242,231</u>	<u>\$ 253,700</u>	<u>\$ 243,431</u>

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

Management's Discussion and Analysis - Continued
(Unaudited)

Total assets decreased in FY 2020 by \$6.1 million or 2.7% over the prior year compared with a 3.8% increase of \$8.3 million in FY 2019. Most of the changes within the asset categories are associated with a decrease in capital assets by depreciation exceeding the capital asset additions. Decreases in deferred outflows are primarily related to adjustments in actuarial pension costs from FY 2019 to FY 2020. Total liabilities decreased in FY 2020 by \$30.7 million or 14.2% over prior year. This change is attributable to the decrease in the Pension and OPEB liability of \$26.6 million along with a decrease in bonds and notes payable of \$2.5 million primarily due to the payment of outstanding principal.

The increase in deferred inflows is primarily due to the increase of \$25.4 million for Pension and OPEB which is offset by a decrease of \$4.1 million for service agreements.

For fiscal 2020, 2019 and 2018, total net position amounted to \$16.9 million, \$19.0 million and \$24.8 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.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Capital Assets

A summarized comparison of the University's capital assets categories at June 30, 2020, 2019 and 2018 is as follows:

Capital Asset Summary

	<i>(In Thousands)</i>		
	2020	2019	2018
Building and improvements	\$ 244,459	\$ 241,833	\$ 238,793
Construction in Progress	2,031	320	187
Land	2,536	2,536	2,536
Furniture and Equipment	31,870	31,545	30,818
Total	280,896	276,234	272,334
Less: accumulated depreciation	(121,135)	(111,859)	(102,643)
Total capital assets, net	\$ 159,761	\$ 164,375	\$ 169,691

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



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

Management's Discussion and Analysis - Continued
(Unaudited)

Capital Assets Changes

The University's total capital asset changes as of June 30, 2020, 2019 and 2018 are depicted below:

Changes in Capital Assets

	<i>(In Thousands)</i>		
	2020	2019	2018
<u>Building and Land Improvements</u>			
Sophia Gordon Center	\$ 367	\$ 268	\$ 824
331 Lafayette Street	-	-	1,236
Meier Hall Renovation/Roof Repair	807	1,609	557
Library and Learning Commons Improvements	-	327	152
Bloomberg Lab	120	-	-
Sullivan Building Renovation	-	341	-
Steam Pipe Repairs	-	-	430
O'Keefe Improvements	-	-	810
Equipment purchases for IT and Biology Departments	868	-	1,421
Comprehensive Energy Performance Contract Project	-	298	5,577
Dining Capital Improvements	464	-	-
Various Other Improvements	-	197	708
Net Additions to Buildings and Improvements	2,626	3,040	11,715
<u>Construction in Progress ("CIP")</u>			
Sophia Gordon Center	367	268	824
Various Ongoing Renovation Projects	3,102	2,607	2,716
Comprehensive Energy Performance Contract Project	868	298	2,126
IT Projects	-	-	78
Additions to Construction in Progress	4,337	3,173	5,744
Transfer of Construction in Progress to Capital Assets	(2,626)	(3,040)	(11,929)
Net Additions (Reductions) to CIP	1,711	133	(6,185)
<u>Furniture & Equipment</u>			
Solar Panels	-	195	-
O'Keefe, Dining, IT & Art Design	325	532	416
Net Additions to Furniture and Equipment	325	727	416
Total Net Asset Additions	4,662	3,900	5,946
Depreciation Expense for the Year	9,276	9,216	8,903
Net Increase (Decrease) in Capital Assets	\$ (4,614)	\$ (5,316)	\$ (2,957)

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

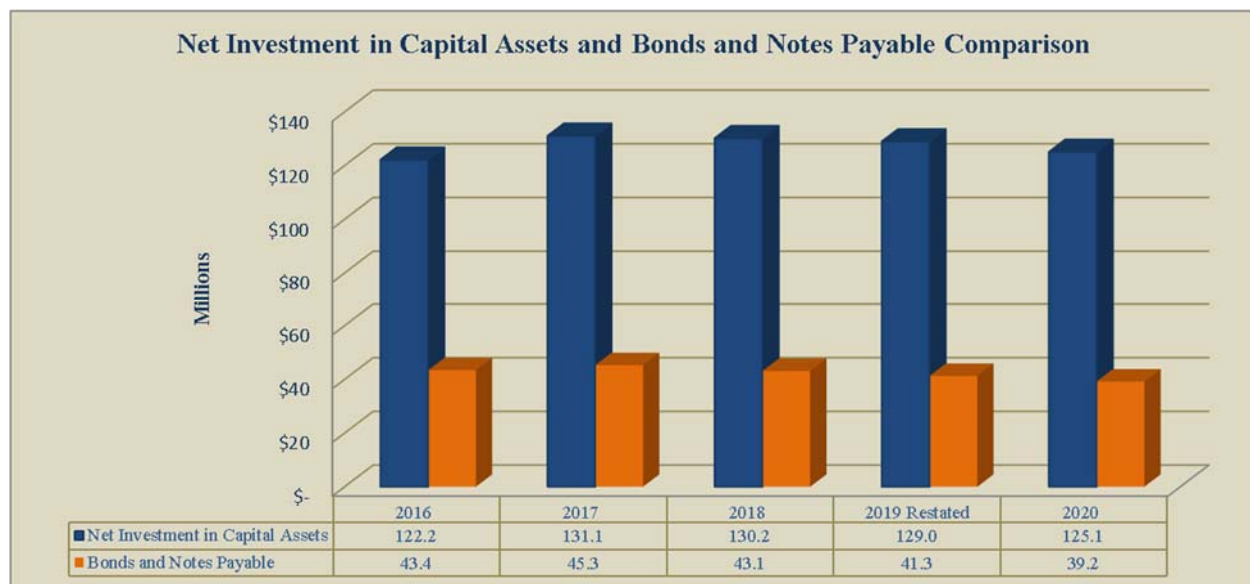
Management's Discussion and Analysis - Continued
(Unaudited)

Bonds Payable Refunding

During November 2019 the MSCBA closed on Refunding Revenue Bonds Series 2019C which resulted in changes to debt balances for the University. This refunding resulted in an increase of the University's outstanding bonds payable of \$1.1 million and a decrease in premiums of \$1.0 million, netting to a deferred outflow of less than \$100 thousand.

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 2016 through 2020:



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
(an agency of the Commonwealth of Massachusetts)

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, 2020, 2019 and 2018 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>		
	(Restated)		
	2020	2019	2018
<u>Operating Revenues</u>			
Tuition and Fees, Net	\$ 65,755	\$ 68,192	\$ 69,566
Federal, State, and Private Grants	18,108	19,902	19,472
Sales and Services	660	1,054	1,296
Auxiliary and Other	24,583	22,678	23,876
Total Operating Revenues	109,106	111,826	114,210
<u>Operating Expenses</u>			
Compensation, benefits and other *	124,106	128,640	125,843
Supplies and services	42,068	39,137	38,659
Utilities	3,780	4,213	4,107
Depreciation	9,276	9,216	8,903
Scholarships	10,305	7,135	6,185
Total Operating Expenses	189,535	188,341	183,697
<u>Non-Operating Revenues (Expenses)</u>			
State appropriations	66,737	65,735	60,128
CARES Funds	6,234	-	-
Contribution from the Assistance Corporation	473	-	-
Gifts	2,341	2,429	2,160
Investment Income, net	2,435	2,111	1,511
Interest Expense	(1,395)	(1,642)	(1,736)
Total Non-Operating Revenues, Net	76,825	68,633	62,063
Capital Grants	1,560	2,067	2,950
Increase (Decrease) in Net Position	\$ (2,044)	\$ (5,815)	\$ (4,474)
* This total is comprised of the following:			
Compensation and Benefits	\$ 119,891	\$ 116,326	\$ 117,761
Retroactive compensation for prior years	-	2,671	-
Pension and OPEB expense	4,215	9,643	8,082
	\$ 124,106	\$ 128,640	\$ 125,843

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

Management's Discussion and Analysis - Continued
(Unaudited)

Highlights for Operating Revenues

The decrease in total operating revenues of \$2.7 million (2.4%) in FY20 resulted primarily from the following activity:

Tuition and Fees, net: Tuition and fees, net of scholarships and fellowships decreased by 3.6% (\$2.4 million) in FY 2020. The decrease is due to declining enrollments.

Federal, State and Private Grants: Federal, state and private grant revenues decreased \$1.8 million or 9.0% over FY 2019. Federal grant revenue decreased \$800 thousand or 5.5%, primarily due to lower Pell grants awarded. State grant revenue decreased \$900 thousand or 17.7% due to various increases and decreases across all grants.

Auxiliary Enterprises and Other: Auxiliary enterprises and other revenues increased in FY 2020 by \$1.9 million (8.4%) over the prior year. This was primarily due to vendor activity for meal plans of approximately \$6.7 million which was recorded as revenue for the first time in FY 2020. Auxiliary enterprises revenue was reduced by refunds to housing, meals and parking fees of approximately \$5.2 million related to the COVID-19 emergency, and the resulting evacuation of campus in March 2020.

Highlights for Operating Expenses

The increase in total operating expenses of \$1.2 million (0.6%) in FY 2020 over prior year resulted primarily from the following activity:

Compensation and Benefits: Compensation and benefits decreased during FY 2020 by \$4.5 million (3.5%). FY 2020 pension and OPEB expenditures decreased \$5.4 million over FY 2019. During FY20, the VSIP program resulted in employees separating at several different points in the year. Compensation expense includes both the incentive payments to employees as well as their usual salaries during the portion of the year until they separated.

Supplies and services: The increase of \$2.9 million was primarily due to vendor activity for meal plans which was recorded as revenue and expense for the first time in FY 2020.

Depreciation: Depreciation for buildings and building improvements remained consistent for FY 2020 when compared to FY2019.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Changes in Pension and OPEB Activity: The sixth year of adoption of GASB 68 for pensions resulted in an expense of \$3.1 million in FY 2020, a decrease of \$0.6 million 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 Commonwealth's Comptroller's Office.

The third year of adoption of GASB 75 for other post-employment benefits resulted in an expense of \$1.1 million, which was a decrease of \$4.8 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 Commonwealth's Comptroller's Office.

Highlights for Non-Operating Revenues (Expenses)

The increase in non-operating revenues (expenses) in FY 2020 of \$8.2 million (11.9%) resulted primarily from the following activity:

State Appropriations: State appropriations increased by \$1.0 million (1.5%) in FY 2020 over prior year, primarily to support employee payroll and related fringe benefit costs. General Appropriation Act (GAA) funding increased by 2.1% or \$1.0 million for FY 2020. Greater than half (51.1%) of the University's payroll and fringe is funded by state operating appropriations.

CARES assistance: The University received \$6.2 million in CARES funding from the federal government as assistance to students (\$3.1 million) and to the University (\$3.1 million) for offsetting costs related to the COVID-19 emergency. The assistance to students was included in the scholarship expenses and the assistance to the university was used to reimburse the university for refunds to students for housing.

Gifts: Gift revenue is a variable source. During FY 2020 gifts decreased slightly by \$88 thousand (3.6%).

Contribution to Salem State University: During FY 2020 \$473 thousand was received from the Assistance Corporation related to the sale of an unused property, as requested by the university.

Investment Income, net: Investment income increased by \$324 thousand in 2020 and is attributable to fluctuating market conditions and receipt of investment proceeds from MSCBA.

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

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 FY 2020 is \$9.5 million, the actual increase in cash for the year is \$0.4 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 for FY 2020 was approximately \$9.5 million, which represents a 9.7% decrease 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. FY 2020 reflects a smaller decrease than the two prior years in Net Position. For FY 2020, 2019, and 2018 the change in net position would have been positive without the non-cash expenses that were recorded as required by GASB 68 for Pensions and GASB 75 for OPEB. The next page shows the Managed Revenue and Expense report for the three fiscal years 2020, 2019 and 2018.

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

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>		
	FY2020	(Restated) FY2019	FY2018
Managed Revenue:			
Net Tuition and Fees	\$ 55,450	\$ 61,057	\$ 63,381
Federal, State, Private Grants and Assistance	24,342	19,901	19,472
Auxiliary Enterprises	24,082	22,569	23,423
State General Appropriations	66,737	65,735	60,128
Other Revenue	6,065	5,291	5,859
Total Managed Revenue	<u>176,676</u>	<u>174,553</u>	<u>172,263</u>
<i>Year over Year Change</i>	<i>1.2%</i>	<i>1.3%</i>	<i>3.6%</i>
Managed Expenses:			
Compensation	119,890	118,997	117,761
Support	22,868	19,222	18,366
Facility-related	24,376	25,772	26,138
Total Managed Expenses	<u>167,134</u>	<u>163,991</u>	<u>162,265</u>
<i>Year over Year Change</i>	<i>1.9%</i>	<i>1.1%</i>	<i>0.8%</i>
Managed Net Income	<u>9,542</u>	<u>10,562</u>	<u>9,998</u>
Non-Cash Revenue/(Expenses):			
Capital Grants	1,560	2,067	2,950
Depreciation	(9,276)	(9,215)	(8,903)
Unrealized Gains/Losses	345	414	(437)
GASB 68 Pension	(3,123)	(3,755)	(3,583)
GASB 75 OPEB	(1,092)	(5,888)	(4,499)
Total Non-Cash Revenue/(Expenses)	<u>(11,586)</u>	<u>(16,377)</u>	<u>(14,472)</u>
<i>Year over Year Change</i>	<i>-29.3%</i>	<i>13.2%</i>	<i>156.8%</i>
Total Increase/(Decrease) in Net Position	<u>\$ (2,044)</u>	<u>\$ (5,815)</u>	<u>\$ (4,474)</u>

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

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, 2020, 2019 and 2018 follows. *It should be noted that for the presentation below, the appropriation funds 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, the state appropriation is presented as required in Non-Capital Financing Activities on the audited Cash Flow Statement of the Financial Statements.

Summary of Cash Flows

	<i>(In Thousands)</i>		
	2020	2019	2018
Operating Activities	\$ (2,305)	\$ 11,006	\$ 8,417
Non Capital Financing Activities	7,614	1,454	1,358
Capital Financing Activities	(6,341)	(5,080)	(6,972)
Investing Activities	1,432	432	250
Net Increase/(Decrease) in Cash	\$ 400	\$ 7,812	\$ 3,053

Highlights for Cash Flows

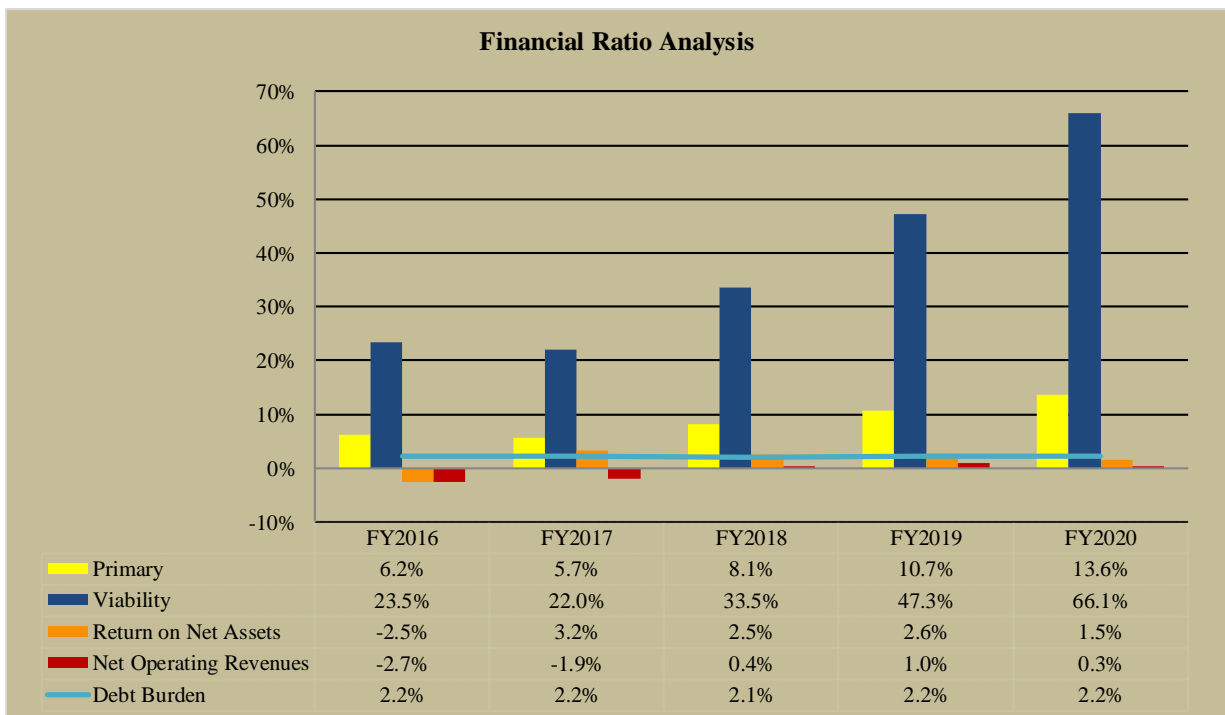
The overall increase in cash and cash equivalents for FY 2020 amounted to approximately \$400 thousand. This slight increase is associated with the contribution of cash from non-capital financing activities, which includes CARES funds and contributions from the Assistance Corporation and is net of significant refunds processed to students due to the evacuation of the residence halls as discussed previously

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

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 FY 2020 ratio of 13.6% suggests the university could cover expenses from reserves for over one month (13.6% of 12 months = 1.6 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
(an agency of the Commonwealth of Massachusetts)

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 ratio at FY 2020 increased to 0.66:1.

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 (2.5% for FY 2018, 2.6% for FY 2019, and 1.5% in FY 2020)

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 FY 2020, Salem State had a positive net operating revenue of 0.3%

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

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 FY 2020 is 2.2%, where it has hovered over the last five fiscal years.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Looking Ahead to FY 2021

In the next fiscal year, the university will continue to manage and anticipate the effects of COVID-19 and its effects to both enrollment and campus safety as well as pursue its fundraising campaign and other efforts to promote its financial health for the future.

COVID-19

As included in the footnotes to the financial statements, the COVID-19 crisis has created volatility in the national, state, and local economies and increased unemployment rates. Due to this, the university will be monitoring and assessing its negative impact and duration on the University's finances and operations, guided always by mitigating risks to health and safety of the community of students, faculty, staff, and friends.

Consequently, the University decided that approximately 84% of the courses in the 2020 fall semester will be taught online. The maximum capacity of students in the dormitories will be curtailed by approximately 46%. As a result of the pandemic, enrollment (headcount) and the number of students living in the dormitories for the 2020 fall semester decreased by 10% and 50% from the 2019 fall semester, respectively.

Bond Refunding Issuance

On July 1, 2020 the MSCBA closed on Refunding Revenue Bonds Series 2020A for the purpose of providing budgetary relief to the university and the other Massachusetts public colleges and universities whose campuses house MSCBA-owned residence halls, due to the COVID-19 pandemic. This refunding included several of the University's bonds which will result in no principal payments due for the fiscal year 2021 and an additional reduction in principal payments for fiscal year 2022.

FY2021 budget

As a regional institution, Salem State had already been experiencing declining enrollments, approximately 15% during the past five years due to changing demographics. There are fewer high school and community college transfer students available for us to enroll. Although the FY21 university budget was balanced prior to the pandemic arriving, COVID-19 related issues had a significant impact on the university finances. In the end, the pandemic caused a \$26M gap in the university's finances for FY21. The university developed strategies in order to present a balanced budget to the Board of Trustees, which was approved by the Board in June 2020. Among a variety of other adjustments, the two major strategies to close the budget gap include the MSCBA bond restructuring (which was successfully closed on July 1, 2020 as discussed above) and a furlough program for benefitted employees. The furlough program is subject to union impact bargaining and was successfully bargained with two of the three unions; the third (faculty) is pending. Members of both unions that reached agreement with the university, and all non-unionized personnel, have begun taking required furlough weeks.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Creation of the Sustainable Path Forward Taskforce

Although the Sustainable Path Forward Taskforce was announced in September 2020, it is important to mention it here as the results of this work will impact future decisions for many years ahead. Understanding that the university is at a crossroads given declining enrollment and the multi-year impact of the coronavirus pandemic, President Keenan announced this taskforce. The goal is to evolve the university to better meet the needs our students and the region while finding a sustainable way to eliminate the university's structural deficit of \$15M or more, based on projections for future years.

Taskforce members were selected from across campus—faculty members, administrators, staff, and students and a member of the board of trustees—and were charged with providing innovative, comprehensive, cohesive, and affordable recommendations for reorganization and operational change. These recommendations will be driven by student needs and will provide a plan for the optimal delivery of academic programs and administrative and student services while offering significant financial savings.

The Sustainable Path Forward Taskforce will undertake this work with the goal of eliminating our recurring structural budget deficit by recommending new structures and programs that promote enrollment growth, foster persistence toward graduation, and will graduate students who are career- and life-ready. Recommendations will include quantified proposals for creating, growing, eliminating, merging and/or transforming all areas of campus—academics, student support services, and administrative practices.

These recommendations will be delivered to university leadership by December 15, 2020 so that a plan can be developed and implemented before the university's FY22 budget year which begins on July 1.

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
 (an agency of the Commonwealth of Massachusetts)
Statements of Net Position
June 30, 2020 and 2019

Assets and Deferred Outflows of Resources

	Primary Government	(Restated) 2019 University	Component Units	2019 Combined
	2020 University		2020 Combined	
Current Assets:				
Cash and cash equivalents	\$ 24,019,628	\$ 23,891,121	\$ 3,242,203	\$ 2,631,870
Restricted cash and cash equivalents	3,405,919	3,115,918	723,292	792,157
Deposits held by State Treasurer	3,354,765	603,317	-	-
Cash held by State Treasurer	3,438	2,773,393	-	-
Deposits held by MSCBA and DCAMM	937,682	937,682	-	-
Investments	16,595,969	15,623,134	-	-
Accounts, grants and other receivable, net	8,080,094	6,184,917	17,900	13,831
Pledges receivable, net	-	-	3,557,252	580,651
Due from service concession vendor	-	2,325,000	-	-
Loans receivable	270,199	229,797	-	-
Other current assets	116,463	1,104,833	28,105	31,497
Total Current Assets	56,784,157	56,789,112	7,568,752	4,050,006
Non-Current Assets:				
Investments	850,888	830,181	33,391,116	32,320,558
Loans receivable, net of current portion	1,318,522	1,633,194	-	-
Pledges receivable, net	-	-	900,668	3,462,275
Due from service concession vendor, net of current portion	-	1,225,000	-	-
Capital assets, net	159,760,943	164,375,370	10,956,325	11,469,326
Debt service reserve	1,473,340	1,473,340	-	-
Total Non-Current Assets	163,403,693	169,537,085	45,248,109	47,252,159
Total Assets	220,187,850	226,326,197	52,816,861	51,302,165
Deferred Outflow of Resources:				
Deferred outflows for pensions	8,000,334	11,756,866	-	-
Deferred outflows for other post employment benefits	13,978,837	15,616,731	-	-
Deferred outflows for bond refinance	63,695	-	-	-
Total Deferred Outflows of Resources	22,042,866	27,373,597	-	-
Total Assets and Deferred Outflows of Resources	\$ 242,230,716	\$ 253,699,794	\$ 52,816,861	\$ 51,302,165

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Units	
	2020 University	(Restated) 2019 University	2020 Combined	2019 Combined
Current Liabilities:				
Accounts payable and accrued expenses	\$ 6,342,200	\$ 5,160,033	\$ 953,748	\$ 400,785
Accrued payroll	7,410,892	9,966,395	-	-
Accrued compensated absences	5,246,555	5,635,319	-	-
Accrued workers' compensation	184,165	262,149	-	-
Unearned revenues	3,280,606	3,143,216	121,884	76,452
Note payable	272,508	225,986	28,844	27,389
Bonds payable	2,547,594	2,265,171	-	384,000
Deposits	250,657	253,667	-	-
Total Current Liabilities	25,535,177	26,911,936	1,104,476	888,626
Non-Current Liabilities:				
Accrued compensated absences	3,925,445	3,971,465	-	-
Accrued workers' compensation	809,451	936,006	-	-
Notes payable, net of current portion	315,405	236,024	1,064,431	1,093,274
Bond payable, net of current portion	36,025,683	38,600,359	-	236,517
Loans payable - Federal financial assistance programs	2,061,183	2,139,865	-	-
Net pension liability	40,623,739	45,107,543	-	-
Net other post employment benefits liability	76,582,635	98,703,864	-	-
Other non-current liabilities	-	-	109,924	146,086
Total Non-Current Liabilities	160,343,541	189,695,126	1,174,355	1,475,877
Total Liabilities	185,878,718	216,607,062	2,278,831	2,364,503
Deferred Inflows of Resources:				
Service concession arrangements	72,003	4,194,479	-	-
Deferred inflows for pensions	9,074,225	5,224,193	-	-
Deferred inflows for other post employment benefits	30,269,781	8,693,647	-	-
Total Deferred Inflows of Resources	39,416,009	18,112,319	-	-
Net Position:				
Net investment in capital assets	125,109,658	129,002,204	9,863,050	9,728,146
Restricted:				
Nonexpendable	1,030,316	971,914	24,697,634	24,360,307
Expendable	6,728,700	5,659,632	13,333,852	12,335,620
Unrestricted	(115,932,685)	(116,653,337)	2,643,494	2,513,589
Total Net Position	16,935,989	18,980,413	50,538,030	48,937,662
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 242,230,716	\$ 253,699,794	\$ 52,816,861	\$ 51,302,165

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)
Statements of Revenues and Expenses
For the Years Ended June 30, 2020 and 2019

	Primary Government		Component Units	
	2020 University	(Restated) 2019 University	2020 Combined	2019 Combined
Operating Revenues:				
Tuition and fees	\$ 84,392,502	\$ 87,523,360	\$ -	\$ -
Less: scholarships and fellowships	(18,637,194)	(19,331,472)	-	-
Net tuition and fees	65,755,308	68,191,888	-	-
Federal grants and contracts	13,692,495	14,493,633	-	-
State grants and contracts	4,320,362	5,248,385	-	-
Private grants and contracts	94,628	158,612	-	-
Gifts and contributions	-	-	2,311,220	1,777,094
Sales and services of educational departments	660,339	1,054,161	-	-
Auxiliary enterprises	24,082,551	22,569,201	2,068,967	2,073,474
Other operating revenues	500,393	109,203	97,715	87,649
Total Operating Revenues	109,106,076	111,825,083	4,477,902	3,938,217
Operating Expenses:				
Educational and general:				
Instruction	64,672,437	67,646,495	-	-
Public service	1,710,792	1,746,186	1,381,733	1,364,805
Academic support	17,728,372	18,434,845	-	-
Student services	20,138,169	20,447,585	-	-
Institutional support	19,350,256	22,204,450	913,056	1,123,572
Operation and maintenance of plant	21,976,986	22,315,725	-	-
Scholarships	10,304,987	7,135,368	610,623	535,354
Depreciation	9,276,033	9,215,510	144,986	153,705
Auxiliary enterprises	24,377,349	19,195,285	1,778,648	1,763,137
Total Operating Expenses	189,535,381	188,341,449	4,829,046	4,940,573
Net Operating Income (Loss)	(80,429,305)	(76,516,366)	(351,144)	(1,002,356)
Non-Operating Revenues (Expenses):				
State appropriations, net	66,736,681	65,735,152	310,717	333,330
CARES funds	6,234,500	-	-	-
Gifts	2,340,663	2,429,070	-	-
Contribution from Assistance Corporation	473,428	-	(473,428)	-
Investment income, net	1,787,156	2,111,093	2,090,301	1,773,550
Other revenue - MSCBA	647,787	-	-	-
Other non-operating revenue	-	-	88,488	-
Interest expense	(1,395,265)	(1,641,868)	(64,566)	(84,468)
Net Non-Operating Revenues	76,824,950	68,633,447	1,951,512	2,022,412
Increase (Decrease) in Net Position Before Capital Grants	(3,604,355)	(7,882,919)	1,600,368	1,020,056
Capital grants	1,559,931	2,067,307	-	-
Total Increase (Decrease) in Net Position	\$ (2,044,424)	\$ (5,815,612)	\$ 1,600,368	\$ 1,020,056

See accompanying notes to the financial statements.

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

Statements of Changes in Net Position

For the Years Ended June 30, 2020 and 2019

	University				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
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, as previously reported	(1,217,146)	105,547	(77,717)	(1,262,904)	(2,452,220)
Balance at June 30, 2019, as previously stated	129,002,204	971,914	5,659,632	(113,289,945)	22,343,805
Prior period adjustment, see note 2	-	-	-	(3,363,392)	(3,363,392)
Balance at June 30, 2019	129,002,204	971,914	5,659,632	(116,653,337)	18,980,413
Changes in net position for 2020	(3,892,546)	58,402	1,069,068	720,652	(2,044,424)
Balance, June 30, 2020	\$ 125,109,658	\$ 1,030,316	\$ 6,728,700	\$ (115,932,685)	\$ 16,935,989

	Component Units				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at 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 at June 30, 2019	9,728,146	24,360,307	12,335,620	2,513,589	48,937,662
Changes in net position for 2020	134,904	337,327	998,232	129,905	1,600,368
Balance, June 30, 2020	\$ 9,863,050	\$ 24,697,634	\$ 13,333,852	\$ 2,643,494	\$ 50,538,030

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, 2020 and 2019

	Primary Government	
	2020 University	2019 University
Cash Flows from Operating Activities:		
Tuition and fees	\$ 64,773,715	\$ 68,195,281
Grants and contracts	17,344,747	20,090,898
Payments to suppliers and vendors	(44,035,717)	(43,786,393)
Payments to employees	(96,253,524)	(89,405,586)
Payments for benefits	(9,121,119)	(10,355,639)
Payments to students	(10,304,987)	(7,135,368)
Loans issued to students	(20,000)	(143,500)
Collection of loans to students	301,529	229,798
Auxiliary enterprises receipts	24,168,959	22,606,260
Sales and services of educational departments	252,409	1,057,624
Other	667,408	90,375
Net Cash Applied to Operating Activities	<u>(52,226,580)</u>	<u>(38,556,250)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	49,921,767	49,562,182
CARES funds	6,234,500	-
Contribution from the Assistance Corp	473,428	-
Tuition remitted to State	(895,668)	(943,711)
Student interest received (paid)	(70,787)	(186)
Gifts	1,872,721	2,398,353
Net Cash Provided by Non-Capital Financing Activities	<u>57,535,961</u>	<u>51,016,638</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(2,684,732)	(1,692,999)
Principal paid on bonds payable and notes payable	(2,354,157)	(1,998,646)
Interest paid on bonds and notes payable	(1,627,313)	(1,860,907)
Proceeds from note payable financing	325,010	472,624
Net Cash Applied to Capital Financing Activities	<u>(6,341,192)</u>	<u>(5,079,928)</u>
Cash Flows from Investing Activities:		
Investment income	1,479,492	1,026,212
Proceeds from sale of investments	6,449,515	6,846,110
Purchase of investments	(6,497,195)	(7,440,050)
Net Cash Provided by Investing Activities	<u>1,431,812</u>	<u>432,272</u>
Net Increase in Cash and Equivalents	400,001	7,812,732
Cash and Cash Equivalents, Beginning of the Year	<u>31,321,431</u>	<u>23,508,699</u>
Cash and Cash Equivalents, End of the Year	\$ 31,721,432	\$ 31,321,431

See accompanying notes to financial statements.

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

Statements of Cash Flows - Continued

For the Years Ended June 30, 2020 and 2019

	Primary Government	
	2020	(Restated) 2019
	University	University
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (80,429,305)	\$ (76,516,366)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	9,276,033	9,215,510
Bad debts	849,745	766,771
Fringe benefits provided by State	17,710,582	17,116,681
Changes in assets and liabilities:		
Accounts receivable	(2,275,287)	(393,960)
Accounts payable and accrued liabilities	796,376	551,679
Accrued payroll and benefits	(3,194,824)	2,119,393
Due from Concessions Vendor	3,550,000	(3,550,000)
Other assets	988,367	(1,057,727)
Loans to/from students	274,270	89,802
Deposits	(3,010)	(107,033)
Unearned revenues	137,390	117,594
Deferred inflows	21,303,690	2,444,068
Deferred outflows	5,394,426	(1,922,057)
Net pension activity	(4,483,804)	543,265
Net OPEB activity	(22,121,229)	12,026,130
Net Cash Applied to Operating Activities	<u>\$ (52,226,580)</u>	<u>\$ (38,556,250)</u>

Cash Flow Information

	Primary Government	
	2020	2019
	University	University
For purposes of the statement of cash flows, cash and equivalents are comprised of the following at June 30:		
Cash and cash equivalents	\$ 24,019,628	\$ 23,891,121
Restricted cash and cash equivalents	3,405,919	3,115,918
Deposits held by State Treasurer	3,354,765	603,317
Cash held by State Treasurer	3,438	2,773,393
Deposits held by MSCBA and DCAMM	937,682	937,682
	<u>\$ 31,721,432</u>	<u>\$ 31,321,431</u>

Schedule of noncash investing and financing activities

	Primary Government	
	2020	2019
	University	University
Acquisition of capital assets	\$ 4,661,606	\$ 3,900,313
Accounts payable beginning of year	268,812	128,805
Accounts payable end of year	(685,755)	(268,812)
Payments made by DCAMM	(1,559,931)	(2,067,307)
Cash payments for capital assets	<u>\$ 2,684,732</u>	<u>\$ 1,692,999</u>
Unrealized gain (loss) on marketable securities	\$ 344,825	\$ 412,602
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 17,710,582</u>	<u>\$ 17,116,681</u>

See accompanying notes to financial statements.

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

Combining Statements of Net Position of Major Component Units

June 30, 2020 and 2019

	<u>Assets</u>					
	2020			2019		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Current Assets:						
Cash and cash equivalents	\$ 2,681,406	\$ 560,797	\$ 3,242,203	\$ 2,120,022	\$ 511,848	\$ 2,631,870
Restricted cash and cash equivalents	723,292	-	723,292	792,157	-	792,157
Accounts, grants and other receivable, net	-	17,900	17,900	-	13,831	13,831
Pledges receivable, net	3,557,252	-	3,557,252	580,651	-	580,651
Other current assets	28,105	-	28,105	31,497	-	31,497
Total Current Assets	6,990,055	578,697	7,568,752	3,524,327	525,679	4,050,006
Non-Current Assets:						
Investments securities	33,391,116	-	33,391,116	32,320,558	-	32,320,558
Pledges receivable, net of current portion	900,668	-	900,668	3,462,275	-	3,462,275
Capital assets, net	-	10,956,325	10,956,325	-	11,469,326	11,469,326
Total Non-Current Assets	34,291,784	10,956,325	45,248,109	35,782,833	11,469,326	47,252,159
Total Assets	\$ 41,281,839	\$ 11,535,022	\$ 52,816,861	\$ 39,307,160	\$ 11,995,005	\$ 51,302,165
	<u>Liabilities and Net Position</u>					
Current Liabilities:						
Accounts payable and accrued expenses	\$ 865,247	\$ 88,501	\$ 953,748	\$ 351,537	\$ 49,248	\$ 400,785
Unearned revenues	-	121,884	121,884	35,140	41,312	76,452
Note payable	-	28,844	28,844	-	27,389	27,389
Bond payable	-	-	-	-	384,000	384,000
Total Current Liabilities	865,247	239,229	1,104,476	386,677	501,949	888,626
Non-Current Liabilities:						
Note payable, net of current portion	-	1,064,431	1,064,431	-	1,093,274	1,093,274
Bond payable, net of current portion	-	-	-	-	236,517	236,517
Other non-current liabilities	-	109,924	109,924	-	146,086	146,086
Total-Non Current Liabilities	-	1,174,355	1,174,355	-	1,475,877	1,475,877
Total Liabilities	865,247	1,413,584	2,278,831	386,677	1,977,826	2,364,503
Net Position:						
Net investment in capital assets	-	9,863,050	9,863,050	-	9,728,146	9,728,146
Restricted:						
Nonexpendable	24,697,634	-	24,697,634	24,360,307	-	24,360,307
Expendable	13,333,852	-	13,333,852	12,335,620	-	12,335,620
Unrestricted	2,385,106	258,388	2,643,494	2,224,556	289,033	2,513,589
Total Net Position	40,416,592	10,121,438	50,538,030	38,920,483	10,017,179	48,937,662
Total Liabilities and Net Position	\$ 41,281,839	\$ 11,535,022	\$ 52,816,861	\$ 39,307,160	\$ 11,995,005	\$ 51,302,165

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, 2020 and 2019

	2020			2019		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Operating Revenues:						
Gifts and contributions	\$ 2,311,220	-	\$ 2,311,220	\$ 1,777,094	\$ -	\$ 1,777,094
Auxiliary enterprises	-	2,068,967	2,068,967	-	2,073,474	2,073,474
Other operating revenues	-	97,715	97,715	-	87,649	87,649
Total Operating Revenues	2,311,220	2,166,682	4,477,902	1,777,094	2,161,123	3,938,217
Operating Expenses:						
Educational and general:						
Public service	1,381,733	-	1,381,733	1,364,805	-	1,364,805
Institutional support	913,056	-	913,056	1,123,572	-	1,123,572
Scholarships	610,623	-	610,623	535,354	-	535,354
Depreciation and amortization	-	144,986	144,986	-	153,705	153,705
Auxiliary enterprises	-	1,778,648	1,778,648	-	1,763,137	1,763,137
Total Operating Expenses	2,905,412	1,923,634	4,829,046	3,023,731	1,916,842	4,940,573
Net Operating Income (Loss)	(594,192)	243,048	(351,144)	(1,246,637)	244,281	(1,002,356)
Non-Operating Revenues (Expenses):						
State appropriations, net	-	310,717	310,717	-	333,330	333,330
Contribution to Salem State University	-	(473,428)	(473,428)	-	-	-
Investment income	2,090,301	-	2,090,301	1,773,550	-	1,773,550
Other non-operating revenue	-	88,488	88,488	-	-	-
Interest expense	-	(64,566)	(64,566)	-	(84,468)	(84,468)
Net Non-Operating Revenues	2,090,301	(138,789)	1,951,512	1,773,550	248,862	2,022,412
Total Increase in Net Position	1,496,109	104,259	1,600,368	526,913	493,143	1,020,056
Net Position, Beginning of Year	38,920,483	10,017,179	48,937,662	38,393,570	9,524,036	47,917,606
Net Position, End of Year	\$ 40,416,592	\$ 10,121,438	\$ 50,538,030	\$ 38,920,483	\$ 10,017,179	\$ 48,937,662

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2020 and 2019

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.

Operations

On March 11, 2020, the World Health Organization declared the global outbreak of the novel corona virus (COVID-19) as a pandemic. On March 16, 2020, the University transitioned students to a distant learning environment for the completion of the 2020 spring semester and the 2020 summer semester was taught online. The University refunded a total of approximately \$5.0 million before June 30, 2020 to students for their pro-rata share of the housing, meals and parking fees charged for the period when the University transitioned students to a distance learning environment to the completion of the 2020 spring semester.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. As part of the law, the CARES Act created the Higher Education Emergency Relief Fund (HEERF). The University was awarded approximately \$6.5 million of which 50% (or half) is required to be distributed to students affected by the COVID-19 crisis as emergency financial aid grants and the other half was available to the University to cover costs associated with changes in operations due to the COVID-19 crisis. According to the terms of HEERF, an institution can only spend costs associated with changes in operations due to the COVID-19 crisis up to the amount provided to students as emergency grants.

As of June 30, 2020, the University expended approximately \$3.1 million for emergency grants to students and approximately \$3.1 million for institutional costs from the HEERF funds. In conjunction with CARES Act regulations, the University must spend these funds by April 21, 2021.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

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, 2020 and 2019

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, 2020 and 2019, the Foundation distributed scholarships in the amount of \$610,623 and \$535,354, respectively, directly to students of the University. Complete financial statements for the Foundation and the Assistance Corporation are also available 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, 2020 and 2019

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 various amounts such as the University's operating and capital appropriations from the Commonwealth of Massachusetts, net investment activity, gifts, interest expense and other expenses and contributions.

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.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Net Position - continued

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.

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 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. Conditional promises to give are not included in support until the conditions are met.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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, 2020 and 2019

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 8 for changes in the Perkins Loan Program.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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
(an agency of the Commonwealth of Massachusetts)
Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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, 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
(an agency of the Commonwealth of Massachusetts)
Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Interest Costs

During 2020 and 2019, total interest costs incurred were approximately \$1,395,000 and \$1,642,000, respectively. There was no interest costs capitalized in 2020 or 2019.

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.

Implementation of New Governmental Accounting Pronouncement

In fiscal year 2020, the University implemented Governmental Accounting Standards GASB Statement 84 – Fiduciary Activities. The objective of this statement is to establish the criteria for identifying and reporting fiduciary activities. The implementation of this statement did not have a material effect on the financial statements.

New Governmental Accounting Pronouncements

GASB Statement 87 – Leases is effective for periods beginning after December 15, 2020. 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 standard. Management has not completed its review of the requirements of this standard and its applicability.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

New Governmental Accounting Pronouncements - continued

GASB Statement 89 – Accounting for Interest Costs Incurred before the End of a Construction Period is effective for reporting periods beginning after December 15, 2020. 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. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 90 – Majority Equity Interests, an amendment of GASB Statements 14 and 61 is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve the consistency of reporting a government’s majority equity interest in a legally separate organization. A majority equity interest should be recognized using the equity method if the government’s holding of the equity interest represents an investment. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 91 – Conduit Debt Obligations is effective for reporting periods beginning after December 15, 2021. The objective of this Statement is to improve the consistency of reporting conduit debt. This Statement requires government entities that issue conduit debt, but are not the obligor, not to recognize the liability unless it is more likely than not that the government issuer will service the debt. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 92 – Omnibus 2020 is effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to improve comparability in financial reporting for leases, pensions, OPEB, and asset retirement obligations. Management has not completed its review of the requirements of this standard and its applicability.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

New Governmental Accounting Pronouncements – continued

GASB Statement 94 – Public-Private and Public-Private Partnerships and Availability Payment Arrangements is effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for arrangements in which the governmental entity (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 96 – Subscription-Based Information Technology Arrangements (SBITA) is effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for transactions in which a governmental entity contracts with another party for the right to use their software. A right-to-use-asset and a corresponding liability would be recognized for SBITAs. Management has not completed its review of the requirements of this standard and its applicability.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Note 2 - **Prior Period Adjustment**

Management of the University was notified of an error in the calculation of the OPEB for the year ended June 30, 2019. The error did not have an effect on the calculation of OPEB as of June 30, 2018.

The table below presents the effects of the corrections made to the previously issued financial statements:

	As Previously Reported at June 30, 2019	Correction of an Error	As Restated at June 30, 2019
Statements of Net Position:			
Deferred outflows of resources related to OPEB	\$ 15,522,192	94,539	\$ 15,616,731
Deferred inflows of resources related to OPEB	\$ 24,709,754	(16,016,107)	\$ 8,693,647
Net OPEB liability	\$ 79,229,826	19,474,038	\$ 98,703,864
Unrestricted net position	\$ (113,289,945)	(3,363,392)	\$ (116,653,337)
Statements of Revenues and Expenses:			
Operating expenses	\$ 184,978,057	3,363,392	\$ 188,341,449

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **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, 2020 and 2019 were \$27,425,547 and \$27,007,039 respectively. This includes amounts held in deposit at the Massachusetts Municipal Depository Trust ("MMDT") of \$21,918,621 and \$21,938,352 as of June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, the University had deposits of \$5,186,956 and \$5,126,699, respectively, held in a money market account which was insured by a third party up to a maximum of \$5 million.

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 that may be exposed to custodial risk at June 30, 2020 and 2019 were \$27,869,514 and \$27,141,993, 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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **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, 2020, and 2019, the fair values of the University's deposits held at the MMDT were \$21,918,621 and \$21,938,352, respectively. At June 30, 2020, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 55% at 30 days or less; 23% at 31-90 days; 17% at 91-180 days and 5% at 181 days or more. 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.

Note 4 - **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, 2020 and 2019 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sums of \$3,354,765 and \$603,317, respectively.

Liabilities to be funded by state appropriations at June 30, 2020 and 2019 were \$3,438 and \$2,773,393, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Investments**

The University's 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 and 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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Investments - Continued**

University

The University's investments at fair value measurement are as follows at June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
International equities	\$ 771,320	\$ -	\$ -	\$ 771,320
U.S. equities	1,860,212	-	-	1,860,212
Corporate bonds	1,016,251	-	-	1,016,251
U.S. Treasuries	294,993	-	-	294,993
International emerging	551,332	-	-	551,332
Small and Mid Cap equities	370,437	-	-	370,437
Total mutual funds	4,864,545	-	-	4,864,545
Common stocks	7,429,695	-	-	7,429,695
Corporate bonds	-	5,152,617	-	5,152,617
Total investment assets	<u>\$12,294,240</u>	<u>\$ 5,152,617</u>	<u>\$ -</u>	<u>\$17,446,857</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Investments - Continued**

University - continued

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>-</u>	<u>-</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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Investments - Continued**

Foundation

The Foundation's investments at fair value measurement are as follows at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 15,388,344	\$ -	\$ -	\$ 15,388,344
Corporate bonds	-	7,324,257	-	7,324,257
Mutual funds:				-
U.S. bonds and notes	452,473	-	-	452,473
International emerging	728,751	-	-	728,751
Corporate bonds	-	2,026,512	-	2,026,512
Short-term fixed income	190,761	-	-	190,761
International equities	808,913	-	-	808,913
Large cap equities	1,484,454	-	-	1,484,454
Small and mid-cap equities	518,673	-	-	518,673
Total mutual funds	4,184,025	2,026,512	-	6,210,537
Exchange-traded funds	1,019,293	-	-	1,019,293
Money market	1,529,528	-	-	1,529,528
Variable rate bonds	-	125,929	-	125,929
U.S. Government Obligations	1,367,456	-	-	1,367,456
Certificates of deposits	-	116,586	-	116,586
State municipal bonds	-	308,686	-	308,686
Other	-	500	-	500
Total assets at fair value	<u>\$ 23,488,646</u>	<u>\$ 9,902,470</u>	<u>\$ -</u>	<u>\$ 33,391,116</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Investments – Continued**

Foundation - continued

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	5,176,442	822,408	-	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>\$ 24,285,129</u>	<u>\$ 8,035,429</u>	<u>\$ -</u>	<u>\$ 32,320,558</u>

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2020 and 2019, investments totaled \$17,446,857 and \$16,453,315, 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, 2020 and 2019, there were no individual investments that represented 5% or more of the University's portfolio. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal policies approved by the University's Board of Trustees

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Investments - Continued**

University - continued

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

June 30, 2020 Investment Maturity in Years

Investment Type:	Fair Value	Less than 1	1-5	6-10	> 10
Corporate bonds	\$ 5,152,617	\$ 203,244	\$ 3,432,740	\$ 1,516,633	\$ -
Corporate bond funds	1,016,251	3,639	302,758	706,570	3,284
U.S. Treasuries	294,993	-	275,494	19,499	-
Total fixed income	<u>6,463,861</u>	<u>\$ 206,883</u>	<u>\$ 4,010,992</u>	<u>\$ 2,242,702</u>	<u>\$ 3,284</u>
Equity securities	10,982,996				
Total investments	<u>\$ 17,446,857</u>				

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	<u>6,653,819</u>	<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>				

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

Notes to the Financial Statements –Continued

June 30, 2020 and 2019

Note 5 - **Investments - Continued**

University - continued

The following table summarizes the quality ratings of the University's debt investments at June 30, 2020:

	Quality Ratings								
	Fair Value	Ba2	Baa1	Baa2	Baa3	A1	A2	A3	Not Rated
Corporate bonds	\$ 5,152,617	\$196,042	\$1,353,563	\$1,544,599	\$ 126,103	\$217,930	\$647,372	\$935,279	\$ 131,729
Corporate bond funds	1,016,251	-	-	-	-	-	-	-	1,016,251
U.S. Treasuries	294,993	-	-	-	-	-	-	-	294,993
Totals	\$ 6,463,861	\$196,042	\$1,353,563	\$1,544,599	\$ 126,103	\$217,930	\$647,372	\$935,279	\$1,442,973

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

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 2020	University 2019	Foundation 2020	Foundation 2019
Interest and dividends	\$ 918,735	\$ 1,111,204	\$ 758,065	\$ 773,550
Net realized and unrealized gains	945,861	1,070,027	1,502,298	1,142,080
Investment fees	(77,440)	(70,138)	(170,062)	(142,080)
Total investment income	\$1,787,156	\$2,111,093	\$2,090,301	\$1,773,550

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 6 - **Accounts, Grants and Other Receivables**

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

	<u>2020</u>	<u>2019</u>
Student accounts	\$ 10,641,128	\$ 9,960,346
Grants	1,346,917	524,924
Other	<u>1,422,963</u>	<u>1,026,368</u>
Total gross receivables	13,411,008	11,511,638
Less: allowance for doubtful accounts	<u>(5,330,914)</u>	<u>(5,326,721)</u>
Total accounts, grants and other receivables, net	<u>\$ 8,080,094</u>	<u>\$ 6,184,917</u>

Note 7 - **Pledges 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:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 3,657,252	\$ 580,651
Between one to five years	1,069,996	3,791,494
Receivable after five years	7,917	13,917
Less: allowance for doubtful accounts	<u>(100,000)</u>	<u>(85,000)</u>
Total pledges receivables	4,635,165	4,301,062
Less: discount to net present value at 3%	<u>(177,245)</u>	<u>(258,136)</u>
Pledges receivable, net	4,457,920	4,042,926
Less: current portion of receivable	<u>(3,557,252)</u>	<u>(580,651)</u>
Long-term pledges receivable, net	<u>\$ 900,668</u>	<u>\$ 3,462,275</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **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.

Loans receivable from students include the following at June 30:

	<u>2020</u>	<u>2019</u>
Perkins	\$ 1,011,980	\$ 1,202,153
Nursing	576,741	660,838
Total loans receivable	<u>1,588,721</u>	<u>1,862,991</u>
Less: amount due in one year	<u>(270,199)</u>	<u>(229,797)</u>
Long-term loan receivables	<u>\$ 1,318,522</u>	<u>\$ 1,633,194</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>2020</u>	<u>2019</u>
Perkins	\$ 1,292,794	\$ 1,375,155
Nursing	768,389	764,710
Total loans payable	<u>\$ 2,061,183</u>	<u>\$ 2,139,865</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Capital Assets**

University

Capital asset activity for the University for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Transfer to Depreciable Assets	Ending Balance
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	319,565	4,336,596	(2,625,637)	2,030,524
Total capital assets not depreciated	<u>2,855,738</u>	<u>4,336,596</u>	<u>(2,625,637)</u>	<u>4,566,697</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	151,703,679	-	2,625,637	154,329,316
Furniture and equipment	31,544,707	325,010	-	31,869,717
Total capital assets depreciated	<u>273,378,321</u>	<u>325,010</u>	<u>2,625,637</u>	<u>276,328,968</u>
Total capital assets	<u>276,234,059</u>	<u>4,661,606</u>	<u>-</u>	<u>280,895,665</u>
Less: accumulated depreciation:				
Buildings	30,683,978	1,928,975	-	32,612,953
Building improvements	53,046,500	6,335,420	-	59,381,920
Furniture and equipment	28,128,211	1,011,638	-	29,139,849
Total accumulated depreciation	<u>111,858,689</u>	<u>9,276,033</u>	<u>-</u>	<u>121,134,722</u>
Capital assets, net	<u>\$ 164,375,370</u>	<u>\$ (4,614,427)</u>	<u>\$ -</u>	<u>\$ 159,760,943</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Capital Assets - Continued**

University - continued

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

	Beginning Balance	Additions	Transfer to Depreciable 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>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Capital Assets - Continued**

Assistance Corporation

Capital asset activity of the Assistance Corporation for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions (Reductions)	Ending Balance
Capital assets not depreciated:			
Land	\$ 8,161,482	\$ (138,350)	\$ 8,023,132
Total capital assets not depreciated	<u>8,161,482</u>	<u>(138,350)</u>	<u>8,023,132</u>
Capital assets depreciated:			
Buildings	1,785,560	(276,701)	1,508,859
Building improvements	4,235,940	8,627	4,244,567
Furniture and equipment	198,941	11,390	210,331
Total capital assets depreciated	<u>6,220,441</u>	<u>(256,684)</u>	<u>5,963,757</u>
Total capital assets	<u>14,381,923</u>	<u>(395,034)</u>	<u>13,986,889</u>
Less accumulated depreciation:			
Buildings	658,659	11,279	669,938
Buildings improvements	2,061,482	104,747	2,166,229
Furniture and equipment	192,456	1,941	194,397
Total accumulated depreciation	<u>2,912,597</u>	<u>117,967</u>	<u>3,030,564</u>
Capital assets, net	<u>\$ 11,469,326</u>	<u>\$ (513,001)</u>	<u>\$ 10,956,325</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Capital Assets - Continued**

Assistance Corporation - continued

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>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses include the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accounts payable - trade	\$ 4,696,835	\$ 3,476,593
Accrued interest payable	330,161	361,316
Tuition due to state	225,940	108,358
Other	<u>1,089,264</u>	<u>1,213,766</u>
Total accounts payable and accrued expenses	<u>\$ 6,342,200</u>	<u>\$ 5,160,033</u>

Note 11 - **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:

	<u>2020</u>	<u>2019</u>
Tuition and fees	\$ 2,746,918	\$ 2,723,377
Grants	<u>533,688</u>	<u>419,839</u>
Total unearned revenue	<u>\$ 3,280,606</u>	<u>\$ 3,143,216</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Long-Term Liabilities**

Long-term liabilities of the University at June 30, 2020 consist of:

	Beginning Balance	Additions	Reductions	Bond Refunding Increase (Decrease)	Ending Balance	Current Portion
Bond, loans and note payable:						
Bonds payable	\$ 37,884,368	\$ -	\$ 2,155,050	\$ 1,088,470	\$ 36,817,788	\$ 2,326,434
Bond premiums	2,981,162	-	200,898	(1,024,775)	1,755,489	221,160
Loans payable	2,139,865	-	78,682	-	2,061,183	-
Note payable	462,010	325,010	199,107	-	587,913	272,508
Total bonds, loans and note payable	<u>43,467,405</u>	<u>325,010</u>	<u>2,633,737</u>	<u>63,695</u>	<u>41,222,373</u>	<u>2,820,102</u>
Other long-term liabilities:						
Accrued compensated absences	9,606,784	-	434,784	-	9,172,000	5,246,555
Workers' compensaton	1,198,155	-	204,539	-	993,616	184,165
Net pension liability	45,107,543	-	4,483,804	-	40,623,739	-
Net OPEB liability	98,703,864	-	22,121,229	-	76,582,635	-
Total other long-term liabilities	<u>154,616,346</u>	<u>-</u>	<u>27,244,356</u>	<u>-</u>	<u>127,371,990</u>	<u>5,430,720</u>
Total long-term liabilities	<u>\$ 198,083,751</u>	<u>\$ 325,010</u>	<u>\$ 29,878,093</u>	<u>\$ 63,695</u>	<u>\$ 168,594,363</u>	<u>\$ 8,250,822</u>

Bond Refunding Increase (Decrease)

During November 2019 the MSCBA closed on Refunding Revenue Bonds Series 2019C which resulted in an economic gain of \$1.2 million and a deferred loss of approximately \$71,000. This refunding effected three of the University's outstanding bonds payable: O'Keefe Athletic Complex Fields, Central Campus Athletic Field and Tennis Court and Harold E. and Marilyn J. Gassett Fitness.

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	543,265	-	45,107,543	-
Net OPEB liability (Restated)	86,677,734	12,026,130	-	98,703,864	-
Total other long-term liabilities	<u>142,043,194</u>	<u>12,584,974</u>	<u>11,822</u>	<u>154,616,346</u>	<u>5,897,468</u>
Total long-term liabilities	<u>\$ 187,243,090</u>	<u>\$ 13,057,598</u>	<u>\$ 2,216,937</u>	<u>\$ 198,083,751</u>	<u>\$ 8,388,625</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Long-Term Liabilities - Continued**

Bonds Payable - University

Over the past 14 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 1.89% due to the November 2019 refunding by the MSCBA. The outstanding balance of this obligation including unamortized bond premium was \$1,155,320 and \$1,248,368 at June 30, 2020 and 2019, 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 1.95% due to the November 2019 refunding by the MSCBA. The outstanding balance of this obligation including unamortized bond premium was \$1,507,593 and \$1,621,503 at June 30, 2020 and 2019, 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 \$28,600 and \$42,900 at June 30, 2020 and 2019, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **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 \$119,409 and \$136,468 at June 30, 2020 and 2019, 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. At the issuance of this debt, 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 and has an annual coupon rate of approximately 1.95% due to the November 2019 refunding by the MSCBA. The outstanding balance of this obligation including unamortized bond premium was \$12,350,445 and \$13,097,469 at June 30, 2020 and 2019, respectively.

A debt service reserve remains for the 2005 and 2006 bonds in the amount of \$66,505 and \$245,737, respectively, and 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 \$16,466,881 and \$17,387,404 at June 30, 2020 and 2019, respectively. A debt service reserve remains for the 2014 bonds in the amount of \$1,161,098.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **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 \$1,060,610 and \$1,077,242 at June 30, 2020 and 2019, 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 \$5,135,855 and \$5,489,583 at June 30, 2020 and 2019, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **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 \$748,564 and \$764,593 as of June 30, 2020 and 2019, 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, 2020 and 2019.

Bond Payable Maturities

Maturities of the bonds payable subsequent to June 30, 2020 are as follows:

Years Ending June 30,	Principal	Amortization of Premium	Interest	Total
2021	\$ 2,326,434	\$ 221,160	\$ 1,587,631	\$ 4,135,225
2022	2,418,915	221,160	1,369,677	4,009,752
2023	2,513,268	117,158	1,220,835	3,851,261
2024	2,612,758	117,158	1,136,147	3,866,063
2025	2,685,723	117,158	1,046,761	3,849,642
2026-2030	12,224,597	585,776	3,809,331	16,619,704
2031-2035	9,719,461	354,740	1,411,689	11,485,890
2036-2040	1,684,470	8,145	258,367	1,950,982
2041-2045	447,162	8,145	103,254	558,561
2046-2048	185,000	4,889	16,875	206,764
Total	<u>\$ 36,817,788</u>	<u>\$ 1,755,489</u>	<u>\$ 11,960,567</u>	<u>\$ 50,533,844</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **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 payments of \$127,051 which includes principal and interest, has an average interest rate of 5.1% and is payable through June 2022.

During July of 2019, a note payable was acquired for \$325,010 to purchase computer equipment. The note payable is for five years, requires annual payments of \$73,540 which includes principal and interest, has an average interest rate of 6.6% and is payable through June of 2024.

Maturities of the notes payable subsequent to June 30, 2020 are as follows:

Years Ending June 30,	Principal	Interest
2021	\$ 272,508	\$ 44,545
2022	181,668	18,923
2023	64,739	8,801
2024	68,998	4,541
Total	<u>\$ 587,913</u>	<u>\$ 76,810</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Long-Term Liabilities – Continued**

Long-term Liabilities - Assistance Corporation

Long-term liabilities for the Assistance Corporation at June 30, 2020 consisted of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-Current Portion
Notes Payable	\$ 1,120,663	\$ -	\$ 27,388	\$ 1,093,275	\$ 28,844	\$ 1,064,431
Bonds payable	620,517	-	620,517	-	-	-
Other non-current	187,398	86,613	42,203	231,808	121,884	109,924
Total	\$ 1,928,578	\$ 86,613	\$ 690,108	\$ 1,325,083	\$ 150,728	\$ 1,174,355

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	\$ 2,518,321	\$ 168,913	\$ 758,656	\$ 1,928,578	\$ 452,701	\$ 1,475,877

Notes Payable Assistance Corporation

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.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Long-Term Liabilities – Continued**

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

Years Ending June 30,	Principal	Interest
2021	\$ 28,844	\$ 50,654
2022	30,226	49,272
2023	1,034,204	12,193
Total	<u>\$ 1,093,274</u>	<u>\$ 112,119</u>

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. During the year ending June 30, 2020, the bond was paid off.

Unearned Revenue Assistance Corporation

The balance of this account represents prepayment of rent by the University for the use of two buildings with lease terms that expire in August 2020 and August 2023. The lease expiring in August will be renewed, but, no rental income will be charged to the University. Rental income associated with this lease during the year ending June 30, 2020 was \$552,000.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **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.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **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 \$7,028,320, \$8,671,164 and \$8,336,988, for the years ended June 30, 2020, 2019 and 2018, 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 14.08%, 12.06% and 11.78% of annual covered payroll for the fiscal years ended June 30, 2020, 2019, and 2018, respectively. The University contributed \$2,518,943, \$2,764,339, and \$3,117,853, for the fiscal years ended June 30, 2020, 2019 and 2018, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 74%, 68%, and 38% of total related payroll for the fiscal years ended June 30, 2020, 2019 and 2018, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **Pensions - Continued**

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

At June 30, 2020 and 2019, the University reported a liability of \$40,623,739 and \$45,107,543, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2020, the reporting date, was measured as of June 30, 2019, 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, 2019 rolled forward to June 30, 2019. 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 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 2020 and 2019. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2020 and 2019 relative to total contributions of all participating employers for the fiscal year. At June 30, 2020 and 2019, the University's proportion was 0.278% and 0.341% and, respectively.

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

Notes to the Financial Statements - Continued

June 30, 20120 and 2019

Note 13 - **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, 2020 and 2019, the University recognized pension expense of \$3,122,843 and \$3,754,764, respectively. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

	<u>2020</u>	<u>2019</u>
<u>Deferred Outflows of Resources Related to Pension</u>		
Difference between expected and actual experience	\$ 1,349,123	\$ 1,430,429
Change in plan actuarial assumptions, net	3,011,209	4,571,369
Changes in proportion from Commonwealth	71,722	121,654
Changes in proportion due to internal allocation	1,049,337	2,869,075
Contributions subsequent to the measurement date	<u>2,518,943</u>	<u>2,764,339</u>
Total deferred outflows related to pension	<u>\$ 8,000,334</u>	<u>\$11,756,866</u>
	<u>2020</u>	<u>2019</u>
<u>Deferred Inflows of Resources Related to Pension</u>		
Difference between expected and actual experience	\$ 528,333	\$ 919,294
Net differences between projected and actual earnings on pension plan investments	605,887	1,567,892
Changes in proportion from Commonwealth	2,064	8,574
Changes in proportion due to internal allocation	<u>7,937,941</u>	<u>2,728,433</u>
Total deferred inflows related to pension	<u>\$ 9,074,225</u>	<u>\$ 5,224,193</u>

The University's contributions of \$2,518,943 and \$2,764,339 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.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **Pensions - Continued**

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

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	\$ 69,176
2021	(1,516,416)
2022	(914,589)
2023	(834,028)
2024	<u>(396,977)</u>
	<u>\$ (3,592,834)</u>

Actuarial Assumptions

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

Measurement date	June 30, 2019	June 30, 2018
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	4.00% to 9.00%
Investment rate of return	7.25%	7.35%
Interest rate credited to annuity savings fund	3.50%	3.50%

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **Pensions - Continued**

Actuarial Assumptions- continued

For measurement dates June 30, 2019 and 2018, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females.
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 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 2020 pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 2019 and rolled forward to June 30, 2019. 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.

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:

Asset Class	2019		2018	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	39%	4.90%	39%	5.00%
Core Fixed Income	15%	1.30%	12%	0.90%
Private Equity	13%	8.20%	12%	6.60%
Real Estate	10%	3.60%	10%	3.80%
Portfolio Completion Strategies	11%	3.90%	13%	3.70%
Value Added Fixed Income	8%	4.70%	10%	3.80%
Timber/Natural Resources	4%	4.10%	4%	3.40%
	100%		100%	

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **Pensions - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.35% at June 30, 2020 and 2019, 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 plan's 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,:

2020		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
6.25%	7.25%	8.25%
\$ 54,071,527	\$40,623,739	\$ 29,133,268
2019		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
6.35%	7.35%	8.35%
\$ 60,797,427	\$45,107,543	\$ 31,701,141

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated)**

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.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 14 - **Other Post-Employment Benefits (Restated) - 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, 2020 and 2019, and as of the valuation date (January 1, 2019 and 2018), participants contributed 10% to 20%, respectively, 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.

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 7.29% and 8.79% of annual covered payroll for the fiscal years ended June 30, 2020 and 2019, respectively. The University contributed \$1,304,875 and \$2,015,741 for the fiscal years ended June 30, 2020 and 2019, 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, 2020 and 2019, the University reported a liability of \$76,582,635 and \$98,703,864 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, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 and 2018, respectively. 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 2019 and 2018. The University's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the University's proportion was 0.439% and 0.531%, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated) - Continued**

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

For the years ended June 30, 2020 and 2019, the University recognized OPEB expense of \$1,092,799 and \$5,887,983, respectively. The University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

	<u>2020</u>	<u>(Restated) 2019</u>
<u>Deferred Outflows of Resources Related to OPEB</u>		
Contributions subsequent to the measurement date	\$ 1,304,875	\$ 2,015,741
Changes in OPEB plan actuarial assumptions	58,927	94,539
Differences between expected and actual experience	3,071,321	962,317
Changes in the proportion from Commonwealth	186,733	254,622
Changes in the proportion due to internal allocation	<u>9,356,981</u>	<u>12,289,512</u>
Total deferred outflows related to OPEB	<u>\$ 13,978,837</u>	<u>\$ 15,616,731</u>
	<u>2020</u>	<u>(Restated) 2019</u>
<u>Deferred Inflows of Resources Related to OPEB</u>		
Net differences between projected and actual earnings on OPEB plan investments	\$ 35,222	\$ 197,839
Differences between expected and actual experience	98,070	169,111
Changes in proportion due to internal allocations	18,620,429	-
Changes in OPEB plan actuarial assumptions	<u>11,516,060</u>	<u>8,326,697</u>
Total deferred inflows related to OPEB	<u>\$ 30,269,781</u>	<u>\$ 8,693,647</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated) - Continued**

Contributions

The University's contributions of \$1,304,875 and \$2,015,741 made during the fiscal year 2020 and 2019, 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 of resources and deferred inflows of resources related to OPEB will be recognized as increases (decreases) in OPEB expense as follows:

Years Ending <u>June 30,</u>	
2021	\$ (4,623,240)
2022	(4,623,240)
2023	(4,218,917)
2024	(2,846,517)
2025	<u>(1,283,905)</u>
	<u>\$ (17,595,819)</u>

Actuarial Assumptions

The total OPEB liability for 2020 and 2019 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2019	June 30, 2018
Inflation	2.50%	3.00%
Salary increases	4.0% per year	4.0% per year
Investment rate of return	7.25%, net of OPEB plan investment expense, including inflation	7.35%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	7.5%, decreasing by 0.5% each year to 5.5% in 2023 and 2024 and then decreasing 0.5% each year to an ultimate rate of 4.5% in 2026 for Medical; 5.0% for EGWP until 2025 then decreasing to 4.5% in 2026; 4.5% for administrative costs	8.0%, decreasing by 0.5% each year to 5.5% in 2023 and then decreasing .25% each year to an ultimate rate of 5.0% in 2025 for Medical; 5.0% for EGWP; 5.0% for administrative costs

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated) - 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	25.0%	85.0%
POS/PPO	60.0%	0.0%
HMO	15.0%	15.0%

The actuarial assumptions used in the January 1, 2019 and 2018 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2017 and 2016 through December 31, 2018 and 2017, depending upon the criteria being evaluated.

As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2018 and 2017 actuarial valuations to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated) - 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, 2020 and 2019, are the same as discussed in the pension footnote.

Discount Rate

The discount rate used to measure the total OPEB liability for 2020 and 2019 was 3.63% and 3.95%, respectively. These rates were based on a blend of the Bond Buyer Index rate (3.51% at June 30, 2019 and 3.87% as of June 30, 2018) as of the measurement date and the expected rate 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 2029 and 2025 for the fiscal years 2020 and 2018, respectively. Therefore, the long-term expected rate of return on OPEB plan investments is 7.25% and 7.35%, respectively per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated) - 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:

2020		
	Current	
1.00% Decrease	Discount Rate	1.00% Increase
2.95%	3.95%	4.95%
\$ 91,414,916	\$ 76,582,635	\$ 64,855,476
2019		
	Current	
1.00% Decrease	Discount Rate	1.00% Increase
2.95%	3.95%	4.95%
\$ 117,327,517	\$ 98,703,864	\$ 83,929,689

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Post-Employment Benefits (Restated) - 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:

2020		
	Current Healthcare Cost Trend Rate	
1.00% Decrease 2.95%	3.95%	1.00% Increase 4.95%
\$ 63,113,767	\$ 76,582,635	\$ 94,353,367
2019		
	Current Healthcare Cost Trend Rate	
1.00% Decrease 2.95%	3.95%	1.00% Increase 4.95%
\$ 83,495,018	\$ 98,703,864	\$ 117,930,360

- (A) - Current healthcare cost trend rate, as disclosed on page 83
 (B) - 1-percentage decrease in current healthcare cost trend rate, as disclosed on page 84
 (C) - 1-percentage increase in current healthcare cost trend rate, as disclosed on page 84

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 15 - **Deferred Inflows of Resources**

Service Concession Arrangements – Aramark

The University entered into a 10 year agreement with a new food service provider during fiscal 2019. 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.

During 2020 the University finalized the termination with its relationship with this food service provider. In accordance with this termination agreement the University recognized approximately \$1,800,000 due to Aramark as of June 30, 2020 as an accrued expense, including returning a negotiated amount of the payments described in the preceding paragraph.

Service Concession Arrangements - Other

Amounts related to agreements with vendors at June 30, 2020 and 2019 approximated \$72,000 and \$159,000, 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 at June 30, 2019. There were no capital assets related to service concession arrangements at June 30, 2020.

Note 16 - **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, 2020 are as follows:

Years Ending	Amount
June 30,	
2021	\$ 1,337,823
2022	909,123
2023	883,736
2024	809,734
2025	828,188
Thereafter	16,075,762
Total	\$ 20,844,366

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 16 - **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. During the year ended June 30, 2020, the University paid off this debt.

Note 17 - **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 2043. Future minimum payments related to these leases are as follows:

<u>Years Ending June 30,</u>	<u>Assistance Corporation</u>	<u>Outside Vendors</u>	<u>Total</u>
2021	\$ 1,080,740	\$ 343,228	\$ 1,423,968
2022	853,857	314,734	1,168,591
2023	871,550	298,663	1,170,213
2024	807,988	276,665	1,084,653
2025	828,188	182,000	1,010,188
Thereafter	<u>16,705,726</u>	<u>-</u>	<u>16,705,726</u>
Total	<u>\$21,148,049</u>	<u>\$1,415,290</u>	<u>\$22,563,339</u>

The rent expense on these leases amounted to approximately \$1,781,964 and \$1,807,673 for fiscal years 2020 and 2019, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 18 - **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:

	2020	2019
Restricted - nonexpendable:		
Scholarship and fellowship	\$1,030,316	\$ 971,914
Restricted - expendable:		
Scholarship, fellowship loans, research grants and contracts	\$6,728,700	\$5,659,632

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

Note 19 - **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 vast majority of higher educational institutions transitioned to distance learning during the 2020 spring semester due to the COVID-19 crisis. Many higher educational institutions have been served with a class action lawsuit due to this decision. The plaintiffs' claim that they have suffered academic harm after the 2020 spring semester transitioned to distance learning. Since the lawsuits are in the early stages, there has been no settlements or court decisions on this matter. The University has not been served with a lawsuit related to COVID-19. Management believes that any potential future adverse outcome is possible, but unlikely, and, would not be material to the University.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 19 - **Commitments and Contingencies - Continued**

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.

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 2020 and 2019, 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.

Note 20 - **Operating Expenses**

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

	2020	(Restated) 2019
	<u>2020</u>	<u>2019</u>
Compensation and benefits	\$ 124,105,960	\$ 128,639,966
Supplies and services	42,068,187	39,137,163
Utilities	3,780,214	4,213,442
Depreciation	9,276,033	9,215,510
Scholarships and fellowships	10,304,987	7,135,368
Total operating expenses	<u>\$ 189,535,381</u>	<u>\$ 188,341,449</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 21 - **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 36.62% in 2019 to 37.91% in 2020 which includes 1.73% and 2.43% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 12.06% in 2019 to 14.08% in 2020. 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, 2020, 2019, and 2018 were \$3,721,612, \$5,213,093, and \$5,963,606, 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, 2020 and 2019

Note 21 - **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, 2020 and 2019, 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, 2020 and 2019

Note 22 - **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:

	<u>2020</u>	<u>2019</u>
General Appropriations	\$ 49,644,426	\$ 48,609,850
Other Appropriations	277,341	952,332
Total Appropriations	<u>49,921,767</u>	<u>49,562,182</u>
 <u>Add:</u>		
Fringe benefits for benefited employees on the state payroll	17,710,582	17,116,681
 <u>Less:</u>		
Day school tuition remitted to the state and included in tuition and fee revenue	<u>(895,668)</u>	<u>(943,711)</u>
Total unrestricted appropriations	<u>\$ 66,736,681</u>	<u>\$ 65,735,152</u>

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

	<u>2020</u>	<u>2019</u>
Revenue per MMARS	\$ 134,088,518	\$ 123,528,274
Revenue per University	<u>134,088,518</u>	<u>123,528,274</u>
Difference	<u>-</u>	<u>-</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 23 - **Pass-Through Student Federal Loans**

The University distributed approximately \$41,288,000 and \$46,313,000 for the years ended June 30, 2020 and 2019, 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 24 - **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, 2020 and 2019 were \$14,527,457 and \$14,681,608, 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.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 25 – **Subsequent Events**

COVID-19

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the University's finances and operations cannot be determined.

As a result of the COVID-19 crisis and other factors, student enrollment has decreased for the 2020 fall semester. In addition, capacity of residence hall occupancy has been reduced to meet social distancing guidelines.

MSCBA Refunding Bond Issuance

On July 1, 2020 the MSCBA closed on Refunding Revenue Bonds Series 2020A for the purpose of providing budgetary relief to the University. The refunding included several of the University's bonds which will result in no principal payments due for fiscal year 2021 and an additional reduction in principal payments for fiscal year 2022. It is also anticipated the refunding will reduce fiscal year 2021's assessment due to the MSCBA for the University's use of the dormitories.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2019	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.278%	0.341%	0.347%	0.341%	0.389%	0.295%
Proportionate share of the collective net pension liability	\$ 40,623,739	\$ 45,107,543	\$ 44,564,278	\$ 46,973,396	\$ 44,297,126	\$ 21,889,032
College's covered payroll	\$ 22,921,548	\$ 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	177.23%	170.43%	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	66.28%	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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 2,518,943	\$ 2,764,339	\$ 3,117,853	\$ 2,716,688	\$ 2,446,187	\$ 2,436,331
Contributions in relation to the statutorily required contribution	<u>(2,518,943)</u>	<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>	<u>\$ -</u>
College's covered payroll	\$ 17,889,520	\$ 22,921,548	\$ 26,467,350	\$ 27,303,397	\$ 25,885,577	\$ 23,448,807
Contribution as a percentage of covered payroll	14.08%	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, 2020 and 2019

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

Measurement Date – June 30, 2019

The investment rate of return changed from 7.35% to 7.25%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

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 supernuation 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

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

Notes to the Required Supplementary Information - Pension (Unaudited)

June 30, 2020 and 2019

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

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.

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, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Valuation date	January 1, 2019	January 1, 2018	January 1, 2017	January 1, 2016
Proportion of the collective net OPEB liability	0.439%	0.531%	0.496%	0.441%
Proportionate share of the collective net OPEB liability	\$ 76,582,635	\$ 98,703,864	\$ 86,677,734	\$ 83,576,460
College's covered payroll	\$ 22,921,548	\$ 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	334.11%	372.93%	317.46%	322.87%
Plan fiduciary net position as a percentage of the total OPEB liability	6.96%	6.01%	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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 1,304,875	\$ 2,015,741	\$ 2,360,585	\$ 2,181,990
Contributions in relation to the statutorily required contribution	<u>(1,304,875)</u>	<u>(2,015,741)</u>	<u>(2,360,585)</u>	<u>(2,181,990)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 17,889,520	\$ 22,921,548	\$ 26,467,350	\$ 25,885,577
Contribution as a percentage of covered payroll	7.29%	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, 2020 and 2019

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2020

Assumptions:

Change in Inflation

The inflation rate decreased from 3.0% to 2.5%.

Change in Salary Assumptions

Salary decreased from 4.5% to 4.0%.

Change in Investment Rate

The investment rate of return decreased from 7.35% to 7.25%.

Change in Trend on Future Costs

The healthcare trend rate decreased from 8.0% to 7.5%, which affects the high-cost excise tax.

Change in Discount Rate

The discount rate was decreased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.51%) as of the measurement date as required by GASB Statement 74.

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.

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

**Notes to the Required Supplementary Information – OPEB (Unaudited)-
Continued**

June 30, 2020 and 2019

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

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, 2020 and 2019

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Assets:		
Cash and equivalents	\$ 945,829	\$ 1,285,324
Accounts receivable, net	<u>314,205</u>	<u>208,440</u>
Total Assets	<u><u>\$ 1,260,034</u></u>	<u><u>\$ 1,493,764</u></u>
	<u>Liabilities and Net Position</u>	
Liabilities:		
Accounts payable	\$ 230,712	\$ 115,051
Accrued payroll and fringe benefits	65,172	108,950
Accrued compensated absences	<u>241,489</u>	<u>301,058</u>
Total Liabilities	537,373	525,059
Net Position	<u>722,661</u>	<u>968,705</u>
Total Liabilities and Net Position	<u><u>\$ 1,260,034</u></u>	<u><u>\$ 1,493,764</u></u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Student fees	\$ 14,528,350	\$ 19,122,363
Less: scholarships and fellowships	(1,899,993)	(1,964,365)
Commissions	47,560	52,791
Rentals	199,870	258,026
State grant	36,000	-
	<u>12,911,787</u>	<u>17,468,815</u>
Total Revenues		
Expenses:		
Regular employee compensation	1,916,073	2,170,128
Regular employee related expenses	323	109
Special employee compensation	578,281	747,517
Fringe benefits	919,699	742,475
Administrative	20,668	42,855
Facility operational	85,670	118,048
Energy and space rental	1,441,965	1,580,547
Operational services	66,212	58,223
Equipment purchase	6,647	18,975
Equipment maintenance	781,464	707,094
Loans and special payments	12,421,633	12,548,745
Information technology	9,128	17,950
	<u>18,247,763</u>	<u>18,752,666</u>
Total Expenses		
Excess of Expenses over Revenues Before CARES and Transfers	(5,335,976)	(1,283,851)
CARES funding	3,117,250	-
Net Transfers	1,972,682	776,605
	<u>(246,044)</u>	<u>(507,246)</u>
Total Increase (Decrease) in Net Position		
Net Position, Beginning of Year	<u>968,705</u>	<u>1,475,951</u>
Net Position, End of Year	<u>\$ 722,661</u>	<u>\$ 968,705</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, 2020 and 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 October 26, 2020.

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") as a basis for designing 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.

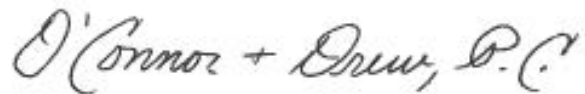
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

October 26, 2020