

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

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

June 30, 2013 and 2012

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

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

June 30, 2013

C O N T E N T S

Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-13
Financial Statements:	
Statements of Net Position	14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16
Combining Statements of Net Position	17
Combining Statements of Revenues, Expenses and Changes in Net Position	18
Notes to the Financial Statements	19-52
Supplemental Information:	
Schedules of Net Assets - Dormitory Trust Fund Report (Unaudited)	53
Schedules of Revenues, Expenses, and Changes in Net Assets - Dormitory Trust Fund Report (Unaudited)	54
Additional Report:	
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>	55-56



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Salem State University (an agency of the Commonwealth of Massachusetts) (the "University") which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements. We also audited the financial statements of Salem State University Assistance Corporation, Inc. (the "Assistance Corp.") as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended. We also audited the financial statements of Salem State University Foundation, Inc. (the "Foundation") as of June 30, 2013 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended. We did not audit the financial statements of the Foundation for the year ended June 30, 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Salem State University as of June 30, 2013 and 2012, and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-13 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 Schedules

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013, on our consideration of Salem State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Salem State University's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 8, 2013

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

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2013 and 2012

I. Overview

We offer readers of Salem State University's (the "University") financial statements this narrative overview and analysis of the financial activities of the University for fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and related footnotes.

Salem State University, founded in 1854, is one of the largest of Massachusetts' nine state universities. The campus consists of 112 acres and thirty-seven buildings on five sites: North Campus, Central Campus, South Campus, Cat Cove and the O'Keefe Athletic Complex. Today the University is a comprehensive institution of academic strength offering high quality, balanced education at the undergraduate and graduate levels. The undergraduate schools or colleges offer the following degrees: Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Liberal Studies, Bachelor of Science, Bachelor of Science in Business Administration, Bachelor of Science in Nursing and Bachelor of Social Work. The curriculum spans the arts, sciences, and professional programs, with twenty-nine baccalaureate majors in thirty academic departments and seventy-three minor programs. At the graduate level, a variety of study opportunities are available leading to the following degrees in a range of subject areas in the Arts and Sciences, Education, Business Administration, Social Work, Nursing and Occupational Therapy: Master of Arts, Master of Arts/Master of Arts in Teaching, Master of Arts in Teaching, Master of Science, Master of Business Administration, Master of Science in Nursing, Master of Social Work, and the Certificate of Advanced Graduate Study in Education, as well as offering a diversity of graduate certificate and licensure-only programs in Education, Nursing, Business Administration and the Arts and Sciences. In addition to credit offerings, there are several non-credit special programs, institutes, and life enrichment and career development offerings at both on and off-campus sites. The undergraduate level has approximately 6,900 and the graduate level has approximately 1,200 annual FTE enrollments. The University is accredited by the New England Association of Schools and Colleges (NEASC). In addition, many of the University's programs are accredited by program-specific accrediting bodies.

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

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

I. Overview - Continued

In accordance with Governmental Accounting Standards Board (GASB) requirements, we have prepared financial statements for the University that shows the Assistance Corporation and Foundation as component units.

II. Significant Accomplishments for FY-2013

Completion of Frederick Berry Library and Learning Commons

During FY-2011 construction of the new Library/Learning Commons was begun by the Division of Capital Asset Management and Maintenance (DCAMM) which continued through 2013. In July, 2013 the university received approval for occupancy and began moving material and personnel into the facility in anticipation of the September scheduled opening. Over fiscal years 2011 thru 2013 cumulative funding of \$52.4 million has been reflected in the Capital Grants line on the Statement of Revenue and Expense toward the \$74 million dollar project budget. The balance of project funding will be shown in next year's financials.

Substantial Completion for the Gasset Fitness and Recreation Center

In January, 2012 the Massachusetts State College Building Authority (MSCBA) issued bonds on behalf of the University in the amount of \$16 million for the construction of the Gasset Fitness and Recreation Center at the O'Keefe Athletic Complex. Site preparation began in August, 2012. and continued through the summer of 2013. The facility will open in October, 2013.

Strategic Plan and Campus Master Vision Plan

In June, the University Board of Trustees approved a new Strategic Plan. This plan will focus on three essential goals for the University: one, providing distinguished academic programs; two, advancing students' intellectual, personal and professional growth; and three, promoting civic engagement, social justice and connection to place. Also, overview and detailed discussions occurred with the campus community and the Board of Trustees on the campus Master Vision Plan providing insight into this very important campus planning tool. In October, final approval for the University Master Vision Plan will be presented to the Board. Both these plans will provide key benchmarks and guidelines as the University develops over the near future.

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

II. Significant Accomplishments for FY-2013 - Continued

Comprehensive Capital Campaign

During FY-2013, the campaign raised a total of \$2.9 million for the year exceeding its target by \$600 thousand. To date the campaign has raised over \$12 million toward its goal of \$25 million.

Increase in Investment Income

As reflected in the Statement of Revenue and Expenses, the market value for the University's investment portfolio generated gains and income totaling almost \$1.3 million over FY-2012 for this non-operating revenue item. It should be noted that such non-operating revenues were not used for any operating purposes. On a related note, the Foundation recognized similar asset appreciation of almost \$1.7 million for the year compared to FY-2012.

III. Ratio Analysis

Ratio analysis can be a management tool to indicate 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. It should be noted that ratios are most 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. In addition, there may be programmatic or strategic initiatives undertaken by the institution that may cause a particular ratio to move in a contrary or unfavorable manner. In short, ratios become more useful by looking at them over time. Finally, budget considerations and appropriation levels must be factored into the discussion to determine if such constraints affect performance indicators.

Summary of Financial Ratios

<u>Ratios</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Primary	13.2%	12.1%	14.4	11.1%
Viability	80.8%	71.2%	234.8%	162.9%
Return on Net Position	23.1%	20.5%	25.2%	5.3%
Net Operating Revenues	0.0%	-1.9%	7.4%	1.8%
Cash Ratio	126.6%	132.4%	147.0%	130.2%
Debt Service Covenant Ratio	126.8%	125.8%	144.1%	112.3%

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

III. Ratio Analysis - Continued

Comments on Ratio Trends

Primary - This ratio provides a snapshot of a university's financial strength and flexibility by indicating how long a university can operate using expendable reserves without relying on additional new assets generated by operation. The level experienced in 2013 is approximately equal to the average of the three prior fiscal years due to an increase in the unrestricted (i.e. expendable) portion of this ratio.

Viability - This ratio measures a university's management of resources, including debt, and the availability of expendable net assets (cash and other liquid assets) to pay off long term debt. A ratio of 100% or greater indicates a university has reasonable expendable net assets to satisfy debt requirements. Similar to the Primary ratio above, this improved slightly in FY-2013 due to an improvement in the unrestricted (i.e. expendable) portion of this ratio.

Return on Net Position – This ratio measures asset performance and management. By measuring total economic return, this ratio indicates whether a university's resources are growing, and if the university is better off financially than in previous years. The trend continued in FY-2013 to show a positive financial condition reflected in the eleventh consecutive year that the University has operated with a positive return on net position.

Net Operating Revenues - This ratio measures operating results. It indicates whether total operating activities produced a surplus or deficit and answers the question, "Did the University live within its means during a fiscal year?" The very slight negative calculation (less than 0.011 % rounds to 0.0%) is driven by non-cash financial adjustments such as investment income or depreciation. The actual performance for cash operating accounts was positive for the year with a favorable \$50 thousand result.

Cash Ratio – This is the most conservative liquidity ratio. The cash ratio is an indication of a university's ability to pay off its current liabilities if for some reason immediate payment were demanded. Generally, a university would strive to have a 100% figure. For FY-2013, this ratio continues to exceed this desired goal.

Debt Service Covenant - This figure reflects the debt service covenants established by TD Bank for the Weir Property acquisition. The required target per terms of the bond requires this coverage to be 101.25% for the University. For FY-2013, the University significantly exceeded its required obligation.

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

IV. Statement of Net Position Analysis

The Statement of Net Position (Page 14) presents information on all of the University's assets and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the University's financial position is improving or deteriorating. For FY- 2013, assets exceeded liabilities and deferred inflows of resources by \$130.5 million. By far the largest portion of the University's net position (85% of total Net Assets) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt, including capital leases, used to acquire those assets. The University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A summarized analysis of this statement shown in millions (rounded):

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>
Assets			
Current	\$ 47.1	\$ 56.6	\$ - 9.5
Long Term	<u>134.0</u>	<u>99.3</u>	<u>34.7</u>
Total Assets	<u>181.1</u>	155.9	25.2
Liabilities			
Current	\$ 23.4	\$ 22.2	\$ 1.2
Long Term	<u>26.3</u>	<u>26.7</u>	<u>-0.4</u>
Total Liabilities	<u>49.7</u>	48.9	0.8
Deferred Inflows of Resources	<u>\$ 0.9</u>	<u>\$ 1.1</u>	<u>\$ -0.2</u>
Net Position			
Invested in Plant	\$ 111.5	\$ 88.6	\$ 22.9
Restricted	4.2	4.0	0.2
Unrestricted	<u>14.8</u>	<u>13.3</u>	<u>1.5</u>
Total Net Position	<u>130.5</u>	105.9	24.6
Total Liabilities and Net Position	<u>\$ 181.1</u>	<u>\$ 155.9</u>	<u>\$ 25.2</u>

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

V. Statement of Revenues and Expenses Analysis

The Statements of Revenues, Expenses and Changes in Net Position (Page 15) present information showing how the University's net position changed during the past two 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 related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows in future fiscal periods (e.g. accrued compensated absences).

A summarized analysis of this statement shown in millions (rounded):

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>
Revenues			
Tuition and Fees, net of scholarships	\$ 53.9	\$ 52.1	\$ 1.8
Federal, State, Private Grants	18.5	18.6	-0.1
Sales and Services	3.0	3.3	-0.3
Auxiliary and Other	15.4	14.8	0.6
Total Operating Revenues	<u>\$ 90.8</u>	<u>\$ 88.8</u>	<u>\$ 2.0</u>
Expenses			
Compensation and benefits	\$ 96.6	\$ 94.1	\$ 2.5
Supplies and Services	29.3	30.3	-1.0
Utilities	3.5	3.3	0.2
Depreciation and Amortization	5.0	4.6	0.4
Scholarships & Fellowships	5.7	5.4	0.3
Operating Expense	<u>\$ 140.1</u>	<u>\$ 137.7</u>	<u>\$ 2.4</u>
Total Non-Operating Revenues, Net	49.1	46.3	2.8
Capital Grants	24.7	20.6	4.1
Increase in Net Position	<u>\$ 24.5</u>	<u>\$ 18.0</u>	<u>\$ 6.5</u>

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

Highlights for Revenues

An increase of total operating revenues of \$2.0 million resulted from the following increases and decreases:

- Tuition and Fees: gross tuition and fees increased by nearly \$1.8 million (3.3 %) primarily attributable to fee increases approved by the Board of Trustees of approximately 5%. Last year's trends continued with slight increases in Day Enrollment and declines in Continuing Education and the Graduate Studies
- Federal, State and Private Grants: revenues increased by \$1.0 million, represented by an increase of \$336 thousand in Federal and an increase of \$723 thousand in State awards, offset slightly by a decrease of \$49 thousand in private awards.
- Federal Award (ARRA): This represents a decline of \$1.1 million as the Federal stimulus plan has ended after FY-2012. During the three year period of stimulus funding (FY2010-FY2012) the University received \$14.2 million in ARRA funds, used mostly on capital improvements.
- Sales & Services of Educational Departments- revenues decreased by almost \$250 thousand almost all of which was attributable to a decline in ticket sales.
- Auxiliary Enterprises- revenues increased by almost \$700 thousand attributable due to increased dormitory room rates.
- Other Operating Revenues: decreases here totaled \$160 thousand primarily due to fluctuations experienced in FY-2012 where we received a higher level of recoveries than prior years for one time refunds, rebates, or reimbursements.

The increase of approximately \$6.9 million in non-operating revenues and capital grants resulted from the following:

- Non-Operating Revenues: This category increased by \$2.8 million, of which almost \$1.3 million was attributable to improved investment revenue and another \$180 thousand was due to savings on interest expense. The State appropriation was increased by over \$2.6 million but a drop in the fringe benefit rate offset this and the net growth in state assistance was just under \$1.3 million. Finally, gift income to the University was up by \$103 thousand.
- Capital Grants: This increased by over \$4.0 million over FY-2012 solely due to the continuing construction of the Library/Learning Commons and other DCAMM projects.

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

Highlights for Expenses

Operating Expenses increased by almost \$2.4 million and the key changes were as follows:

- Compensation and Benefits: This increased by \$ 2.5 million primarily driven by contractual salary increases partly offset by savings in benefits due to rate decreases.
- Supplies and Services: expenses decreased by \$957 thousand primarily due to transferring approximately \$800 thousand in small operating improvements in facilities to capital accounts. Other operating expense categories decreased slightly.
- Utilities: utility costs were only up \$93 thousand due to continued conservation efforts offsetting any weather fluctuations.
- Depreciation and Amortization: This increased \$438 thousand continuing a trend as items completed in FY2012 received a full year's depreciation for the first time. This will continue as new projects are completed in FY2014.
- Scholarships: Scholarship expense funding was up \$300 thousand, primarily the result of Board approved increases. This category should also be reviewed in combination with the increase of \$1.5 million shown as a tuition offset to fully appreciate the increase of \$1.8 million in student assistance.

VI. Investments in Capital Assets

The University's investment in capital assets as of June 30, 2013 amounted to \$130.0 million net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings, building and leasehold improvements, infrastructure, construction-in-progress, vehicles, and equipment. Capital assets are controlled but not owned by the University. The University defines capital assets as assets with an initial, individual cost of more than \$50,000-\$100,000 (depending upon asset class) in accordance with the Commonwealth's capitalization policy. Assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

VI. Investments in Capital Assets - Continued

As of June 30, 2013 and 2012, the University's capital assets are summarized as follows (rounded to millions):

	<u>2013</u>	<u>2012</u>
Land	\$ 2.5	\$ 2.5
Construction-in-Progress	71.0	34.7
Building (including improvements)	98.5	96.5
Equipment	26.6	25.3
Infrastructure	<u>1.6</u>	<u>1.6</u>
Total	\$ 200.2	\$ 160.6
Less: accumulated depreciation	<u>(70.2)</u>	<u>(65.1)</u>
Total capital assets, net of depreciation	\$ <u>130.0</u>	\$ <u>95.5</u>

For Fiscal Year 2013, total capital assets went up \$21.1 million and can be summarized as follows (in millions):

Library/Learning Commons (from DCAM)	\$ 24.6
Fitness Center (from MSCBA)	13.0
Facilities Improvements in laboratories and other space	1.2
Educational and Business Process Improvements	<u>0.7</u>
Total Additions to Capital Assets	\$ 39.5
Less: Additional Depreciation and Amortization	<u>(5.0)</u>
Total Increase to Capital Assets (Net of Depreciation)	\$ <u>34.5</u>

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

VII. Future Initiatives for FY - 2014 and Beyond

Future Bond Funding for Other Capital Projects

Over Fall 2014 appropriate analysis, review, and approvals will be effected in anticipation of a potential bond offering on behalf of the University from the MSCBA. At present the estimated portion for the University will exceed \$80 million and is scheduled to go to market in early calendar 2014. At this juncture the projects anticipated to be included in this offering are: a new residence hall located on the Central Campus in line with the University's strategic goal of 50% residency population, modernization of the Main Stage Theater to address theater and performing art programming needs; necessary temporary relocation of the Public Safety building to make room for the new residence hall, demolition and temporary parking on the former Weir Property to offset displaced parking due to the residence hall construction; and renovation and development of a one stop student service center located in the former interim library space on Central Campus. Each of these projects has been identified as crucial in meeting some of the goals outlined in the University's strategic plan and in the campus master vision plan.

Core Curriculum Changes

After three years of intense work by many of the campus community, the Presidents' Advisory Committee on Core Curriculum recommended a smaller and more flexible liberal arts focused, general curriculum that will serve the needs of all our students. This new curriculum will create a more inclusive general education program and when combined with a chosen academic area of study, will equip each of our students with the knowledge and skills to reach their educational and professional goals. Academic departments across the campus are working toward a Fall 2014 implementation.

One Stop Service Center

During 2014, University and outside personnel will be developing facility plans and operational policies and procedures for a new One Stop Service Center to be housed in the former interim library space on Central Campus. The Center is scheduled to open in Fall 2014 and will include the Registrar, Financial Aid, Bursar, Clipper Card offices and other student business functions.

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

Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2013 and 2012

VII. Future Initiatives for FY - 2014 and Beyond - Continued

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 of Finance & Facilities, 352 Lafayette Street, Salem, Massachusetts 01970-5353.

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

Statements of Net Position

June 30,

	<u>Assets</u>		<u>Component Units</u>	
	Primary Government	Primary Government	Component Units	Component Units
	2013 <u>University</u>	2012 <u>University</u>	2013 <u>Combined</u>	2012 <u>Combined</u>
Current Assets:				
Cash and equivalents	\$ 19,234,077	\$ 13,892,125	\$ 958,623	\$ 878,608
Restricted cash and equivalents	5,166,953	9,887,126	879,104	796,793
Deposits held by State Treasurer	3,517,158	4,463,429	-	-
Cash held by State Treasurer	1,954,054	1,366,155	-	-
Deposits held by Massachusetts School College Building Authority	3,032,909	13,800,136	-	-
Investments	10,679,856	9,564,045	-	-
Accounts, grants and other receivable, net	3,145,618	3,272,057	33,199	31,703
Pledges receivable, net	-	-	1,413,669	2,301,382
Loan receivable - current portion	299,161	294,709	-	-
Other current assets	99,819	25,896	21,025	46,130
Total Current Assets	47,129,605	56,565,678	3,305,620	4,054,616
Non-Current Assets:				
Investments	495,615	451,244	24,069,090	20,183,589
Loan receivable, net of current portion	2,058,408	2,028,283	-	-
Pledges receivable, net	-	-	2,408,239	2,874,142
Capital assets, net	130,017,094	95,467,459	10,309,804	10,454,162
Debt service reserve	1,258,603	1,258,603	-	-
Other non-current assets, net	151,344	161,222	185,580	163,670
Total Non-Current Assets	133,981,064	99,366,811	36,972,713	33,675,563
Total Assets	\$ 181,110,669	\$ 155,932,489	\$ 40,278,333	\$ 37,730,179
	<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:				
Accounts payable and accrued expenses	\$ 3,194,136	\$ 2,877,534	\$ 291,728	\$ 255,827
Accrued payroll	9,352,006	9,213,393	-	-
Accrued compensated absences	5,568,812	5,138,540	-	-
Accrued workers' compensation	210,943	250,397	-	-
Unearned revenues	2,832,239	2,727,413	35,728	73,423
Current portion of note payable	-	-	30,354	43,842
Current portion of capital lease obligations	-	-	283,313	274,238
Current portion of bonds payable	765,093	401,655	-	-
Deposits	1,429,666	1,546,160	-	-
Other	16,497	33,445	-	-
Total Current Liabilities	23,369,392	22,188,537	641,123	647,330
Non-Current Liabilities:				
Accrued compensated absences	2,739,332	2,538,309	-	-
Accrued workers' compensation	765,644	549,595	-	-
Note payable	-	-	1,230,702	1,057,380
Long term portion of bond payable	20,501,349	21,264,880	3,225,859	3,663,207
Loans payable - Federal financial assistance programs	2,340,929	2,325,543	-	-
Other non-current liabilities	-	-	33,170	36,818
Total Non-Current Liabilities	26,347,254	26,678,327	4,489,731	4,757,405
Total Liabilities	49,716,646	48,866,864	5,130,854	5,404,735
Deferred Inflows of Resources	919,257	1,095,924	-	-
Net Position:				
Net investment in capital assets	111,449,069	88,675,838	5,682,909	5,578,828
Restricted:				
Nonexpendable	570,758	509,507	16,465,608	16,104,742
Expendable	3,673,519	3,440,971	12,304,494	10,051,164
Unrestricted	14,781,420	13,343,385	694,468	590,710
Total Net Position	130,474,766	105,969,701	35,147,479	32,325,444
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 181,110,669	\$ 155,932,489	\$ 40,278,333	\$ 37,730,179

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	<u>Primary Government</u>		<u>Component Units</u>	
	2013	2012	2013	2012
	<u>University</u>	<u>University</u>	<u>Combined</u>	<u>Combined</u>
Operating Revenues:				
Tuition and fees	\$ 68,139,932	\$ 64,923,087	\$ -	\$ -
Less: scholarships and fellowships	(14,284,108)	(12,790,362)	-	-
Net tuition and fees	<u>53,855,824</u>	<u>52,132,725</u>	-	-
Federal grants and contracts	13,227,539	12,891,534	-	-
Federal awards	-	1,051,167	-	-
State grants and contracts	5,065,564	4,342,199	-	-
Private grants and contracts	216,495	265,644	-	-
Gifts and contributions	-	-	2,540,103	7,087,102
Sales and services of educational departments	3,029,084	3,278,137	-	-
Auxiliary enterprises	14,932,182	14,232,877	1,120,811	1,119,892
Other operating revenues	<u>431,407</u>	<u>591,354</u>	<u>198,933</u>	<u>149,710</u>
Total Operating Revenues	<u>90,758,095</u>	<u>88,785,637</u>	<u>3,859,847</u>	<u>8,356,704</u>
Operating Expenses:				
Educational and general:				
Instruction	53,149,837	52,565,009	-	-
Public service	701,609	540,711	1,128,190	1,274,115
Academic support	13,928,122	13,467,766	-	-
Student services	13,921,343	13,236,351	-	-
Institutional support	22,726,470	21,644,215	409,315	319,132
Operation and maintenance of plant	10,804,483	11,567,157	-	-
Scholarships	5,726,894	5,416,160	259,600	246,106
Depreciation and amortization	5,003,990	4,566,292	235,870	222,551
Auxiliary enterprises	<u>14,098,860</u>	<u>14,693,102</u>	<u>854,446</u>	<u>797,068</u>
Total Operating Expenses	<u>140,061,608</u>	<u>137,696,763</u>	<u>2,887,421</u>	<u>2,858,972</u>
Net Operating Income (Loss)	<u>(49,303,513)</u>	<u>(48,911,126)</u>	<u>972,426</u>	<u>5,497,732</u>
Non-Operating Revenues (Expenses):				
State appropriations, net	46,914,521	45,657,065	162,402	175,184
Gifts	1,112,086	1,009,273	-	-
Investment income	1,441,453	165,022	1,867,756	174,792
Other Non-Operating Revenue	-	-	3,600	4,000
Interest expense	<u>(319,256)</u>	<u>(499,806)</u>	<u>(184,149)</u>	<u>(209,135)</u>
Net Non-Operating Revenues	<u>49,148,804</u>	<u>46,331,554</u>	<u>1,849,609</u>	<u>144,841</u>
Increase (Decrease) in Net Position Before Capital Grants	<u>(154,709)</u>	<u>(2,579,572)</u>	<u>2,822,035</u>	<u>5,642,573</u>
Capital grants	<u>24,659,774</u>	<u>20,582,245</u>	-	-
Total Increase in Net Position	<u>24,505,065</u>	<u>18,002,673</u>	<u>2,822,035</u>	<u>5,642,573</u>
Net Position, Beginning of Year	<u>105,969,701</u>	<u>87,967,028</u>	<u>32,325,444</u>	<u>26,682,871</u>
Net Position, End of Year	<u>\$ 130,474,766</u>	<u>\$ 105,969,701</u>	<u>\$ 35,147,479</u>	<u>\$ 32,325,444</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

	2013 <u>University</u>	2012 <u>University</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 54,312,254	\$ 52,736,530
Grants and contracts	18,539,465	18,216,825
Payments to suppliers and vendors	(33,155,767)	(34,651,536)
Payments to employees	(78,633,676)	(71,112,486)
Payments for benefits	(6,877,275)	(8,740,193)
Payments to students	(5,726,894)	(5,416,160)
Loans issued to students	(497,520)	(611,048)
Collection of loans to students	443,135	560,353
Auxiliary enterprises receipts	14,982,648	13,646,695
Sales and services of educational departments	2,994,590	3,330,551
Other	<u>254,740</u>	<u>610,323</u>
Net Cash Applied to Operating Activities	<u>(33,364,300)</u>	<u>(31,430,146)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	37,349,093	35,619,833
Tuition remitted to State	(511,398)	(923,449)
Student interest received	34,791	29,790
Gifts	<u>1,112,086</u>	<u>1,009,273</u>
Net Cash Provided by Non-Capital Financing Activities	<u>37,984,572</u>	<u>35,735,447</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(14,873,624)	(5,039,616)
Principal paid on capital leases and bonds payable	(400,093)	(354,183)
Interest paid on capital leases and bonds payable	(122,883)	(507,264)
Payments of financing fees	-	(104,350)
Proceeds from bond financing	<u>-</u>	<u>16,028,603</u>
Net Cash Provided by (Applied to) Capital Financing Activities	<u>(15,396,600)</u>	<u>10,023,190</u>
Cash Flows from Investing Activities:		
Interest on investments	324,248	(437,390)
Proceeds from sale of investments	3,740,349	8,185,790
Purchase of investments	<u>(3,792,089)</u>	<u>(8,746,419)</u>
Net Cash Provided by (Applied to) Investing Activities	<u>272,508</u>	<u>(998,019)</u>
Net Increase (Decrease) in Cash and Equivalents	(10,503,820)	13,330,472
Cash and Equivalents, Beginning of the Year	<u>43,408,971</u>	<u>30,078,499</u>
Cash and Equivalents, End of the Year (Note 15)	<u>\$ 32,905,151</u>	<u>\$ 43,408,971</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (49,303,513)	\$ (48,911,126)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation and amortization	5,003,990	4,566,292
Bad debts	(116,474)	340,492
Fringe benefits provided by State	10,076,826	10,960,681
Changes in assets and liabilities:		
Accounts receivable	240,253	(345,553)
Other non-current assets	1,354	-
Accounts payable and accrued liabilities	285,121	(1,623,319)
Accrued payroll and benefits	769,908	3,459,959
Other assets	(73,923)	114,642
Other liabilities	(16,948)	17,139
Loans to/from students	(42,559)	(62,078)
Deposits	(116,494)	57,985
Unearned revenues	<u>(71,841)</u>	<u>(5,260)</u>
Net Cash Applied to Operating Activities	<u>\$ (33,364,300)</u>	<u>\$ (31,430,146)</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, 2013

(with comparative totals for the year ended June 30, 2012)

	<u>Assets</u>			
	2013	2013	2013	2012
	<u>Foundation</u>	<u>Assistance Corp</u>	<u>Combined</u>	<u>Combined</u>
Current Assets:				
Cash and equivalents	\$ 732,872	\$ 225,751	\$ 958,623	\$ 878,608
Restricted cash and equivalents	879,104	-	879,104	796,793
Accounts, grants and other receivable, net	-	33,199	33,199	31,703
Pledges receivable	1,413,669	-	1,413,669	2,301,382
Other current assets	21,025	-	21,025	46,130
Total Current Assets	<u>3,046,670</u>	<u>258,950</u>	<u>3,305,620</u>	<u>4,054,616</u>
Non-Current Assets:				
Investments	24,069,090	-	24,069,090	20,183,589
Pledges receivable, net	2,408,239	-	2,408,239	2,874,142
Capital assets, net	10,339	10,299,465	10,309,804	10,454,162
Other non-current assets, net	-	185,580	185,580	163,670
Total Non-Current Assets	<u>26,487,668</u>	<u>10,485,045</u>	<u>36,972,713</u>	<u>33,675,563</u>
Total Assets	<u>\$ 29,534,338</u>	<u>\$ 10,743,995</u>	<u>\$ 40,278,333</u>	<u>\$ 37,730,179</u>
	<u>Liabilities and Net Position</u>			
Current Liabilities:				
Accounts payable and accrued expenses	\$ 238,819	\$ 52,909	\$ 291,728	\$ 255,827
Unearned revenues	35,728	-	35,728	73,423
Current portion of note payable	-	30,354	30,354	43,842
Current portion of bond payable	-	283,313	283,313	274,238
Total Current Liabilities	<u>274,547</u>	<u>366,576</u>	<u>641,123</u>	<u>647,330</u>
Non-Current Liabilities:				
Note payable less current portion	-	1,230,702	1,230,702	1,057,380
Bond payable less current portion	-	3,225,859	3,225,859	3,663,207
Other non-current liabilities	-	33,170	33,170	36,818
Total-Non Current Liabilities	<u>-</u>	<u>4,489,731</u>	<u>4,489,731</u>	<u>4,757,405</u>
Total Liabilities	<u>274,547</u>	<u>4,856,307</u>	<u>5,130,854</u>	<u>5,404,735</u>
Net Position:				
Net investment in capital assets	10,339	5,672,570	5,682,909	5,578,828
Restricted:				
Nonexpendable	16,465,608	-	16,465,608	16,104,742
Expendable	12,304,494	-	12,304,494	10,051,164
Unrestricted	479,350	215,118	694,468	590,710
Total Net Position	<u>29,259,791</u>	<u>5,887,688</u>	<u>35,147,479</u>	<u>32,325,444</u>
Total Liabilities and Net Position	<u>\$ 29,534,338</u>	<u>\$ 10,743,995</u>	<u>\$ 40,278,333</u>	<u>\$ 37,730,179</u>

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY

(an agency of the Commonwealth of Massachusetts)

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

For the Year Ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)

	<u>2013</u> <u>Foundation</u>	<u>2013</u> <u>Assistance Corp</u>	<u>2013</u> <u>Combined</u>	<u>2012</u> <u>Combined</u>
Operating Revenues:				
Gifts and contributions	\$ 2,540,103	\$ -	\$ 2,540,103	\$ 7,087,102
Auxiliary enterprises	-	1,120,811	1,120,811	1,119,892
Other operating revenues	-	198,933	198,933	149,710
Total Operating Revenues	<u>2,540,103</u>	<u>1,319,744</u>	<u>3,859,847</u>	<u>8,356,704</u>
Operating Expenses:				
Educational and general:				
Public service	1,128,190	-	1,128,190	1,274,115
Institutional support	409,315	-	409,315	319,132
Scholarships	259,600	-	259,600	246,106
Depreciation and amortization	-	235,870	235,870	222,551
Auxiliary enterprises	-	854,446	854,446	797,068
Total Operating Expenses	<u>1,797,105</u>	<u>1,090,316</u>	<u>2,887,421</u>	<u>2,858,972</u>
Net Operating Income	<u>742,998</u>	<u>229,428</u>	<u>972,426</u>	<u>5,497,732</u>
Non-Operating Revenues (Expenses):				
State appropriations, net	-	162,402	162,402	175,184
Investment income	1,867,529	227	1,867,756	174,792
Other non-operating revenue	-	3,600	3,600	4,000
Interest expense	-	(184,149)	(184,149)	(209,135)
Net Non-Operating Revenues	<u>1,867,529</u>	<u>(17,920)</u>	<u>1,849,609</u>	<u>144,841</u>
Total Increase in Net Position	<u>2,610,527</u>	<u>211,508</u>	<u>2,822,035</u>	<u>5,642,573</u>
Net Position, Beginning of Year	<u>26,649,264</u>	<u>5,676,180</u>	<u>32,325,444</u>	<u>26,682,871</u>
Net Position, End of Year	<u>\$ 29,259,791</u>	<u>\$ 5,887,688</u>	<u>\$ 35,147,479</u>	<u>\$ 32,325,444</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2013 and 2012

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

Organization

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

Basis of Presentation and Accounting

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

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

The Salem State University Foundation, Inc. (the “Foundation”), a component unit of the University, 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”), a component unit of the University, 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 Corporation to fulfill its mission.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

Basis of Presentation and Accounting - Continued

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

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

Basis of Presentation and Accounting - Continued

Net Position

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

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

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

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

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

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

Cash and Equivalents

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

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

Allowance for Doubtful Accounts

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

Investments

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

Capital Assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the Commonwealth owns all the assets.

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

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

Deposits Held by the Massachusetts State College Building Authority

Funds held by the Massachusetts State College Building Authority (MSCBA) are for ongoing projects.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2013 and 2012. Compensated sick leave represents 20% of amounts earned by those employees with ten or more years of State service at the end of each year. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

Deposits and Unearned Revenues

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

Student Fees

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

Tax Status

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

Use of Estimates

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

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

New Governmental Accounting Pronouncements

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator (SCAs) in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. The deferred inflows of resources reflected on the Statement of Net Position were reclassified from unearned revenues with the implementation of GASB 60.

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* is required for is required for periods beginning after December 15, 2011. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The implementation of GASB 63 changed the name of "Net Assets" to "Net Position" and creates the "deferred inflow" and "deferred outflow" categories on the Statement of Net Position.

GASB 65, *Items Previously Reported as Assets and Liabilities*, is required for periods beginning after December 15, 2012. Earlier application is encouraged. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of GASB 65 will require that the unamortized deferred financing costs are charged off against net position at July 1, 2013.

GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

New Governmental Accounting Pronouncements - Continued

other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management does not believe this Statement will have a material effect on the financial statements.

GASB 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*, is required for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a non-exchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Management does not believe this Statement will have a material effect on the financial statements.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

Note 2 - **Cash and Equivalents**

Custodial risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the University would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) and other third party insurance. The University's policy is to mitigate as much custodial risk associated with its cash assets as possible. Deposits in the bank in excess of the insured amounts are uninsured and uncollateralized. The University places funds with the Massachusetts Municipal Depository Trust (MMDT).

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

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

At June 30, 2013 and 2012 the carrying amounts of the University's deposits, net of deposits and disbursements in transit, were \$32,905,151 and \$43,408,971, respectively. Of the carrying amounts, \$18,661,536 and \$18,378,465 was held by the Massachusetts Municipal Depository Trust (MMDT) at June 30, 2013 and 2012, respectively.

At June 30, 2013 and 2012, the University had deposits of \$5,491,712 and \$5,480,756, respectively, held in a money market account which was insured by a third party up to a maximum of \$5.4 million.

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

Amounts remaining that may be exposed to custodial risk at June 30, 2012 and 2012 were \$533,831 and \$359,133, respectively, which are primarily maintained as part of the University's investment portfolio.

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

Accounts payable and accrued salaries to be funded by cash forwarded by the University to and held by the State Treasurer for payment of so-called 'non-appropriated' liabilities at June 30, 2013 and 2012 through MMARS were recorded in the sums of \$3,517,158 and \$4,463,429, respectively.

Accounts payable and accrued salaries to be funded by State appropriations at June 30, 2013 and 2012, were \$1,954,054 and \$1,366,155, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 4 - **Investments**

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2013 and 2012 the entire balance of investments were \$11,175,471 and \$10,015,289 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, 2013 and 2012, 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.

University

Investments of the University are stated at fair market value and consist of the following:

June 30, 2013
Investment Maturity in Years

Investment Type:

	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Debt securities	\$ 3,514,288	\$ 226,746	\$ 2,950,456	\$ -	\$ 337,086
Bond mutual funds	90,223	-	80,139	10,084	-
U.S. agencies	<u>127,513</u>	-	-	<u>127,513</u>	-
Subtotal	<u>3,732,024</u>	\$ <u>226,746</u>	\$ <u>3,030,595</u>	\$ <u>137,597</u>	\$ <u>337,086</u>
Equity securities	7,087,705				
Exchange traded funds	<u>355,742</u>				
Totals	<u>\$ 11,175,471</u>				

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 4 - **Investments - Continued**

University - Continued

The following table summarizes the quality ratings of the University's debt investments at June 30, 2013:

Quality Ratings

	<u>Related Debt Instruments</u>										
	<u>Fair Value</u>	<u>Baa1 MDYS</u>	<u>Baa3 MDYS</u>	<u>A1 MDYS</u>	<u>A2 MDYS</u>	<u>A3 MYDS</u>	<u>B2 MYDS</u>	<u>AA3 MDYS</u>	<u>AAA MDYS</u>	<u>AGCY MDYS</u>	<u>Unrated</u>
Debt securities	\$ 3,514,288	\$ 1,188,907	\$ 107,434	\$ 787,552	\$ 465,849	\$ 665,254	\$ -	\$ -	\$ -	\$ 299,292	\$ -
Bond mutual funds	90,223	63,553	-	-	10,084	16,586	-	-	-	-	-
U.S. agencies	<u>127,513</u>	-	-	-	-	-	-	-	-	<u>127,513</u>	-
Totals	<u>\$ 3,732,024</u>	<u>\$ 1,252,460</u>	<u>\$ 107,434</u>	<u>\$ 787,552</u>	<u>\$ 475,933</u>	<u>\$ 681,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,805</u>	<u>\$ -</u>

June 30, 2012

Investment Maturity in Years

Investment Type:

	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Debt securities	\$ 3,008,794	\$ -	\$ 2,801,660	\$ 207,134	\$ -
Bond mutual funds	4,537	-	1,675	2,862	-
U.S. agencies	<u>147,751</u>	<u>51,329</u>	<u>87,066</u>	<u>9,356</u>	-
Subtotal	<u>3,161,082</u>	<u>\$ 51,329</u>	<u>\$ 2,890,401</u>	<u>\$ 219,352</u>	<u>\$ -</u>
Equity securities	6,203,760				
Exchange traded funds	<u>650,447</u>				
Totals	<u>\$ 10,015,289</u>				

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 4 - **Investments - Continued**

University - Continued

The following table summarizes the quality ratings of the University's debt investments at June 30, 2012:

Quality Ratings

Related Debt Instruments

	<u>Fair Value</u>	<u>Baa1 MDYS</u>	<u>A1 MDYS</u>	<u>A2 MDYS</u>	<u>A3 MDYS</u>	<u>B2 MDYS</u>	<u>AA3 MDYS</u>	<u>Baa3 MDYS</u>	<u>AGCY MDYS</u>	<u>Unrated</u>
Debt securities	\$ 3,008,794	\$ 285,673	\$ 659,264	\$ 572,612	\$ 1,079,376	\$ -	\$ -	\$ 103,443	\$ 308,426	\$ -
Bond mutual funds	4,537	-	-	2,862	1,675	-	-	-	-	-
U.S. agencies	<u>147,751</u>	-	-	<u>9,356</u>	<u>7,853</u>	-	-	-	<u>130,542</u>	-
Totals	\$ <u>3,161,082</u>	\$ <u>285,673</u>	\$ <u>659,264</u>	\$ <u>584,830</u>	\$ <u>1,088,904</u>	\$ -	\$ -	\$ <u>103,443</u>	\$ <u>438,968</u>	\$ -

Foundation

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

	<u>2013</u>	<u>2012</u>
U.S. Government Obligations	\$ 659,315	\$ 676,867
Corporate Bonds	3,769,039	3,516,878
Money Market	3,068,847	1,796,846
Certificates of Deposit	241,601	916,586
Mutual Funds	7,718,849	6,917,909
Common Stock	7,140,377	5,327,948
State Municipal Bonds	1,470,562	1,030,055
Other	<u>500</u>	<u>500</u>
	<u>\$ 24,069,090</u>	<u>\$ 20,183,589</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 4 - **Investments - Continued**

University and Component Units

The following schedule summarizes the investment return in the statement of revenue and expenses for the University and its component units for the years ended June 30:

	<u>University</u>	<u>University</u>	<u>Component Units</u>	<u>Component Units</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Interest	\$ 333,012	\$ 348,162	\$ 426,646	\$ 351,731
Net realized and unrealized gains and losses	<u>1,108,441</u>	<u>(183,140)</u>	<u>1,441,110</u>	<u>(176,939)</u>
	\$ <u>1,441,453</u>	\$ <u>165,022</u>	\$ <u>1,867,756</u>	\$ <u>174,792</u>

Note 5 - **Accounts Receivable**

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

	<u>2013</u>	<u>2012</u>
Student accounts receivable	\$ 8,752,441	\$ 9,141,678
Grants receivable	730,758	821,587
Other	<u>523,760</u>	<u>452,229</u>
	<u>10,006,959</u>	10,415,494
Less: allowance for doubtful accounts	<u>(6,861,341)</u>	<u>(7,143,437)</u>
Total Accounts Receivable	\$ <u>3,145,618</u>	\$ <u>3,272,057</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 6 - **Pledges Receivable**

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

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 1,413,669	\$ 2,301,382
Receivable in one to five years	2,717,202	3,294,494
Receivable after five years	15,556	-
Less: Allowance for doubtful accounts	<u>(77,000)</u>	<u>(65,000)</u>
Net unconditional promises to give	4,069,427	5,530,876
Less: discount to net present value at 3%	<u>(247,519)</u>	<u>(355,352)</u>
Net contributions receivable	\$ <u>3,821,908</u>	\$ <u>5,175,524</u>

Note 7 - **Loans Receivable and Payable**

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

Amounts that would have to be repaid to the Federal government upon liquidation by the University at June 30, 2013 and 2012 are \$1,597,261 and \$1,587,695, respectively for Perkins and \$743,668 and \$737,848, respectively for NSL, and they are included as a non-current liability in the financial statements, aggregating \$2,340,929 and \$2,325,543 for 2013 and 2012, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 7 - **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 lack of collectability and have been accepted (assigned) by the Department of Education. Management closely monitors outstanding balances and assigns loans to the Department of Education based upon such factors as student payment history, current status of applicable students, and the results of collection efforts.

Loans receivable include the following at June 30:

	<u>2013</u>	<u>2012</u>
Perkins	\$ 1,556,977	\$ 1,604,157
Nursing	762,511	675,362
Other	<u>38,081</u>	<u>43,473</u>
Total loans receivable	2,357,569	2,322,992
Less: amount due in one year	<u>(299,161)</u>	<u>(294,709)</u>
Long-term Loans Receivable	\$ <u>2,058,408</u>	\$ <u>2,028,283</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 8 - **Capital Assets**

Capital asset activity for the University for the year ended June 30, 2013 is as follows:

	Estimated lives (in years)	Beginning balance	Additions	Reclassifications	Ending balance
Capital assets not depreciated					
Land	-	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in progress	-	<u>34,680,270</u>	<u>39,491,569</u>	<u>(3,199,264)</u>	<u>70,972,575</u>
Total not depreciated		<u>37,216,443</u>	<u>39,491,569</u>	<u>(3,199,264)</u>	<u>73,508,748</u>
Capital assets depreciated:					
Buildings, including improvements	40	96,510,664	-	1,954,422	98,465,086
Furnishings and equipment	3-10	25,266,944	53,532	1,244,842	26,565,318
Infrastructure	5	<u>1,638,552</u>	<u>-</u>	<u>-</u>	<u>1,638,552</u>
Total depreciated		<u>123,416,160</u>	<u>53,532</u>	<u>3,199,264</u>	<u>126,668,956</u>
Total capital assets		<u>160,632,603</u>	<u>39,545,101</u>	<u>-</u>	<u>200,177,704</u>
Less: accumulated depreciation:					
Building, including improvements		46,586,913	3,342,651	-	49,929,564
Furnishings and equipment		18,083,340	1,532,232	-	19,615,572
Infrastructure		<u>494,891</u>	<u>120,583</u>	<u>-</u>	<u>615,474</u>
Total accumulated depreciation		<u>65,165,144</u>	<u>4,995,466</u>	<u>-</u>	<u>70,160,610</u>
Capital assets, net		<u>\$ 95,467,459</u>	<u>\$ 34,549,635</u>	<u>\$ -</u>	<u>\$ 130,017,094</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 8 - **Capital Assets - Continued**

Capital asset activity for the University for the year ended June 30, 2012 is as follows:

	Estimated lives (in years)	Beginning balance	Additions	Reclassifications	Ending balance
Capital assets not depreciated					
Land	-	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in progress	-	<u>18,515,141</u>	<u>23,204,695</u>	<u>(7,039,566)</u>	<u>34,680,270</u>
Total not depreciated		<u>21,051,314</u>	<u>23,204,695</u>	<u>(7,039,566)</u>	<u>37,216,443</u>
Capital assets depreciated:					
Buildings, including improvements	40	91,646,758	1,550,139	3,313,767	96,510,664
Furnishings and equipment	3-10	20,671,839	869,306	3,725,799	25,266,944
Infrastructure	5	<u>1,638,552</u>	<u>-</u>	<u>-</u>	<u>1,638,552</u>
Total depreciated		<u>113,957,149</u>	<u>2,419,445</u>	<u>7,039,566</u>	<u>123,416,160</u>
Total capital assets		<u>135,008,463</u>	<u>25,624,140</u>	<u>-</u>	<u>160,632,603</u>
Less: accumulated depreciation:					
Building, including improvements		43,379,595	3,207,318	-	46,586,913
Furnishings and equipment		16,851,384	1,231,956	-	18,083,340
Infrastructure		<u>374,308</u>	<u>120,583</u>	<u>-</u>	<u>494,891</u>
Total accumulated depreciation		<u>60,605,287</u>	<u>4,559,857</u>	<u>-</u>	<u>65,165,144</u>
Capital assets, net		<u>\$ 74,403,176</u>	<u>\$ 21,064,283</u>	<u>\$ -</u>	<u>\$ 95,467,459</u>

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$4,995,466 and \$4,559,857, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 8 - **Capital Assets - Continued**

Other Non-Current Assets

Other non-current assets for the University consisted of deferred financing fees and expenses of \$151,344 and \$161,222 at June 30, 2013 and 2012, respectively. These fees are being amortized by the straight line method over the life of their respective bonds of approximately 20 years each. Accumulated amortization was \$39,961 and \$31,437 as of June 30, 2013 and 2012, respectively.

Capital asset activity of the component units for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ <u>4,664,794</u>	\$ _____	\$ _____	\$ <u>4,664,794</u>
Total not depreciated	<u>4,664,794</u>	_____	_____	<u>4,664,794</u>
Capital assets, depreciated:				
Buildings	3,358,817	-	-	3,358,817
Building improvements	4,149,133	33,310	-	4,182,443
Furniture and equipment	<u>180,339</u>	<u>39,869</u>	_____	<u>220,208</u>
Total depreciated	<u>7,688,289</u>	<u>73,179</u>	_____	<u>7,761,468</u>
Total capital assets	<u>12,353,083</u>	<u>73,179</u>	_____	<u>12,426,262</u>
Less: accumulated depreciation:				
Buildings	515,447	83,957	-	599,404
Building improvements	1,226,127	120,715	-	1,346,842
Furniture and equipment	<u>157,347</u>	<u>12,865</u>	_____	<u>170,212</u>
Total accumulated depreciation	<u>1,898,921</u>	<u>217,537</u>	_____	<u>2,116,458</u>
Capital Assets, Net	\$ <u>10,454,162</u>	\$ <u>(144,358)</u>	\$ _____	\$ <u>10,309,804</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 8 - **Capital Assets - Continued**

Other Non-Current Assets - Continued

Capital asset activity of the component units for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ <u>4,664,794</u>	\$ _____	\$ _____	\$ <u>4,664,794</u>
Total not depreciated	<u>4,664,794</u>	_____	_____	<u>4,664,794</u>
Capital assets, depreciated:				
Buildings	3,358,817	-	-	3,358,817
Building improvements	4,118,890	30,243	-	4,149,133
Furniture and equipment	<u>159,900</u>	<u>20,439</u>	_____	<u>180,339</u>
Total depreciated	<u>7,637,607</u>	<u>50,682</u>	_____	<u>7,688,289</u>
Total capital assets	<u>12,302,401</u>	<u>50,682</u>	_____	<u>12,353,083</u>
Less: accumulated depreciation:				
Buildings	431,477	83,970	-	515,447
Building improvements	1,111,697	114,430	-	1,226,127
Furniture and equipment	<u>148,875</u>	<u>8,472</u>	_____	<u>157,347</u>
Total accumulated depreciation	<u>1,692,049</u>	<u>206,872</u>	_____	<u>1,898,921</u>
Capital Assets, Net	\$ <u>10,610,352</u>	\$ <u>(156,190)</u>	\$ _____	\$ <u>10,454,162</u>

Note 9 - **Unearned Revenues**

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

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

	<u>2013</u>	<u>2012</u>
Tuition and fees	\$ <u>2,548,804</u>	\$ 2,423,723
Grants	<u>283,435</u>	<u>303,690</u>
Total Unearned Revenue	\$ <u>2,832,239</u>	\$ <u>2,727,413</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - **Long-Term Liabilities**

Long-term liabilities of the University at June 30, 2013 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and loans payable:					
Bonds payable	\$ 19,763,878	\$ -	\$ 316,359	\$ 19,447,519	\$ 681,359
Bonds premium	1,902,657	-	83,734	1,818,923	83,734
Loans payable	<u>2,325,543</u>	<u>15,386</u>	<u>-</u>	<u>2,340,929</u>	<u>-</u>
Total bonds and loans payable	<u>23,992,078</u>	<u>15,386</u>	<u>400,093</u>	<u>23,607,371</u>	<u>765,093</u>
Other long-term liabilities:					
Accrued compensated absences	7,676,849	631,295	-	8,308,144	5,568,812
Accrued workers' compensation	<u>799,992</u>	<u>176,595</u>	<u>-</u>	<u>976,587</u>	<u>210,943</u>
Total other long-term liabilities	<u>8,476,841</u>	<u>807,890</u>	<u>-</u>	<u>9,284,731</u>	<u>5,779,755</u>
Total Long-Term Liabilities	<u>\$ 32,468,919</u>	<u>\$ 823,276</u>	<u>\$ 400,093</u>	<u>\$ 32,892,102</u>	<u>\$ 6,544,848</u>

Long-term liabilities of the University at June 30, 2012 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and loans payable:					
Bonds payable	\$ 5,840,236	\$ 14,230,000	\$ 306,358	\$ 19,763,878	\$ 316,359
Bonds premium	151,879	1,798,603	47,825	1,902,657	85,296
Loans payable	<u>2,339,509</u>	<u>-</u>	<u>13,966</u>	<u>2,325,543</u>	<u>-</u>
Total bonds and loans payable	<u>8,331,624</u>	<u>16,028,603</u>	<u>368,149</u>	<u>23,992,078</u>	<u>401,655</u>
Other long-term liabilities:					
Accrued compensated absences	7,137,981	538,868	-	7,676,849	5,138,540
Accrued workers' compensation	<u>1,004,030</u>	<u>-</u>	<u>204,038</u>	<u>799,992</u>	<u>250,397</u>
Total other long-term liabilities	<u>8,142,011</u>	<u>538,868</u>	<u>204,038</u>	<u>8,476,841</u>	<u>5,388,937</u>
Total Long-Term Liabilities	<u>\$ 16,473,635</u>	<u>\$ 16,567,471</u>	<u>\$ 572,187</u>	<u>\$ 32,468,919</u>	<u>\$ 5,790,592</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - **Long-Term Liabilities - Continued**

Bonds Payable

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

O'Keefe Athletic Complex Fields

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

Central Campus Athletic Field and Tennis Court

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

Clean Renewable Energy Initiatives

During fiscal year 2008 the MDFA issued Clean Renewable Energy Bonds totaling \$214,500 on behalf of the University. The proceeds from this issue were used to install solar panels on various buildings on campus. Through its agreement with MDFA, the University agreed to re-pay this interest free debt with annual 'principal only' installments of \$14,300. The term of the issue is from December 31, 2007 to December 31, 2020. No interest is imputed on this debt due to lack of materiality.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

Clean Renewable Energy Initiatives - Continued

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

Maturities of the bonds payable subsequent to June 30, 2013 are as follows:

Year Ending				
<u>June 30,</u>	<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2014	\$ 765,093		\$ 899,925	\$ 1,665,018
2015	795,093		869,979	1,665,072
2016	825,093		837,472	1,662,565
2017	860,093		803,100	1,663,193
2018	895,093		751,818	1,646,911
2019-2023	4,990,465		3,208,554	8,199,019
2024-2028	4,737,767		1,858,332	6,596,099
2029-2033	4,291,902		1,309,750	5,601,652
2034-2036	<u>3,105,843</u>		<u>257,125</u>	<u>3,362,968</u>
 Total	 \$ <u>21,266,442</u>		 \$ <u>10,796,055</u>	 \$ <u>32,062,497</u>

Component Entities

Capital debt for the Assistance Corporation at June 30, 2013, consisted of:

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Current</u>
	<u>Balance</u>			<u>Balance</u>	<u>Portion</u>
Term Loan	\$ <u>1,101,222</u>	\$ <u>1,261,056</u>	\$ <u>1,101,222</u>	\$ <u>1,261,056</u>	\$ <u>30,354</u>

Capital debt for the Assistance Corporation at June 30, 2012, consisted of:

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Current</u>
	<u>Balance</u>			<u>Balance</u>	<u>Portion</u>
Term Loan	\$ <u>1,141,438</u>	\$ _____	\$ <u>40,216</u>	\$ <u>1,101,222</u>	\$ <u>43,842</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - **Long-Term Liabilities - Continued**

Component Entities - Continued

During the year ended June 30, 2013, the Assistance Corporation paid off its outstanding debt with the proceeds of a mortgage loan from another financial institution. The loan is a five year adjustable rate mortgage loan due October 2022 with a 25 year amortization. Under the terms of this loan, the Assistance Corporation borrowed \$1,261,056 to pay off its existing loan which had financed the expansion of available rental space. The terms of the loan require interest only through September 2013; payments in the amount of \$6,856, including principal and interest at 3.95% are due monthly through August 2017 at which time the interest rate will be adjusted to 4.625% for the remainder of the term. A final balloon payment representing the outstanding balance is due in September 2022. The loan is secured by a mortgage on real estate owned by the Assistance Corporation.

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

Years Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 30,354	\$ 45,165
2015	34,389	47,944
2016	35,773	46,611
2017	37,212	45,172
2018	31,084	51,301
Thereafter	<u>1,092,244</u>	<u>193,001</u>
Total	\$ <u>1,261,056</u>	\$ <u>429,194</u>

On August 26, 2010, HEFA issued Revenue Bonds, Salem State University Assistance Corporation Issue, Series 2010A bearing interest at 3.26% with a maturity date of September 15, 2020 in the amount \$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 for approximately \$4,500,000 and to pay for associated financial and closing costs.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - **Long-Term Liabilities - Continued**

Component Entities - Continued

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 283,313	\$ 115,212
2015	292,689	105,837
2016	302,374	96,151
2017	312,380	86,145
2018	322,717	75,808
2019-2021	<u>1,995,699</u>	<u>130,983</u>
	\$ <u>3,509,172</u>	\$ <u>610,136</u>

Bond liability for the Assistance Corporation at June 30, 2013 consisted of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Balance</u>
Bond Liability	\$ <u>3,937,445</u>	\$ <u>-</u>	\$ <u>428,273</u>	\$ <u>3,509,172</u>	\$ <u>283,313</u>

Bond liability for the Assistance Corporation at June 30, 2012 consisted of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Balance</u>
Bond Liability	\$ <u>4,351,455</u>	\$ <u>-</u>	\$ <u>414,010</u>	\$ <u>3,937,445</u>	\$ <u>274,238</u>

Note 11 - **Deferred Inflows of Resources**

Deferred inflows of resources include contributions made by certain vendors. The University's food service operations are managed under agreement by an outside party. In accordance with an agreement and subsequent amendments, induced by additional facilities to be constructed for the University, the vendor has made several contributions over the period from January 2002 through January 2013 totaling \$3,630,000. The term of the agreement was extended until 2022 and the amortization

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 11 - **Deferred Inflows of Resources - Continued**

tables were adjusted accordingly. Either party may terminate this agreement at any time, without cause, by providing sixty days written notice. In the event of termination, the unamortized portion is to be returned. At June 30, 2013 and 2012, the unamortized portion of these contributions approximated \$832,000 and \$960,000, respectively. Amounts received from other vendors at June 30, 2013 and 2012 approximated \$87,000 and \$136,000, respectively and are included in deferred inflows of resources.

Note 12 - **Rental Income**

The Assistance Corporation has long-term operating leases with lessees. Minimum future rentals under the non-cancellable operating leases subsequent to June 30, 2013 are as follows:

Years Ending <u>June 30,</u>	<u>Amount</u>
2014	\$ 869,463
2015	625,352
2016	553,718
2017	552,000
2018	552,000
Thereafter	<u>1,219,000</u>
Total	\$ <u>4,371,533</u>

One of the lease agreements is with the University who during both fiscal years 2013 and 2012 paid \$552,000 as base rent for the lease, which commenced August 1, 2010. The base rent is paid directly to TD Bank and is applied to the debt service due under the acquisition loan from HEFA. The base rent in the first year was in excess of such debt service. In subsequent years, the base rent under lease is equal to the debt service due under the acquisition loan, provided that the University, at its sole option, has the right to pay additional base rent in order to reduce the principal balance of the HEFA loan.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 13 - **Operating Leases**

The University leases property at 265 and 285 Canal Street and 70 Loring Avenue (the former location of Weir Valve and Control, Inc.) from the Assistance Corporation, property at 57 Loring Avenue, and equipment under operating leases, expiring in 2021. Future minimum payments related to these leases are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2014	\$ 1,232,918
2015	953,206
2016	881,572
2017	879,854
2018	607,970
Thereafter	<u>1,219,000</u>
Total	\$ <u>5,774,520</u>

Note 14 - **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:

	<u>2013</u>	<u>2012</u>
Restricted - nonexpendable:		
Scholarships and fellowships	\$ <u>570,758</u>	\$ <u>509,507</u>
Restricted - expendable:		
Scholarships and fellowships	\$ 54,459	\$ 7,044
Research	523,500	523,500
Loans	463,312	454,344
Capital projects	5,645	5,645
Other	<u>2,626,603</u>	<u>2,450,438</u>
	\$ <u>3,673,519</u>	\$ <u>3,440,971</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 14 - **Restricted Net Position - Continued**

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

Note 15 - **Cash Flow Information**

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

	<u>2013</u>	<u>2012</u>
Cash and equivalents	\$ 19,234,077	\$ 13,892,125
Restricted cash and equivalents	5,166,953	9,887,126
Deposits held by State Treasurer	3,517,158	4,463,429
Cash held by State Treasurer	1,954,054	1,366,155
Deposits held by MSCBA	<u>3,032,909</u>	<u>13,800,136</u>
Total	\$ <u>32,905,151</u>	\$ <u>43,408,971</u>

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

	<u>2013</u>	<u>2012</u>
Fringe benefits provided by the State	\$ <u>10,076,826</u>	\$ <u>10,960,681</u>
Acquisition of capital assets through DCAMM	\$ <u>24,659,774</u>	\$ <u>20,582,245</u>

Note 16 - **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.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 16 - **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 become a liability of the University. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

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

The U.S. Environmental Protection Agency (EPA) notified the University in August 1998 that it is a potential responsible party with respect to environmental impacts resulting from contaminated soil upon the removal of underground oil tanks in 1991. The EPA has not closed out their investigation. During fiscal years 2013 and 2012, 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 17 - **Operating Expenses**

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

	<u>2013</u>	<u>2012</u>
Compensation and benefits	\$ 96,550,205	\$ 94,069,281
Supplies and services	29,332,721	30,290,141
Utilities	3,447,798	3,354,889
Depreciation and amortization	5,003,990	4,566,292
Scholarships and fellowship	<u>5,726,894</u>	<u>5,416,160</u>
Total	<u>\$ 140,061,608</u>	<u>\$ 137,696,763</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 18 - **Retirement Plan**

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

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of the university employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth. The retirement portion of employees paid through State Appropriation accounts are met by the Commonwealth. Such 'pension expense' amounted to \$2,536,699 and \$3,340,050 for the years ended June 30, 2013 and 2012, respectively.

The University also makes direct contributions on behalf of employees who were paid by funds other than state appropriations at the same fringe benefit charge assessed by the Commonwealth. Retirement benefits paid directly to the Commonwealth by the University on behalf of employees amounted to \$1,511,399 and \$2,139,725 for the years ended June 30, 2013 and 2012, respectively. Employees also contribute a percentage of their regular compensation to fund the annuity portion of the Retirement System.

The overall 'fringe benefit charge' decreased from 34.92% in 2012 to 27.27% in 2013 including 1.94% and 1.29% in payroll taxes, respectively. The retirement portion of the 'fringe benefit charge' decreased from 8.98% in 2012 to 6.76% in 2013.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 18 - **Retirement Plan - Continued**

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

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

As of June 30, 2013, the University had paid or accrued for all amounts charged to it through the Commonwealth's fringe benefit recovery program.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 19 - **Massachusetts Management Accounting and Reporting System**

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

The University's State appropriations are composed of the following at June 30:

	<u>2013</u>	<u>2012</u>
Direct unrestricted appropriations	\$ 37,349,093	\$ 35,619,833
Add:		
Fringe benefits for benefited employees on the state payroll	10,076,826	10,960,681
Less:		
Day school tuition remitted to the state and included in tuition and fee revenue	<u>(511,398)</u>	<u>(923,449)</u>
 Total unrestricted appropriations	 \$ <u>46,914,521</u>	 \$ <u>45,657,065</u>

A reconciliation between the University and MMARS fund 901 activity as of June 30, 2013 is as follows (unaudited):

Revenue per MMARS	\$ 96,166,778
Revenue per University	<u>96,166,778</u>
 Difference	 \$ _____ -

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 19 - **Massachusetts Management Accounting and Reporting System - Continued**

During the year ending June 30, 2010, the University received American Recovery and Reinvestment Act (ARRA) funds through the Commonwealth of Massachusetts Department of Higher Education allocated over a two year period for 'Educational Stabilization'. This award totaled \$11,375,798. During the year ended June 30, 2011, the University received an additional award of Federal Stimulus funds totaling \$2,898,999. These funds are expended, managed and reported on MMARS. At June 30, 2012, the University had fully expended both awards towards operations and various infrastructure projects. Revenue associated with these awards appears in the Statement of Revenue and Expenses and Changes in Net Assets as a discrete item listed as a Federal Awards. The terms for both awards ended as of September 30, 2011.

During the year ended June 30, 2010, the University received a National Science Foundation (NSF) grant. This grant was also expended, managed and reported on MMARS. Per the NSF, funding originates from American Recovery and Reinvestment Act (ARRA) funds. While these funds are expended, managed and reported on MMARS, they are sub-granted to another educational institution. At June 30, 2012, the University had sub-granted and recorded expenditures for the full amount of the two year award of \$299,733. Activity for the grant is included in the statements of the University with Federal grant activity.

Note 20 - **Pass Through Student Federal Loans**

The University distributed sums of approximately \$42,410,000 and \$42,071,000 for the years ended June 30, 2013 and 2012, respectively, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included as revenues and expenses or as cash receipts and cash disbursements in the accompanying financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 21 - **Massachusetts State College Building Authority (Unaudited)**

The Massachusetts State College Building Authority (MSCBA) was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth as a public instrumentality for the general purpose of providing residence halls and outstanding 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 periods, with terms allowing 10 year periods.

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 Commonwealth guarantees these obligations.

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations, other major renovations and improvements for the University for the years ended June 30, 2013 and 2012 were \$9,399,267 and \$9,263,694, respectively, and are included in the auxiliary enterprise, and institutional support category in the accompanying statements of revenues, expenses and changes in net assets. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

Note 22 - **Subsequent Events**

In July 2013 the University entered into an agreement with the Division of Capital Assessment Management and Maintenance (DCAMM) and the Massachusetts State College Building Authority (MSCBA) regarding funding for the Mainstage Theatre renovation and modernization project at the University. As part of the terms of this agreement the University delivered \$1,750,000 on August 5, 2013; On or before February 1, 2014, the Foundation, on behalf of the University, will deliver the sum of \$3 million to DCAMM and on or about March 1, 2014, subject to approval and funding of a bond issue by MSCBA, the University will deliver to DCAMM the balance of project funds plus the customary management fee.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 22 - **Subsequent Events - Continued**

On September 5, 2013 the University transferred \$676,800 to Massachusetts State College Building Authority (MSCBA) as per the funding requirement for a potential bond issue related to the Public Safety building relocation on Central Campus. The bond is anticipated to be issued in January 2014. On September 5, 2013 the University also transferred \$116,800 in support of a planning and feasibility study of the Weir Property related to relocation of parking facilities. The bond for this project will also be issued in fiscal year 2014.

SUPPLEMENTAL SCHEDULES

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

Schedules of Net Assets
Dormitory Trust Fund Report (Unaudited)
June 30,

Assets

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and equivalents	\$ 1,525,635	\$ 1,538,103
Accounts receivable, net	463,792	483,250
Other receivables, net	<u>14,307</u>	<u>7,883</u>
Total Assets	<u>\$ 2,003,734</u>	<u>\$ 2,029,236</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 230,028	\$ 59,707
Accrued payroll and fringe benefits	-	147,623
Dormitory deposits	392,326	436,840
Accrued compensated absences	<u>148,907</u>	<u>171,741</u>
Total Liabilities	771,261	815,911
Net Assets	<u>1,232,473</u>	<u>1,213,325</u>
Total Liabilities and Net Assets	<u>\$ 2,003,734</u>	<u>\$ 2,029,236</u>

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

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

For the Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Revenues:		
Student fees	\$ 14,442,343	\$ 14,081,369
Commissions	46,617	39,468
Rentals	132,698	253,861
Interest	15,000	15,000
Other	<u>1,866</u>	<u>687</u>
Total Revenues	<u>14,638,524</u>	<u>14,390,385</u>
Expenses:		
Regular employee compensation	1,785,937	1,637,988
Regular employee related expenses	701	516
Special employee compensation	503,711	454,072
Pension and insurance related	488,523	564,294
Administrative	23,542	204,257
Facility operational	180,273	161,432
Energy and space rental	1,356,171	1,365,773
Consultant services	13,050	5,543
Operational services	11,869	18,106
Equipment purchase	1,313	20,044
Equipment maintenance	757,074	629,354
Scholarships and fellowships	820,394	735,001
Loans and special payments	8,953,737	8,974,549
Information technology	<u>22,962</u>	<u>22,665</u>
Total Expenses	<u>14,919,257</u>	<u>14,793,594</u>
Excess of Revenues over Expenses	(280,733)	(403,209)
Net Transfers	<u>299,881</u>	<u>458,750</u>
Total Increase in Net Assets	<u>19,148</u>	<u>55,541</u>
Net Assets, Beginning of Year	<u>1,213,325</u>	<u>1,157,784</u>
Net Assets, End of Year	<u>\$ 1,232,473</u>	<u>\$ 1,213,325</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, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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 8, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 8, 2013