

June 30, 2018 Financial Statement Recalled, Revised & Reissued

October 12, 2018 original issue date

Updated as of March 18, 2019

Salem State University has reissued their audited financial statements as of June 30, 2018. The University was informed in December 2018 that the Other Post-Employment Benefits (OPEB) information provided to the University from State Officials for the original June 30, 2018 audited financial statements was **materially incorrect**. The Commonwealth's auditors distributed their final OPEB report and allocation schedule to the University during January 2019. Our auditors have worked with the University to reissue these audited financial statements and have dated their audit report in their opinion as follows:

- *October 12, 2018, (except for; Management's Discussion and Analysis, Note 2, Note 12, Note 14, Note 20, and Schedule of Proportionate Share of Net OPEB Liability, as to which the date is March 18, 2019).*

Due to the aforementioned, please destroy all electronic and printed copies of the original June 30, 2018 financial statements received previously or downloaded from our website.

The original financial statements located on the University's website has been replaced with the updated financial statements.

If you have any questions, please feel free to contact me to discuss.

Kind regards,

Russell J. Bethoney, CPA

Assistant Vice President, Finance and Facilities

University Controller

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SALEM STATE UNIVERSITY

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

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

JUNE 30, 2018

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

Financial Statements

June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Salem State University (an agency of the Commonwealth of Massachusetts, the "Commonwealth") (the "University"), and its discretely presented component units, the Salem State University Foundation, Inc. (the "Foundation") and Salem State University Assistance Corporation (the "Assistance Corp.") which comprise the statements of net position as of June 30, 2018, and 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Salem State University as of June 30, 2018, and 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, is effective for fiscal year 2018 and required the University to restate beginning net position at July 1, 2016 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the State Retirees' Benefit Trust. Our opinion is not modified with respect to that matter.

As discussed in Note 2 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated October 12, 2018. Subsequent to the issuance of the financial statements, management of the State Retiree's Benefit Trust alerted the University that the calculation of postemployment benefits other than pensions as of June 30, 2018, June 30, 2017, and July 1, 2016 was misstated.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 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 12, 2018, (except for; Management's Discussion and Analysis, Note 2, Note 12, Note 14, Note 20, and Schedule of Proportionate Share of Net OPEB Liability, as to which the date is March 18, 2019).

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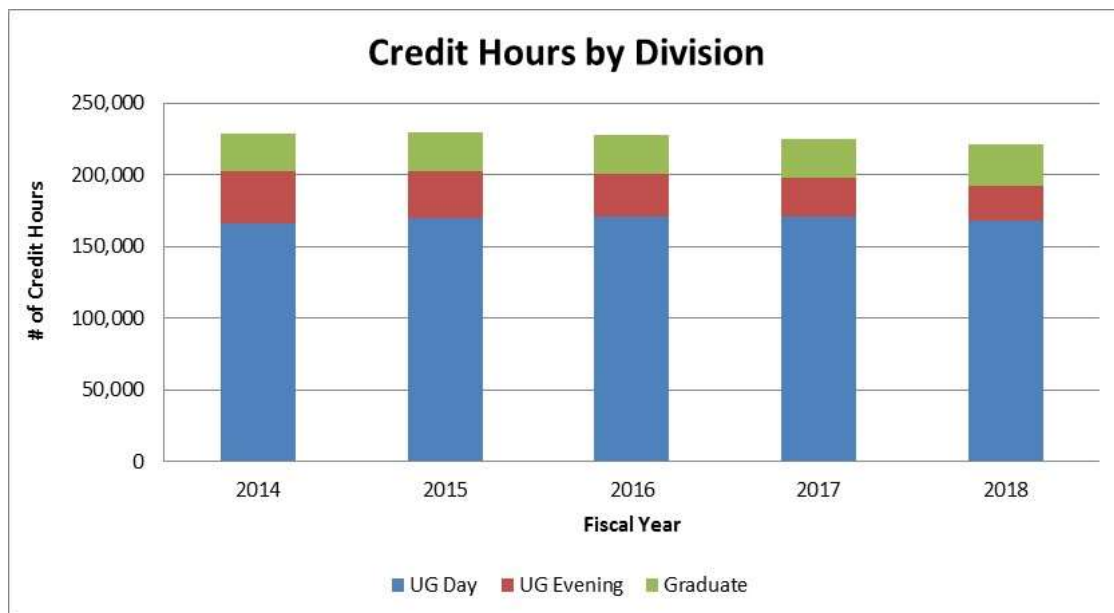
Management’s Discussion and Analysis - Continued (Unaudited)

Introduction

Salem State University (the “University”) offers readers this narrative overview and analysis of the financial statements and activities of the University for fiscal years ended June 30, 2018 and 2017. Readers are encouraged to consider the information presented here in conjunction with the financial statements and related footnotes. In accordance with Governmental Accounting Standards Board (“GASB”) requirements, the University financial statements report the Salem State University Assistance Corporation (“Assistance Corporation”) and Salem State University Foundation, Inc. (“Foundation”) as component units.

Background

The University was founded in 1854 as the Salem Normal School, at which time it offered innovative, ground-breaking education for women pursuing careers in education. Today, the University thrives as a comprehensive institution of academic strength offering high quality education at the undergraduate and graduate levels. The 115 acre University is spread across six sites: North Campus, Central Campus, South Campus, School of Social Work & International Programs, Cat Cove and the O’Keefe Athletic Complex. The curriculum spans the arts, sciences and professional programs contained within the College of Arts and Sciences, the Bertolon School of Business, the Maguire Meservey College of Health and Human Services, the School of Education, the School of Graduate Studies and the School of Continuing and Professional Studies. The undergraduate level has approximately 6,231 and the graduate level has approximately 891 Fall Full-Time Equivalent (“FTE”) credit enrollment. Total credit hour enrollment by division for the past five years is shown below:



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Management's Discussion and Analysis - Continued
(Unaudited)

University students are diverse, hailing from 31 states and 58 countries. Thirty-six and a half percent of first year students (freshman and transfer) self-identified as students of color (fall semester 2017). The approximate gender breakdown is 38% male and 62% 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.

SALEM STATE UNIVERSITY

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

Accreditations

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

Significant Events and Accomplishments

In January 2018 Salem State formally inaugurated John D. Keenan as the university's 14th president. The university's strategic plan was completed during the year and established four strategic goal areas (academic excellence; student success; collaboration, inclusion, and stewardship; and financial vitality.) Highlights of accomplishments for each of the strategic goals are noted below.

ACADEMIC EXCELLENCE

The university received approval to begin offering three new academic programs – master of science degree in accounting, master of science degree in athletic training, and bachelor of science degree in information technology. In addition, fall semester 2018 is the first semester for a graduate certificate program in writing and rhetoric.

STUDENT SUCCESS

The university's 6-year graduation rate increased to 57.9%, up dramatically from 52.1% in the prior year. There were 2,271 total degrees and certificates awarded in academic year 2017-18. A sampling of our students' academic achievements include:

- Six regional awards at the Kennedy Center's American College Theatre Festival
- Counseling graduate students (21) presented original research at the 2018 Massachusetts School Counselors Association conference
- A recent graduate student in English received a Fulbright US Student Program award, which will take her to India for 2018-2019
- A recent graduate (certificate program) with the Center for Holocaust and Genocide Studies was selected to join the Warren Fellowship for Future Teachers in Houston

COLLABORATION, INCLUSION AND STEWARDSHIP

In the area of Inclusive Excellence and Campus Climate work:

- The university is participating in National Coalition Building Institute (NCBI) and completed training in the NCBI Welcoming Diversity Workshop as well as the NCBA Controversial Issue Process
- Ten faculty and staff members are taking part in a year-long Racial Equity and Justice Institute program of the Leading for Change Diversity Consortium hosted at Bridgewater State University

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Management's Discussion and Analysis - Continued
(Unaudited)

Community engagement/volunteer service remains an important priority. In that regard:

- The Center for Civic Engagement (CCE) continues to provide opportunities and information about engagement in the community and as a citizen, with several signature programs and numerous activities throughout the academic year.
- SSU students voted at a rate well above the national average in the 2016 election. 85% were registered to vote and of that cohort, 77 percent voted.
- Students in the Bertolon School of Business provided service to the community through the Volunteer Income Tax Assistance program.
- Numerous students participated in the Habitat for Humanity programs and traveled to Texas or South Carolina to help build homes.
- Graduate students in Occupational Therapy fundraised to assist local nonprofits

Sustainability accomplishments in FY2018 include:

- The Sophia Gordon Center for the Performing Arts was awarded a LEED Gold certificate and is the university's sixth LEED certified building.
- The university divested its investment portfolio of fossil fuels, following a lengthy review process and determination made by the board of trustees.
- Salem State was awarded the EPA's Regional Food Recovery Achievement Certificate again this past year.

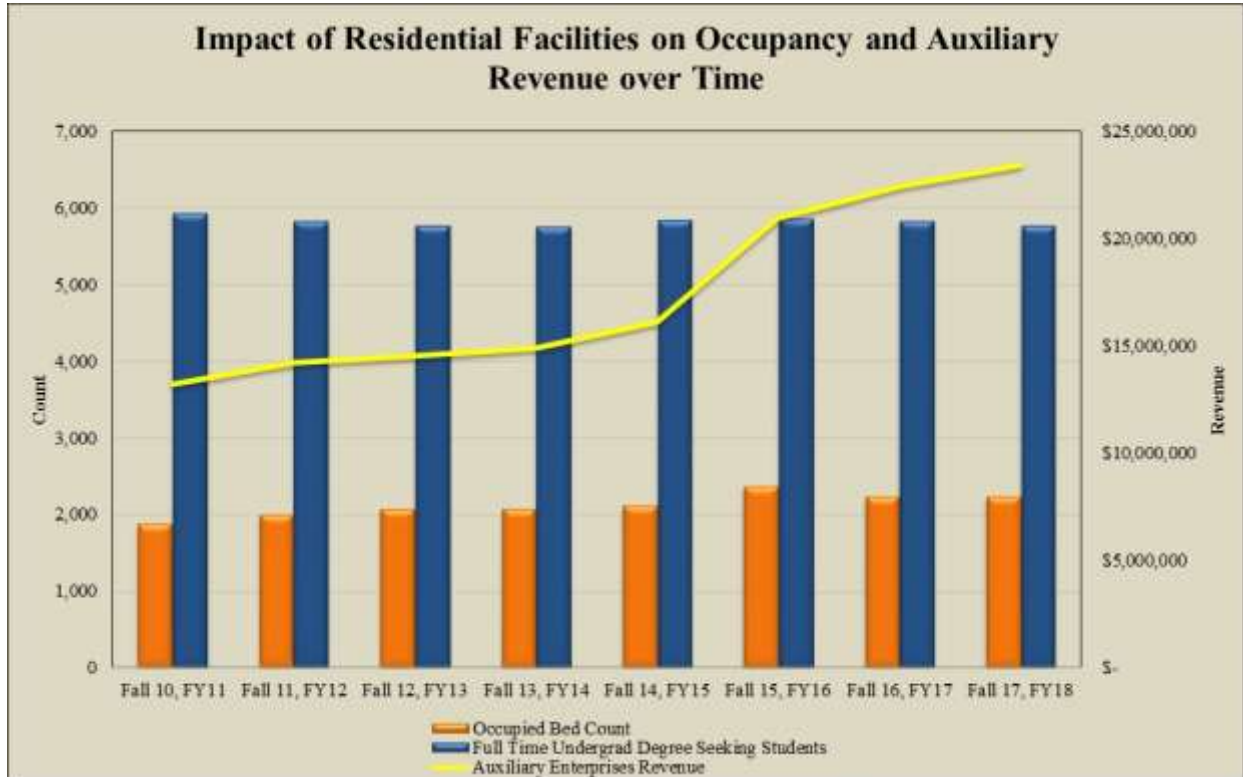
FINANCIAL VIABILITY

- The university expanded summer conferencing revenue streams by creating a partnership with Capstone on Campus Management (COCM). In its initial summer, the program hosted Education First, which brought young students from China, Venezuela and Russia to our campus for its English immersion program, and other conference guests. The startup season was deemed a success and is a growth opportunity for the future.
- The university completed a thorough assessment of the physical state of the campus with Sightlines. The process documented a backlog of \$253 million in deferred maintenance.

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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. The chart below shows the relationship between undergraduate student enrollment, residential hall occupancy, and auxiliary revenues over the last eight years.



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 state-of-the-art center was opened in April 2017. With project closeout expenses occurring in FY2018, the total project cost was \$27.8 million. Approximately \$13.3 million was funded by the University from the issuance of an MSCBA bond during January 2014, 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, and DCAMM funded \$7.4 million in capital grant funds through June 30, 2018.

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

Overview of University Financial Statements

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

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

Statement of Net Position Summary & Analysis

The Statement of Net Position presents information on the University’s assets and deferred outflows of resources, less its liabilities and deferred inflows of resources, with the residual balance being reported as net position. The University’s total net position for fiscal year 2018 increased \$3.9 million from fiscal year 2017, excluding the impact of the current year expenses for pensions and other post-employment benefits (see below.)

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

The Governmental Accounting Standards Board (GASB) issued two standards that materially impacted the presentation of the university’s financial statements over the last several years, notably GASB Statement No. 68 - Accounting and Financial Reporting for Pensions and GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (commonly referred to as OPEB.). GASB 68 was implemented by Salem State University in its FY 2016 financial statements which required, among other impacts, restating the net position as of June 30, 2015. GASB 75 has been implemented by Salem State University in its FY 2018 financial statements which required, among other things, restating net position as of July 1, 2016 in order to provide comparability with FY 2018. The table below shows the financial statement impact of GASB statements 68 and 75 in fiscal years 2018 and 2017:

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

	FY 2018	FY 2017
	<i>(In Thousands)</i>	
Statement of Net Position (Balance Sheet)		
Deferred Outflows (like an Asset):		
GASB 68 - Pension	\$ 14,492	\$ 19,627
GASB 75 - Other Post Employment Benefits	10,960	2,182
Total deferred outflows	25,452	21,809
Net Pension & OPEB liability (Non-Current Liability):		
GASB 68 - Pension	(44,564)	(46,974)
GASB 75 - Other Post Employment Benefits	(86,678)	(83,576)
Total Net Pension & OPEB Liability	(131,242)	(130,550)
Deferred Inflows (like a Liability):		
GASB 68 - Pension	(4,749)	(3,891)
GASB 75 - Other Post Employment Benefits	(10,175)	-
Total deferred outflows	(14,924)	(3,891)
Net position impact - decrease	\$ (120,714)	\$ (112,632)
One-year Change**	(8,082)	(86,105)
Statement of Revenues Expenses & Changes in Net Position		
Pension & OPEB Expenses:*		
GASB 68 - Pension	\$ 3,583	\$ 4,711
GASB 75 - Other Post Employment Benefits	4,499	-
Total Net Pension & OPEB Expense	\$ 8,082	\$ 4,711

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

**This amount includes the GASB 68 pension of \$4,711 and the GASB 75 OPEB restatement of \$81,394 to the beginning unrestricted net position for FY 2017.

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Management's Discussion and Analysis - Continued
(Unaudited)

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

Unrestricted Net Position Impacted by GASB 68 (Pension) and 75 (OPEB)					
<i>(In Thousands)</i>					
	Without Pension & OPEB	Pension Adjustment	OPEB Adjustment	With Pension and OPEB	Difference
Unrestricted Net Position at June 30, 2016	\$ 9,738	\$ (26,527)	\$ -	\$ (16,789)	
Unrestricted net decrease for FY 2017	(4,920)	(4,711)	-	(9,631)	
Restatement (See Note 2)	-	-	(81,394)	(81,394)	
Unrestricted Net Position at June 30, 2017, Restated	4,818	(31,238)	(81,394)	(107,814)	(112,632)
Unrestricted net increase (decrease) for FY 2018	3,869	(3,583)	(4,499)	(4,213)	
Unrestricted Net Position at June 30, 2018	<u>\$ 8,687</u>	<u>\$ (34,821)</u>	<u>\$ (85,893)</u>	<u>\$ (112,027)</u>	<u>\$ (120,714)</u>

The total net pension liability balance in the June 30, 2018 and 2017 financial statements amounted to approximately \$44.6 million and \$47.0 million, respectively. The total net OPEB liability balance in the June 30, 2018 and 2017 financial statements amounted to approximately \$86.7 million and \$83.6 million, respectively.

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Management's Discussion and Analysis - Continued
(Unaudited)

A summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2018, 2017 and 2016 is as follows:

	<i>(In Thousands)</i>		
<u>Assets</u>	(Restated)		
	2018	2017	2016
Current Assets	\$ 44,435	\$ 39,909	\$ 46,113
Capital Assets (net)	169,691	172,648	163,705
Noncurrent Assets	3,854	3,956	3,815
Total Assets	<u>217,980</u>	<u>216,513</u>	<u>213,633</u>
Deferred Outflows of Resources	<u>25,451</u>	21,809	19,078
Total Assets and Deferred Outflows	<u>\$ 243,431</u>	<u>\$ 238,322</u>	<u>\$ 232,711</u>
<u>Liabilities</u>			
Current Liabilities	\$ 24,041	\$ 23,685	\$ 26,552
Noncurrent Liabilities	178,926	180,479	92,453
Total Liabilities	<u>202,967</u>	<u>204,164</u>	<u>119,005</u>
Deferred Inflows of Resources	<u>15,668</u>	4,888	2,726
<u>Net Position</u>			
Net investment in capital assets	130,219	131,099	122,165
Restricted	6,604	5,985	5,604
Unrestricted	<u>(112,027)</u>	<u>(107,814)</u>	<u>(16,789)</u>
Total Net Position	<u>24,796</u>	<u>29,270</u>	<u>110,980</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 243,431</u>	<u>\$ 238,322</u>	<u>\$ 232,711</u>

Total assets increased in FY 2018 by \$1.5 million or 0.7% over the prior year compared with a 1.3% increase of \$2.9 million in FY 2017. Most of the changes within the asset categories are associated with increases in cash and investments offset by a decrease in capital asset driven by depreciation outpacing the capital asset additions. Total liabilities decreased in FY 2018 by \$1.2 million or 0.6% over prior year. This change is primarily attributable to the recording of an OPEB liability increase of \$3.1 million, offset by a decrease in the Pension liability of \$2.4 million and payments on outstanding debt of \$2.3 million. In FY 2017, total liabilities increased by \$85.2 million or 71.6% almost all of which is attributable to implementation of the GASB No. 75 OPEB accounting standard.

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Management's Discussion and Analysis - Continued
(Unaudited)

For fiscal 2018, 2017 and 2016, total net position amounted to \$24.8 million, \$29.3 million and \$111.0 million, respectively. The University's net position in the investment in capital assets (e.g. land, buildings and equipment) less any related debt used to acquire those assets is the largest positive component of the total net position, which is consistent with prior years and is detailed below in the next section. The University uses its capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, such as room rents, auxiliary and other fees, since the capital assets themselves cannot be used to satisfy these liabilities.

Capital Assets

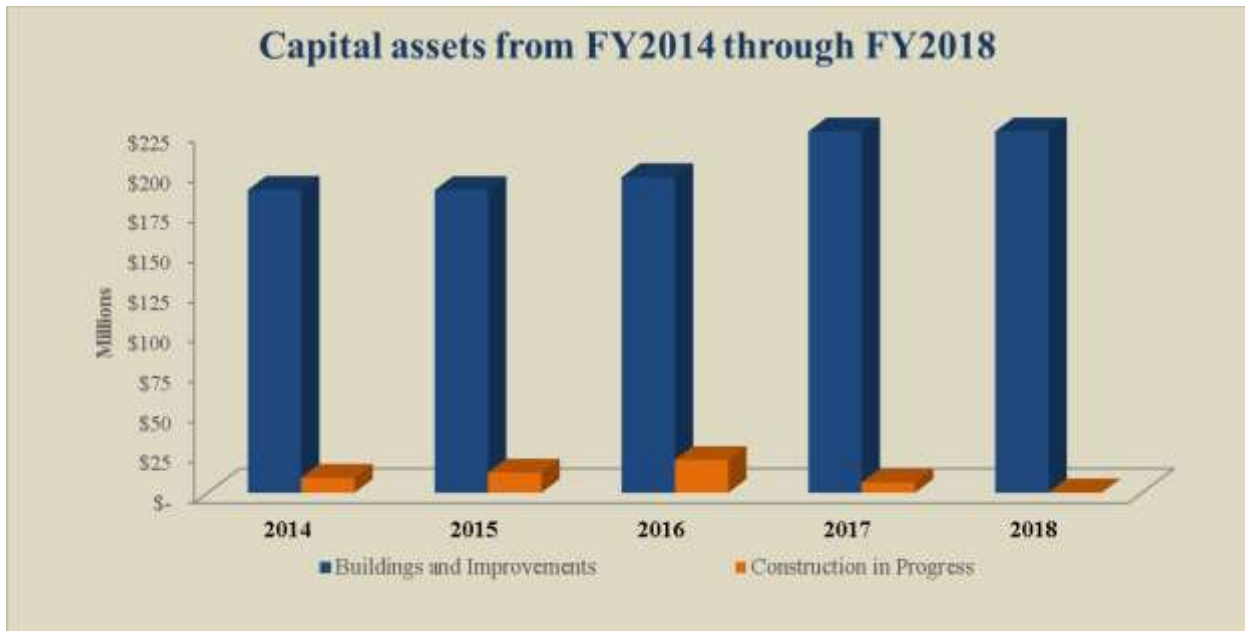
A summarized comparison of the University's capital assets categories at June 30, 2018, 2017 and 2016 is as follows:

Capital Asset Summary			
	<i>(In Thousands)</i>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 238,793	\$ 227,079	\$ 196,564
Construction in Progress	187	6,372	20,361
Land	2,536	2,536	2,536
Furniture and Equipment	30,818	30,401	29,508
Total	<u>272,334</u>	<u>266,388</u>	<u>248,969</u>
Less: accumulated depreciation	<u>(102,643)</u>	<u>(93,740)</u>	<u>(85,264)</u>
Total capital assets, net	<u><u>\$ 169,691</u></u>	<u><u>\$ 172,648</u></u>	<u><u>\$ 163,705</u></u>

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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, 2018, 2017 and 2016 are depicted below:

Changes in Capital Assets

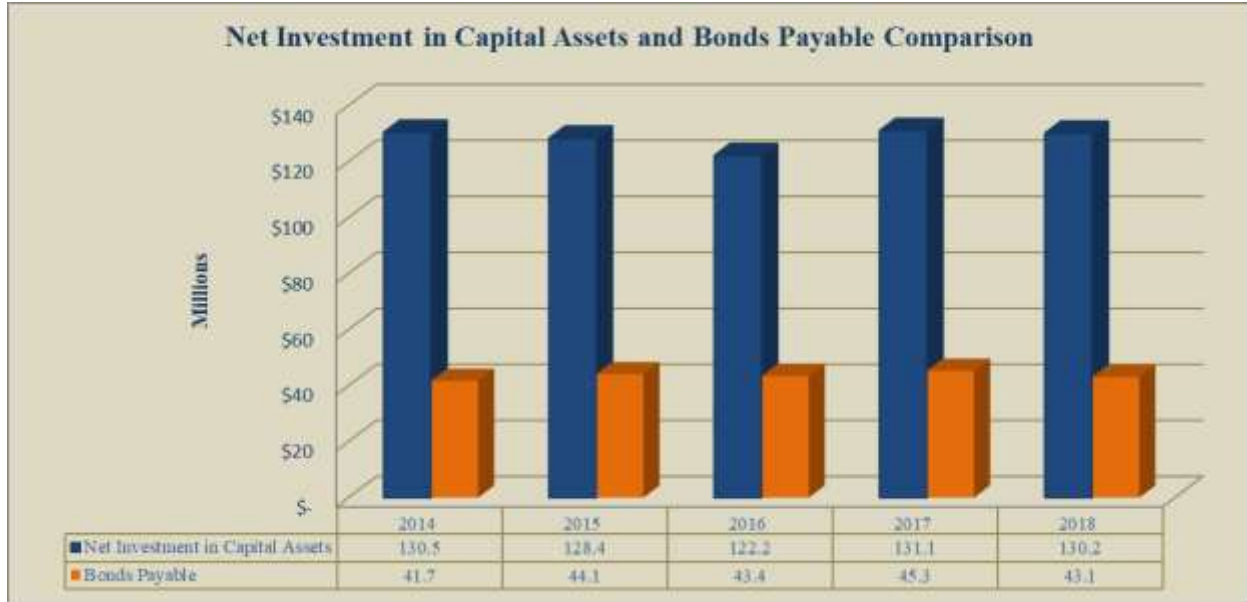
	(In Thousands)		
	2018	2017	2016
<u>Building and Land Improvements</u>			
Sophia Gordon Center	\$ 824	\$ 27,005	\$ -
331 Lafayette Street	1,236	-	-
Meier Hall Renovation	557	-	321
Library and Learning Commons Improvements	152	272	521
Administration Building Renovation	-	1,736	-
Steam Pipe Repairs	430	366	-
O'Keefe Improvements	810	-	-
Equipment purchases for IT and Biology Departments	1,421	-	1,675
Comprehensive Energy Performance Contract Project	5,577	317	4,799
Various Other Improvements	708	820	745
Net Additions to Buildings and Improvements	11,715	30,516	8,061
<u>Construction in Progress ("CIP")</u>			
Sophia Gordon Center	824	10,709	10,619
Various Ongoing Renovation Projects	3,132	908	2,073
Comprehensive Energy Performance Contract Project	2,126	3,920	1,208
IT Projects	78	1,178	774
Capitalized Bond Interest (For Sophia Gordon Center)	-	452	554
Additions to Construction in Progress	6,160	17,167	15,228
Transfer of Construction in Progress to Capital Assets	(12,345)	(31,157)	(7,323)
Net Additions (Reductions) to CIP	(6,185)	(13,990)	7,905
<u>Furniture & Equipment</u>			
O'Keefe, Dining, IT & Art Design	416	642	228
Maintenance Equipment	-	252	-
Net Additions to Furniture and Equipment	416	894	228
Total Net Asset Additions	5,946	17,420	16,194
Depreciation Expense for the Year	8,903	8,477	7,877
Net Increase (Decrease) in Capital Assets	\$ (2,957)	\$ 8,943	\$ 8,317

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

Management’s Discussion and Analysis - Continued
(Unaudited)

Net Investment in Capital Assets and Bonds Payable Comparison

The following graph displays long-term debt for Bond Payables on the university’s books and the Net Investment in Capital Assets balances for fiscal years ended 2014 through 2018:



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

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

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

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

A summarized comparison of the University's operating and non-operating revenues and expenses and the resulting increase or decrease in net position at June 30, 2018, 2017 and 2016 is as follows. Note that this information includes the impact of the Pension and OPEB accounting standards:

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

	<i>(In Thousands)</i>		
	2018	2017	2016
<u>Operating Revenues</u>			
Tuition and Fees, Net	\$ 69,566	\$ 66,893	\$ 62,685
Federal, State, and Private Grants	19,472	19,306	18,820
Sales and Services	1,296	1,333	1,426
Auxiliary and Other	23,876	22,762	21,274
Total Operating Revenues	114,210	110,294	104,205
<u>Operating Expenses</u>			
Compensation, benefits and other *	125,843	122,984	116,804
Supplies and services	38,659	37,324	35,957
Utilities	4,107	4,179	4,276
Depreciation	8,903	8,477	7,877
Scholarships	6,185	5,627	4,789
Total Operating Expenses	183,697	178,591	169,703
<u>Non-Operating Revenues (Expenses)</u>			
State appropriations	60,128	58,768	56,416
Contribution to the Assistance Corporation	-	(897)	(911)
Gifts	2,160	1,801	2,665
Investment Income	1,511	1,755	(111)
Interest Expense	(1,736)	(1,157)	(1,269)
Total Non-Operating Revenues, Net	62,063	60,270	56,790
Capital Grants	2,950	7,711	783
Increase (Decrease) in Net Position	\$ (4,474)	\$ (316)	\$ (7,925)

* This total is comprised of the following:

Compensation and Benefits	\$ 117,761	\$ 118,273	\$ 112,436
Pension and OPEB expense	8,082	4,711	4,368
	\$ 125,843	\$ 122,984	\$ 116,804

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

Highlights for Operating Revenues

The increase in total operating revenues of \$3.9 million (3.6%) and \$6.1 million (5.8%) in FY 2018 and FY 2017, respectively, over prior year resulted primarily from the following changes:

Tuition and Fees, net: The tuition and fees, net of scholarships and fellowships improved by 4.0% in FY 2018 and 6.7% in FY 2017 (\$2.7 million in FY 2018 and \$4.2 million in FY 2017) over prior year due to increases in fee rates as well as new fees.

Federal, State and Private Grants: Federal, state and private grant revenues remained stable for FY 2018 when compared to FY 2017. The federal, state and private grant revenues increased in FY 2017 by \$0.5 million (2.6%) due primarily to increases in federal grants.

Auxiliary Enterprises and Other: Auxiliary enterprises and other revenues increased in FY 2018 by \$1.1 million (4.9%) over prior year primarily due to increases in dormitory room revenue of \$0.7 million and student fees for permits, meals and ancillary revenue of \$0.4 million. In FY 2017, auxiliary and other revenues increased \$1.5 million (7.0%) over the prior year and was 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.

Highlights for Operating Expenses

The increase in total operating expenses of \$5.1 million (2.9%) and \$8.9 million (5.2%) in FY 2018 and FY 2017, respectively, over prior year resulted primarily from the following changes:

Compensation and Benefits: Compensation and benefits remained fairly stable during FY 2018, decreasing by \$0.5 million (0.4%) compared to FY 2017 which increased by \$5.8 million (5.2%) over prior year. FY2018 does not reflect salary increases for three union labor contracts that have expired. The University is awaiting the contract to receive final approval and funding and the expected retroactive payment of salaries will be paid out during fiscal year 2019. This payroll amount, along with its related fringe benefits is estimated to range between \$2.0 and \$2.2 million.

Supplies and Services: The \$1.3 million (3.6%) increase in supplies and services during FY 2018 over prior year is primarily due to a \$1.0 million in non-capitalizable repairs and maintenance combined with a \$0.3 million increase in the MSCBA assessment. The \$1.4 million (3.8%) 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.

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Management's Discussion and Analysis - Continued
(Unaudited)

Depreciation: The \$426 thousand (5.0%) increase in depreciation expense in FY 2018 over prior year is due to the increase in depreciation for buildings and building improvements. Projects that were previously included in construction in progress have been completed and have begun to be depreciated in fiscal 2018. For similar reasons during FY 2017, depreciation increased \$600 thousand (7.6%) over the prior year.

Changes for Pension and OPEB Activity: The fourth year of adoption of GASB 68 for pensions resulted in an expense of \$3.6 million in FY 2018 and was a decrease of \$1.1 million 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.

The adoption of GASB 75 for other post-employment benefits resulted in a decrease to the July 1, 2016 unrestricted net position balance of \$81.4 million. The annual expense of \$4.5 million was recorded in FY 2018. The change in expense from FY 2017 to FY 2018 are due to changes in salaries and in the discount rate utilized in calculating the other post-employment benefits liability, as provided by the Comptroller's Office.

Highlights for Non-Operating Revenues (Expenses)

The increase in non-operating revenues (expenses) in FY 2018 and FY 2017 of \$1.8 million (3.0%) and \$3.5 million (6.1%), respectively, resulted primarily from the following net changes:

State Appropriations: State appropriations increased by \$1.4 million (2.3%) and \$2.4 million (4.2%) in FY 2018 and FY 2017, respectively, over prior year primarily to support employee payroll and related fringe benefit costs. General Appropriation Act (GAA) funding increased by 1.2% or \$508 thousand for FY 2018; 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: In FY 2017 property was purchased amounting to \$897 thousand for the Assistance Corporation. There were no purchases in FY 2018 of this nature.

Gifts: Gift revenue is a variable source. During FY 2018, gifts increased over the prior year by \$359 thousand (19.9%) primarily due to the transfer to the university of \$400 thousand in funds received by the Salem State University Foundation to support debt service for the Sophia Gordon Center. During FY 2017, gifts decreased over the prior year by \$864 thousand (32.4%).

Investment Income: Investment income decreased by \$244 thousand in 2018 compared to an increase of \$1.9 million in FY 2017 and is attributable to fluctuating market conditions.

Interest Expense: Interest expense increased \$579 thousand (50.4%) since interest paid during construction could not be capitalized, but was required to be expensed due to the completion of the Sophia Gordon Center in FY 2017.

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Management's Discussion and Analysis - Continued
(Unaudited)

Managed Revenue and Expense Report

The university operates using an internal Managed Revenues and Expenses Report format which is not intended to conform to Generally Accepted Accounting Principles (GAAP); this report distinguishes between managed and non-cash revenue and expense activity. The Managed Revenues and Expenses format allows the reader to focus on the elements of financial activity that university administration must control and manage while displaying certain non-cash GAAP based revenue and expense items in a section at the bottom. Importantly, Managed Revenue and Managed Expense are calculated on an accrual basis; thus, they are not intended to represent cash in and cash out. To illustrate, while the Managed Net Income figure for FY2018 is \$9.998 million, the actual increase in cash for the year is \$3.053 million. Other classification differences between the management report and GAAP basis report exist. For example, in the management report all financial aid expenses are displayed as a deduction from revenue rather than how they are reported in the GAAP report as a contra revenue in some cases and an expense in other cases.

At the bottom line, Increase (Decrease) in Net Position per the management report is the same as per the GAAP-basis audited Statement of Revenues and Expenses for completed years. The next page shows the Managed Revenue and Expense report for the three fiscal years 2018, 2017 and 2016.

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

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

Managed Revenue and Expense Format

	<i>(In Thousands)</i>		
	FY2018	FY2017	FY2016
Managed Revenue:			
Net Tuition and Fees	\$ 63,381	\$ 61,239	\$ 57,896
Federal, State, Private Grants	19,472	19,306	18,820
Auxiliary Enterprises	23,423	22,519	21,149
State General Appropriations	60,128	58,768	56,416
Other Revenue	5,859	4,422	4,593
Total Managed Revenue	<u>172,263</u>	<u>166,254</u>	<u>158,874</u>
<i>Year over Year Change</i>	<i>3.6%</i>	<i>4.6%</i>	<i>5.8%</i>
Managed Expenses:			
Compensation	117,761	118,273	112,436
Support	18,366	17,992	18,569
Facility-related	26,138	24,669	22,934
Total Managed Expenses	<u>162,265</u>	<u>160,934</u>	<u>153,939</u>
<i>Year over Year Change</i>	<i>0.8%</i>	<i>4.5%</i>	<i>5.8%</i>
Managed Net Income	<u>9,998</u>	<u>5,320</u>	<u>4,935</u>
Non-Cash Revenue/(Expenses):			
Capital Grants	2,950	7,711	783
Depreciation	(8,903)	(8,477)	(7,877)
Contributions to SSUAC	-	(896)	(911)
Unrealized Gains/Losses	(437)	737	(487)
GASB 68 Pension	(3,583)	(4,711)	(4,368)
GASB 75 OPEB	(4,499)		
Total Non-Cash Revenue/(Expenses)	<u>(14,472)</u>	<u>(5,636)</u>	<u>(12,860)</u>
<i>Year over Year Change</i>	<i>160.5%</i>	<i>-56.2%</i>	<i>67.1%</i>
Total Increase/(Decrease) in Net Position	<u>\$ (4,474)</u>	<u>\$ (316)</u>	<u>\$ (7,925)</u>

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

Statement of Cash Flows

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

A summarized comparison of the University's cash flows and the resulting decrease in cash at June 30, 2018, 2017 and 2016 follows. *It should be noted that for the presentation below, the appropriations are shown in Operating Activities rather than Non-Capital Financing Activities since the State appropriations are intended and used to support operations.* According to accounting standards, on the Cash Flow Statement of the Financial Statements, the appropriations are presented as required in Non-Capital Financing Activities.

Summary of Cash Flows

	<i>(In Thousands)</i>		
	2018	2017	2016
Operating Activities	\$ 8,420	\$ 4,194	\$ 5,502
Non Capital Financing Activities	1,355	(419)	941
Capital Financing Activities	(6,972)	(9,088)	(17,500)
Investing Activities	250	539	1,239
Net Increase/(Decrease) in Cash	\$ 3,053	\$ (4,774)	\$ (9,818)

Highlights for Cash Flows

The overall increase in cash and cash equivalents for FY 2018 amounted to approximately \$3.1 million and is associated with increases in auxiliary enterprise receipts, appropriations and gifts.

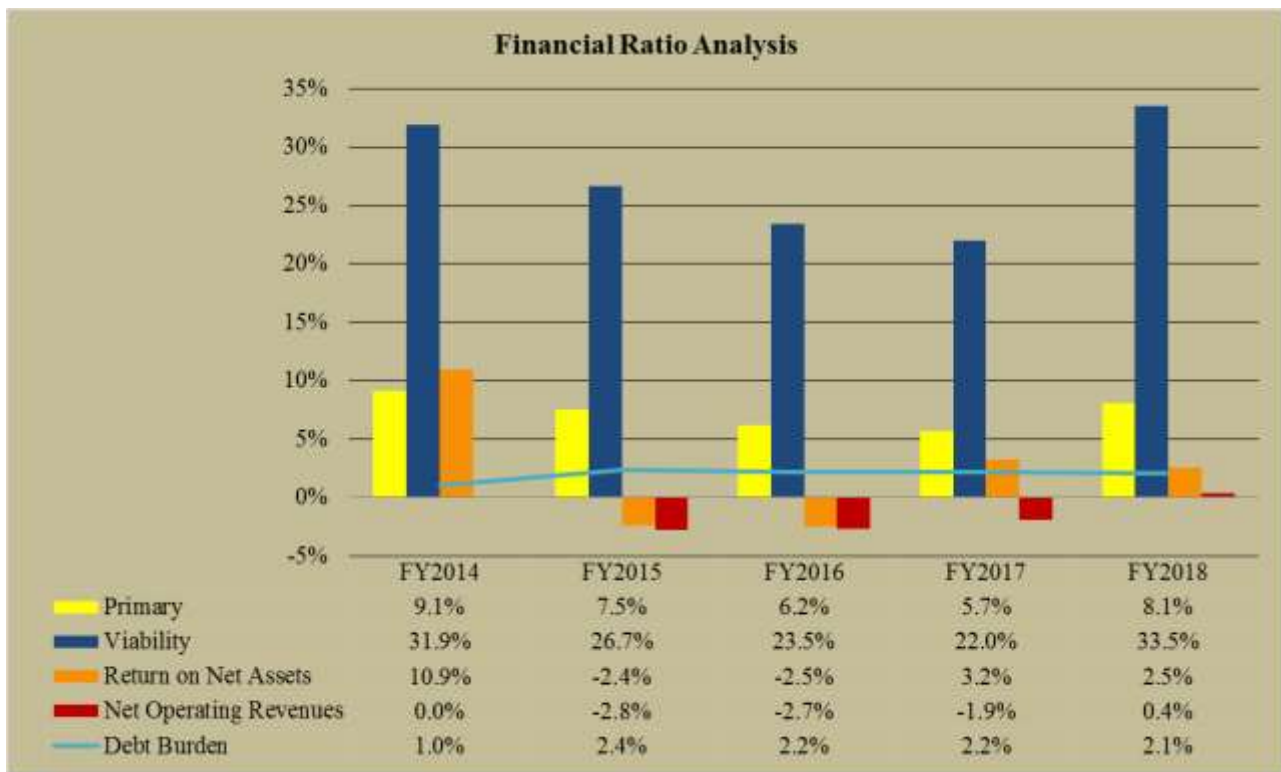
The overall decrease in cash and cash equivalents for FY 2017 and FY 2016 amounted to approximately \$4.8 million and \$9.8 million, respectively, and is primarily associated with the purchases of capital assets and repayment of bond principal and interest.

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

Ratio Analysis

Ratio analysis is a management tool which indicates the University’s effective use of its resources, its overall financial viability, its direction in achieving institutional strategic goals, and its ability to meet short and long-term obligations in a managed fashion. Ratios are also useful in analyzing trends of an institution over time. A one-year fluctuation in a ratio may be indicative of an aberration for that year or may indicate a relevant trend. The ratios presented here are calculated without the inclusion of the University’s component units and without factoring in the effect of the implementation of GASB 68 and 75.



Primary

This ratio provides a snapshot of an institution’s financial strength and flexibility. The ratio indicates how long the college could operate using unrestricted and restricted expendable reserves without relying on additional new assets generated by operations. SSU’s FY2018 ratio of 8.1% suggests the university could cover expenses from reserves for about one month (8.1% of 12 months = 1.0 months) Trend analysis indicates whether an institution has increased its net worth in proportion to its rate of growth. A negative or decreasing trend indicates a weakening financial condition.

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

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

Viability

This ratio measures the availability of expendable net assets to pay off long term debt should the university need to settle its obligations as of the balance sheet date. A ratio of 1:1 or greater indicates an institution has sufficient net position to satisfy debt requirements. However, many public institutions can operate effectively at a ratio far less than 1:1.

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

Return on Net Assets

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

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

Net Operating Revenues

This ratio indicates whether operating activities resulted in a surplus or deficit. It measures financial performance by answering the question "Did the university live within its means during a fiscal year?" A positive ratio indicates the university experienced an operating surplus; a continuing decline or pattern of deficits indicates financial problems. In FY2018, Salem State had a positive net operating revenue of 0.4%

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

Debt Burden

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

Ratio Calculation = Annual Debt Service/Total Expenses

This numerator is annual debt service for debt on the university's books only. As a general guideline, it is believed that if more than 5% of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs would be compromised.

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

Looking Ahead to FY 2019

In the next fiscal year, the university will continue to execute its strategic plan, focusing on academic excellence; student success; collaboration, inclusion, and stewardship; and financial vitality. In fall semester 2018, Salem State will offer college level courses to cohorts of Salem High School students as part of the Forten Scholars Early College Program (healthcare or business/ information technology track). Salem State University is one of five programs in the state to be awarded a Formal Early College Designation. Also in fall semester 2018, the university will welcome its first group of sophomore-level English majors from Nanjing Normal University's (NNU) Ginling College (China) which represents a broadening of our longstanding "China 1+2+1" program. During academic year 2018-2019, the university is preparing to request permission to host our first-ever doctoral program, a clinical doctorate in occupational therapy. Students will be recruited to the new academic programs approved in FY 2018 and a variety of other enrollment and retention initiatives are underway.

The university's physical development continues, and in the coming year Salem State will participate in a "readiness determination" project. This partnership with the Department of Capital Asset Management and Maintenance (DCAMM) will focus on developing plans for new science teaching laboratories while addressing deferred maintenance. In addition, in FY 2019 the university will begin to execute a new five-year plan to address critical maintenance needs which will qualify us for \$8.4 million in funding from DCAMM. Three new solar projects are anticipated to be developed, for Berry Library, Gassett Fitness Center, and Marsh Hall. In addition, the university expects to complete a new roof on the main classroom building on North Campus, Meier Hall.

Requests for Further Information

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

SALEM STATE UNIVERSITY
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Statements of Net Position

June 30, 2018 and 2017

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>		<u>Component Units</u>	
	2018 <u>University</u>	(Restated) 2017 <u>University</u>	2018 <u>Combined</u>	2017 <u>Combined</u>
Current Assets:				
Cash and cash equivalents	\$ 15,367,405	\$ 14,010,653	\$ 2,250,754	\$ 1,840,935
Restricted cash and cash equivalents	3,213,500	2,930,861	717,772	861,762
Deposits held by State Treasurer	2,850,506	1,751,316	-	-
Cash held by State Treasurer	1,106,109	969,059	-	-
Deposits held by MSCBA and DCAMM	971,179	792,862	-	-
Investments	14,121,886	12,867,542	-	-
Accounts, grants and other receivable, net	6,506,901	5,958,760	14,410	16,158
Pledges receivable, net	-	-	672,225	1,303,299
Note receivable	-	-	40,000	40,000
Loans receivable	250,410	221,611	-	-
Other current assets	47,107	406,681	4,396	2,407
Total Current Assets	44,435,003	39,909,345	3,699,557	4,064,561
Non-Current Assets:				
Investments	667,464	676,501	31,457,365	29,486,822
Loans receivable, net of current portion	1,713,034	1,806,097	-	-
Pledges receivable, net	-	-	3,857,094	4,174,556
Note receivable, net of current portion	-	-	166,667	206,667
Capital assets, net	169,690,567	172,648,089	11,618,094	11,755,930
Debt service reserve	1,473,340	1,473,340	-	-
Total Non-Current Assets	173,544,405	176,604,027	47,099,220	45,623,975
Total Assets	217,979,408	216,513,372	50,798,777	49,688,536
Deferred Outflow of Resources:				
Deferred outflows for pensions	14,492,026	19,626,524	-	-
Deferred outflows for other post employment benefits	10,959,514	2,181,990	-	-
Total Deferred Outflows of Resources	25,451,540	21,808,514	-	-
Total Assets and Deferred Outflows of Resources	\$ 243,430,948	\$ 238,321,886	\$ 50,798,777	\$ 49,688,536

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Primary Government</u>		<u>Component Units</u>	
	2018	(Restated) 2017	2018	2017
	<u>University</u>	<u>University</u>	<u>Combined</u>	<u>Combined</u>
Current Liabilities:				
Accounts payable and accrued expenses	\$ 4,485,626	\$ 4,035,476	\$ 335,697	\$ 340,824
Accrued payroll	7,850,759	7,711,373	-	-
Accrued compensated absences	5,865,631	6,120,020	-	-
Accrued workers' compensation	263,326	222,168	-	-
Unearned revenues	3,025,622	3,143,250	27,153	-
Note payable	19,032	81,546	66,127	70,135
Bonds payable	2,169,871	2,071,341	366,725	350,010
Deposits	360,700	299,677	-	-
Total Current Liabilities	24,040,567	23,684,851	795,702	760,969
Non-Current Liabilities:				
Accrued compensated absences	3,725,574	3,640,196	-	-
Accrued workers' compensation	947,526	955,150	-	-
Notes payable, net of current portion	-	12,698	1,287,476	1,352,031
Bond payable, net of current portion	40,865,545	43,131,082	775,854	1,297,681
Loans payable - Federal financial assistance programs	2,145,448	2,190,173	-	-
Net pension liability	44,564,278	46,973,396	-	-
Net other post employment benefits liability	86,677,734	83,576,460	-	-
Other non-current liabilities	-	-	22,139	26,953
Total Non-Current Liabilities	178,926,105	180,479,155	2,085,469	2,676,665
Total Liabilities	202,966,672	204,164,006	2,881,171	3,437,634
Deferred Inflows of Resources:				
Service concession arrangements	745,820	997,902	-	-
Deferred inflows for pensions	4,747,854	3,890,105	-	-
Deferred inflows for other post employment benefits	10,174,577	-	-	-
Total Deferred Inflows of Resources	15,668,251	4,888,007	-	-
Net Position:				
Net investment in capital assets	130,219,350	131,099,107	9,121,912	8,686,073
Restricted:				
Nonexpendable	866,367	810,323	23,618,957	23,048,262
Expendable	5,737,349	5,174,752	12,772,099	12,580,873
Unrestricted	(112,027,041)	(107,814,309)	2,404,638	1,935,694
Total Net Position	24,796,025	29,269,873	47,917,606	46,250,902
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 243,430,948	\$ 238,321,886	\$ 50,798,777	\$ 49,688,536

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

Statements of Revenues and Expenses
For the Years Ended June 30, 2018 and 2017

	Primary Government		Component Units	
	2018 University	2017 University	2018 Combined	2017 Combined
Operating Revenues:				
Tuition and fees	\$ 88,009,192	\$ 84,587,147	\$ -	\$ -
Less: scholarships and fellowships	(18,442,753)	(17,694,347)	-	-
Net tuition and fees	69,566,439	66,892,800	-	-
Federal grants and contracts	14,514,728	14,101,909	-	-
State grants and contracts	4,669,873	4,861,321	-	-
Private grants and contracts	287,535	342,932	-	-
Gifts and contributions	-	-	1,703,556	6,088,753
Sales and services of educational departments	1,295,944	1,333,282	-	-
Auxiliary enterprises	23,423,196	22,398,146	1,932,069	860,594
Other operating revenues	452,743	364,117	68,723	116,443
Total Operating Revenues	114,210,458	110,294,507	3,704,348	7,065,790
Operating Expenses:				
Educational and general:				
Instruction	66,193,228	64,462,316	-	-
Public service	1,609,283	1,755,239	1,553,939	1,979,892
Academic support	17,560,046	16,898,704	-	-
Student services	19,189,208	19,222,838	-	-
Institutional support	26,751,743	27,765,194	709,430	244,062
Operation and maintenance of plant	17,666,843	15,599,380	-	-
Scholarships	6,185,534	5,626,549	497,287	445,941
Depreciation	8,902,845	8,476,817	161,727	165,798
Auxiliary enterprises	19,638,761	18,784,153	1,602,668	1,452,665
Total Operating Expenses	183,697,491	178,591,190	4,525,051	4,288,358
Net Operating Income (Loss)	(69,487,033)	(68,296,683)	(820,703)	2,777,432
Non-Operating Revenues (Expenses):				
State appropriations, net	60,128,013	58,767,638	338,049	1,194,450
Contribution to the Assistance Corporation	-	(896,488)	-	896,488
Gifts	2,160,161	1,800,982	-	-
Investment income	1,511,417	1,755,476	2,262,026	2,757,774
Other non-operating revenue	-	-	1,815	3,600
Interest expense	(1,736,609)	(1,157,237)	(114,483)	(130,268)
Net Non-Operating Revenues	62,062,982	60,270,371	2,487,407	4,722,044
Increase (Decrease) in Net Position Before Capital Grants	(7,424,051)	(8,026,312)	1,666,704	7,499,476
Capital grants	2,950,203	7,710,621	-	-
Total Increase (Decrease) in Net Position	\$ (4,473,848)	\$ (315,691)	\$ 1,666,704	\$ 7,499,476

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, 2018 and 2017

	University				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at July 1, 2016, as previously reported	\$ 122,164,882	\$ 732,690	\$ 4,871,719	\$ (16,789,257)	\$ 110,980,034
Prior Period Adjustment- See Note 2	-	-	-	(81,394,470)	(81,394,470)
Balance at July 1, 2016, restated	122,164,882	732,690	4,871,719	(98,183,727)	29,585,564
Changes in net position for 2017	8,934,225	77,633	303,033	(9,630,582)	(315,691)
Balance, June 30, 2017, restated	131,099,107	810,323	5,174,752	(107,814,309)	29,269,873
Changes in net position for 2018	(879,757)	56,044	562,597	(4,212,732)	(4,473,848)
Balance, June 30, 2018	\$ 130,219,350	\$ 866,367	\$ 5,737,349	\$(112,027,041)	\$ 24,796,025

	Component Units				Total
	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	
Balance at 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
Changes in net position for 2018	435,839	570,695	191,226	468,944	1,666,704
Balance, June 30, 2018	\$ 9,121,912	\$ 23,618,957	\$ 12,772,099	\$ 2,404,638	\$ 47,917,606

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, 2018 and 2017

	Primary Government	
	2018 University	2017 University
Cash Flows from Operating Activities:		
Tuition and fees	\$ 68,605,024	\$ 66,908,026
Grants and contracts	19,460,215	19,403,996
Payments to suppliers and vendors	(41,940,233)	(41,637,267)
Payments to employees	(90,903,191)	(91,278,270)
Payments for benefits	(11,204,412)	(11,390,707)
Payments to students	(6,185,534)	(5,626,549)
Loans issued to students	(287,316)	(443,455)
Collection of loans to students	326,065	410,001
Auxiliary enterprises receipts	23,488,503	20,931,923
Sales and services of educational departments	1,311,895	1,552,996
Other	342,178	426,508
	(36,986,806)	(40,742,798)
Net Cash Used in Operating Activities		
Cash Flows from Non-Capital Financing Activities:		
State appropriations	45,404,188	44,935,946
Tuition remitted to State	(926,090)	(934,235)
Student interest received (paid)	(34,149)	(56,355)
Contributions to the Assistance Corporation	-	(896,488)
Gifts	2,318,535	1,468,970
	46,762,484	44,517,838
Net Cash Provided by Non-Capital Financing Activities		
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(3,196,369)	(9,141,741)
Principal paid on bonds payable and notes payable	(1,826,339)	(1,776,053)
Interest paid on bonds payable	(1,949,078)	(1,965,733)
Proceeds from bond financing	-	3,795,907
	(6,971,786)	(9,087,620)
Net Cash Used in Capital Financing Activities		
Cash Flows from Investing Activities:		
Investment income	613,290	410,114
Proceeds from sale of investments	7,081,327	6,132,241
Purchase of investments	(7,444,561)	(6,003,481)
	250,056	538,874
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Equivalents	3,053,948	(4,773,706)
Cash and Cash Equivalents, Beginning of the Year	20,454,751	25,228,457
Cash and Cash Equivalents, End of the Year	\$ 23,508,699	\$ 20,454,751

See accompanying notes to the financial statements.

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

Statements of Cash Flows - Continued

For the Years Ended June 30, 2018 and 2017

	Primary Government	
	2018	2017
	<u>University</u>	<u>University</u>
Reconciliation of Net Operating Loss to Net Cash		
Applied to Operating Activities:		
Net operating loss	\$ (69,487,033)	\$ (68,296,683)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	8,902,845	8,476,817
Bad debts	717,039	446,812
Fringe benefits provided by State	15,649,915	14,765,927
Changes in assets and liabilities:		
Accounts receivable	(1,418,077)	2,611,309
Accounts payable and accrued liabilities	359,575	489,678
Accrued payroll and benefits	447,993	838,565
Other assets	3,908	(369,514)
Loans to/from students	64,263	(21,905)
Deposits	61,022	43,057
Unearned revenues	(117,628)	(4,016,794)
Deferred inflows	13,654,009	2,162,097
Deferred outflows	(4,950,746)	(548,434)
Net pension activity	(2,409,118)	2,676,270
Net OPEB activity	1,535,227	-
Net Cash Used in Operating Activities	<u>\$ (36,986,806)</u>	<u>\$ (40,742,798)</u>

Cash Flow Information

	Primary Government	
	2018	2017
	<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 cash equivalents	\$ 15,367,405	\$ 14,010,653
Deposits held by State Treasurer	2,850,506	1,751,316
Cash held by State Treasurer	1,106,109	969,059
Deposits held by MSCBA and DCAMM	971,179	792,862
Restricted cash and cash equivalents	3,213,500	2,930,861
	<u>\$ 23,508,699</u>	<u>\$ 20,454,751</u>

Schedule of noncash investing and financing activities

	Primary Government	
	2018	2017
	<u>University</u>	<u>University</u>
Acquisition of capital assets	\$ 6,160,286	\$ 17,419,919
Accounts payable beginning of year	115,077	-
Accounts payable end of year	(128,791)	(115,077)
Payments made by DCAMM	(2,950,203)	(7,710,621)
Interest capitalized in CIP	-	(452,480)
Cash payments for capital assets	<u>\$ 3,196,369</u>	<u>\$ 9,141,741</u>
Unrealized gain (loss) on marketable securities	<u>\$ 438,220</u>	<u>\$ 737,752</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 15,649,915</u>	<u>\$ 14,765,927</u>

See accompanying notes to the financial statements.

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

Combining Statements of Net Position of Major Component Units

June 30, 2018 and 2017

	<u>Assets</u>					
	2018			2017		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Current Assets:						
Cash and cash equivalents	\$ 1,767,235	\$ 483,519	\$ 2,250,754	\$ 1,412,112	\$ 428,823	\$ 1,840,935
Restricted cash and cash equivalents	717,772	-	717,772	861,762	-	861,762
Accounts, grants and other receivable, net	-	14,410	14,410	-	16,158	16,158
Pledges receivable, net	672,225	-	672,225	1,303,299	-	1,303,299
Note receivable	40,000	-	40,000	40,000	-	40,000
Other current assets	4,396	-	4,396	2,407	-	2,407
Total Current Assets	3,201,628	497,929	3,699,557	3,619,580	444,981	4,064,561
Non-Current Assets:						
Investments securities	31,457,365	-	31,457,365	29,486,822	-	29,486,822
Pledges receivable, net of current portion	3,857,094	-	3,857,094	4,174,556	-	4,174,556
Note receivables, net of current portion	166,667	-	166,667	206,667	-	206,667
Capital assets, net	-	11,618,094	11,618,094	-	11,755,930	11,755,930
Total Non-Current Assets	35,481,126	11,618,094	47,099,220	33,868,045	11,755,930	45,623,975
Total Assets	\$ 38,682,754	\$ 12,116,023	\$ 50,798,777	\$ 37,487,625	\$ 12,200,911	\$ 49,688,536
	<u>Liabilities and Net Position</u>					
Current Liabilities:						
Accounts payable and accrued expenses	\$ 262,031	\$ 73,666	\$ 335,697	\$ 298,981	\$ 41,843	\$ 340,824
Unearned revenues	27,153	-	27,153	-	-	-
Note payable	-	66,127	66,127	-	70,135	70,135
Bond payable	-	366,725	366,725	-	350,010	350,010
Total Current Liabilities	289,184	506,518	795,702	298,981	461,988	760,969
Non-Current Liabilities:						
Note payable, net of current portion	-	1,287,476	1,287,476	-	1,352,031	1,352,031
Bond payable, net of current portion	-	775,854	775,854	-	1,297,681	1,297,681
Other non-current liabilities	-	22,139	22,139	-	26,953	26,953
Total-Non Current Liabilities	-	2,085,469	2,085,469	-	2,676,665	2,676,665
Total Liabilities	289,184	2,591,987	2,881,171	298,981	3,138,653	3,437,634
Net Position:						
Net investment in capital assets	-	9,121,912	9,121,912	-	8,686,073	8,686,073
Restricted:						
Nonexpendable	23,618,957	-	23,618,957	23,048,262	-	23,048,262
Expendable	12,772,099	-	12,772,099	12,581,460	-	12,581,460
Unrestricted	2,002,514	402,124	2,404,638	1,558,922	376,185	1,935,107
Total Net Position	38,393,570	9,524,036	47,917,606	37,188,644	9,062,258	46,250,902
Total Liabilities and Net Position	\$ 38,682,754	\$ 12,116,023	\$ 50,798,777	\$ 37,487,625	\$ 12,200,911	\$ 49,688,536

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, 2018 and 2017

	2018			2017		
	Foundation	Assistance Corp.	Combined	Foundation	Assistance Corp.	Combined
Operating Revenues:						
Gifts and contributions	\$ 1,703,556	\$ -	\$ 1,703,556	\$ 6,088,753	\$ -	\$ 6,088,753
Auxiliary enterprises	-	1,932,069	1,932,069	-	860,594	860,594
Other operating revenues	-	68,723	68,723	-	116,443	116,443
Total Operating Revenues	1,703,556	2,000,792	3,704,348	6,088,753	977,037	7,065,790
Operating Expenses:						
Educational and general:						
Public service	1,553,939	-	1,553,939	1,979,892	-	1,979,892
Institutional support	709,430	-	709,430	244,062	-	244,062
Scholarships	497,287	-	497,287	445,941	-	445,941
Depreciation and amortization	-	161,727	161,727	-	165,798	165,798
Auxiliary enterprises	-	1,602,668	1,602,668	-	1,452,665	1,452,665
Total Operating Expenses	2,760,656	1,764,395	4,525,051	2,669,895	1,618,463	4,288,358
Net Operating Income	(1,057,100)	236,397	(820,703)	3,418,858	(641,426)	2,777,432
Non-Operating Revenues (Expenses):						
State appropriations, net	-	338,049	338,049	-	1,194,450	1,194,450
Contribution to the Assistance Corporation	-	-	-	-	896,488	896,488
Investment income	2,262,026	-	2,262,026	2,757,774	-	2,757,774
Other non-operating revenue	-	1,815	1,815	-	3,600	3,600
Interest expense	-	(114,483)	(114,483)	-	(130,268)	(130,268)
Net Non-Operating Revenues	2,262,026	225,381	2,487,407	2,757,774	1,964,270	4,722,044
Total Increase (Decrease) in Net Position	1,204,926	461,778	1,666,704	6,176,632	1,322,844	7,499,476
Net Position, Beginning of Year	37,188,644	9,062,258	46,250,902	31,012,012	7,739,414	38,751,426
Net Position, End of Year	\$ 38,393,570	\$ 9,524,036	\$ 47,917,606	\$ 37,188,644	\$ 9,062,258	\$ 46,250,902

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017, the Foundation distributed scholarships in the amount of \$497,287 and \$445,941, 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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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

Investments - continued

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

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

Loans Receivable and Payable

Loans receivable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Student Loan Program ("NSL"). The Federal Government provides the majority of the funds to support these programs. Loan payments received from students made under the Perkins and NSL loan programs provided by the Federal Government is refundable to the Federal Government upon ending (liquidation) of the University's participation in the programs. The amount due to the Federal Government upon liquidation is included as a noncurrent liability in the accompanying financial statements. See Note 8 for changes in the Perkins Loan Program.

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Loans Receivable and Payable- continued

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

Capital Assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, construction in process, buildings, building and land improvements and furniture and equipment, are reported in the statement of net position at cost or fair market value, if donated. Capital assets are defined by the University as assets with an initial individual cost of more than \$50,000 for equipment and \$100,000 for Buildings and improvements in accordance with the Commonwealth's capitalization policy.

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

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

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Capital Assets - continued

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

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

Contributions - Foundation

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

Deposits Held by Other State Agencies

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

Pensions

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

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Postemployment Benefits Other Than Pensions (“OPEB”)

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

Fringe Benefits

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

Compensated Absences

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

Deposits and Unearned Revenues

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

Student Fees

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

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Interest Costs and Capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2018 and 2017, total interest costs incurred were approximately \$1,737,000 and \$1,684,000, respectively. During 2017, total interest costs capitalized were approximately \$453,000. There were no interest costs capitalized in 2018.

Tax Status

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

Use of Estimates

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

New Governmental Accounting Pronouncements

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.

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

New Governmental Accounting Pronouncements – continued

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

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

GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements* is effective for periods beginning after June 15, 2018. The objective of this statement is to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. The university is in the process of evaluating this standard and does not currently expect a material impact to the financial accounting and reporting framework.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

New Governmental Accounting Pronouncements – continued

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

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

Note 2 - **Implementation of Newly Effective Accounting Standard and Restatement of Previously Issued Financial Statements**

In fiscal year 2018, the University implemented the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Net position, as of July 1, 2017 and 2016 was restated to reflect the net OPEB liability as a result of retroactive application of the new standard. Deferred outflows of resources for 2017 was restated and represents the fiscal year 2017 contributions to the plan. Beginning deferred outflows and inflows due to changes in plan assumptions and differences resulting from projected versus actual gains and losses on investments were not provided, and accordingly the restatement of 2017 was focused on the effect as of the end of the year and does not present the changes in net position impact on the year ended June 30, 2017. As a result, those amounts were not presented in the restatement footnote below.

Subsequent to the original issuance of these financial statements, management of the University was advised of an error made by the State Retiree’s Benefit Trust in the calculation of OPEB pertaining to projected pay increases for employees in the allocation of the actuarial present value of projected benefit payments to past and future services as of June 30, 2018, June 30, 2017, and July 1, 2016.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 2 - **Implementation of Newly Effective Accounting Standard and Restatement of Previously Issued Financial Statements – Continued**

The table below presents the effects of implementing GASB 75 and the correction to the previously issued financial statements.

Implementation of GASB 75 in FY 2017 and Correction of Error	As Previously Reported July 1, 2016	Effect of GASB 75 Implementation	As Previously Restated July 1, 2016	Correction of the Error	As Restated July 1, 2016
Statement of Net Position:					
Deferred outflows of resources	\$ -	\$ 2,181,990	\$ 2,181,990	\$ -	\$ 2,181,990
Net OPEB obligation	\$ -	\$ 96,286,721	\$ 96,286,721	\$(12,710,261)	\$ 83,576,460
Unrestricted net position	\$ (16,789,257)	\$ (94,104,731)	\$ (110,893,988)	\$ 12,710,261	\$(98,183,727)

FY 2018 Correction Error	As Previously Reported at June 30, 2018	Correction of the Error	As Restated at June 30, 2018
Statement of Net Position:			
Deferred outflows of resources	\$ 12,267,234	\$ (1,307,720)	\$ 10,959,514
Net OPEB obligation	\$ 98,032,317	\$ (11,354,583)	\$ 86,677,734
Deferred inflows of resources	\$ 13,048,344	\$ (2,873,767)	\$ 10,174,577
Unrestricted net position	\$ (124,947,671)	\$ 12,920,630	\$ (112,027,041)

Statement of Revenues and Expenses:

Operating Expenses	\$ 183,907,860	\$ (210,369)	\$ 183,697,491
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Note 3 - **Cash and Cash Equivalents and Deposits**

The carrying amounts of the University's cash and cash equivalents and deposits, net of amounts in transit at June 30, 2018 and 2017 were \$18,580,905 and \$16,941,514 respectively. This includes amounts held in deposit at MMDT of \$13,619,472 and \$11,672,504, as of June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, the University had deposits of \$5,064,476 and \$5,026,475, respectively, held in a money market account which was insured by a third party up to a maximum of \$5 million.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 3 - **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, 2018 and 2017 were \$422,245 and \$541,734, 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, 2018 and 2017

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

Credit Risk

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

As of June 30, 2018, and 2017, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$13,619,472 and \$11,672,504, respectively. At June 30, 2018, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 71% at 30 days or less; 20% at 31-90 days; and 9% at 91-180 days. 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.

Note 4 - **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, 2018 and 2017 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sums of \$2,850,506 and \$1,751,316, respectively.

Liabilities to be funded by state appropriations at June 30, 2018 and 2017 were \$1,106,109 and \$969,059, respectively.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 5 - **Investments**

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

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

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

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

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

University

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

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 5 - **Investments - Continued**

University - continued

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>-</u>	<u>-</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, 2018 and 2017

Note 5 - **Investments - Continued**

Foundation

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

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 5 - **Investments – Continued**

Foundation - continued

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
International emerging	619,887	-	-	619,887
Short-term fixed income	545,401	-	-	545,401
International bonds	632,583	-	-	632,583
Hard assets	629,337	-	-	629,337
Corporate bonds	475,171	-	-	475,171
Fixed income	421,279	-	-	421,279
Small and mid-cap equities	737,405	-	-	737,405
U.S. bonds and notes	197,975	-	-	197,975
Other	328,971	-	-	328,971
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>\$ 23,369,783</u>	<u>\$ 6,117,039</u>	<u>\$ -</u>	<u>\$ 29,486,822</u>

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2018 and 2017, investments totaled \$14,789,350 and \$13,544,043, 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, 2018 and 2017, there were no individual investments that represented 5% or more of the University's portfolio. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal policies approved by the University's Board of Trustees.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 5 - **Investments - Continued**

University - continued

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

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

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	<u>\$ 182,090</u>	<u>\$ 2,370,923</u>	<u>\$ 2,069,693</u>
Equity securities	8,921,337			
Total investments	<u>\$ 13,544,043</u>			

SALEM STATE UNIVERSITY
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Notes to the Financial Statements –Continued

June 30, 2018 and 2017

Note 5 - **Investments - Continued**

University - continued

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

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

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	-	-
Corpoarte 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	\$ 4,622,706	\$ 147,185	\$ 1,034,966	\$ 1,008,232	\$ 231,042	\$ 354,301	\$ 719,119	\$ 480,301	\$ 647,560

Investment Income, net

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

	University 2018	University 2017	Foundation 2018	Foundation 2017
Interest and dividends	\$ 696,883	\$ 502,758	\$ 689,064	\$ 598,409
Net realized and unrealized gains	882,074	1,312,778	1,680,080	2,254,172
Investment fees	(67,540)	(60,060)	(107,118)	(94,807)
Total investment income	\$ 1,511,417	\$ 1,755,476	\$ 2,262,026	\$ 2,757,774

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

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

	2018	2017
Student accounts	\$ 12,535,024	\$ 11,452,495
Grants	752,514	620,278
Other	894,959	1,067,392
Total gross receivables	14,182,497	13,140,165
Less: allowance for doubtful accounts	(7,675,596)	(7,181,405)
Total accounts, grants and other receivables, net	\$ 6,506,901	\$ 5,958,760

Note 7 - **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:

	2018	2017
Within one year	\$ 672,225	\$ 1,303,299
Between one to five years	4,320,771	4,696,662
More than five years	17,417	103,417
Total pledges receivables	5,010,413	6,103,378
Less:		
Allowance for doubtful accounts	(85,000)	(85,000)
Discount to net present value at 3%	(396,094)	(540,523)
Pledges receivable, net	4,529,319	5,477,855
Less: current portion of receivable	(672,225)	(1,303,299)
Long-term pledges receivable, net	\$ 3,857,094	\$ 4,174,556

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued
June 30, 2018 and 2017

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

Notes Receivable - Foundation

During 2014, the Foundation provided a loan of \$600,000 to the Assistance Corporation to be used to purchase a property that was then leased to the University. The loan consisted of two notes: the first in the amount of \$200,000, requiring monthly principal payments of \$5,555 plus interest at 1.25%, maturing in August 2016; the second in the amount of \$400,000, requiring monthly principal payments of \$3,333 plus interest at 6.98% through August 2018, at which point the interest will be adjusted to the Federal Home Loan Bank of Boston Classic Rate for five-year maturities (3.17% and 2.28% at June 30, 2017 and 2016, respectively) plus 475 basis points. This note matures in August 2023. Funding was provided from the Foundation's investment portfolios and all repayments, including principal and interest, will be reinvested therein.

Note 8 - **Loans Receivable and Payable**

Loans receivable and payable consist primarily of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Loan Program ("NSL"). The Federal Government originally provided the majority of the funds to support these programs. The portion of the Perkins and NSL Programs provided by the Federal Government is refundable to the Federal Government upon the ending ("liquidation") of the University's participation in the programs.

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

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Loans receivable from students include the following at June 30:

	2018	2017
Perkins	\$ 1,363,700	\$ 1,433,891
Nursing	589,093	573,197
Other	10,651	20,620
Total loans receivable	1,963,444	2,027,708
Less: amount due in one year	(250,410)	(221,611)
Long-term loan receivables	\$ 1,713,034	\$ 1,806,097

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

	2018	2017
Perkins	\$ 1,374,294	\$ 1,425,966
Nursing	771,154	761,207
Total loans payable	\$ 2,145,448	\$ 2,187,173

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 9 - **Capital Assets**

University

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

	<u>Beginning Balance</u>	<u>Additions/ (Reductions)</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	<u>6,371,516</u>	<u>6,160,286</u>	<u>(12,345,178)</u>	<u>\$ 186,624</u>
Total capital assets not depreciated	<u>8,907,689</u>	<u>6,160,286</u>	<u>(12,345,178)</u>	<u>2,722,797</u>
Capital assets depreciated:				
Buildings	90,129,935	-	-	90,129,935
Buildings and land improvements	136,949,564	(214,963)	11,928,838	148,663,439
Furniture and equipment	<u>30,401,235</u>	<u>-</u>	<u>416,340</u>	<u>30,817,575</u>
Total capital assets depreciated	<u>257,480,734</u>	<u>(214,963)</u>	<u>12,345,178</u>	<u>269,610,949</u>
Total capital assets	<u>266,388,423</u>	<u>5,945,323</u>	<u>-</u>	<u>272,333,746</u>
Less: accumulated depreciation:				
Buildings	26,826,030	1,928,975	-	28,755,005
Building improvements	41,060,591	5,720,256	-	46,780,847
Furniture and equipment	<u>25,853,713</u>	<u>1,253,614</u>	<u>-</u>	<u>27,107,327</u>
Total accumulated depreciation	<u>93,740,334</u>	<u>8,902,845</u>	<u>-</u>	<u>102,643,179</u>
Capital assets, net	<u>\$ 172,648,089</u>	<u>\$ (2,957,522)</u>	<u>\$ -</u>	<u>\$ 169,690,567</u>

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 9 - **Capital Assets - Continued**

University - continued

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, 2018 and 2017

Note 9 - **Capital Assets - Continued**

Assistance Corporation

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

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

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 9 - **Capital Assets - Continued**

Assistance Corporation - continued

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, 2018 and 2017

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

Accounts payable and accrued expenses include the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts payable - trade	\$ 2,678,429	\$ 2,230,457
Accrued interest payable	379,470	391,022
Tuition due to state	94,996	77,450
Other	<u>1,332,731</u>	<u>1,336,547</u>
Total accounts payable and accrued expenses	<u>\$ 4,485,626</u>	<u>\$ 4,035,476</u>

Note 11 - **Unearned Revenues**

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

	<u>2018</u>	<u>2017</u>
Tuition and fees	\$ 2,514,395	\$ 2,726,159
Grants	511,227	415,797
Other	-	1,294
Total unearned revenue	<u>\$ 3,025,622</u>	<u>\$ 3,143,250</u>

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 12 - **Long-Term Liabilities**

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

	(Restated) Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bond, loans and note payable:					
Bonds payable	\$ 41,819,483	\$ -	\$ 1,966,115	\$ 39,853,368	\$ 1,968,979
Bond premiums	3,382,940	-	200,892	3,182,048	200,892
Loans payable	2,190,173	-	44,725	2,145,448	-
Note payable	94,244	-	75,212	19,032	19,032
Total bonds, loans and note payable	<u>47,486,840</u>	<u>-</u>	<u>2,286,944</u>	<u>45,199,896</u>	<u>2,188,903</u>
Other long-term liabilities:					
Accrued compensated absences	9,760,216	-	169,011	\$ 9,591,205	5,865,631
Workers' compensaton	1,177,318	33,534	-	1,210,852	263,326
Net pension liability	46,973,396	-	2,409,118	44,564,278	-
Net OPEB liability	83,576,460	3,101,274	-	86,677,734	-
Total other long-term liabilities	<u>141,487,390</u>	<u>3,134,808</u>	<u>2,578,129</u>	<u>142,044,069</u>	<u>6,128,957</u>
Total long-term liabilities	<u>\$ 188,974,230</u>	<u>\$ 3,134,808</u>	<u>\$ 4,865,073</u>	<u>\$ 187,243,965</u>	<u>\$ 8,317,860</u>

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

	Beginning Balance	(Restated) Additions	Reductions	(Restated) 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	-
Net OPEB liability	-	83,576,460	-	83,576,460	-
Total other long-term liabilities	<u>54,812,971</u>	<u>86,674,419</u>	<u>-</u>	<u>141,487,390</u>	<u>6,342,188</u>
Total long-term liabilities	<u>\$ 100,624,302</u>	<u>\$ 90,470,326</u>	<u>\$ 2,120,398</u>	<u>\$ 188,974,230</u>	<u>\$ 8,495,075</u>

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Bonds Payable - University

Over the past 13 years, the University, in association with the MSCBA, DCAMM and the Massachusetts Development Finance Agency (“MDFA”), has entered into financing and construction agreements for various campus projects. The projects are as follows:

O’Keefe Athletic Complex Fields

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

Through its agreement with MSCBA, the University has an agreement to re-pay this debt in semi-annual installments, which started June 30, 2005 and ends June 30, 2025 at an annual variable coupon rate averaging approximately 4.25%. The outstanding balance of this obligation including unamortized bond premium was \$1,428,553 and \$1,600,839 at June 30, 2018 and 2017, 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 \$1,812,335 and \$1,989,833 at June 30, 2018 and 2017, 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 \$57,200 and \$71,500 at June 30, 2018 and 2017, respectively.

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

In September 2010, the Commonwealth of Massachusetts issued Clean Renewable Energy Bonds (“CREBS”) at 3.5%. From this bond issue, the University received \$289,995 for the purpose of acquiring and installing solar panels on the O’Keefe Center. The University makes semi-annual payments of interest and principal. The bond holder is Century Bank. The term of the bond extends to May 2027. The outstanding balance of the obligation was \$153,528 and \$170,585 at June 30, 2018 and 2017, respectively.

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

In January of 2012, the MSCBA issued 2012A Project Bonds. The University was allotted \$16,028,603 for the construction of a Fitness Center as part of the O’Keefe Athletic Complex. The University’s portion of this issue consisted of principal of \$14,230,000 with a premium of \$1,798,603. The term of this debt extends to June 30, 2036 with a true interest cost (“TIC”) of 3.94%. The outstanding balance of this obligation including unamortized bond premium was \$13,615,849 and \$14,114,243 at June 30, 2018 and 2017, respectively.

With this issue, the 2005 and 2006 bond issues were refinanced at the lower TIC. This resulted in lower interest payments on both the 2005 and 2006 bond issues starting with the MSCBA 2012 spring assessment until the respective maturity date of each bond. The Debt Service Reserve for the 2005 bond was also reduced by approximately \$159,000 leaving a balance of \$66,505. A debt service reserve remains for the 2006 bond in the amount of \$245,737, which is unchanged from 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 \$18,262,953 and \$19,108,461 at June 30, 2018 and 2017, respectively. A debt service reserve remains for the 2014 bonds in the amount of \$1,161,098.

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Land Acquisition Bond

In addition to the MSCBA issued 2014 project bonds, the MSCBA held additional bond proceeds for the University to use for future land acquisitions. These bond proceeds were used for land acquisitions on behalf of the Assistance Corporation during the 2016 fiscal year 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 \$1,093,865 and \$1,110,500 at June 30, 2018 and 2017, respectively.

Clean Energy Investment Program

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

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

The total project cost for Phase 1 is \$1,694,560 and is to be repaid over 15 years at 4.0% interest per annum. Annual payments of principal and interest for Phase 1 in the amount of \$152,411 commenced in January 2015. The total project cost for Phase 2 is \$2,291,402 and is to be repaid over 15 years at 3.75% interest per annum. Annual payments of principal and interest for Phase 2 in the amount of \$202,505 commenced in January 2015. The total project cost for the University for Phase 3 is \$2,801,950 and will be repaid over 20 years at 3.0% interest per annum commenced on January 1, 2018. The annual payments of principal and interest for Phase 3 amount to \$188,335 per annum. The outstanding balance of the obligations for Phase 1, 2 and 3 was \$5,831,064 and \$6,160,724 at June 30, 2018 and 2017, respectively.

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Property Acquisition - Garage Bond

MSCBA held excess bond proceeds on behalf of the University for future real estate Acquisitions. These bond proceeds were used for property acquisitions on behalf of the Assistance Corporation during June 2017 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 \$780,069 and \$875,738 as of June 30, 2018 and 2017, respectively. There was a reduction of this bond by MSCBA during 2018. The average annual coupon rate is approximately 5.0% over the life of the issue, and the term of this debt extends to June 30, 2044.

Debt Service Reserves

Total debt service reserves held by the MSCBA for past bond issuances amount to \$1,473,340 at June 30, 2018 and 2017.

Bond Payable Maturities

Maturities of the bonds payable subsequent to June 30, 2018 are as follows:

Years Ending June 30,	Principal	Amortization of Premium	Interest	Total
2019	\$ 1,968,979	\$ 200,892	\$ 1,873,236	\$ 4,043,107
2020	2,064,279	200,892	1,788,802	4,053,973
2021	2,153,821	200,892	1,696,180	4,050,893
2022	2,243,219	200,892	1,604,842	4,048,953
2023	2,334,294	200,892	1,498,991	4,034,177
2024-2028	12,132,725	980,307	5,767,371	18,880,403
2029-2033	12,210,502	952,698	2,892,042	16,055,242
2034-2038	3,945,271	228,295	558,724	4,732,290
2039-2043	453,667	8,145	149,647	611,459
2044-2048	346,611	8,143	43,530	398,284
Total	<u>\$ 39,853,368</u>	<u>\$ 3,182,048</u>	<u>\$ 17,873,365</u>	<u>\$ 60,908,781</u>

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 12 - **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. As of June 30, 2018 the outstanding balance on this note was \$19,032.

Long-term Liabilities - Assistance Corporation

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

	Beginning Balance	Reductions	Ending Balance	Current Portion	Non-Current Portion
Notes Payable	\$ 1,422,166	\$ 68,563	\$ 1,353,603	\$ 66,127	\$ 1,287,476
Bonds payable	1,647,691	505,112	1,142,579	366,725	775,854
Total	<u>\$ 3,069,857</u>	<u>\$ 573,675</u>	<u>\$ 2,496,182</u>	<u>\$ 432,852</u>	<u>\$ 2,063,330</u>

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

	Beginning Balance	Reductions	Ending Balance	Current Portion	Non-Current Portion
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
Total	<u>\$ 3,644,257</u>	<u>\$ 574,400</u>	<u>\$ 3,069,857</u>	<u>\$ 420,145</u>	<u>\$ 2,649,712</u>

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Notes to the Financial Statements

June 30, 2018 and 2017

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

Notes Payable Assistance Corporation

The Assistance Corporation has a promissory note outstanding with the Salem State University Foundation (“the Foundation”). Under the terms of this promissory note, the Assistance Corporation agreed to pay the Foundation \$400,000 plus interest accruing at 6.98% per annum. Principal payments in the amount of \$3,333 plus interest are due monthly. Subsequent to June 30, 2018, the University paid the remaining balance of \$206,667 on behalf of the Assistance Corporation.

The Assistance Corporation maintains a loan with a bank. The loan is a five-year adjustable rate mortgage due September 2022 with a 25-year amortization. Payments in the amount of \$6,856, 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 and the payments were reduced to \$6,625. A final balloon payment representing the outstanding balance is due in September 2022. The loan is secured by a mortgage on real estate owned by the Assistance Corporation.

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

Years Ending June 30,	Principal	Interest
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, 2018 and 2017

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

Bonds Payable Assistance Corporation

In August 2010, the Higher Education Funding Agency (“HEFA”) issued Revenue Bonds, Salem State University Assistance Corporation Issue, Series 2010A bearing interest at 3.26% with a maturity date of September 15, 2020 in the amount of \$4,700,000. HEFA sold the bonds to TD Bank and loaned the proceeds to the Assistance Corporation.

The loan proceeds were used to acquire additional rental property that would be leased to the University for approximately \$4,500,000 and to pay for associated financing and closing costs. This property is currently being leased under an agreement with Salem State University. Subsequent to June 30, 2018, principal and interest payments on the revenue bond payable for the remaining amounts due are as follows:

Years Ending June 30,	Principal	Interest
2019	\$ 366,725	\$ 31,801
2020	378,860	19,665
2021	396,994	2,973
Total	<u>\$ 1,142,579</u>	<u>\$ 54,439</u>

Note 13 - **Pensions**

Defined Benefit Plan Description

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

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

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 13 – **Pensions - Continued**

Benefit Provisions

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

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

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

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 13 – **Pensions - Continued**

Contributions - continued

The Commonwealth does not require the University to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$8,336,988, \$7,462,847 and \$6,866,271 the years ended June 30, 2018, 2017 and 2016, respectively.

For employees covered by SERS but not paid from state appropriations, the University is required to contribute at an actuarially determined rate. The rate was 11.78%, 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2018, 2017, and 2016, respectively. The University contributed \$3,117,853, \$2,716,688 and \$2,446,187 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 68%, 68% and 70% of total related payroll for fiscal years end 2018, 2017 and 2016, respectively.

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

At June 30, 2018 and 2017, the University reported a liability of \$44,564,278 and \$46,973,396 respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. The 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 University's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the University for the fiscal years 2018 and 2017, respectively. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2018 and 2017 relative to total contributions of all participating employers for the fiscal years. At June 30, 2018 and 2017, the University's proportion was 0.347% and 0.341%, respectively.

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 13 – **Pensions - Continued**

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

For the years ended June 30, 2018 and 2017, the University recognized pension expense, as a result of GASB 68, of \$3,583,131 and \$4,420,084, respectively. These amounts are reported net of contributions made subsequent to the measurement date of \$3,117,853 and \$2,713,688 during the years ended June 30, 2018, and 2017, respectively. The University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,

	<u>2018</u>	<u>2017</u>
<u>Deferred Outflows of Resources Related to Pension</u>		
Difference between expected and actual experience	\$ 1,723,036	\$ 2,231,111
Net differences between projected and actual earnings on pension plan investments	-	3,153,237
Change in plan actuarial assumptions, net	4,637,593	5,209,037
Changes in proportion from Commonwealth	152,634	104,648
Changes in proportion due to internal allocation	4,860,910	6,211,803
Contributions subsequent to the measurement date	<u>3,117,853</u>	<u>2,716,688</u>
Total deferred outflows related to pension	<u>\$14,492,026</u>	<u>\$19,626,524</u>

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June 30, 2018 and 2017

Note 13 – **Pensions - Continued**

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

	<u>2018</u>	<u>2017</u>
<u>Deferred Inflows of Resources Related to Pension</u>		
Difference between expected and actual experience	\$ 1,212,481	\$ -
Net differences between projected and actual earnings on pension plan investments	530,984	-
Changes in proportion from Commonwealth	15,886	22,631
Changes in proportion due to internal allocation	<u>2,988,503</u>	<u>3,867,474</u>
Total deferred inflows related to pension	<u>\$ 4,747,854</u>	<u>\$ 3,890,105</u>

The University's contributions of \$3,117,853 and \$2,716,688 made during the fiscal years ending 2018 and 2017, 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	\$ 1,974,002
2019	3,265,499
2020	1,701,741
2021	(283,023)
2022	<u>(31,900)</u>
	<u>\$ 6,626,319</u>

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 13 – **Pensions - Continued**

Actuarial Assumptions

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

Measurement date	June 30, 2017	June 30, 2016
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	4.00% 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, 2017, mortality rates were based on:

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

For measurement dates June 30, 2016, 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 2015 (gender distinct)

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June 30, 2018 and 2017

Note 13 – **Pensions – Continued**

Actuarial Assumptions – continued

The 2018 pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 2017 and rolled forward to June 30, 2017. The 2017 pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 2016 and rolled forward to June 30, 2016.

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>2018</u>		<u>2017</u>	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	5.00%	40%	6.90%
Core Fixed Income	12%	1.10%	13%	1.60%
Hedge Funds	0%	3.60%	9%	4.00%
Private Equity	11%	6.60%	10%	8.70%
Real Estate	10%	3.60%	10%	4.60%
Portfolio Completion Strategies	13%	3.60%	4%	3.60%
Value Added Fixed Income	10%	3.80%	10%	4.80%
Timber/Natural Resources	4%	3.20%	4%	5.40%
	<u>100%</u>		<u>100%</u>	

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June 30, 2018 and 2017

Note 13 – **Pensions – Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2018 and 2017. 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, 2018		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 60,694,691	\$44,564,278	\$ 31,570,844
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

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits**

Plan Description

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

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

Management of the SRBT is vested with the board of trustees, which consists of 7 members including the Secretary of Administration and Finance, the Executive Director of the GIC, the Executive Director of PERAC, the State Treasurer, the Comptroller, 1 person appointed by the Governor and 1 person appointed by the State Treasurer. These members elect 1 person to serve as chair of the board.

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

Benefits Provided

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs, which are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits - Continued**

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2017 and 2016 and as of the valuation date (January 1, 2017), participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

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

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The University is required to contribute based on Massachusetts General Laws; the rate was 8.92% and 7.99% of annual covered payroll for the fiscal years ended June 30, 2018 and 2017, respectively. The University contributed \$2,360,585 and \$2,181,990 for the fiscal years ended June 30, 2018 and 2017, respectively, equal to 100% of the required contribution for the year.

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

At June 30, 2018 and 2017, the University reported a liability of \$86,677,734 and \$83,576,460 respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The total OPEB liability for the June 30, 2016 measurement date was determined by an actuarial calculation as of January 1, 2017 rolled back to June 30, 2016. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017.

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits - Continued**

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

The University's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the University's share of total covered payroll for the fiscal years ended June 30, 2017 and 2016. The University's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2017 and 2016 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018 and 2017, the University's proportion was 0.496% and 0.441%, respectively.

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

<u>Deferred Outflows of Resources Related to OPEB</u>	
Contributions subsequent to the measurement date	\$ 2,360,585
Changes in the proportion from Commonwealth	181,407
Changes in the proportion due to internal allocation	<u>8,417,522</u>
Total deferred outflows related to OPEB	<u>\$10,959,514</u>
<u>Deferred Inflows of Resources Related to OPEB</u>	
Net differences between projected and actual earnings on OPEB plan investments	\$ 158,141
Differences between expected and actual experience	199,288
Changes in OPEB plan actuarial assumptions	<u>9,817,148</u>
Total deferred inflows related to OPEB	<u>\$10,174,577</u>

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits - Continued**

Contributions

The University's contribution of \$2,360,585 and \$2,181,990 for the years ended June 30, 2018 and 2017, respectively, are reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending <u>June 30,</u>	
2019	\$ (335,475)
2020	(335,475)
2021	(335,475)
2022	(335,475)
2023	<u>(233,748)</u>
	<u>\$ (1,575,648)</u>

Actuarial Assumptions

The total OPEB liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled back to June 30, 2016. The total OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017. The following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2017 and 2016
Inflation	3.00%
Salary increases	4.5% per year
Investment rate of return	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for Medical; 5.0% for EGWP; 5.0% for administrative costs

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits - Continued**

Actuarial Assumptions- continued

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

The participation rates are actuarially assumed as below:

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

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

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

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Notes to the Financial Statements

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Note 14 – **Other Post-Employment Benefits - Continued**

Actuarial Assumptions- continued

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

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

Discount Rate

The discount rates used to measure the total OPEB liability as of June 30, 2017 and 2016 were 3.63% and 2.88%, respectively. These rates were based on a blend of the Bond Buyer Index rates of 3.58% and 2.85%, respectively as of the measurement dates June 30, 2017 and 2016 and the expected rates of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2023. Therefore, the long-term expected rate of return on OPEB plan investments of 7.50% per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2017 and 2016.

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June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits - Continued**

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

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

June 30, 2018		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
2.63%	3.63%	4.63%
\$ 102,893,403	\$ 86,677,734	\$ 73,785,013
June 30, 2017		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
1.88%	2.88%	3.88%
\$ 99,909,839	\$ 83,576,460	\$ 70,661,429

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 14 – **Other Post-Employment Benefits - Continued**

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

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

Fiscal Year End	1.00% Decrease (B)	Current Healthcare Cost Trend Rate (A)	1.00% Increase (C)
June 30, 2018	\$ 71,714,801	\$ 86,677,734	\$ 106,368,048
June 30, 2017	69,141,183	83,576,460	102,703,863

(A) - The current healthcare cost trend rates are as follows: 9.0% (June 30, 2017) and 8.5% (June 30, 2016) for medical and 5.0% for both fiscal years 2017 and 2016 EGWP and administrative costs

(B) - The healthcare cost trend rates after a 1% decrease are as follows: 8.0% (June 30, 2017) and 7.5% (June 30, 2016) for medical and 4.0% for both fiscal years 2017 and 2016 EGWP and administration costs

(C) - The healthcare cost trend rates after a 1% increase are as follows: 10.0% (June 30, 2017) and 9.5% (June 30, 2016) for medical and 6.0% for both fiscal years 2017 and 2016 EGWP and administration costs

Note 15 - **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, 2018 and 2017, the unamortized portion of these contributions approximated \$501,000 and \$658,000, respectively.

Amounts related to agreements with other vendors at June 30, 2018 and 2017 approximated \$245,000 and \$340,000, respectively.

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 16 - **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, 2018 are as follows:

Years Ending June 30,	Amount
2019	\$ 1,545,290
2020	1,343,126
2021	1,230,868
2022	769,055
2023	788,281
Thereafter	<u>18,341,902</u>
Total	<u>\$ 24,018,522</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.

Note 17 - **Operating Lease Commitments**

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

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June 30, 2018 and 2017

Note 17 - **Operating Lease Commitments - Continued**

These leases expire in various years through 2040. Future minimum payments related to these leases are as follows:

Years Ending June 30,	Assistance Corporation	Outside Vendors	Total
2019	\$ 1,757,506	\$ 364,676	\$ 2,122,182
2020	1,791,377	10,539	1,801,916
2021	1,261,764	10,539	1,272,303
2022	963,398	2,635	966,033
2023	984,655	-	984,655
Thereafter	18,349,751	-	18,349,751
Total	\$ 25,108,451	\$ 388,389	\$ 25,496,840

The rent expense on these leases amounted to approximately \$1,589,909 and \$1,423,000 for fiscal years 2018 and 2017, respectively.

Note 18 - **Restricted Net Position**

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

	2018	2017
Restricted - nonexpendable:		
Scholarship and fellowship	\$ 866,367	\$ 810,323
Restricted - expendable:		
Scholarship, fellowship loans, research grants and contracts	\$ 5,737,349	\$ 5,174,752

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, 2018 and 2017

Note 19 - **Commitments and Contingencies**

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

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

The 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 2018 and 2017, 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 collective bargaining agreement contracts have expired. Negotiations for most but not all have been completed. Some retroactive payments will likely be made when all required steps of having the contracts be ratified, signed, formally approved and funded have occurred. The university has not recognized a liability for the retroactive compensation as of the date of these financial statements because the legal requirements to establish the obligation for retroactive payments have not been fulfilled in the entirety as of balance sheet date. The estimated amount of retroactive payments of salary and related fringe benefits is approximately \$2.1 million.

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June 30, 2018 and 2017

Note 20 - **Operating Expenses**

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

	<u>2018</u>	<u>2017</u>
Compensation and benefits	\$ 125,842,882	\$ 122,984,490
Supplies and services	38,659,003	37,324,136
Utilities	4,107,227	4,179,198
Depreciation	8,902,845	8,476,817
Scholarships and fellowships	6,185,534	5,626,549
Total operating expenses	<u>\$ 183,697,491</u>	<u>\$ 178,591,190</u>

Note 21 - **Fringe Benefit Program**

The University participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension and workers' compensation benefits. Health insurance costs for active employees and retirees are paid through a fringe benefit rate charged to the University by the Commonwealth.

The overall fringe benefit charge increased from 35.16% in 2017 to 36.27% in 2018 which includes 1.66% and 1.41% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 9.95% in 2017 to 11.78% in 2018. 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.

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Notes to the Financial Statements

June 30, 2018 and 2017

Note 21 - **Fringe Benefit Program - Continued**

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2018, 2017, and 2016 were \$5,963,606, \$6,528,137, and \$5,202,742, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

Insurance

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

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

For active state employees only, the GIC offers a long-term disability ("LTD") program, two pre-tax employee programs - Health Care Spending Account ("HCSA") and Dependent Care Assistance Program ("DCAP"), and for managers, legislators, legislative staff and certain Executive Office staff, a dental/vision plan. The GIC also offers a discount vision and a dental plan for Commonwealth retirees.

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

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

Notes to the Financial Statements

June 30, 2018 and 2017

Note 21 - **Fringe Benefit Program - Continued**

Insurance – continued

The GIC is a quasi-independent state agency governed by an 17-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2018 and 2017, 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 22 - **Massachusetts Management Accounting Reporting System ("MMARS")**

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

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

Notes to the Financial Statements

June 30, 2018 and 2017

Note 22 - **Massachusetts Management Accounting Reporting System (“MMARS”) – Continued**

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

	2018	2017
General Appropriations	\$ 44,505,633	\$43,997,174
Other Appropriations	898,555	938,772
Total Appropriations	\$ 45,404,188	\$44,935,946
 <u>Add:</u>		
Fringe benefits for benefited employees on the state payroll	15,649,915	14,765,927
 <u>Less:</u>		
Day school tuition remitted to the state and included in tuition and fee revenue	(926,090)	(934,235)
Total unrestricted appropriations	\$ 60,128,013	\$58,767,638

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

	2018	2017
Revenue per MMARS	\$ 129,190,586	\$67,280,576
Revenue per University	129,190,586	67,280,576
Difference	\$ -	\$ -

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

The University distributed approximately \$49,009,000 and \$48,492,000 for the years ended June 30, 2018 and 2017, 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.

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

Notes to the Financial Statements

June 30, 2018 and 2017

Note 24 - **Massachusetts State College Building Authority (“MSCBA”)**

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

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

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

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations and other major renovations and improvements for the University for the years ended June 30, 2018 and 2017 were \$14,354,200 and \$14,049,442, 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, 2018	June 30, 2017	June 30, 2016
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015
Valuation date	January 1, 2017	January 1, 2016	January 1, 2015
Proportion of the collective net pension liability	0.347%	0.341%	0.389%
Proportionate share of the collective net pension liability	\$ 44,564,278	\$ 46,973,396	\$ 44,297,126
College's covered-employee payroll	\$ 27,303,392	\$ 25,885,577	\$ 23,448,807
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	163.22%	181.47%	188.91%
Plan fiduciary net position as a percentage of the total pension liability	67.21%	63.48%	67.87%

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
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 3,117,853	\$ 2,716,688	\$ 2,446,187
Contributions in relation to the statutorily required contribution	<u>(3,117,853)</u>	<u>(2,716,688)</u>	<u>(2,446,187)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 26,467,350	\$ 27,303,397	\$ 25,885,577
Contribution as a percentage of covered-employee payroll	11.78%	9.95%	9.45%

Notes:

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

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

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information - Pension (Unaudited)

For the Years Ended June 30, 2018, 2017 and 2016

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

Measurement date – June 30, 2017

The mortality rates were changed as follows:

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

Measurement date – June 30, 2016

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

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

Measurement date – June 30, 2015

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

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

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

Notes to the Required Supplementary Information - Pension (Unaudited)

For the Years Ended June 30, 2018, 2017 and 2016

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

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)

- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)

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

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

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

State Retirees' Benefit Trust

Year ended	June 30, 2018	June 30, 2017
Measurement date	June 30, 2017	June 30, 2016
Valuation date	January 1, 2017	January 1, 2016
Proportion of the collective net OPEB liability	0.496%	0.441%
Proportionate share of the collective net OPEB liability	\$ 86,677,734	\$ 83,576,460
College's covered payroll	\$ 27,303,392	\$ 25,885,577
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	317.46%	322.87%
Plan fiduciary net position as a percentage of the total OPEB liability	5.39%	4.37%

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - OPEB (Unaudited)

State Retirees' Benefit Trust

For the Years Ended June 30,

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

Notes:

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

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

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information – OPEB (Unaudited)

For the Years Ended June 30, 2018 and 2017

Note 1 - **Change in Plan Assumptions**

Assumptions

The discount rate was increased to 3.63% based upon a blend of the Bond Buyer Index rate as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%. This increase in the discount rate resulted in a decrease in the net OPEB liability of approximately \$3.08 billion as of June 30, 2017.

**SUPPLEMENTARY
INFORMATION**

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

Schedules of Net Position
Dormitory Trust Fund Report (Unaudited)

June 30, 2018 and 2017

Assets

	2018	2017
Assets:		
Cash and equivalents	\$ 1,721,284	\$ 1,608,759
Accounts receivable, net	213,955	169,855
Other receivables, net	3,640	-
Total Assets	\$ 1,938,879	\$ 1,778,614

Liabilities and Net Position

Liabilities:		
Accounts payable	\$ 85,856	\$ 78,756
Accrued payroll and fringe benefits	122,641	139,944
Accrued compensated absences	254,431	260,155
Total Liabilities	462,928	478,855
Net Position	1,475,951	1,299,759
Total Liabilities and Net Position	\$ 1,938,879	\$ 1,778,614

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

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

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Student fees	\$ 19,747,000	\$ 18,929,872
Less: scholarships and fellowships	(1,225,911)	(1,007,558)
Commissions	62,135	55,501
Rentals	<u>173,852</u>	<u>269,019</u>
Total Revenues	<u>18,757,076</u>	<u>18,246,834</u>
Expenses:		
Regular employee compensation	2,264,418	2,419,958
Regular employee related expenses	413	259
Special employee compensation	782,093	821,780
Pension and insurance related	742,724	831,956
Administrative	824,048	279,957
Facility operational	169,237	182,046
Energy and space rental	1,461,606	1,465,616
Operational services	54,093	33,681
Equipment purchase	73,971	22,232
Equipment maintenance	776,273	726,971
Loans and special payments	12,213,027	11,848,929
Information technology	<u>12,186</u>	<u>8,047</u>
Total Expenses	<u>19,374,089</u>	<u>18,641,432</u>
Excess of Expenses over Revenues Before Transfers	(617,013)	(394,598)
Net Transfers	<u>793,205</u>	<u>450,563</u>
Total Increase (Decrease) in Net Position	<u>176,192</u>	<u>55,965</u>
Net Position, Beginning of Year	<u>1,299,759</u>	<u>1,243,794</u>
Net Position, End of Year	<u>\$ 1,475,951</u>	<u>\$ 1,299,759</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, 2018, 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 with a dual date of October 12, 2018 and March 18, 2019. 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, 2018.

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 the Organization's financial statements are free of 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 Organization's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization'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 12, 2018, (except for; Management's Discussion and Analysis, Note 2, Note 12, Note 14, Note 20, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is March 18, 2019).