

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

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

**June 30, 2015**

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

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

**June 30, 2015**

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

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

**June 30, 2015**

**C O N T E N T S - C o n t i n u e d**

**Additional Report:**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## Opinion

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

## Emphasis of Matter

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

## Required Supplementary Information

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

## Supplementary Schedules

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015, 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  
December 2, 2015

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

**Management's Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2015**

**Introduction**

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

**Background**

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

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

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

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

**University Mission**

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

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

**For the Year Ended June 30, 2015**

**Background - (continued)**

*University Vision*

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

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

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

**Accreditations**

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

**Significant Events and Accomplishments**

**Capital Projects**

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

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



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

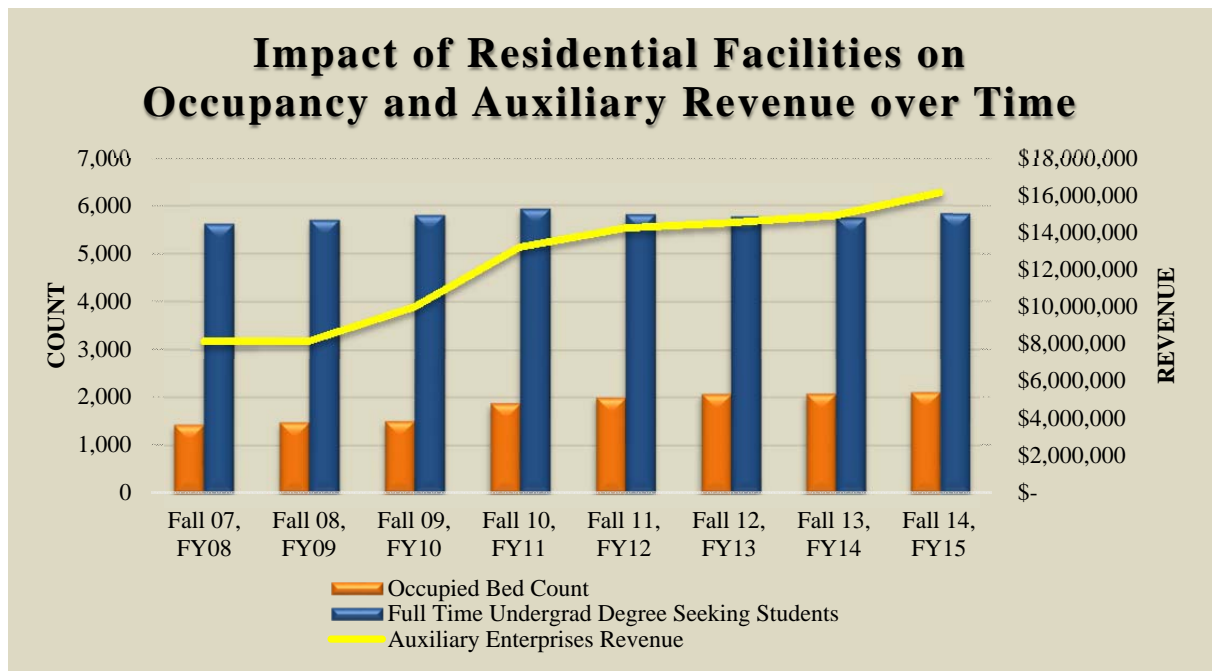
**For the Year Ended June 30, 2015**

**Significant Events and Accomplishments - (continued)**

Viking Hall Construction Project

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

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



Sophia Gordon Center for Creative and Performing Arts Theater  
(Formerly known as the Main Stage Theatre Conversion Project)

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



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

**For the Year Ended June 30, 2015**

**Significant Events and Accomplishments - (continued)**

**Parking Garage Construction Project**

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

**Debt Acquisition**

**Clean Energy Investment Program**

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

**Comprehensive Capital Campaign**

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

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

**For the Year Ended June 30, 2015**

**Significant Events and Accomplishments - (continued)**

**GASB No. 68 – Accounting and Financial Reporting for Pensions**

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

*(In Thousands)*

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

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

**Special Payment - 9C Reduction**

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

**Overview of University Financial Statements**

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

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

**For the Year Ended June 30, 2015**

**Overview of University Financial Statements – (continued)**

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

**Statement of Net Position Summary & Analysis**

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

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

**For the Year Ended June 30, 2015**

Statement of Net Position Summary & Analysis- (continued)

*(In Thousands)*

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

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

**For the Year Ended June 30, 2015**

**Statement of Net Position Summary & Analysis - (continued)**

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

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

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

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**Management's Discussion and Analysis (Unaudited)**

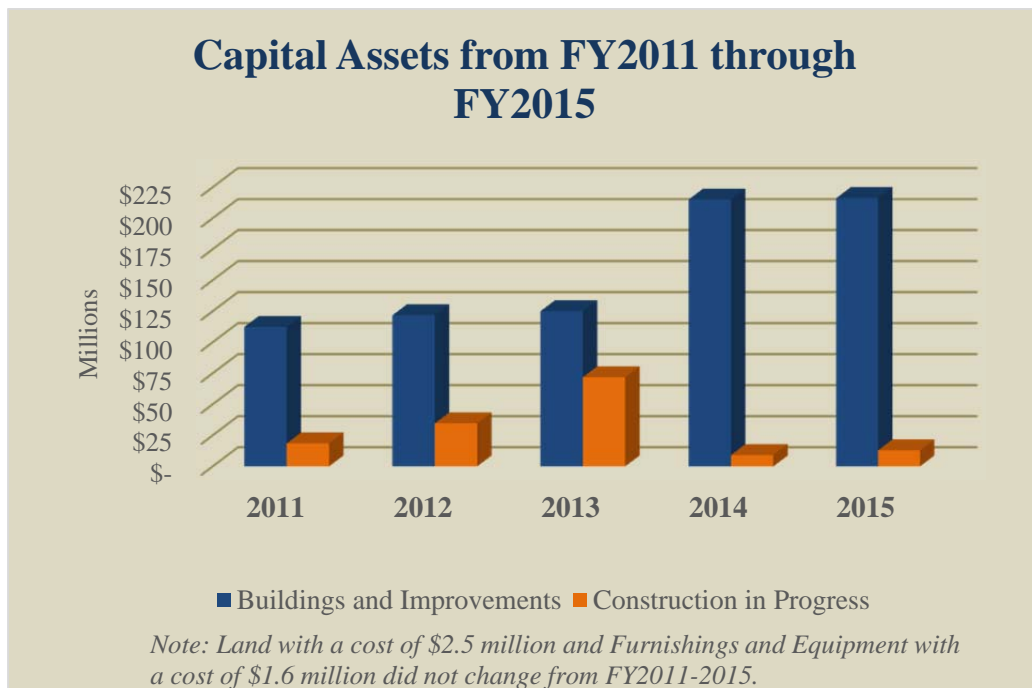
**For the Year Ended June 30, 2015**

**Capital Assets**

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

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

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



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

**For the Year Ended June 30, 2015**

**Capital Assets** – (continued)

**Highlights for Capital Assets**

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

**Changes in Capital Assets**

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



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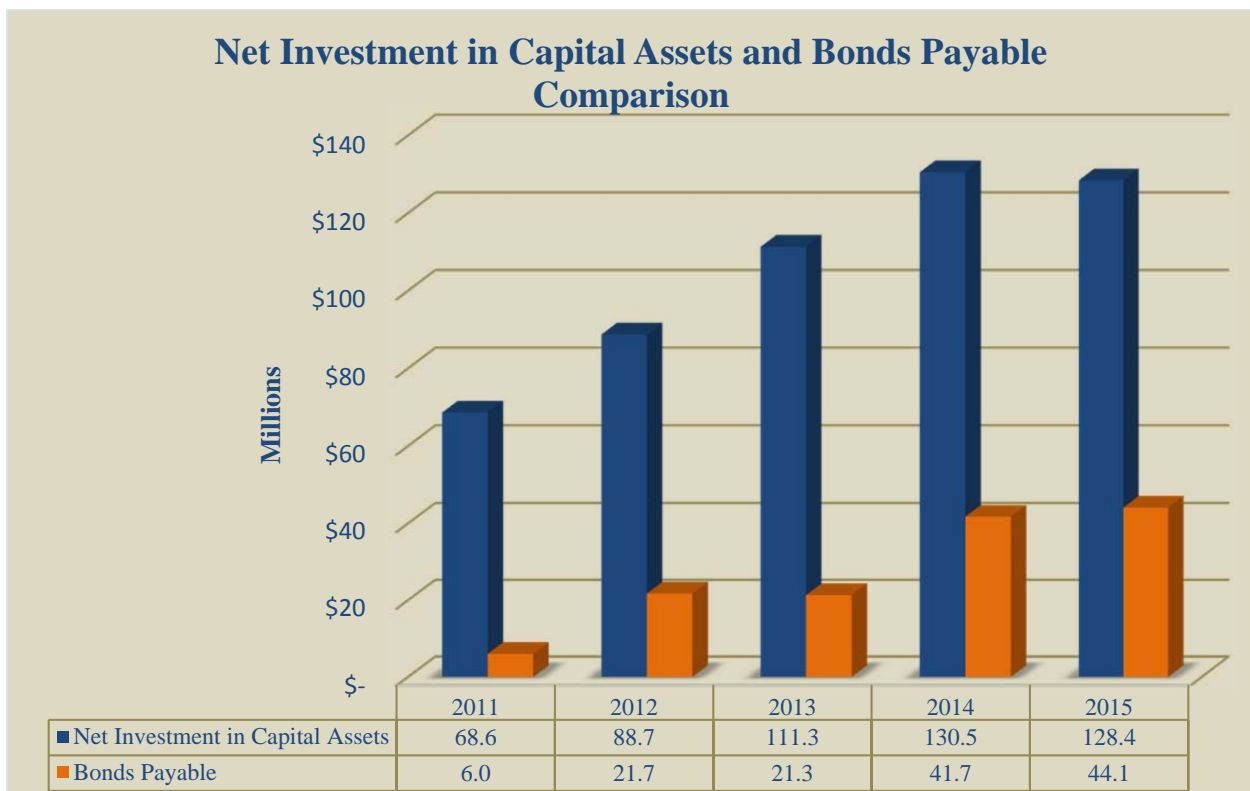
**Management’s Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2015**

**Capital Assets** – (continued)

*Net Investment in Capital Assets and Bonds Payable Comparison*

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



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

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**Management's Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2015**

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

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

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

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

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

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

**For the Year Ended June 30, 2015**

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

***Highlights for Operating Revenues***

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

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

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

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

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

***Highlights for Operating Expenses***

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

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

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

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

**For the Year Ended June 30, 2015**

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

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

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

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

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

***Highlights for Non-Operating Revenues (Expenses)***

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

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

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

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**Management's Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2015**

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

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

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

**Statement of Cash Flows**

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

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

**Summary of Cash Flows**

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

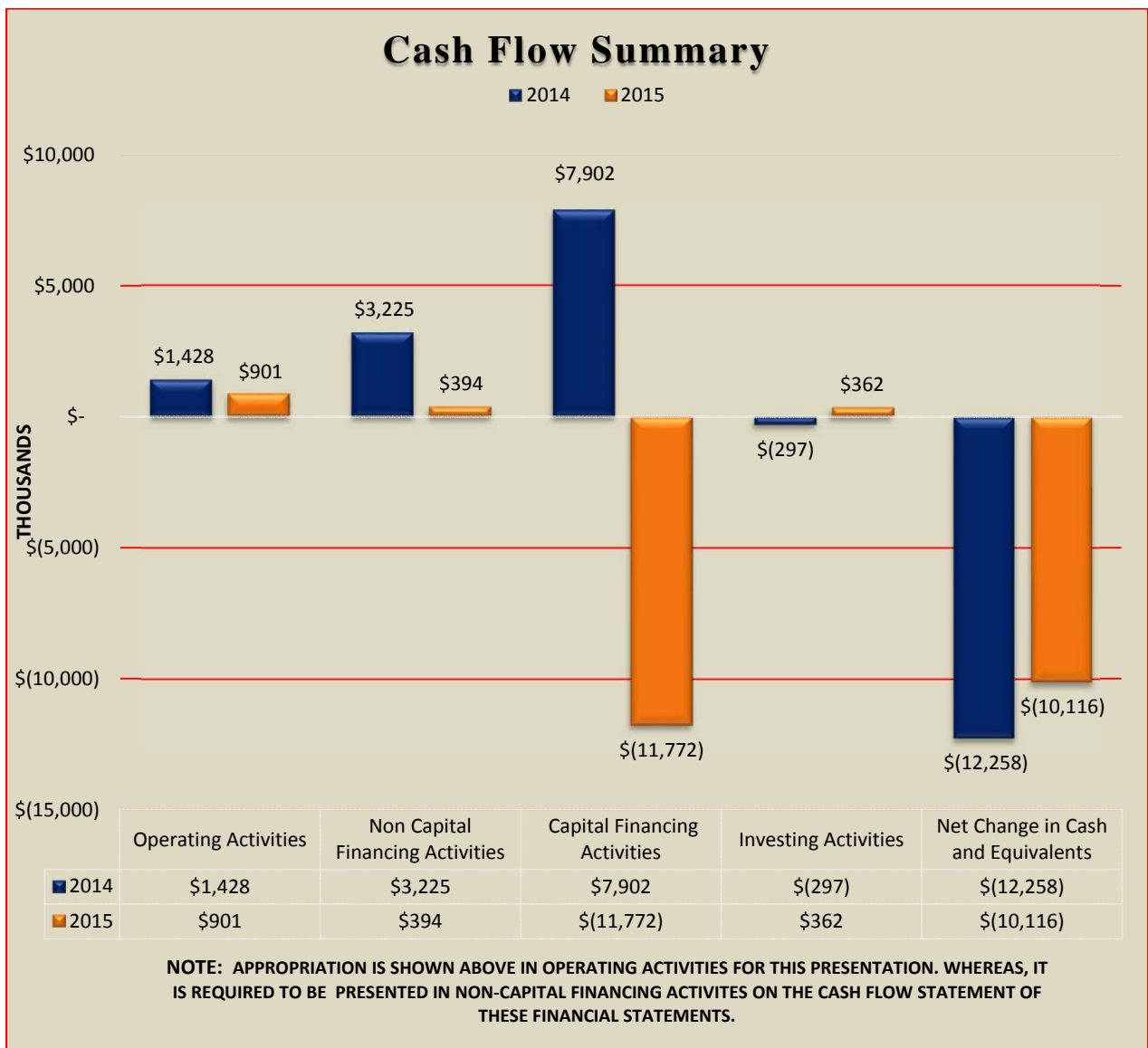
**SALEM STATE UNIVERSITY**  
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**Management's Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2015**

**Statement of Cash Flows - (continued)**

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



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

**For the Year Ended June 30, 2015**

**Statement of Cash Flows - (continued)**

***Highlights for Cash Flows***

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

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

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

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

**Ratio Analysis**

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

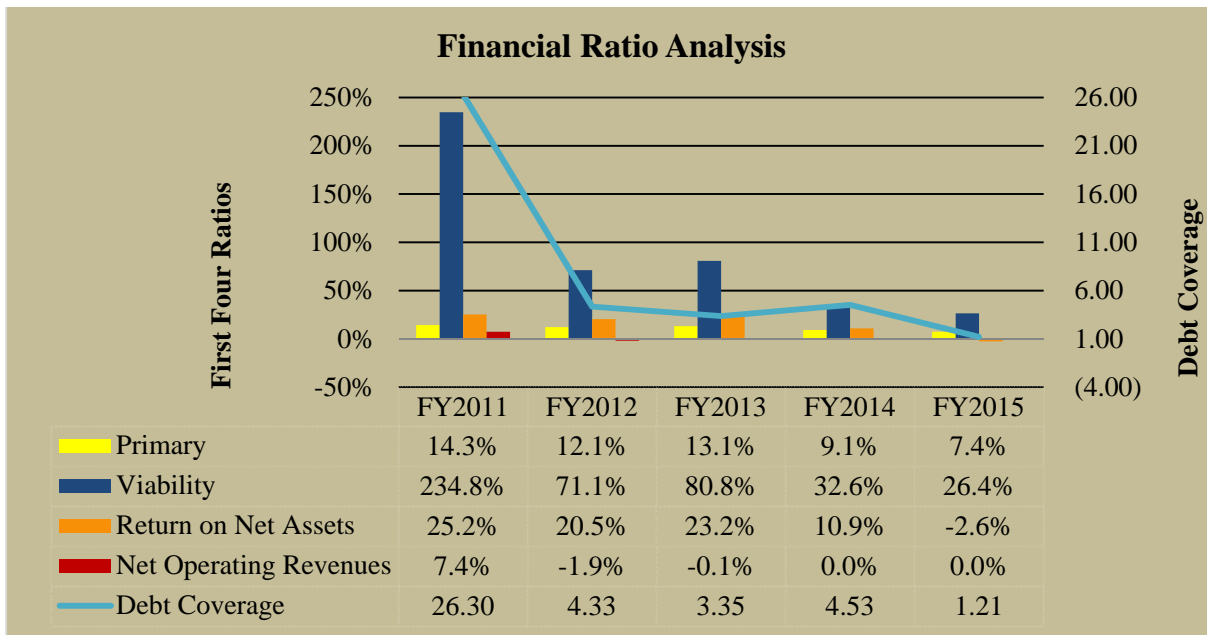


**SALEM STATE UNIVERSITY**  
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**Management’s Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2015**

**Ratio Analysis - (continued)**



***Comments on Ratio Trends***

**Primary**

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

**Viability**

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

**Return on Net Position**

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

**Debt Service Coverage**

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

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

**For the Year Ended June 30, 2015**

**Looking Ahead to FY16**

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

**Requests for Further Information**

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

**SALEM STATE UNIVERSITY**  
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**Statement of Net Position**

**June 30, 2015**

**Assets and Deferred Outflows of Resources**

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

**Liabilities, Deferred Inflows of Resources, and Net Position**

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

See accompanying notes to the financial statements.

**SALEM STATE UNIVERSITY**  
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**Statement of Revenues and Expenses**

**For the Year Ended June 30, 2015**

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

See accompanying notes to the financial statements.

**SALEM STATE UNIVERSITY**  
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**Statement of Changes in Net Position**

**For the Year Ended June 30, 2015**

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

See accompanying notes to financial statements.

**SALEM STATE UNIVERSITY**  
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**Statement of Cash Flows**

**For the Year Ended June 30, 2015**

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



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**Statement of Cash Flows - Continued**

**For the Year Ended June 30, 2015**

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

*See accompanying notes to financial statements.*

**SALEM STATE UNIVERSITY**  
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**Combining Statement of Net Position of Major Component Units**

**June 30, 2015**

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

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

**For the Year Ended June 30, 2015**

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

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

**Notes to the Financial Statements**

**June 30, 2015**

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

*Organization*

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

*Basis of Presentation and Accounting*

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

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Basis of Presentation and Accounting - Continued*

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

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

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

Net Position

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

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

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

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

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

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

Cash and Equivalents

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

Allowance for Doubtful Accounts

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Investments*

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

*Capital Assets*

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

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

*Deposits Held by Other State Agencies*

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

*Pensions*

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



**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Fringe Benefits*

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

*Compensated Absences*

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

*Deposits and Unearned Revenues*

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

*Student Fees*

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

*Tax Status*

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

*Use of Estimates*

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*New Governmental Accounting Pronouncements*

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*New Governmental Accounting Pronouncements - Continued*

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

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

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

Note 3 - **Cash and Equivalents**

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

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

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

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

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

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

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

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

Note 5 - **Investments**

*University*

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 5 - **Investments - Continued**

*University - Continued*

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

**June 30, 2015 Investment Maturity in Years**

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 5 - **Investments - Continued**

*Foundation*

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

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

*Investment Return*

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 6 - **Accounts Receivable**

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

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

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

*Pledges Receivable - Foundation*

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

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



**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Notes Receivable - Foundation*

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

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

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

Note 8 - **Loans Receivable and Payable**

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

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

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

Loans receivable include the following at June 30, 2015:

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - **Capital Assets**

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - **Capital Assets - Continued**

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

**Note 10 - Unearned Revenues**

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

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

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

**Note 11 - Long-Term Liabilities**

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

Bonds Payable

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

O'Keefe Athletic Complex Fields

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

Central Campus Athletic Field and Tennis Court

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

Clean Renewable Energy Initiatives

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

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Bonds Payable - Continued*

Clean Renewable Energy Initiatives - Continued

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

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

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

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Bonds Payable - Continued*

Clean Energy Investment Program

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

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

Debt Service Reserves

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



**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Bonds Payable - Continued*

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

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

*Notes Payable*

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Long Term Debt - Assistance Corporation*

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

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

*Note Payable - Assistance Corporation*

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

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

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Note Payable - Assistance Corporation - Continued*

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

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

*Bonds Payable - Assistance Corporation*

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

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Bonds Payable - Assistance Corporation - Continued*

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

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

Note 12 - **Pensions**

*Defined Benefit Plan Description*

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 12 - **Pensions - Continued**

*Defined Benefit Plan Description - Continued*

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

SERS does not issue a stand-alone financial statement.

*Benefit Provisions*

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

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

*Contributions*

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

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 12 - **Pensions - Continued**

*Contributions - Continued*

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

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

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

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

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

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

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 12 - **Pensions - Continued**

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

Deferred Outflows of Resources:

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

Deferred Inflows of Resources:

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

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

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

Years Ending  
June 30,

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 12 - **Pensions - Continued**

*Actuarial Assumptions*

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

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

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

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

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



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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 12 - **Pensions - Continued**

*Actuarial Assumptions - Continued*

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

*Discount Rate*

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 12 - **Pensions - Continued**

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

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

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

Note 13 - **Deferred Inflows of Resources**

*Service Concession Arrangements*

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

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

*Bond Refunding*

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 14 - **Rental Income**

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

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

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

Note 15 - **Operating Leases**

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 16 - **Restricted Net Position**

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

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

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

Note 17 - **Cash Flow Information**

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

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

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

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

**SALEM STATE UNIVERSITY**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 18 - **Commitments and Contingencies**

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

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

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

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

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 19 - **Operating Expenses**

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

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

Note 20 - **Fringe Benefit Program**

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

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Insurance*

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

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

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

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

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

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

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

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

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

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

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

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



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

**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

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

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

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

Note 24 - **Assistance Corporation Parking Lot**

As part of the January 2014 bond issuance for the Sophia Gordon Center for Creative and Performing Arts Theater and Other Projects, the University has obtained MSCBA bond financing of \$1,920,000 for the development and creation of a parking lot on Assistance Corporation owned land (Note 9). The parking lot has been completed as of June 30, 2015.

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

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 25 - **Subsequent Events**

*Bookstore*

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

*Property Purchase*

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

*Parking Garage*

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 25 - **Subsequent Events - Continued**

*Viking Hall*

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

**REQUIRED SUPPLEMENTARY  
INFORMATION**

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

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

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

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

Notes:

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

*See accompanying notes to the required supplemental information.*

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

**Schedule of Contributions (Unaudited)**

**For the Year Ended June 30, 2015**

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

Notes:

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

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

*See accompanying notes to the required supplemental information.*

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

**Notes to the Required Supplementary Information (Unaudited)**

**For the Year Ended June 30, 2015**

Note 1 - **Change in Assumptions**

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

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

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

## **SUPPLEMENTAL SCHEDULES**



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

**Schedule of Net Position**  
**Dormitory Trust Fund Report (Unaudited)**

**June 30, 2015**

Assets

**Assets:**

Cash and equivalents	\$ 1,306,375
Accounts receivable, net	572,197
Other receivables, net	<u>21,526</u>

<b>Total Assets</b>	<b><u>\$ 1,900,098</u></b>
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Liabilities and Net Position

**Liabilities:**

Accounts payable	\$ 175,833
Accrued payroll and fringe benefits	89,741
Dormitory deposits	299,599
Accrued compensated absences	<u>245,078</u>

<b>Total Liabilities</b>	<b>810,251</b>
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<b>Net Position</b>	<b><u>1,089,847</u></b>
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<b>Total Liabilities and Net Position</b>	<b><u>\$ 1,900,098</u></b>
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**SALEM STATE UNIVERSITY**  
 (an agency of the Commonwealth of Massachusetts)

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

**For the Year Ended June 30, 2015**

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

**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, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated December 2, 2015.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*O'Connor and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

December 2, 2015