

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

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

JUNE 30, 2017

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

Financial Statements

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Salem State University (an agency of the Commonwealth of Massachusetts, the "Commonwealth") (the "University"), which comprise the statements of net position as of June 30, 2017, the related statements of revenues, expenses and changes in net position, cash flows, combining statements of net position of major component units, combining statements of revenues and expenses of major component units for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We also audited the financial statements of Salem State University Foundation, Inc. (the "Foundation") and Salem State University Assistance Corporation (the "Assistance Corp.") as of June 30, 2017 and 2016.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2017, and the changes in net position and cash flows, and combining statements of net position of major component units, combining statements of revenues and expenses of major component units for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Financial Statements as of June 30, 2016

The financial statements of Salem State University as of June 30, 2016 were audited by other auditors whose report dated November 16, 2016 expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 -21, the schedules of proportionate share of net pension liability on page 77, the schedules of contributions on page 78 and the notes to the required supplementary information on page 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2017 financial statements that collectively comprise the University's basic financial statements. The Schedules of Net Position-Dormitory Trust Fund Report and Schedules of Revenues, Expenses and Changes in Net Position-Dormitory Trust Fund Report on pages 80-81 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These reports are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2017 financial statements. The dormitory trust funds report information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 the University's internal control over financial reporting and compliance.

O'Connor and Duen, P.C.

Certified Public Accountants
Braintree, Massachusetts
October 11, 2017

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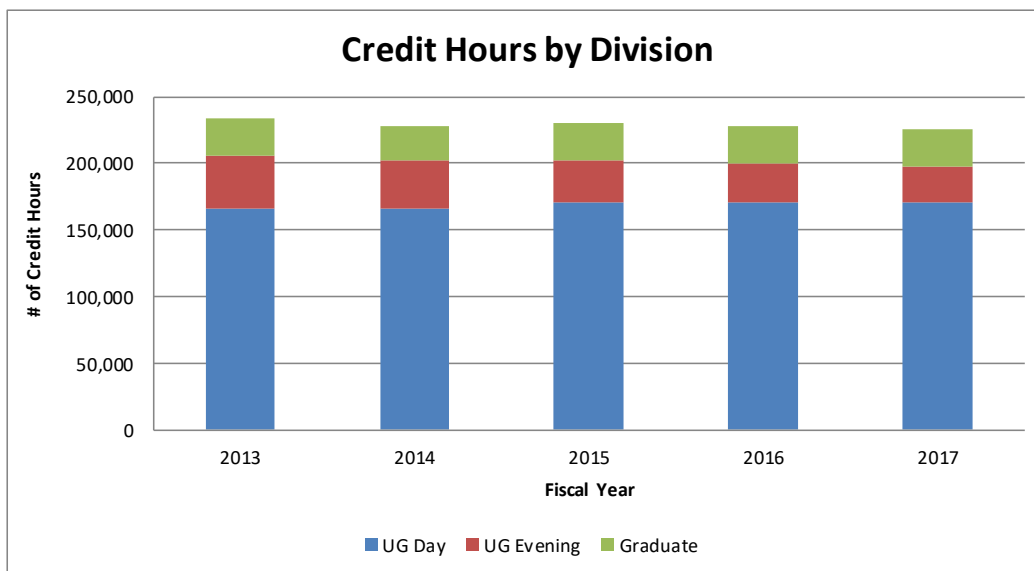
Management’s Discussion and Analysis (Unaudited)

Introduction

Salem State University (the “University”) offers readers this narrative overview and analysis of the financial statements and activities of the University for fiscal years ended June 30, 2017 and 2016. Readers are encouraged to consider the information presented here in conjunction with the financial statements and related footnotes. In accordance with Governmental Accounting Standards Board (“GASB”) requirements, the University financial statements report the Salem State University Assistance Corporation (“Assistance Corporation”) and Salem State University Foundation, Inc. (“Foundation”) as component units.

Background

The University was founded in 1854 as the Salem Normal School, at which time it offered innovative, ground-breaking education for women pursuing careers in education. Today, the University thrives as a comprehensive institution of academic strength offering high quality, balanced education at the undergraduate and graduate levels. The 115 acre University is spread across six sites: North Campus, Central Campus, South Campus, School of Social Work & International Programs, Cat Cove and the O’Keefe Athletic Complex. The curriculum spans the arts, sciences and professional programs, contained within the College of Arts and Sciences, the Bertolon School of Business, the Maguire Meservey College of Health and Human Services, the School of Education, the School of Graduate Studies, and the School of Continuing and Professional Studies.. The undergraduate level has approximately 6,358 and the graduate level has approximately 878 Fall Full-Time Equivalent (“FTE”) credit enrollment. The total credit hours by division for the past five years has been fairly stable as shown below:



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

University students are diverse, hailing from 28 states and 63 countries. Thirty-six percent of first year students (freshman and transfer) self-identified as students of color (fall semester 2016). The approximate gender breakdown is 36% male and 64% female.

In support of the University, there are two component units. 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.

University Vision

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

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

The mission and vision statements guide decisions by University management on campus and help to create an environment of student success and inclusive excellence. Civic engagement and community service form a large part of the Salem State University culture. Thousands of volunteer hours and resources benefit various groups such as Citizens for Adequate Housing, Beverly Historical Society, LifeBridge Homeless Shelter Kitchen, American Cancer Society, Haven for Hunger, North Shore ARC, Operation Troop Support and Horizons for Homeless Children.

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Management’s Discussion and Analysis - Continued
(Unaudited)

Accreditations

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

Significant Events and Accomplishments

Comprehensive Capital Campaign

The 10,000 Reasons Campaign for Salem State University concluded on December 31, 2016 to great success with \$26.5 million raised against the goal of \$25 million. Forty-nine new scholarships have been created and funded by this campaign. Campaign priorities included Academic Programs, Faculty, Student Experience, Financial Assistance, Annual Support and Special Initiatives.

Leadership Change

Upon the conclusion of the comprehensive capital campaign, President Patricia Maguire Meservey announced her intention to retire in summer 2017. The Board of Trustees launched a nation-wide presidential search, which culminated in the appointment of John D. Keenan, JD, as the university’s 14th president effective August 7, 2017.

Planning Initiatives

The university began a strategic planning effort during FY17, developed a first-ever multi-year financial plan, and undertook a North Campus Precinct study. These efforts will guide the new president and the university in the years ahead.

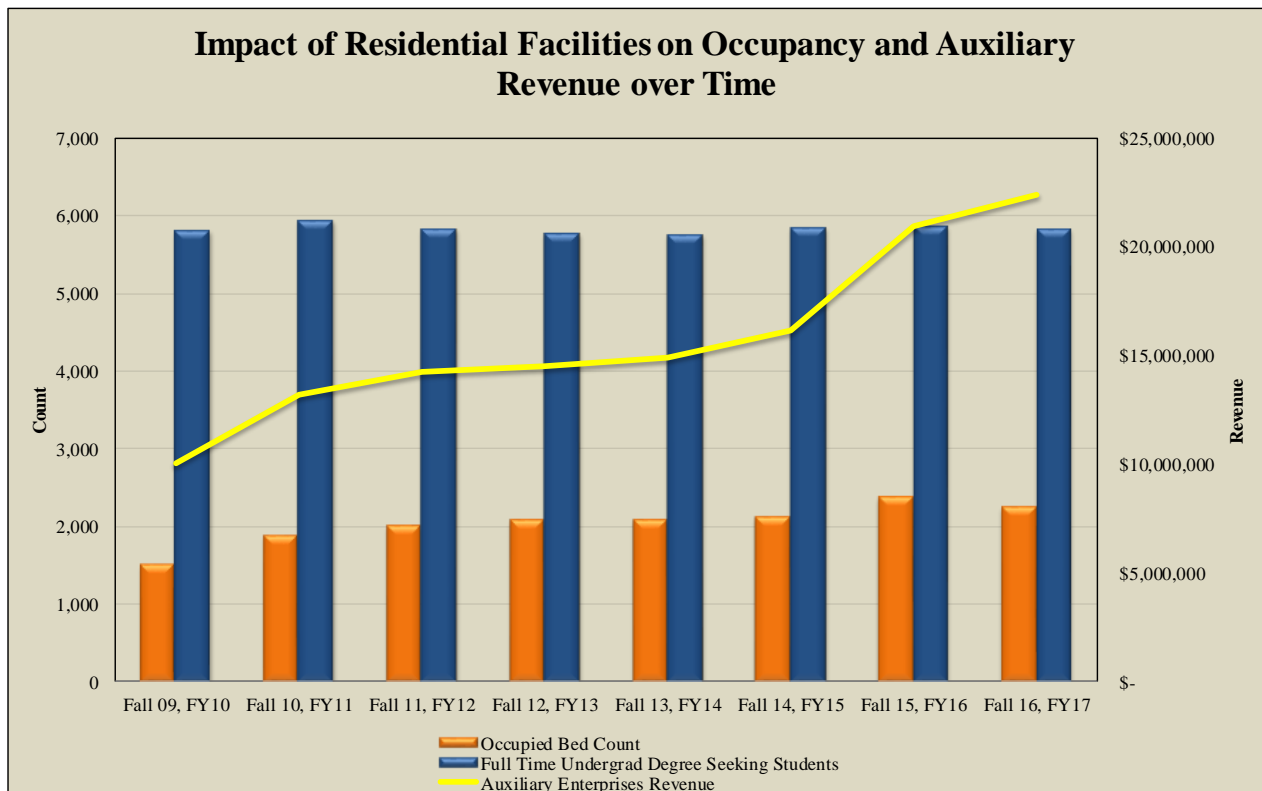
Focus on Inclusive Excellence

The university seeks to be an open, welcoming, and respectful community. In FY2017, a vice president was recruited and charged with leading efforts to create a university-wide diversity plan. She has begun to partner with members of the university and external communities on issues of diversity, inclusion, and social justice. This work is occurring under the Association of American Colleges & Universities’ framework of Inclusive Excellence in support of access, student success, and high-quality learning. A Campus Climate survey was undertaken during FY2017.

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Management's Discussion and Analysis - Continued
(Unaudited)

The University has intentionally grown its housing capacity to aid in enrollment management and student success, working toward a goal of housing 50% of undergraduate students on campus. The chart below shows the relationship between undergraduate student enrollment, residential hall occupancy, and auxiliary revenues over the last eight years.



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

Capital Projects

Sophia Gordon Center for Creative and Performing Arts

(Formerly known as the Main Stage Theatre Conversion Project)

During August 2014, construction commenced under the project management of the Division of Capital Asset Management and Maintenance (DCAMM) for the renovation of the Mainstage to become the Sophia Gordon Center for Creative and Performing Arts. Located on the North Campus, the project was completed during FY 2017 with a total cost of \$27.0 million. In April 2017, the state-of-the-art theatre held a grand opening with The Drowsy Chaperone, in a series of performances for the community, for donors, and for students, faculty, and staff. For the project, approximately \$13.3 million was funded by the University from the issuance of an MSCBA bond during January 2014, and additional cash funds of \$5.2 million was contributed by donors and the University in addition to capitalized interest of \$1.9 million recorded since FY 2015. DCAMM has funded \$6.6 million in capital grant funds as of June 30, 2017.

Clean Energy Investment Program (CEIP) - Phase III

During March 2016, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project - Phase III (the "project"). The project's goal is a comprehensive energy and water saving performance contract which includes ice rink renovations, lighting upgrades, and HVAC upgrades. Work was completed on this project during FY 2017. The total project cost amounted to \$5.5 million, of which the University will be responsible for \$2.8 million in bond debt.

Property Acquisition – Garage Bond

MSCBA held excess bond proceeds on behalf of the University for future real estate acquisitions. The Assistance Corporation is the legal entity that holds title to certain properties on behalf of the University. A portion of these bond proceeds were used during June 2017 for property acquisitions on behalf of the Assistance Corporation. As the liability is held by the University and the asset is held by the Assistance Corporation, these transactions were accounted for as a contribution (non-operating expense) of the University in these financial statements and are reflected in the Assistance Corporation's financial statements as an offsetting revenue.

North Campus Precinct Study

In conjunction with the Massachusetts State College Building Authority, the university undertook a study of the north campus to ensure that future facilities projects there would best support the university's mission. A goal of the North Campus Precinct study is to determine how to facilitate the relocation and consolidation of academic programs currently housed on south campus onto north campus. In partnership with the City of Salem, the university hopes to re-site the elementary school program currently housed in and known as the Horace Mann Elementary School to the academic building on south campus while relocating university academic programs to the north campus. Individual projects to be completed under the auspices of the precinct study will undergo the usual review, study, funding, and authorization processes prior to their inception.

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Management's Discussion and Analysis - Continued
(Unaudited)

GASB No. 68 - Accounting and Financial Reporting for Pensions

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, established 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 were mandated to be implemented by the Commonwealth in its fiscal year 2015 financial reports. The table below shows the financial statement impact of GASB 68 in fiscal years 2017 and 2016:

	FY 2017	FY 2016
	<i>(In Thousands)</i>	
Statement of Net Position (Balance Sheet)		
Deferred Outflows (like an Asset)	\$ 19,627	\$ 19,078
Net pension liability (Non-Current Liability)	46,974	44,297
Deferred Inflows (like a Liability)	3,891	1,308
Net position	(31,238)	(26,527)
One-year Change	(4,711)	(4,368)
 Statement of Revenues, Expenses & Changes in Net Position		
Pension Expense (allocated in Operating Expense Categories)*	\$ 4,711	\$ 4,368

* This pension expense amount is related solely to the GASB 68 adjustment

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Management's Discussion and Analysis - Continued
(Unaudited)

State Universities are required to record in their financial statements a proportionate amount of the State's net pension liability, recorded only on the Commonwealth's financial statements prior to FY2015. The recording of this pension liability on the financial statements of the University reduced the unrestricted net position as follows:

Unrestricted Net Position Effected by GASB 68			
<i>(In Thousands)</i>			
	Without Pension	Pension Adjustment	With Pension
Unrestricted Net Position at June 30, 2015	\$ 7,525	\$ (22,159)	\$ (14,634)
Unrestricted net increase (decrease) for FY 2016	2,213	(4,368)	(2,155)
Unrestricted Net Position at June 30, 2016	9,738	(26,527)	(16,789)
Unrestricted net increase (decrease) for FY 2017	(4,920)	(4,711)	(9,631)
Unrestricted Net Position at June 30, 2017	\$ 4,818	\$ (31,238)	\$ (26,420)

The total net pension liability balance in the June 30, 2017 and 2016 financial statements amounted to approximately \$47.0 million and \$44.3 million, respectively.

Overview of University Financial Statements

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

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

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Management's Discussion and Analysis - Continued
(Unaudited)

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 2017 declined by \$0.3 million or 0.3%. A summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2017, 2016 and 2015 is as follows:

<u>Assets</u>	<i>(In Thousands)</i>		
	2017	2016	2015
Current Assets	\$ 39,909	\$ 46,113	\$ 56,729
Capital Assets (net)	172,648	163,705	155,388
Noncurrent Assets	3,956	3,815	3,936
Total Assets	216,513	213,633	216,053
Deferred Outflows of Resources	19,627	19,078	4,231
Total Assets and Deferred Outflows	\$ 236,140	\$ 232,711	\$ 220,284
<u>Liabilities</u>			
Current Liabilities	\$ 23,685	\$ 26,552	\$ 25,390
Noncurrent Liabilities	96,903	92,453	70,819
Total Liabilities	120,588	119,005	96,209
Deferred Inflows of Resources	4,888	2,726	5,170
<u>Net Position</u>			
Net investment in capital assets	131,099	122,165	128,378
Restricted	5,985	5,604	5,161
Unrestricted	(26,420)	(16,789)	(14,634)
Total Net Position	110,664	110,980	118,905
Total Liabilities, Deferred Inflows and Net Position	\$ 236,140	\$ 232,711	\$ 220,284

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Management's Discussion and Analysis - Continued
(Unaudited)

Total assets increased in FY 2017 by \$2.9 million or 1% over the prior year compared with a 1% decrease of \$2.4 million in FY 2016. Most of the changes within the asset categories are associated with completion of capital projects from cash generated by bonds or long-term contractual agreements. Total liabilities increased in FY 2017 by \$1.6 million or 1% over prior year. This is due to a decrease in current liabilities primarily due to the timing of billing Fall 2017 student revenue. At June 30, 2017 unearned revenue decreased approximately \$4.4 million due to students being billed for the Fall 2017 semester after June 30, 2017. Whereas, in the prior year, students were billed before June 30, 2016 for that Fall 2016 semester. This decrease was offset by an increase in noncurrent liabilities due primarily to the net pension liability increase of \$2.7 million and a net increase in debt of \$1.7 million related to capital assets.

For fiscal 2017, 2016 and 2015, total net position amounted to \$110.7 million, \$111.0 million and \$118.9 million, respectively. The University's net position in the investment in capital assets (e.g. land, buildings and equipment) less any related debt used to acquire those assets is the largest component of the total net position, which is consistent with prior years and is detailed below in the next section. The University uses its capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, such as room rents, auxiliary and other fees, since the capital assets themselves cannot be used to satisfy these liabilities.

Capital Assets

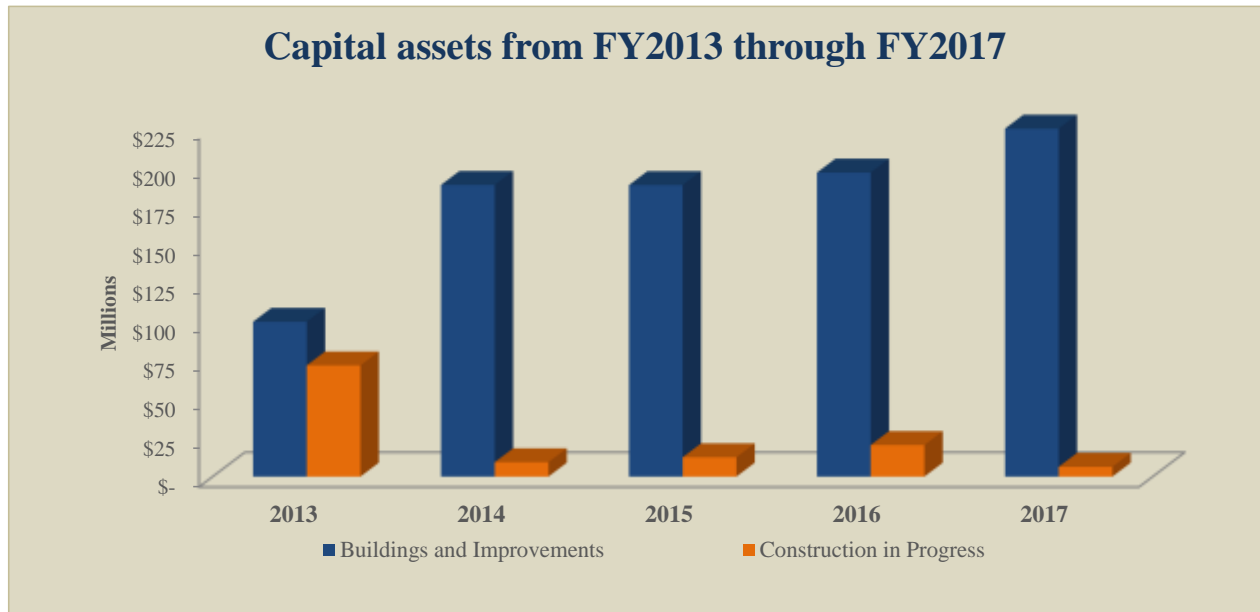
A summarized comparison of the University's capital assets categories at June 30, 2017, 2016 and 2015 is as follows:

Capital Asset Summary			
	<i>(In Thousands)</i>		
	2017	2016	2015
Building and improvements	\$ 227,079	\$ 196,564	\$ 188,503
Construction in Progress	6,372	20,361	12,456
Land	2,536	2,536	2,536
Furniture and Equipment	30,401	29,508	29,280
Total	266,388	248,969	232,775
Less: accumulated depreciation	(93,740)	(85,264)	(77,387)
Total capital assets, net	\$ 172,648	\$ 163,705	\$ 155,388

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Management's Discussion and Analysis - Continued
(Unaudited)

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



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Management's Discussion and Analysis - Continued
(Unaudited)

Capital Assets Changes

The University's total capital asset changes as of June 30, 2017, 2016 and 2015 are depicted below:

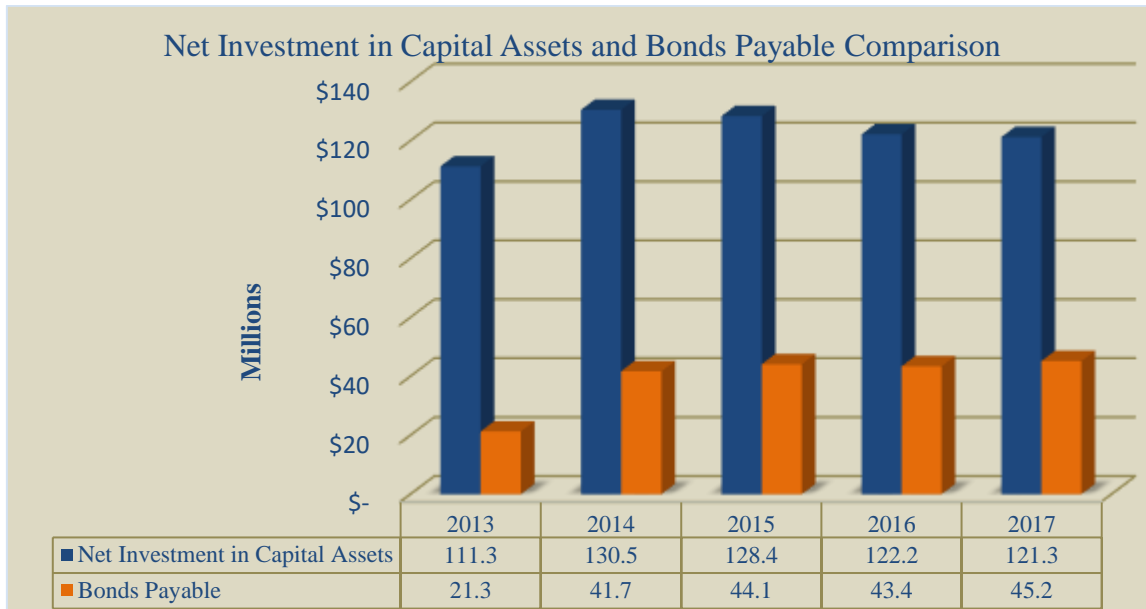
Changes in Capital Assets			
	(In Thousands)		
	2017	2016	2015
<u>Building and Land Improvements</u>			
Sophia Gordon Center	\$ 27,005	\$ -	\$ -
Meier Hall Renovation	-	321	1,244
Library and Learning Commons Improvements	272	521	1,005
Administration Building Renovation	1,736	-	-
Steam Pipe Repairs	366	-	-
Furniture and Equipment for Social Work and ESL	820	-	-
Student Navigation Center (MSCBA Bonds)	-	84	1,728
Starbucks Leasehold Improvement (Viking Hall)	-	514	-
Public Safety Relocation (MSCBA Bonds)	-	-	2,097
Canal Street Parking (MSCBA Bonds)	-	147	2,076
Equipment purchases for IT and Biology Departments	-	1,675	1,194
Comprehensive Energy Performance Contract Project	317	4,799	-
Additions to Buildings, Equipment & Infrastructure	<u>30,516</u>	<u>8,061</u>	<u>9,344</u>
Disposal of Old Library & Former Police Station	-	-	(8,269)
Net Additions to Buildings and Improvements	<u>30,516</u>	<u>8,061</u>	<u>1,075</u>
<u>Construction in Progress</u>			
Sophia Gordon Center Theatre	10,709	10,619	2,820
Various Ongoing Renovation Projects	1,161	2,073	5,500
Comprehensive Energy Performance Contract Project	3,920	1,208	1,208
IT Projects	1,178	774	1,135
Capitalized Bond Interest	<u>452</u>	<u>554</u>	<u>782</u>
Additions to Construction in Progress	17,420	15,228	11,445
Transfer of Construction in Progress to Capital Assets	<u>(31,410)</u>	<u>(7,323)</u>	<u>(8,242)</u>
Net Additions to Construction in Progress	<u>(13,990)</u>	<u>7,905</u>	<u>3,203</u>
<u>Furniture & Equipment</u>			
Equipment Purchases for IT & Art Design	642	228	-
Maintenance Equipment	<u>252</u>	<u>-</u>	<u>-</u>
Net Additions to Furniture and Equipment	<u>894</u>	<u>228</u>	<u>-</u>
Total Net Asset Additions	<u>17,420</u>	<u>16,194</u>	<u>4,278</u>
Depreciation Expense for the Year	8,477	7,877	7,655
Write Off of Old Library & Former Police Station	<u>-</u>	<u>-</u>	<u>(7,328)</u>
Net Accumulated Depreciation	<u>8,477</u>	<u>7,877</u>	<u>327</u>
Net Change in Capital Assets	<u>\$ 8,943</u>	<u>\$ 8,317</u>	<u>\$ 3,951</u>

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Management’s Discussion and Analysis - Continued
(Unaudited)

Net Investment in Capital Assets and Bonds Payable Comparison

The following graph displays long-term debt for Bond Payables and the Net Investment in Capital Assets balances for fiscal years ended 2013 through 2017:



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

Statements of Revenues and Expenses and Changes in Net Position Summary & Analysis

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

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Management's Discussion and Analysis - Continued
(Unaudited)

A summarized comparison of the University's operating and non-operating revenues and expenses and the resulting increase or decrease in net position at June 30, 2017, 2016 and 2015 is as follows:

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

	<i>(In Thousands)</i>		
	2017	2016	2015
<u>Operating Revenues</u>			
Tuition and Fees, Net	\$ 66,893	\$ 62,685	\$ 58,890
Federal, State, and Private Grants	19,306	18,820	19,782
Sales and Services	1,333	1,426	1,255
Auxiliary and Other	22,762	21,274	18,134
Total Operating Revenues	110,294	104,205	98,061
<u>Operating Expenses</u>			
Compensation and benefits	118,273	112,436	107,510
Supplies and services	37,324	35,957	32,934
Utilities	4,179	4,276	4,337
Depreciation	8,477	7,877	7,655
Scholarships	5,627	4,789	5,801
Change for GASB 68 pension activity	4,711	4,368	(473)
Total Operating Expense	178,591	169,703	157,764
<u>Non-Operating Revenues (Expenses)</u>			
State appropriations	58,768	56,416	54,442
Contribution to the Assistance Corporation	(897)	(911)	-
Gifts	1,801	2,665	1,784
Investment Income	1,755	(111)	592
Interest Expense	(1,157)	(1,269)	(985)
Total Non-Operating Revenues, Net	60,270	56,790	55,833
Capital Grants	7,711	783	846
Increase (Decrease) in Net Position	\$ (316)	\$ (7,925)	\$ (3,024)

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Management's Discussion and Analysis - Continued
(Unaudited)

Highlights for Operating Revenues

The increase in total operating revenues of \$6.1 million (6%) for both fiscal years 2017 and 2016 over the prior year resulted primarily from the following changes:

Tuition and Fees, net: The tuition and fees, net of scholarships and fellowships improved by 7% in FY 2017 and 6% in FY 2016 (\$4.2 million in FY 2017 and \$3.8 million in FY 2016) over prior year due to increases in fee rates as well as new fees.

Federal, State and Private Grants: Federal, state and private grant revenues increased in FY 2017 by \$0.5 million (3%). This increase is primarily due to an increase in federal grants. State and private grants remained stable in 2017 compared to 2016. In 2016, grants decreased by \$0.8 million (5%) over 2015 primarily due to a decrease in state grant revenue.

Auxiliary Enterprises and Other: Auxiliary enterprises and other revenues increased in FY 2017 by \$1.5 million (7%) over prior year primarily due to increases in dormitory room revenue of \$0.8 million and student fees for permits, meals and ancillary revenue of \$0.7 million. In FY 2016, auxiliary and other revenues increased \$3.1 million (17%) over the prior year and was primarily attributable to increased dormitory room revenue associated with the opening of Viking Hall (\$2.3 million). Other increases were from vendor and commission revenues of \$0.8 million over FY 2015.

Highlights for Operating Expenses

The increase in total operating expenses of \$9.2 million (5%) and \$11.9 million (8%) in FY 2017 and FY 2016, respectively, over prior year resulted primarily from the following changes:

Compensation and Benefits: Compensation and benefits increased during FY 2017 by \$5.8 million (5%) and FY 2016 by \$4.9 million (5%) over prior year. This is primarily due to contractual salary increases, including retroactive salary increases in FY 2016, and fringe benefit rate increases in both years.

Supplies and Services: The \$1.4 million (4%) increase in supplies and services during FY 2017 over prior year is primarily due to a \$1.2 million increase in the MSCBA assessment. MSCBA charges the University an assessment to cover the cost of financing residence hall and garage facilities on the university campus.

Utilities: In FY 2017, there was a slight decrease of \$97 thousand (2%) in utility costs over prior year due to a decreases in electricity and water and sewer costs.

Depreciation: The \$600 thousand (8%) increase in depreciation expense in FY 2017 over prior year is due to the increase in depreciable buildings and building improvements. Projects that were previously included in construction in progress have been completed and have begun to be depreciated in fiscal 2017. For similar reasons during FY 2016, depreciation increased \$222 thousand (3%) over the prior year.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Change for GASB 68 Pension Activity: The third year of adoption of GASB 68 resulted in pension expense of \$4.7 million in FY 2017 and was an increase of \$343 thousand over the prior year. This is due to changes in salaries and in the discount rate utilized in calculating the pension liability, as provided by the Comptroller's Office.

Highlights for Non-Operating Revenues (Expenses)

The increase in non-operating revenues (expenses) in FY 2017 of \$3.5 million (6%) and the decrease in FY 2016 of \$1.0 million (2%) resulted primarily from the following net changes:

State Appropriations: State appropriations increased by \$2.4 million (4%) and \$2.0 million (4%) in FY 2017 and FY 2016, respectively, over prior year primarily to support employee payroll and related fringe benefit costs. General Appropriation Act (GAA) funding increased by 1% or \$455 thousand for FY 2017; the majority of the appropriations increase was related to fringe benefits for the approximately half of the University's payroll that is funded by the state operating appropriation.

Contributions to the Assistance Corporation: Property was purchased amounting to \$896 thousand and \$911 thousand in FY 2017 and FY 2016, respectively for the Assistance Corporation with bond proceeds owed by the University.

Gifts: Gift revenue is a variable source. During FY 2017, gifts decreased over the prior year by \$864 thousand (32%). During FY 2016 a large gift for capital purposes did not recur.

Investment Income: Investment income increased by \$1.9 million in 2017 compared to a decrease of \$703 thousand in FY 2016 and is attributable to improved market conditions.

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

Management's Discussion and Analysis - Continued
(Unaudited)

Statement of Cash Flows

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

A summarized comparison of the University's cash flows and the resulting decrease in cash at June 30, 2017, 2016 and 2015 follows. *It should be noted that for the presentation below, the appropriations are shown in Operating Activities rather than Non-Capital Financing Activities since the State appropriations are intended and used to support operations.* According to accounting standards, on the Cash Flow Statement of the Financial Statements, the appropriations are presented as required in Non-Capital Financing Activities. This summary demonstrates that the reason for the decline in cash during FY 2016 and FY 2017 is the use of bond proceeds held to undertake and complete the construction projects previously discussed.

Summary of Cash Flows

	<i>(In Thousands)</i>		
	2017	2016	2015
Operating Activities	\$ 4,193	\$ 5,502	\$ (111)
Non Capital Financing Activities	(418)	941	389
Capital Financing Activities	(9,088)	(17,500)	(10,667)
Investing Activities	539	1,239	273
Net Decrease in Cash	\$ (4,774)	\$ (9,818)	\$ (10,116)

Highlights for Cash Flows

The overall decrease in cash and cash equivalents for FY 2017 amounted to approximately \$4.8 million and is primarily associated with the payment of construction projects (i.e. Sophia Gordon Center for Creative and Performing Arts) and the repayment of bond principal and related interest costs partially offset by proceeds from bonds associated with new capital assets acquisitions. The bond for the Sophia Gordon Center was originally issued in FY 2014.

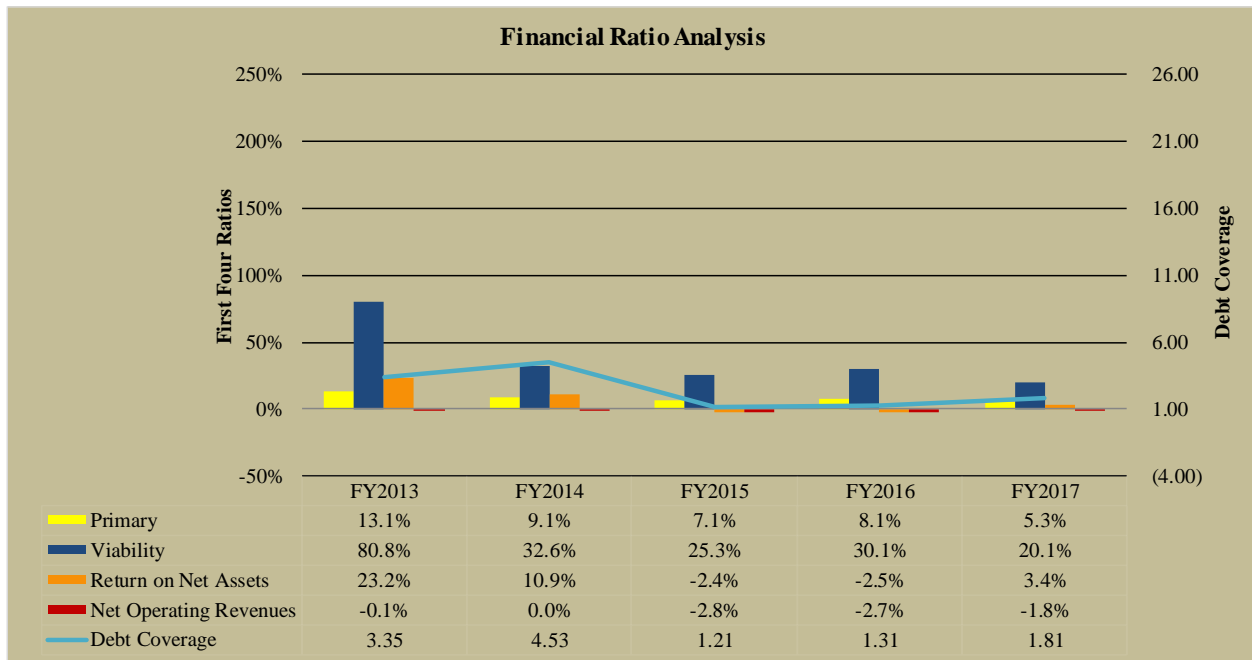
The overall decrease in cash and cash equivalents for FY 2016 and FY 2015 amounted to approximately \$9.8 million and \$10.1 million, respectively, is primarily associated with the purchase of capital assets and related bond activity.

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

Management’s Discussion and Analysis - Continued
(Unaudited)

Ratio Analysis

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



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.

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

Return on Net Assets

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.

Looking Ahead to FY18

The university has a newly appointed President and there is great energy to continue moving forward. The university is working to secure funding for a science teaching lab addition to best educate students, in part to address the region and Commonwealth's workforce needs. With the expected completion of the Strategic Plan and receipt of the results of the Campus Climate study, the university's continuous improvement efforts are expected to continue the progression and contribute to future financial vitality.

Requests for Further Information

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

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

Statements of Net Position

June 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	Primary Government		Component Units	
	2017 University	2016 University	2017 Combined	2016 Combined
Current Assets:				
Cash and cash equivalents	\$ 14,010,653	\$ 9,032,545	\$ 1,840,935	\$ 1,189,849
Restricted cash and cash equivalents	2,930,861	7,624,447	861,762	308,059
Deposits held by State Treasurer	1,751,316	2,333,595	-	-
Cash held by State Treasurer	969,059	781,242	-	-
Deposits held by MSCBA and DCAMM	792,862	5,456,628	-	-
Investments	12,867,542	11,760,256	-	-
Accounts, grants and other receivable, net	5,958,760	8,823,080	16,158	26,562
Pledges receivable, net	-	-	1,303,299	1,844,881
Note receivable	-	-	40,000	51,111
Loans receivable	221,611	264,430	-	-
Other current assets	406,681	37,166	2,407	26,998
Total Current Assets	39,909,345	46,113,389	4,064,561	3,447,460
Non-Current Assets:				
Investments	676,501	599,771	29,486,822	26,559,559
Loans receivable, net of current portion	1,806,097	1,741,372	-	-
Pledges receivable, net	-	-	4,174,556	1,521,280
Note receivable, net of current portion	-	-	206,667	246,667
Capital assets, net	172,648,089	163,704,987	11,755,930	11,043,297
Debt service reserve	1,473,340	1,473,340	-	-
Total Non-Current Assets	176,604,027	167,519,470	45,623,975	39,370,803
Total Assets	216,513,372	213,632,859	49,688,536	42,818,263
Deferred Outflow of Resources:				
Deferred outflows for pensions	19,626,524	19,078,090	-	-
Total Deferred Outflows of Resources	19,626,524	19,078,090	-	-
Total Assets and Deferred Outflows of Resources	\$ 236,139,896	\$ 232,710,949	\$ 49,688,536	\$ 42,818,263

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Units	
	2017 University	2016 University	2017 Combined	2016 Combined
Current Liabilities:				
Accounts payable and accrued expenses	\$ 4,035,476	\$ 3,401,781	\$ 340,824	\$ 349,502
Accrued payroll	7,711,373	7,294,496	-	-
Accrued compensated absences	6,120,020	6,029,533	-	-
Accrued workers' compensation	222,168	202,631	-	-
Unearned revenues	3,143,250	7,427,804	-	39,000
Note payable	81,546	73,887	70,135	86,424
Bonds payable	2,071,341	1,865,148	350,010	333,838
Deposits	299,677	256,620	-	-
Total Current Liabilities	23,684,851	26,551,900	760,969	808,764
Non-Current Liabilities:				
Accrued compensated absences	3,640,196	3,528,230	-	-
Accrued workers' compensation	955,150	755,451	-	-
Notes payable, net of current portion	12,698	88,032	1,352,031	1,421,433
Bond payable, net of current portion	43,131,082	41,524,732	1,297,681	1,802,562
Loans payable - Federal financial assistance programs	2,190,173	2,259,532	-	-
Net pension liability	46,973,396	44,297,126	-	-
Other non-current liabilities	-	-	26,953	34,078
Total Non-Current Liabilities	96,902,695	92,453,103	2,676,665	3,258,073
Total Liabilities	120,587,546	119,005,003	3,437,634	4,066,837
Deferred Inflows of Resources:				
Service concession arrangements	997,902	1,309,021	-	-
Deferred gain on bond refunding	-	109,970	-	-
Deferred inflows for pensions	3,890,105	1,306,921	-	-
Total Deferred Inflows of Resources	4,888,007	2,725,912	-	-
Net Position:				
Net investment in capital assets	131,099,107	122,164,882	8,686,073	7,399,040
Restricted:				
Nonexpendable	810,323	732,690	23,048,262	19,058,482
Expendable	5,174,752	4,871,719	12,580,873	11,033,273
Unrestricted	(26,419,839)	(16,789,257)	1,935,694	1,260,631
Total Net Position	110,664,343	110,980,034	46,250,902	38,751,426
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 236,139,896	\$ 232,710,949	\$ 49,688,536	\$ 42,818,263

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

Statements of Revenues and Expenses

For the Years Ended June 30, 2017 and 2016

	Primary Government		Component Units	
	2017 University	2016 University	2017 Combined	2016 Combined
Operating Revenues:				
Tuition and fees	\$ 84,587,147	\$ 79,474,916	\$ -	\$ -
Less: scholarships and fellowships	(17,694,347)	(16,790,060)	-	-
Net tuition and fees	66,892,800	62,684,856	-	-
Federal grants and contracts	14,101,909	13,642,619	-	-
State grants and contracts	4,861,321	4,878,842	-	-
Private grants and contracts	342,932	298,808	-	-
Gifts and contributions	-	-	6,088,753	2,554,399
Sales and services of educational departments	1,333,282	1,426,136	-	-
Auxiliary enterprises	22,398,146	20,976,201	860,594	1,468,387
Other operating revenues	364,117	297,565	116,443	199,219
Total Operating Revenues	110,294,507	104,205,027	7,065,790	4,222,005
Operating Expenses:				
Educational and general:				
Instruction	64,462,316	62,105,259	-	-
Public service	1,755,239	1,640,439	1,888,100	1,663,933
Academic support	16,898,704	15,796,526	-	-
Student services	19,222,838	19,277,618	-	-
Institutional support	27,765,194	25,968,389	335,854	1,360,763
Operation and maintenance of plant	15,599,380	14,129,763	-	-
Scholarships	5,626,549	4,788,910	445,941	380,449
Depreciation	8,476,817	7,876,670	165,798	169,365
Auxiliary enterprises	18,784,153	18,060,244	1,452,665	1,150,288
Total Operating Expenses	178,591,190	169,643,818	4,288,358	4,724,798
Net Operating Income (Loss)	(68,296,683)	(65,438,791)	2,777,432	(502,793)
Non-Operating Revenues (Expenses):				
State appropriations, net	58,767,638	56,416,180	1,194,450	1,249,979
Contribution to the Assistance Corporation	(896,488)	(910,824)	896,488	910,824
Gifts	1,800,982	2,665,232	-	-
Investment income	1,755,476	(169,963)	2,757,774	(258,049)
Other non-operating revenue	-	-	3,600	3,600
Interest expense	(1,157,237)	(1,269,370)	(130,268)	(151,319)
Net Non-Operating Revenues	60,270,371	56,731,255	4,722,044	1,755,035
Increase (Decrease) in Net Position Before Capital Grants	(8,026,312)	(8,707,536)	7,499,476	1,252,242
Capital grants	7,710,621	782,865	-	-
Total Increase (Decrease) in Net Position	\$ (315,691)	\$ (7,924,671)	\$ 7,499,476	\$ 1,252,242

See accompanying notes to the financial statements.

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

Statements of Changes in Net Position

For the Years Ended June 30, 2017 and 2016

	University				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at June 30, 2015	\$ 128,377,738	\$ 739,323	\$ 4,421,649	\$ (14,634,005)	\$ 118,904,705
Changes in net position for 2016	(6,212,856)	(6,633)	450,070	(2,155,252)	(7,924,671)
Balance, June 30, 2016	122,164,882	732,690	4,871,719	(16,789,257)	110,980,034
Changes in net position for 2017	8,934,225	77,633	303,033	(9,630,582)	(315,691)
Balance, June 30, 2017	\$ 131,099,107	\$ 810,323	\$ 5,174,752	\$ (26,419,839)	\$ 110,664,343

	Component Units				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at June 30, 2015	\$ 6,045,737	\$ 18,481,983	\$ 12,996,408	\$ 885,880	\$ 38,410,008
Changes in net position for 2016	1,353,303	576,499	(1,963,135)	374,751	341,418
Balance, June 30, 2016	7,399,040	19,058,482	11,033,273	1,260,631	38,751,426
Changes in net position for 2017	1,287,033	3,989,780	1,547,600	675,063	7,499,476
Balance, June 30, 2017	\$ 8,686,073	\$ 23,048,262	\$ 12,580,873	\$ 1,935,694	\$ 46,250,902

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	Primary Government	
	2017 University	2016 University
Cash Flows from Operating Activities:		
Tuition and fees	\$ 66,908,026	\$ 61,098,611
Grants and contracts	19,403,996	19,710,059
Payments to suppliers and vendors	(41,637,267)	(40,252,712)
Payments to employees	(91,278,270)	(88,898,871)
Payments for benefits	(11,390,707)	(9,691,870)
Payments to students	(5,626,549)	(4,788,910)
Loans issued to students	(443,455)	(209,871)
Collection of loans to students	410,001	376,083
Auxiliary enterprises receipts	20,931,923	21,988,607
Sales and services of educational departments	1,552,996	1,463,111
Other	426,508	163,411
Net Cash Used in Operating Activities	(40,742,798)	(39,042,352)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	44,935,945	44,543,834
Tuition remitted to State	(934,234)	(905,670)
Student interest received (paid)	(56,355)	(1,764)
Contributions to the Assistance Corporation	(896,488)	(910,824)
Gifts	1,468,970	2,758,963
Net Cash Provided by Non-Capital Financing Activities	44,517,838	45,484,539
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(9,141,741)	(14,855,786)
Principal paid on bonds payable and notes payable	(1,776,053)	(1,679,263)
Interest paid on bonds payable	(1,965,733)	(1,987,751)
Proceeds from bond financing	3,795,907	1,090,000
Debt service reserve funding	-	(66,505)
Net Cash Used in Capital Financing Activities	(9,087,620)	(17,499,305)
Cash Flows from Investing Activities:		
Investment income	410,114	457,197
Proceeds from sale of investments	6,132,241	4,456,576
Purchase of investments	(6,003,481)	(3,675,102)
Net Cash Provided by Investing Activities	538,874	1,238,671
Net Decrease in Cash and Equivalents	(4,773,706)	(9,818,447)
Cash and Cash Equivalents, Beginning of the Year	25,228,457	35,046,904
Cash and Cash Equivalents, End of the Year	\$ 20,454,751	\$ 25,228,457

SALEM STATE UNIVERSITY
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Statements of Cash Flows - Continued

For the Years Ended June 30, 2017 and 2016

	Primary Government	
	2017	2016
	<u>University</u>	<u>University</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (68,296,683)	\$ (65,438,791)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	8,476,817	7,876,670
Bad debts	446,812	237,522
Fringe benefits provided by State	14,765,927	12,778,016
Changes in assets and liabilities:		
Accounts receivable	2,611,309	(859,740)
Accounts payable and accrued liabilities	489,678	331,537
Accrued payroll and benefits	838,565	1,067,693
Other assets	(369,514)	70,090
Loans to/from students	(21,905)	182,799
Deposits	43,057	(886,706)
Unearned revenues	(4,016,794)	481,042
Deferred inflows	2,162,097	(2,443,749)
Deferred outflows	(548,434)	(14,846,829)
Net pension activity	2,676,270	22,408,094
Net Cash Used in Operating Activities	<u>\$ (40,742,798)</u>	<u>\$ (39,042,352)</u>

Cash Flow Information

	Primary Government	
	2017	2016
	<u>University</u>	<u>University</u>
For purposes of the statement of cash flows, cash and equivalents are comprised of the following at June 30:		
Cash and equivalents	14,010,653	9,032,545
Deposits held by State Treasurer	1,751,316	2,333,595
Cash held by State Treasurer	969,059	781,242
Deposits held by MSCBA and DCAMM	792,862	5,456,628
Restricted cash and equivalents	2,930,861	7,624,447
	<u>\$ 20,454,751</u>	<u>\$ 25,228,457</u>

Schedule of noncash investing and financing activities

	Primary Government	
	2017	2016
	<u>University</u>	<u>University</u>
Acquisition of capital assets	\$ 17,419,919	\$ 16,193,497
Accounts payable beginning of year	-	-
Accounts payable end of year	(115,077)	-
Payments made by DCAMM	(7,710,621)	(782,865)
Interest capitalized in CIP	(452,480)	(554,846)
Cash payments for capital assets	<u>\$ 9,141,741</u>	<u>\$ 14,855,786</u>
Unrealized gain (loss) on marketable securities	<u>\$ 737,752</u>	<u>\$ (486,942)</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 14,765,927</u>	<u>\$ 12,778,016</u>

See accompanying notes to financial statements.

SALEM STATE UNIVERSITY
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Combining Statements of Net Position of Major Component Units

June 30, 2017 and 2016

	<u>Assets</u>					
	2017			2016		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Current Assets:						
Cash and cash equivalents	\$ 1,412,112	\$ 428,823	\$ 1,840,935	\$ 804,044	\$ 385,805	\$ 1,189,849
Restricted cash and cash equivalents	861,762	-	861,762	308,059	-	308,059
Accounts, grants and other receivable, net	-	16,158	16,158	-	26,562	26,562
Pledges receivable, net	1,303,299	-	1,303,299	1,844,881	-	1,844,881
Note receivable	40,000	-	40,000	51,111	-	51,111
Other current assets	2,407	-	2,407	26,998	-	26,998
Total Current Assets	3,619,580	444,981	4,064,561	3,035,093	412,367	3,447,460
Non-Current Assets:						
Investments securities	29,486,822	-	29,486,822	26,559,559	-	26,559,559
Pledges receivable, net of current portion	4,174,556	-	4,174,556	1,521,280	-	1,521,280
Note receivables, net of current portion	206,667	-	206,667	246,667	-	246,667
Capital assets, net	-	11,755,930	11,755,930	-	11,043,297	11,043,297
Total Non-Current Assets	33,868,045	11,755,930	45,623,975	28,327,506	11,043,297	39,370,803
Total Assets	\$ 37,487,625	\$ 12,200,911	\$ 49,688,536	\$ 31,362,599	\$ 11,455,664	\$ 42,818,263
	<u>Liabilities and Net Position</u>					
Current Liabilities:						
Accounts payable and accrued expenses	\$ 298,981	\$ 41,843	\$ 340,824	\$ 311,587	\$ 37,915	\$ 349,502
Unearned revenues	-	-	-	39,000	-	39,000
Note payable	-	70,135	70,135	-	86,424	86,424
Bond payable	-	350,010	350,010	-	333,838	333,838
Total Current Liabilities	298,981	461,988	760,969	350,587	458,177	808,764
Non-Current Liabilities:						
Note payable, net of current portion	-	1,352,031	1,352,031	-	1,421,433	1,421,433
Bond payable, net of current portion	-	1,297,681	1,297,681	-	1,802,562	1,802,562
Other non-current liabilities	-	26,953	26,953	-	34,078	34,078
Total-Non Current Liabilities	-	2,676,665	2,676,665	-	3,258,073	3,258,073
Total Liabilities	298,981	3,138,653	3,437,634	350,587	3,716,250	4,066,837
Net Position:						
Net investment in capital assets	-	8,686,073	8,686,073	-	7,399,040	7,399,040
Restricted:						
Nonexpendable	23,048,262	-	23,048,262	19,058,482	-	19,058,482
Expendable	12,580,873	-	12,580,873	11,033,273	-	11,033,273
Unrestricted	1,559,509	376,185	1,935,694	920,257	340,374	1,260,631
Total Net Position	37,188,644	9,062,258	46,250,902	31,012,012	7,739,414	38,751,426
Total Liabilities and Net Position	\$ 37,487,625	\$ 12,200,911	\$ 49,688,536	\$ 31,362,599	\$ 11,455,664	\$ 42,818,263

See accompanying notes to the financial statements.

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

**Combining Statements of Revenues and Expenses
of Major Component Units**

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Operating Revenues:						
Gifts and contributions	\$ 6,088,753	\$ -	\$ 6,088,753	\$ 2,554,399	\$ -	\$ 2,554,399
Auxiliary enterprises	-	860,594	860,594	-	557,563	557,563
Other operating revenues	-	116,443	116,443	-	199,219	199,219
Total Operating Revenues	6,088,753	977,037	7,065,790	2,554,399	756,782	3,311,181
Operating Expenses:						
Educational and general:						
Public service	1,888,100	-	1,888,100	1,663,933	-	1,663,933
Institutional support	335,854	-	335,854	1,360,763	-	1,360,763
Scholarships	445,941	-	445,941	380,449	-	380,449
Depreciation and amortization	-	165,798	165,798	-	169,365	169,365
Auxiliary enterprises	-	1,452,665	1,452,665	-	1,150,288	1,150,288
Total Operating Expenses	2,669,895	1,618,463	4,288,358	3,405,145	1,319,653	4,724,798
Net Operating Income	3,418,858	(641,426)	2,777,432	(850,746)	(562,871)	(1,413,617)
Non-Operating Revenues (Expenses):						
State appropriations, net	-	1,194,450	1,194,450	-	1,249,979	1,249,979
Contribution to the Assisance Corporation	-	896,488	896,488	-	910,824	910,824
Investment income	2,757,774	-	2,757,774	(258,049)	-	(258,049)
Other non-operating revenue	-	3,600	3,600	-	3,600	3,600
Interest expense	-	(130,268)	(130,268)	-	(151,319)	(151,319)
Net Non-Operating Revenues	2,757,774	1,964,270	4,722,044	(258,049)	2,013,084	1,755,035
Total Increase (Decrease) in Net Position	6,176,632	1,322,844	7,499,476	(1,108,795)	1,450,213	341,418
Net Position, Beginning of Year	31,012,012	7,739,414	38,751,426	32,120,807	6,289,201	38,410,008
Net Position, End of Year	\$ 37,188,644	\$ 9,062,258	\$ 46,250,902	\$ 31,012,012	\$ 7,739,414	\$ 38,751,426

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2017 and 2016

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

Organization

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

Basis of Presentation and Accounting

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation and Accounting - continued

The Assistance Corporation owns and operates commercial rental properties at this site in Salem, Massachusetts and is legally separate from the University, and the University is not financially accountable for the Assistance Corporation. The Assistance Corporation has been included because of the nature and significance of its relationship with the University. Complete financial statements can be obtained from the Assistance Corporation's administrative offices in Salem, Massachusetts.

During the years ended June 30, 2017 and 2016, the Foundation distributed scholarships in the amount of \$445,941 and \$380,449, respectively, directly to students of the University. Complete financial statements for the Foundation and the Assistance Corporation can be obtained from the Office of the Vice President for Finance and Business, Salem State University, 352 Lafayette Street, Salem, MA 01970.

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

The University's financial statements have been prepared using the "economic resources measurement focus" and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation and Accounting - continued

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

The accompanying statements of revenues and expenses demonstrate the degree to which the direct expenses of a given function are offset by programs revenues. Direct expenses are those that are charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

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

Net Position

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following three net position categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position.

Restricted:

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

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation and Accounting - continued

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

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

Cash and Cash Equivalents and Deposits

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

Accounts Receivable

Accounts receivable are stated at the amount the University expects to collect from outstanding balances. Provisions for losses on accounts receivables are determined on the basis of loss experience, known and inherent risks in the loan and receivable portfolio, the estimated value of underlying collateral and current economic conditions.

Pledges Receivable - Foundation

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Investments

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Investments - continued

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

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

Loans Receivable and Payable

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

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Capital Assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, construction in process, buildings, building and land improvements and furniture and equipment, are reported in the statement of net position at cost or fair market value, if donated. Capital assets are defined by the University as assets with an initial individual cost of more than \$50,000 in accordance with the Commonwealth's capitalization policy.

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

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

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

The Assistance Corporation does not maintain a formal capitalization policy. However, purchases of property and equipment exceeding \$200 are generally deemed capitalizable. Purchased property and equipment is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Contributions - Foundation

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

Deposits Held by Other State Agencies

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

Pensions

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

Fringe Benefits

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

Compensated Absences

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

Deposits and Unearned Revenues

Deposits and advance payments received for tuition and fees related to certain summer programs and 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.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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.

Interest Costs and Capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2017 and 2016, total interest costs incurred were approximately \$1,684,000 and \$1,825,000, respectively. During 2017 and 2016, total interest costs capitalized were approximately \$453,000 and \$555,000, respectively.

Tax Status

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

Use of Estimates

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements

GASB Statement 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 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. As discussed in Note 19, management anticipates this standard will require the restatement of balances as of July 1, 2017.

GASB Statement 83 – *Certain Asset Retirement Obligations* (“AROs”) is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this Statement and its applicability.

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

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements - continued

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this Statement and its applicability.

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

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

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

The carrying amounts of the University's cash and cash equivalents and deposits, net of amounts in transit at June 30, 2017 and 2016 were \$16,941,514 and \$16,656,992 respectively. This includes amounts held in deposit at MMDT of \$11,672,504 and \$11,975,615, as of June 30, 2017 and 2016, respectively.

At June 30, 2017 and 2016, the University had deposits of \$5,026,475 and \$5,016,890, respectively, held in a money market account which was insured by a third party up to a maximum of \$5 million.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Custodial Credit Risk

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

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

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

Amounts remaining that may be exposed to custodial risk at June 30, 2017 and 2016 were \$541,734 and \$300,356, respectively, which are primarily maintained as part of the University's investment portfolio.

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Credit Risk

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

As of June 30, 2017, and 2016, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$11,672,504 and \$11,975,615, respectively. At June 30, 2017, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 59% at 30 days or less; 25% at 31-90 days; 14% at 91-180 days; and 2% at 181 days or more. At June 30, 2016, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 54% at 30 days or less; 29% at 31-90 days; 11% at 91-180 days; and 6% at 181 days or more.

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

Cash forwarded by the University to and held by the State Treasurer for payment of so-called "non-appropriated" liabilities at June 30, 2017 and 2016 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sums of \$1,751,316 and \$2,333,595, respectively.

Liabilities to be funded by state appropriations at June 30, 2017 and 2016 were \$969,059 and \$781,242, respectively.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments**

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

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

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for an asset or liability.

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

University

The University's investments at fair value measurement are as follows at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 792,724	\$ -	\$ -	\$ 792,724
U.S. equities	1,195,212	-	-	1,195,212
Corporate bonds	465,470	-	-	465,470
U.S. Treasuries	455,276	-	-	455,276
International emerging	252,038			252,038
Mid Cap equities	273,741			273,741
Short-term fixed income	182,090	-	-	182,090
Total mutual funds	<u>3,616,551</u>	-	-	<u>3,616,551</u>
Common stocks	6,407,622	-	-	6,407,622
Corporate bonds	-	3,494,845	-	3,494,845
U.S. Government obligations	-	25,025	-	25,025
Total investment assets	<u>\$10,024,173</u>	<u>\$ 3,519,870</u>	<u>\$ -</u>	<u>\$ 13,544,043</u>

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

University - continued

The University's investments at fair value measurement are as follows at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 1,120,268	\$ -	\$ -	\$ 1,120,268
U.S. equities	739,655	-	-	739,655
Corporate bonds	696,139	-	-	696,139
U.S. Treasuries	283,172	-	-	283,172
Short-term fixed income	119,413	-	-	119,413
Total mutual funds	2,958,647	-	-	2,958,647
Common stocks	6,324,554	-	-	6,324,554
Corporate bonds	-	2,821,655	-	2,821,655
U.S. Government obligations	-	255,171	-	255,171
Total investment assets	<u>\$ 9,283,201</u>	<u>\$ 3,076,826</u>	<u>\$ -</u>	<u>\$ 12,360,027</u>

Foundation

The Foundation's investments at fair value measurement are as follows at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 2,996,051	\$ -	\$ -	\$ 2,996,051
U.S. equities	2,216,383	-	-	2,216,383
Large cap equities	1,019,785	-	-	1,019,785
Small and mid-cap equities	737,405	-	-	737,405
International bonds	632,583	-	-	632,583
Hard assets	629,337	-	-	629,337
International emerging	619,887	-	-	619,887
Short-term fixed income	545,401	-	-	545,401
Corporate bonds	475,171	-	-	475,171
Fixed income	421,279	-	-	421,279
Other	328,971	-	-	328,971
U.S. bonds and notes	197,975	-	-	197,975
Total mutual funds	10,820,228	-	-	10,820,228
Common stocks	9,228,960	-	-	9,228,960
Corporate bonds	-	5,999,953	-	5,999,953
Money market	2,670,673	-	-	2,670,673
U.S. Government obligations	649,922	-	-	649,922
Certificates of deposits	-	116,586	-	116,586
Other	500	-	-	500
Total investment assets	<u>\$ 23,370,283</u>	<u>\$ 6,116,539</u>	<u>\$ -</u>	<u>\$ 29,486,822</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

Foundation - continued

The Foundation's investments at fair value measurement are as follows at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
International equities	\$ 3,166,921	\$ -	\$ -	\$ 3,166,921
U.S. equities	1,877,814	-	-	1,877,814
Large cap equities	990,665	-	-	990,665
Corporate bonds	973,455	-	-	973,455
Hard assets	680,620	-	-	680,620
International bonds	621,547	-	-	621,547
U.S. bonds and notes	417,472	-	-	417,472
Small and mid-cap equities	196,298	-	-	196,298
Short-term fixed income	163,452	-	-	163,452
Total mutual funds	9,088,244	-	-	9,088,244
Common stocks	8,305,369	-	-	8,305,369
Corporate bonds	-	5,362,503	-	5,362,503
Money market	3,066,192	-	-	3,066,192
U.S. Government obligations	620,165	-	-	620,165
Certificates of deposits	-	116,586	-	116,586
Other	500	-	-	500
Total investment assets	<u>\$ 21,080,470</u>	<u>\$ 5,479,089</u>	<u>\$ -</u>	<u>\$ 26,559,559</u>

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2017 and 2016, investments totaled \$13,544,043 and \$12,360,027, respectively. These holdings represent investments that are insured, registered and held by the University's investment agent in the University's name. At June 30, 2017 and 2016, 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.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

University - continued

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

June 30, 2017 Investment Maturity in Years				
Investment Type:	Fair Value	Less than 1	1-5	6-10
Corporate bonds	\$ 3,494,845	\$ -	\$ 2,076,238	\$ 1,418,607
Corporate bond funds	465,470	-	221,602	243,868
U.S. Government obligations	25,025	-	25,025	-
Short-term fixed income	182,090	182,090	-	-
U.S. Treasuries	455,276	-	48,058	407,218
Total fixed income	4,622,706	\$ 182,090	\$ 2,370,923	\$ 2,069,693
Equity securities	8,921,337			
Total investments	\$ 13,544,043			

June 30, 2016 Investment Maturity in Years				
Investment Type:	Fair Value	Less than 1	1-5	6-10
Corporate bonds	\$ 2,821,655	\$ 497,450	\$ 2,298,117	\$ 26,088
Corporate bond funds	696,139	-	437,552	258,587
U.S. Government obligations	255,171	25,106	230,065	-
Short-term fixed income	119,413	119,413	-	-
U.S. Treasuries	283,172	-	-	283,172
Total fixed income	4,175,550	\$ 641,969	\$ 2,965,734	\$ 567,847
Equity securities	8,184,477			
Total investments	\$ 12,360,027			

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

University - continued

The following table summarizes the quality ratings of the University's debt investments at June 30, 2017:

	Quality Ratings								
	Fair Value	Ba2	Baa1	Baa2	A1	A2	A3	AGCY	Not Rated
Corporate bonds	\$ 3,494,845	\$ 147,185	\$ 1,034,966	\$ 1,008,232	\$ 231,042	\$ 354,301	\$ 719,119	\$ -	\$ -
Corporate bond funds	465,470	-	-	-	-	-	-	-	465,470
U.S. Government obligations	25,025	-	-	-	-	-	-	25,025	-
Short-term fixed income	182,090	-	-	-	-	-	-	-	182,090
U.S. Treasuries	455,276	-	-	-	-	-	-	455,276	-
Totals	<u>\$ 4,622,706</u>	<u>\$ 147,185</u>	<u>\$ 1,034,966</u>	<u>\$ 1,008,232</u>	<u>\$ 231,042</u>	<u>\$ 354,301</u>	<u>\$ 719,119</u>	<u>\$ 480,301</u>	<u>\$ 647,560</u>

The following table summarizes the quality ratings of the University's debt investments at June 30, 2016:

	Quality Ratings									
	Fair Value	Ba1	Baa1	Baa2	A1	A2	A3	Aa1	AGCY	Not Rated
Corporate bonds	\$ 2,821,655	\$ 97,810	\$ 224,834	\$ 150,609	\$ 1,058,957	\$ 668,677	\$ 440,737	\$ 180,031	\$ -	\$ -
Corporate bond funds	696,139	-	-	-	-	-	-	-	-	696,139
U.S. Government obligations	255,171	-	-	-	-	-	-	-	255,171	-
Short-term fixed income	119,413	-	-	-	-	-	-	-	-	119,413
U.S. Treasuries	283,172	-	-	-	-	-	-	-	-	283,172
Totals	<u>\$ 4,175,550</u>	<u>\$ 97,810</u>	<u>\$ 224,834</u>	<u>\$ 150,609</u>	<u>\$ 1,058,957</u>	<u>\$ 668,677</u>	<u>\$ 440,737</u>	<u>\$ 180,031</u>	<u>\$ 255,171</u>	<u>\$ 1,098,724</u>

Investment Income (Loss)

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

	University 2017	University 2016	Foundation 2017	Foundation 2016
Interest and dividends	\$ 502,758	\$ 373,089	\$ 598,409	\$ 599,381
Net realized and unrealized gains and (losses)	1,312,778	(484,011)	2,254,172	(733,394)
Investment fees	(60,060)	(59,041)	(94,807)	(124,036)
Total investment income (loss)	<u>\$ 1,755,476</u>	<u>\$ (169,963)</u>	<u>\$ 2,757,774</u>	<u>\$ (258,049)</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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

	2017	2016
Student accounts	\$ 11,452,495	\$ 14,366,931
Grants	620,278	581,952
Other	1,067,392	788,296
Total gross receivables	13,140,165	15,737,179
Less: allowance for doubtful accounts	(7,181,405)	(6,914,099)
Total accounts, grants and other receivables, net	\$ 5,958,760	\$ 8,823,080

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

Pledges Receivable - Foundation

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

	2017	2016
Within one year	\$ 1,303,299	\$ 1,844,881
Between one to five years	4,696,662	1,646,793
More than five years	103,417	210,217
Total pledges receivables	6,103,378	3,701,891
Less:		
Allowance for doubtful accounts	(85,000)	(85,000)
Discount to net present value at 3%	(540,523)	(250,730)
Pledges receivable, net	5,477,855	3,366,161
Less: current portion of receivable	(1,303,299)	(1,844,881)
Long-term pledges receivable, net	\$ 4,174,556	\$ 1,521,280

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Notes Receivable - Foundation

During 2014, the Foundation provided a loan of \$600,000 to the Assistance Corporation to be used to purchase a property that was then leased to the University. The loan consisted of two notes: the first in the amount of \$200,000, requiring monthly principal payments of \$5,556 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 (2.28% and 1.57% at June 30, 2017 and 2016, respectively) plus 475 basis points. This note matures in August 2023. Funding was provided from the Foundation's investment portfolios and all repayments, including principal and interest, will be reinvested therein.

Future minimum maturities of the notes receivable for years subsequent to June 30, 2017 are as follows:

Years Ending June 30,	
2018	40,000
2019	40,000
2020	40,000
2021	40,000
2022	40,000
Thereafter	46,667
Total	<u>\$ 246,667</u>

Note 7 - **Loans Receivable and Payable**

Loans receivable and payable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Loan Program ("NSL"). The Federal Government originally provided the majority of the funds to support these programs. 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.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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

Loans receivable from students include the following at June 30,:

	2017	2016
Perkins	\$ 1,433,891	\$ 1,368,007
Nursing	573,197	615,411
Other	20,620	22,384
Total loans receivable	2,027,708	2,005,802
Less: amount due in one year	(221,611)	(264,430)
Long-term loan receivables	\$ 1,806,097	\$ 1,741,372

Amounts that would have to be repaid to the Federal Government upon liquidation by the University at June 30 are as follows:

	2017	2016
Perkins	\$ 1,425,966	\$ 1,507,927
Nursing	764,207	751,605
Total loans payable	\$ 2,190,173	\$ 2,259,532

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 can receive a spring semester Perkins loan disbursement. The University is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2018-19 academic year.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets**

University

Capital asset activity for the University for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Transfer to Capital Assets	Ending Balance
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	20,361,280	17,167,580	(31,157,344)	6,371,516
Total capital assets not depreciated	<u>22,897,453</u>	<u>17,167,580</u>	<u>(31,157,344)</u>	<u>8,907,689</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	106,433,382	-	30,516,182	136,949,564
Furniture and equipment	29,507,734	252,339	641,162	30,401,235
Total capital assets depreciated	<u>226,071,051</u>	<u>252,339</u>	<u>31,157,344</u>	<u>257,480,734</u>
Total capital assets	<u>248,968,504</u>	<u>17,419,919</u>	<u>-</u>	<u>266,388,423</u>
Less: accumulated depreciation:				
Buildings	24,897,058	1,928,972	-	26,826,030
Building improvements	35,878,971	5,181,620	-	41,060,591
Furniture and equipment	24,487,488	1,366,225	-	25,853,713
Total accumulated depreciation	<u>85,263,517</u>	<u>8,476,817</u>	<u>-</u>	<u>93,740,334</u>
Capital assets, net	<u>\$ 163,704,987</u>	<u>\$ 8,943,102</u>	<u>\$ -</u>	<u>\$ 172,648,089</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets - Continued**

University - continued

Capital asset activity for the University for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfer to Capital Assets</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	12,455,886	15,228,683	(7,323,289)	20,361,280
Total capital assets not depreciated	<u>14,992,059</u>	<u>15,228,683</u>	<u>(7,323,289)</u>	<u>22,897,453</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	98,373,297	862,795	7,197,290	106,433,382
Furniture and equipment	29,279,716	102,019	125,999	29,507,734
Total capital assets depreciated	<u>217,782,948</u>	<u>964,814</u>	<u>7,323,289</u>	<u>226,071,051</u>
Total capital assets	<u>232,775,007</u>	<u>16,193,497</u>	<u>-</u>	<u>248,968,504</u>
Less: accumulated depreciation:				
Buildings	22,968,084	1,928,974	-	24,897,058
Building improvements	31,576,762	4,302,209	-	35,878,971
Furniture and equipment	22,842,001	1,645,487	-	24,487,488
Total accumulated depreciation	<u>77,386,847</u>	<u>7,876,670</u>	<u>-</u>	<u>85,263,517</u>
Capital assets, net	<u>\$ 155,388,160</u>	<u>\$ 8,316,827</u>	<u>\$ -</u>	<u>\$ 163,704,987</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets - Continued**

Assistance Corporation

Capital asset activity of the Assistance Corporation for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets not depreciated:			
Land	\$ 7,621,892	\$ 539,590	\$ 8,161,482
Total capital assets not depreciated	7,621,892	539,590	8,161,482
Capital assets depreciated:			
Buildings	1,446,719	338,841	1,785,560
Building improvements	4,214,941	-	4,214,941
Furniture and equipment	191,112	-	191,112
Total capital assets depreciated	5,852,772	338,841	6,191,613
Total capital assets	13,474,664	878,431	14,353,095
Less accumulated depreciation:			
Buildings	533,213	36,168	569,381
Buildings improvements	1,723,433	120,123	1,843,556
Furniture and equipment	174,721	9,507	184,228
Total accumulated depreciation	2,431,367	165,798	2,597,165
Capital assets, net	\$ 11,043,297	\$ 712,633	\$ 11,755,930

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Capital Assets - Continued**

Assistance Corporation - continued

Capital asset activity of the Assistance Corporation for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets not depreciated:			
Land	\$ 6,987,769	\$ 634,123	\$ 7,621,892
Total capital assets not depreciated	6,987,769	634,123	7,621,892
Capital assets depreciated:			
Buildings	1,170,018	276,701	1,446,719
Building improvements	4,214,941	-	4,214,941
Furniture and equipment	191,112	-	191,112
Total capital assets depreciated	5,576,071	276,701	5,852,772
Total capital assets	12,563,840	910,824	13,474,664
Less accumulated depreciation:			
Buildings	498,275	34,938	533,213
Buildings improvements	1,598,515	124,918	1,723,433
Furniture and equipment	165,212	9,509	174,721
Total accumulated depreciation	2,262,002	169,365	2,431,367
Capital assets, net	\$ 10,301,838	\$ 741,459	\$ 11,043,297

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Accounts payable and accrued expenses include the following at June 30, 2017 and 2016:

	2017	2016
Accounts payable - trade	\$ 2,230,457	\$ 1,884,259
Accrued interest payable	391,022	362,094
Tuition due to state	77,450	76,817
Other	1,336,547	1,078,611
Total accounts payable and accrued expenses	\$ 4,035,476	\$ 3,401,781

Note 10 - **Unearned Revenues**

Unearned revenues include tuition received in advance from students for courses commencing after June 30 primarily for summer and fall semesters (FY 2018) and grant funds received in advance. Unearned revenues of the University include the following at June 30,:

	2017	2016
Tuition and fees	\$ 2,726,159	\$ 7,079,442
Grants	415,797	328,324
Other	1,294	20,038
Total unearned revenue	\$ 3,143,250	\$ 7,427,804

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Long-Term Liabilities**

Long-term liabilities of the University at June 30, 2017 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 39,806,037	\$ 3,795,907	\$ 1,782,461	\$ 41,819,483	\$ 1,870,449
Bond premiums	3,583,843	-	200,903	3,382,940	200,892
Loans payable	2,259,532	-	69,359	2,190,173	-
Note payable	161,919	-	67,675	94,244	81,546
Total bonds, loans and note payable	<u>45,811,331</u>	<u>3,795,907</u>	<u>2,120,398</u>	<u>47,486,840</u>	<u>2,152,887</u>
Other long-term liabilities:					
Accrued compensated absences	9,557,763	202,453	-	9,760,216	6,120,020
Workers' compensaton	958,082	219,236	-	1,177,318	222,168
Net pension liability	44,297,126	2,676,270	-	46,973,396	-
Total other long-term liabilities	<u>54,812,971</u>	<u>3,097,959</u>	<u>-</u>	<u>57,910,930</u>	<u>6,342,188</u>
Total long-term liabilities	<u>\$ 100,624,302</u>	<u>\$ 6,893,866</u>	<u>\$ 2,120,398</u>	<u>\$ 105,397,770</u>	<u>\$ 8,495,075</u>

Long-term liabilities of the University at June 30, 2016 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 40,322,832	\$ 1,090,000	\$ 1,606,795	\$ 39,806,037	\$ 1,664,256
Bond premiums	3,730,972	53,758	200,887	3,583,843	200,892
Loans payable	2,290,470	-	30,938	2,259,532	-
Note payable	234,388	-	72,469	161,919	73,887
Total bonds, loans and note payable	<u>46,578,662</u>	<u>1,143,758</u>	<u>1,911,089</u>	<u>45,811,331</u>	<u>1,939,035</u>
Other long-term liabilities:					
Accrued compensated absences	9,202,884	354,879	-	9,557,763	6,029,533
Workers' compensaton	1,176,844	-	218,762	958,082	202,631
Net pension liability	21,889,032	22,408,094	-	44,297,126	-
Total other long-term liabilities	<u>32,268,760</u>	<u>22,762,973</u>	<u>218,762</u>	<u>54,812,971</u>	<u>6,232,164</u>
Total long-term liabilities	<u>\$ 78,847,422</u>	<u>\$ 23,906,731</u>	<u>\$ 2,129,851</u>	<u>\$ 100,624,302</u>	<u>\$ 8,171,199</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Bonds Payable - University

Over the past 11 years, the University, in association with the MSCBA, DCAMM and the Massachusetts Development Finance Agency (“MDFA”), has entered into financing and construction agreements for various campus projects. The projects are as follows:

O’Keefe Athletic Complex Fields

During fiscal year 2005, the University entered into an agreement with the MSCBA to initiate a construction project to upgrade the University’s athletic field at the O’Keefe Athletic Complex. The scope of the services provided by MSCBA included planning and design as well as project management and construction. The project was completed during fiscal year 2006. The source of financing for the project is based on the issuance of Project Revenue Bonds issued by MSCBA on behalf of the University (Series 2005A via First Albany Capital, Public Finance).

Through its agreement with MSCBA, the University has an agreement to re-pay this debt in semi-annual installments, which started June 30, 2005 and ends June 30, 2025 at an annual variable coupon rate averaging approximately 4.25%. The outstanding balance of this obligation including unamortized bond premium was \$1,600,839 and \$1,746,756 at June 30, 2017 and 2016, respectively.

Central Campus Athletic Field and Tennis Court

During fiscal year 2006, the MSCBA issued Project 2006A bonds to support a project for the construction of a multi-purpose athletic field and tennis courts on the Central Campus of the University. The University has an agreement with the MSCBA to re-pay this debt in semi-annual installments, which started May 1, 2006 and ends May 1, 2026, at an annual coupon rate of approximately 4.26%. The outstanding balance of this obligation including unamortized bond premium was \$1,989,833 and \$2,150,153 at June 30, 2017 and 2016, respectively.

Clean Renewable Energy Initiatives

During fiscal year 2008, the MDFA issued Clean Renewable Energy Bonds totaling \$214,500 on behalf of the University. The proceeds from this issue were used to install solar panels on various buildings on campus. Through its agreement with MDFA, the University agreed to re-pay this interest free debt with annual principal installments of \$14,300. The term of the issue is from December 31, 2007 to December 31, 2020. The outstanding balance of this obligation was \$71,500 and \$85,800 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

In September 2010, the Commonwealth of Massachusetts issued Clean Renewable Energy Bonds (“CREBS”) at 3.5%. From this bond issue, the University received \$289,995 for the purpose of acquiring and installing solar panels on the O’Keefe Center. The University makes semi-annual payments of interest and principal. The bond holder is Century Bank. The term of the bond extends to May 2027. The outstanding balance of the obligation was \$170,585 and \$187,643 at June 30, 2017 and 2016, respectively.

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

In January of 2012, the MSCBA issued 2012A Project Bonds. The University was allotted \$16,028,603 for the construction of a Fitness Center as part of the O’Keefe Athletic Complex. The University’s portion of this issue consisted of principal of \$14,230,000 with a premium of \$1,798,603. The term of this debt extends to June 30, 2036 with a true interest cost (“TIC”) of 3.94%. The outstanding balance of this obligation including unamortized bond premium was \$14,114,243 and \$14,592,610 at June 30, 2017 and 2016, respectively.

With this issue, the 2005 and 2006 bond issues were refinanced at the lower TIC. This resulted in lower interest payments on both the 2005 and 2006 bond issues starting with the MSCBA 2012 spring assessment until the respective maturity date of each bond. The Debt Service Reserve for the 2005 bond was also reduced by approximately \$159,000 leaving a balance of \$88,612. A debt service reserve remains for the 2006 bond in the amount of \$245,737, which is unchanged from FY 2012.

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

During January 2014, the MSCBA issued 2014 project bonds on behalf of the University. These bond proceeds along with other University funds are being used to fund the construction of various projects on campus. These projects include the creation of the Student Navigation Center, comprehensive renovations to the Sophia Gordon Center for Creative and Performing Arts Theatre, relocation of the Public Safety station and the development and creation of a parking lot on Assistance Corporation owned land. These bonds consist of principal in the amount of \$19,030,000, issued at a premium of \$2,243,187. The average annual coupon rate is approximately 4.0% over the life of the issue, and the term of this debt extends to June 30, 2033. The outstanding balance of this obligation including unamortized bond premium was \$19,108,461 and \$19,923,996 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Land Acquisition Bond

In addition to the MSCBA issued 2014 project bonds, the MSCBA held additional bond proceeds for the University to use for future land acquisitions. These bond proceeds were used for land acquisitions on behalf of the Assistance Corporation during the 2016 fiscal year and have been included as a contribution (expense) to the Assistance Corporation in these financial statements under Non-Operating Revenues (Expenses). This bond amount consists of principal in the amount of \$1,090,000, issued at a premium of \$53,758. The average annual coupon rate is approximately 4.8% over the life of the issue, and the term of this debt extends to June 30, 2048. The outstanding balance of this obligation including unamortized bond premium was \$1,110,500 and \$1,127,129 at June 30, 2017 and 2016, respectively.

Clean Energy Investment Program

During July 2013, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project – Phase 1 (the project). In addition, during February 2014, the University entered into a second Memorandum of Agreement with DCAMM related to the same project but known as Phase 2. The project's goal is to upgrade the University campus wide lighting and lighting controls, water conservation and vending machine controls, motors, steam traps, pipe insulation, kitchen hood controls, energy management system upgrades, high efficiency gas boilers and HVAC modifications.

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

The total project cost for Phase 1 is \$1,694,560 and is to be repaid over 15 years at 4.0% interest per annum. Annual payments of principal and interest for Phase 1 in the amount of \$152,411 commenced in January 2015. The total project cost for Phase 2 is \$2,291,402 and is to be repaid over 15 years at 3.75% interest per annum. Annual payments of principal and interest for Phase 2 in the amount of \$202,505 commenced in January 2015. The total project cost for the University for Phase 3 is \$2,801,950 and will be repaid over 20 years at 3.0% interest per annum commencing on January 1, 2018. The annual payments of principal and interest for Phase 3 amount to \$188,335 per annum. The outstanding balance of the obligations for Phase 1, 2 and 3 was \$6,160,724 and \$3,575,793 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Property Acquisition – Garage Bond

MSCBA held excess bond proceeds on behalf of the University for future real estate acquisitions. These bond proceeds were used for property acquisitions on behalf of the Assistance Corporation during June 2017 and have been included as a contribution (expense) to the Assistance Corporation in these financial statements under Non-Operating Revenues (Expenses). This bond amount consists of principal in the amount of \$875,738 as of June 30, 2017. The average annual coupon rate is approximately 5.0% over the life of the issue, and the term of this debt extends to June 30, 2044.

Debt Service Reserves

Total debt service reserves held by the MSCBA for past bond issuances amount to \$1,473,340 at June 30, 2017 and 2016.

Bond Payable Maturities

Maturities of the bonds payable subsequent to June 30, 2017 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Amortization of Premium</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,870,449	\$ 200,892	\$ 1,903,314	\$ 3,974,655
2019	2,000,775	200,892	1,959,121	4,160,788
2020	2,065,608	200,892	1,785,157	4,051,657
2021	2,155,281	200,892	1,693,582	4,049,755
2022	2,244,670	200,892	1,597,494	4,043,056
2023-2027	12,092,668	990,675	6,323,603	19,406,946
2028-2032	11,996,496	952,690	3,491,407	16,440,593
2033-2037	6,488,383	417,205	863,076	7,768,664
2038-2042	450,834	8,145	176,201	635,180
2043-2048	454,319	9,765	64,991	529,075
Total	<u>\$ 41,819,483</u>	<u>\$ 3,382,940</u>	<u>\$ 19,857,946</u>	<u>\$ 65,060,369</u>

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 11 - Long-Term Liabilities - Continued

Note Payable University

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

Years Ending June 30,	
2018	\$ 81,546
2019	12,698
Total	<u>\$ 94,244</u>

Long-term Liabilities - Assistance Corporation

Long-term liabilities for the Assistance Corporation at June 30, 2017 consisted of:

	<u>Beginning Balance</u>	<u>Increases (Reductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Notes payable	\$ 1,507,857	\$ (85,691)	\$ 1,422,166	\$ 70,135	\$ 1,352,031
Bonds payable	2,136,400	(488,709)	1,647,691	350,010	1,297,681
Other notes	34,078	(7,125)	26,953	-	26,953
Total	<u>\$ 3,678,335</u>	<u>\$ (581,525)</u>	<u>\$ 3,096,810</u>	<u>\$ 420,145</u>	<u>\$ 2,676,665</u>

Long-term liabilities for the Assistance Corporation at June 30, 2016 consisted of:

	<u>Beginning Balance</u>	<u>Increases (Reductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Notes payable	\$ 1,647,058	\$ (139,201)	\$ 1,507,857	\$ 86,424	\$ 1,421,433
Bonds payable	2,609,043	(472,643)	2,136,400	333,838	1,802,562
Other notes	31,630	2,448	34,078.00	-	34,078
Total	<u>\$ 4,287,731</u>	<u>\$ (609,396)</u>	<u>\$ 3,678,335</u>	<u>\$ 420,262</u>	<u>\$ 3,258,073</u>

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Notes to the Financial Statements

June 30, 2017 and 2016

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

Notes Payable Assistance Corporation

The Assistance Corporation has two promissory notes outstanding with the Salem State University Foundation. 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 was paid during the year ended June 30, 2017.

Notes Payable Assistance Corporation - continued

The Assistance Corporation maintains a loan with a bank. The loan is a five year adjustable rate mortgage due September 2022 with a 25-year amortization. Payments in the amount of \$6,856, including principal and interest at 3.95% are due monthly through August 2017 at which time the interest rate will be adjusted to 4.625% for the remainder of the term. A final balloon payment representing the outstanding balance is due in September 2022. The loan is secured by a mortgage on real estate owned by the Assistance Corporation.

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

Years Ending	Principal	Interest
June 30,		
2018	\$ 70,135	\$ 68,187
2019	70,187	65,420
2020	71,613	61,199
2021	73,107	56,893
2022	74,671	52,517
Thereafter	1,062,453	13,724
Total	<u>\$ 1,422,166</u>	<u>\$ 317,940</u>

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Notes to the Financial Statements

June 30, 2017 and 2016

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

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. This property is currently being leased under an agreement with Salem State University. Subsequent to June 30, 2017, principal and interest payments on the revenue bond payable for the next five years are as follows:

Years Ending June 30,	Principal	Interest
2018	\$ 350,010	\$ 48,516
2019	361,592	36,933
2020	373,558	24,968
2021	562,531	4,326
Total	\$ 1,647,691	\$ 114,743

Note 12 - **Pensions**

Defined Benefit Plan Description

The University makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$7,462,847 and \$6,866,271 for the years ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 68% and 70% of total related payroll for fiscal years end June 30, 2017, respectively.

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Notes to the Financial Statements

June 30, 2017 and 2016

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.

The Massachusetts State Employees’ Retirement System 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 are not eligible for retirement until they have reached age 60.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Contributions

The SERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. Member contributions for SERS vary depending on the most recent date of membership:

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

The University is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The University contributed \$2,716,688 and \$2,446,187 for the fiscal years ended June 30, 2017 and 2016, respectively, 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, 2017 and 2016, the University reported a liability of \$46,973,396 and \$44,297,126, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. The University's proportion of the net pension liability was based on its share of the Commonwealth's collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the University for the fiscal years 2016 and 2015, respectively. The University's proportionate share was based on actual employer contributions to the SERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for the fiscal years. At June 30, 2016 and 2015, the University's proportion was 0.341% and 0.389%, respectively.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

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

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$4,746,159 and \$4,420,084, respectively. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

	<u>2017</u>	<u>2016</u>
<u>Deferred Outflows of Resources</u>		
Difference between expected and actual experience	\$ 2,231,111	\$ 875,604
Net differences between projected and actual earnings on pension plan investments	3,153,237	-
Change in plan actuarial assumptions, net	5,209,037	7,671,355
Changes in proportion from Commonwealth	104,648	-
Changes in proportion due to internal allocation	6,211,803	8,084,944
Contributions subsequent to the measurement date	<u>2,716,688</u>	<u>2,446,187</u>
Total deferred outflows related to pension	<u>\$19,626,524</u>	<u>\$19,078,090</u>
<u>Deferred Inflows of Resources</u>		
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 1,272,915
Changes in proportion from Commonwealth	22,631	34,006
Changes in proportion due to internal allocation	<u>3,867,474</u>	<u>-</u>
Total deferred inflows related to pension	<u>\$ 3,890,105</u>	<u>\$ 1,306,921</u>

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12- **Pensions - Continued**

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

The University's contributions of \$2,716,677 and \$2,446,187 made during the fiscal years ending 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2018	\$ 2,947,461
2019	2,947,461
2020	4,213,615
2021	2,680,542
2022	<u>230,652</u>
	<u>\$13,019,731</u>

Actuarial Assumptions

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

	June 30, 2017	June 30, 2016
Measurement date	June 30, 2017	June 30, 2016
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2016 and 2015, mortality rates were based on:

- Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions – Continued**

Actuarial Assumptions - continued

The actuarial assumptions used in the January 1, 2016 valuation rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2017 were consistent with the results of the actuarial experience study performed as of January 1, 2016.

The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of the actuarial experience study performed as of January 1, 2015.

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

<u>Asset Class</u>	<u>2016</u>		<u>2015</u>	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	6.90%	40%	6.90%
Core Fixed Income	13%	1.60%	13%	2.40%
Hedge Funds	9%	4.00%	9%	5.80%
Private Equity	10%	8.70%	10%	8.50%
Real Estate	10%	4.60%	10%	6.50%
Portfolio Completion Strategies	4%	3.60%	4%	5.50%
Value Added Fixed Income	10%	4.80%	10%	5.80%
Timber/Natural Resources	4%	5.40%	4%	6.60%
	<u>100%</u>		<u>100%</u>	

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at both June 30, 2016 and 2015. 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.

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

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

June 30, 2017		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 61,213,612	\$46,973,396	\$ 34,904,261
June 30, 2016		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 60,214,065	\$44,297,126	\$ 30,568,182

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Notes to the Financial Statements

June 30, 2017 and 2016

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 October 2015 totaling \$4,380,000.

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, 2017 and 2016, the unamortized portion of these contributions approximated \$658,000 and \$867,000, respectively.

Amounts related to agreements with other vendors at June 30, 2017 and 2016 approximated \$340,000 and \$442,000, respectively.

Note 14 - **Rental Income**

Assistance Corporation

The Assistance Corporation has long-term operating leases with lessees, including Salem State University. Minimum future rentals under the non-cancellable operating leases subsequent to June 30, 2017 are as follows:

Years Ending June 30,	Amount
2018	\$ 1,616,463
2019	1,271,363
2020	1,181,767
2021	1,365,607
2022	814,716
Thereafter	19,143,754
Total	<u>\$ 25,393,670</u>

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

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 15 - **Operating Lease Commitments**

The University has numerous operating leases for property at various locations from the Assistance Corporation and for equipment from outside vendors. These leases contain options to extend from one to five years, and contain escalation clauses for increases in base rent. These leases expire in various years through 2040. Future minimum payments related to these leases are as follows:

<u>Years Ending June 30,</u>	<u>Assistance Corporation</u>	<u>Outside Vendors</u>	<u>Total</u>
2018	\$ 1,771,183	\$ 364,676	\$ 2,135,859
2019	1,523,468	72,171	1,595,639
2020	1,004,923	10,539	1,015,462
2021	800,748	10,539	811,287
2022	820,825	2,635	823,460
Thereafter	<u>19,043,321</u>	<u>-</u>	<u>19,043,321</u>
Total	<u>\$24,964,468</u>	<u>\$ 460,560</u>	<u>\$25,425,028</u>

The rent expense on these leases amounted to approximately \$1,423,000 and \$1,501,000 for fiscal years 2017 and 2016, respectively.

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,:

	<u>2017</u>	<u>2016</u>
Restricted - nonexpendable:		
Scholarship and fellowship	<u>\$ 810,323</u>	<u>\$ 732,690</u>
Restricted - expendable:		
Scholarship, fellowship loans, research grants and contracts	<u>\$5,174,752</u>	<u>\$4,871,719</u>

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

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 17 - **Commitments and Contingencies**

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

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

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

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

The U.S. Environmental Protection Agency ("EPA") notified the University in August 1998 that it is a potential responsible party with respect to environmental impacts resulting from contaminated soil upon the removal of underground oil tanks in 1991. The EPA has not closed out their investigation. During fiscal year 2017 and 2016, 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.

Several of the employee union labor contracts have recently expired, including the Association of Professional Administrators ("APA") contract which expired on December 31, 2016. Negotiations are currently underway and may result in a retroactive payment of salaries. This payroll amount, along with its related fringe benefits is estimated to range between \$100,000 and \$225,000 and would be expected to be paid out during fiscal year 2018.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 18 - **Operating Expenses**

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

	<u>2017</u>	<u>2016</u>
Compensation and benefits	\$ 122,984,490	\$ 116,804,359
Supplies and services	37,324,136	35,897,786
Utilities	4,179,198	4,276,343
Depreciation	8,476,817	7,876,670
Scholarships and fellowships	5,626,549	4,788,660
Total operating expenses	<u>\$ 178,591,190</u>	<u>\$ 169,643,818</u>

Note 19 - **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 30.82% in 2016 to 35.16% in 2017 which includes 1.65% and 1.66% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 9.45% in 2016 to 9.95% in 2017. 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
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Notes to the Financial Statements

June 30, 2017 and 2016

Note 19 - **Fringe Benefit Program - Continued**

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2017, 2016, and 2015 were \$6,528,137, \$5,202,742, and \$3,995,322, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the State Retirement Benefits Trust Fund. The University will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net other postemployment benefit ("OPEB") obligation. OPEB expense reported in the University's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Insurance

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

Health coverage options include an Indemnity plan, Preferred Provider-type Organizations ("PPO"), an Exclusive Provider Organization ("EPO") and multiple HMO plans. The GIC also manages basic and optional life insurance coverage. As part of its UniCare State indemnity and active employee Tufts Health plans, it manages mental health/substance abuse benefits and also manages pharmacy benefits for the indemnity plans.

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.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 19 - **Fringe Benefit Program - Continued**

Insurance – continued

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

The GIC is a quasi-independent state agency governed by an 11-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2017 and 2016, the GIC provided health insurance for its members through indemnity, PPO and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 20 - **Massachusetts Management Accounting Reporting System ("MMARS")**

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

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 20 - **Massachusetts Management Accounting Reporting System (“MMARS”) – Continued**

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

	2017	2016
General Appropriations	\$ 43,997,174	\$ 43,541,763
Other Appropriations	938,772	1,002,071
Total Appropriations	\$ 44,935,946	\$ 44,543,834
 <u>Add:</u>		
Fringe benefits for benefited employees on the state payroll	14,765,927	12,778,016
 <u>Less:</u>		
Day school tuition remitted to the state and included in tuition and fee revenue	(934,235)	(905,670)
Total unrestricted appropriations	\$ 58,767,638	\$ 56,416,180

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

	2017	2016
Revenue per MMARS	\$ 67,280,576	\$ 67,384,750
Revenue per University	67,280,576	67,384,750
Difference	\$ -	\$ -

Note 21 - **Pass-Through Student Federal Loans**

The University distributed approximately \$48,492,000 and \$47,580,000 for the years ended June 30, 2017 and 2016, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included in the accompanying financial statements.

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Notes to the Financial Statements

June 30, 2017 and 2016

Note 22 - **Massachusetts State College Building Authority (“MSCBA”)**

The MSCBA was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth as a public instrumentality for the general purpose of providing residence halls and other facilities for use by students of the state universities of the Commonwealth, as well as major construction projects on their campuses. The residence halls are leased from the MSCBA for various terms, allowing for periods of up to 10 years.

The University is charged a semi-annual revenue assessment that is based on a certified occupancy report, the current rent schedule and the design capacity for each of the residence halls, as well as debt service on instruments issued for dormitory and other major construction projects for the University. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations.

These obligations may include the costs of periodic renovations and improvements to the residence halls, as well as other major construction performed on campus, which has included athletic field construction and repair.

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations and other major renovations and improvements for the University for the years ended June 30, 2017 and 2016 were \$14,049,442 and \$12,857,064, respectively, and are included in auxiliary enterprises and operation and maintenance of plant in the accompanying statements of revenues and expenses. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.341%	0.389%	0.295%
Proportionate share of the collective net pension liability	\$ 46,973,396	\$ 44,297,126	\$ 21,889,023
College's covered-employee payroll	\$ 25,885,577	\$ 23,448,807	\$ 21,870,164
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplementary information.

SALEM STATE UNIVERSITY
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Schedule of Contributions (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 2,716,688	\$ 2,446,187	\$ 2,436,331
Contributions in relation to the statutorily required contribution	<u>(2,716,688)</u>	<u>(2,446,187)</u>	<u>(2,436,331)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 27,303,397	\$ 25,885,577	\$ 23,448,807
Contribution as a percentage of covered-employee payroll	9.95%	9.45%	10.39%

Notes:

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

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

See accompanying notes to the required supplementary information.

SALEM STATE UNIVERSITY
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Notes to the Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2017, 2016 and 2015

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.0% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning during the fiscal year ended June 30, 2016. Previously, 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 during the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The University's proportionate share of the net pension liability and the results of changes in assumptions is 0.341%, 0.389% and 0.295%, respectively, as shown on the Schedules 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.

**SUPPLEMENTARY
INFORMATION**

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

Schedules of Net Position
Dormitory Trust Fund Report (Unaudited)

June 30, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Assets:		
Cash and equivalents	\$ 1,608,759	\$ 1,391,316
Accounts receivable, net	169,855	202,233
Other receivables, net	-	33,240
	<hr/>	<hr/>
Total Assets	\$ 1,778,614	\$ 1,626,789
	<hr/> <hr/>	<hr/> <hr/>
	<u>Liabilities and Net Position</u>	
Liabilities:		
Accounts payable	\$ 78,756	\$ 16,074
Accrued payroll and fringe benefits	139,944	106,132
Accrued compensated absences	260,155	260,789
	<hr/>	<hr/>
Total Liabilities	478,855	382,995
Net Position	<hr/> 1,299,759 <hr/>	<hr/> 1,243,794 <hr/>
Total Liabilities and Net Position	<hr/> \$ 1,778,614 <hr/>	<hr/> \$ 1,626,789 <hr/>

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

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Student fees	\$ 18,929,872	\$ 18,351,760
Less: scholarships and fellowships	(1,007,558)	(978,675)
Commissions	269,019	57,893
Rentals	<u>55,501</u>	<u>173,607</u>
Total Revenues	<u>18,246,834</u>	<u>17,604,585</u>
Expenses:		
Regular employee compensation	2,419,958	2,211,497
Regular employee related expenses	259	271
Special employee compensation	821,780	778,265
Pension and insurance related	831,956	694,857
Administrative	279,957	62,327
Facility operational	182,046	89,758
Energy and space rental	1,465,616	1,556,511
Operational services	33,681	60,425
Equipment purchase	22,232	47,253
Equipment maintenance	726,971	811,179
Loans and special payments	11,848,929	11,576,973
Information technology	<u>8,047</u>	<u>18,859</u>
Total Expenses	<u>18,641,432</u>	<u>17,908,175</u>
Excess of Expenses over Revenues Before Transfers	(394,598)	(303,590)
Net Transfers	<u>450,563</u>	<u>457,537</u>
Total Increase (Decrease) in Net Position	<u>55,965</u>	<u>153,947</u>
Net Position, Beginning of Year	<u>1,243,794</u>	<u>1,089,847</u>
Net Position, End of Year	<u>\$ 1,299,759</u>	<u>\$ 1,243,794</u>

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salem State University (the "University"), which comprise the statements of net position as of June 30, 2017, the related statements of revenues, expenses and changes in net position, cash flows, the combining statements of net position of major component units, and combining statements of revenues and expenses of major component units for the year then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated October 11, 2017. We also performed the audit of the Salem State University Foundation and the Salem State University Alumni Association's financial statements, as of and for the year ended June 30, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Duen, P.C.

Certified Public Accountants

Braintree, Massachusetts

October 11, 2017