

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

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

**June 30, 2016 and 2015**

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

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

**June 30, 2016 and 2015**

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## Independent Auditor's Report

To the Board of Trustees  
Salem State University

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Salem State University (the "University") (an agency of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2016, 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.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, Salem State University Foundation, Inc. and Salem State University Assistance Corporation. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Salem State University Foundation, Inc. and Salem State University Assistance Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component units of Salem State University as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 1, the financial statements of Salem State University and its discretely presented component units are intended to present the respective financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Salem State University and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Financial Statements as of June 30, 2015*

The financial statements of Salem State University as of June 30, 2015 were audited by other auditors whose report dated December 2, 2015 expressed an unmodified opinion on those financial statements.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension benefit schedules on pages 4 to 21 and 76 and 77, respectively, 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.

*Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the 2016 financial statements that collectively comprise the University's basic financial statements. The dormitory trust fund report shown on pages 79 and 80 is presented for purposes of additional analysis and is not a required part of the 2016 financial statements. The dormitory trust fund report is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 financial statements. The dormitory trust fund report information has been subjected to the auditing procedures applied in the audit of the 2016 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2016 financial statements or to the 2016 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the dormitory trust fund report information is fairly stated, in all material respects, in relation to the 2016 financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of Salem State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Salem State University's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Boston, Massachusetts  
November 16, 2016

# SALEM STATE UNIVERSITY

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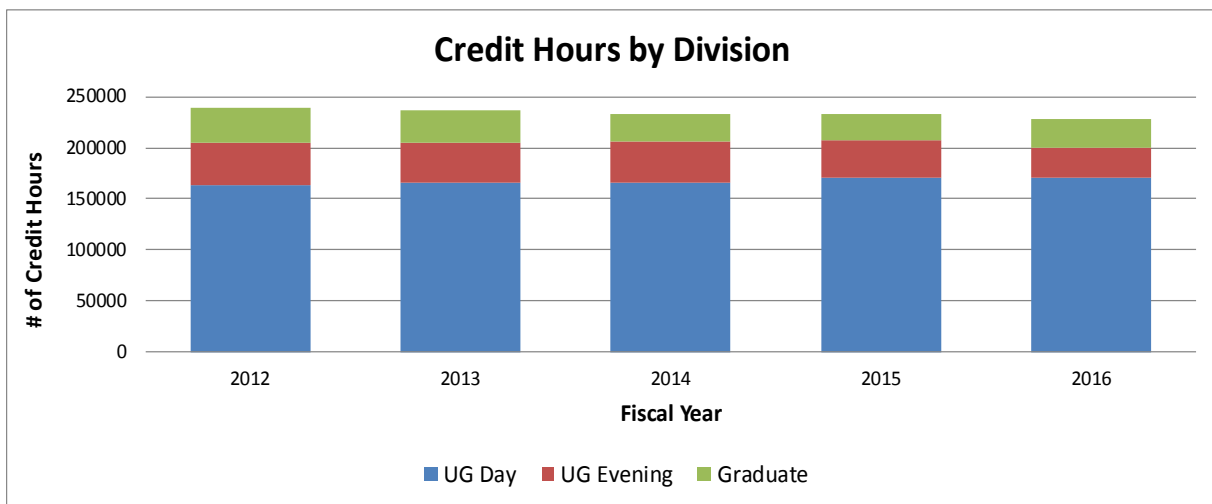
## Management's Discussion and Analysis (Unaudited)

### Introduction

Salem State University (the "University") offers readers this narrative overview and analysis of the financial statements and activities of the University for fiscal years ended June 30, 2016 and 2015. Readers are encouraged to consider the information presented here in conjunction with the financial statements and related footnotes. In accordance with Governmental Accounting Standards Board ("GASB") requirements, the University financial statements report the Salem State University Assistance Corporation ("Assistance Corporation") and Salem State University Foundation, Inc. ("Foundation") as component units.

### Background

The University was founded in 1854 as the Salem Normal School, at which time it offered innovative, ground-breaking education for women pursuing careers in education. Today, the University thrives as a comprehensive institution of academic strength offering high quality, balanced education at the undergraduate and graduate levels. The 115 acre University is spread across six sites: North Campus, Central Campus, South Campus, School of Social Work & International Programs, Cat Cove and the O'Keefe Athletic Complex. The curriculum spans the arts, sciences and professional programs, contained within the College of Arts and Sciences, the Bertolon School of Business, the College of Health and Human Services, the School of Graduate Studies, the School of Continuing and Professional Studies and the School of Education. The undergraduate level has approximately 6,700 and the graduate level has approximately 1,200 annual Full-Time Equivalent ("FTE") credit enrollment. The total credit hours by division for the past five years has been fairly stable as shown below:



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University students are diverse, hailing from 29 states and 59 countries. Thirty-one percent of first year students (freshman and transfer) self-identified as students of color (fall semester 2015). The approximate gender breakdown is 39% male and 61% 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 continuous improvement in all areas. Giving back to the community is a large part of the Salem State University culture, and thousands of volunteer hours and resources benefit various groups such as Citizens for Adequate

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**(Unaudited)**

Housing, Beverly Historical Society, LifeBridge homeless shelter kitchen, American Cancer Society, Haven for Hunger, North Shore ARC, Operation Troop Support and Horizons for Homeless Children.

**Accreditations**

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

**Significant Events and Accomplishments**

**Accreditation**

The University’s accrediting body, the Commission on Institutions of Higher Education (“CIHE”) of the New England Association of Schools and Colleges, voted to accept the University’s interim (Fifth Year) report submitted in January 2016, a standard part of the accreditation process. The Commission commended the University for a variety of accomplishments and scheduled the next comprehensive review for Spring 2021.

**Capital Projects**

Overview

The University continued to invest in its capital improvement program. FY16 saw the first full year of operations in the newest of six residential facilities, the 350-bed LEED Gold certified Viking Hall, completion of the north campus parking garage, and continued construction on the Sophia Gordon Center for the Performing Arts (previously known as the Mainstage Theatre.) The performing arts center is funded by a combination of gifts, debt, and state funding and is scheduled to be completed during FY17. More detailed information about these projects and others undertaken during FY14 - FY16 follows.

Viking Hall Construction Project

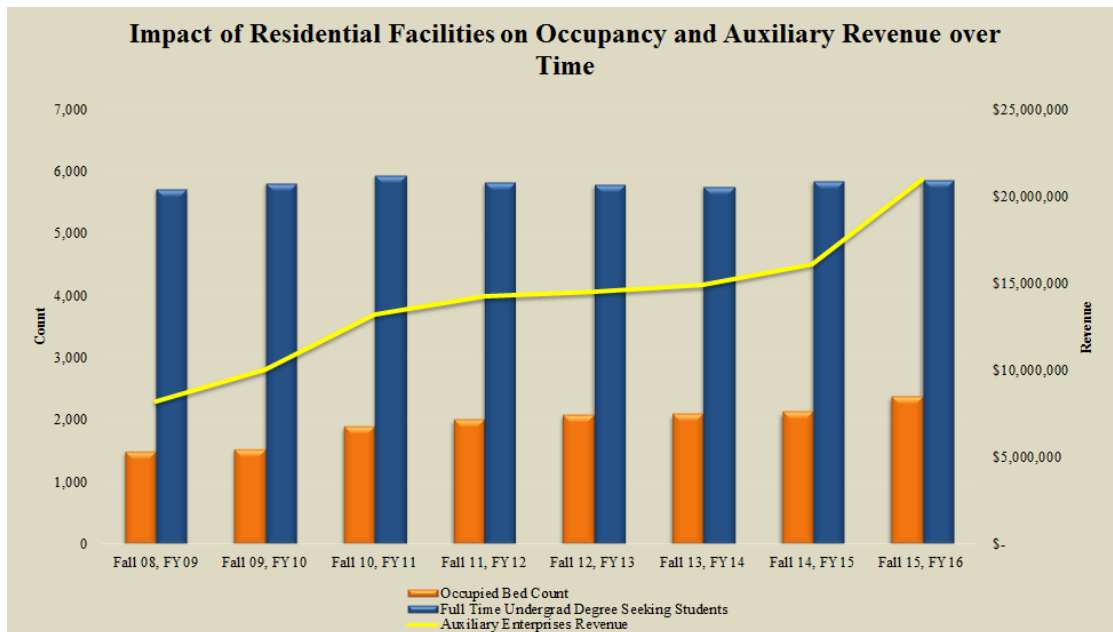
Construction of Viking Hall, the new 350-bed residence hall on Central Campus was completed in time for its opening in August 2015. The Massachusetts State College Building Authority (“MSCBA”) issued bonds for this \$52.5 million project. The University pays the MSCBA under the terms of a long-term contract.



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



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 total project costs are estimated to be approximately \$26.3 million. For the project, \$14 million was funded by the University from the issuance of an MSCBA bond during January 2014 and additional cash funds were contributed by donors and the University. The remaining \$7.7 million will be funded by capital grants from DCAMM. Construction is targeted for completion in fiscal year 2017.

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

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

Parking Garage Construction Project

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

Clean Energy Investment Program - Phase III

During March 2016, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project - Phase III (the "project"). The project's goal is a comprehensive energy and water saving performance contract which includes ice rink renovations, lighting upgrades, and HVAC upgrades. Work commenced after the completion of the 15-16 academic year. The project has a total project cost of \$5.5 million of which the University will be responsible for \$2.8 million in bond debt. The annual payments of principal and interest for Phase III amount to \$188,335 per annum over 20 years and will commence in January 2018.

Land Acquisition Bond

Previously, the University obtained bond proceeds from an MSCBA bond issuance (January 2014) for future land acquisitions. The Salem State University Assistance Corporation ("Assistance Corporation") is the legal entity that holds title to certain properties on behalf of the University. In FY16, some of the bond proceeds were used to acquire two properties as approved by the University's board of trustees. As the liability is held by the University and the asset is held by the Assistance Corporation, these transactions were accounted for as a contribution (non-operating expense) of the University in these financial statements and are reflected in the Assistance Corporation's financial statements as an offsetting revenue. The bond amount consists of principal in the amount of \$1,090,000, and the term of this debt extends to June 30, 2048.

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**Comprehensive Capital Campaign**

The 10000 Reasons Campaign for Salem State University raised approximately \$2.4 million for the year. As of June 2016, the cumulative total raised is approximately \$21.9 million towards the \$25 million goal. Forty-seven new scholarships have been created and funded by this campaign. Campaign priorities include Academic Programs, Faculty, Student Experience, Financial Assistance, Annual Support, and Special Initiatives.

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

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, established new standards for how governmental employers (and other entities) that contribute to state and local pension plans report liabilities and plan details on their financial statements. GASB 68 and its required disclosures were mandated to be implemented by the Commonwealth in its fiscal year 2015 financial reports. The table below shows the financial statement impact of GASB 68 in fiscal years 2015 and 2016:

|   | <b>FY 2015</b>        | <b>FY 2016</b> |
|---|-----------------------|----------------|
|   | <i>(In Thousands)</i> |                |
| <b>Statement of Net Position (Balance Sheet)</b>                    |                       |                |
| Deferred Outflows (like an Asset)                                   | \$ 4,231              | \$ 19,078      |
| Net Pension Liability (Non-Current Liability)                       | 21,889                | 44,297         |
| Deferred Inflows (like a Liability)                                 | 4,501                 | 1,308          |
| Net Position  | \$ (22,159)           | \$ (26,527)    |
| One-year Change   | 473                   | (4,368)        |
| <b>Statement of Revenues Expenses &amp; Changes in Net Position</b> |                       |                |
| Pension Expense (allocated in Operating Expense Categories)*        | \$ (473)              | \$ 4,368       |

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

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

*(In Thousands)*

|  | <u>Without<br/>Pension</u> | <u>Pension<br/>Adjustment</u> | <u>With<br/>Pension</u> |
|--|----------------------------|-------------------------------|-------------------------|
| Unrestricted Net Position at June 30, 2014 | \$ 8,871                   | \$ (22,632)                   | \$ (13,761)             |
| Unrestricted net loss for FY 2015          | <u>(1,606)</u>             | <u>473</u>                    | <u>(1,133)</u>          |
| Unrestricted Net Position at June 30, 2015 | 7,265                      | (22,159)                      | (14,894)                |
| Unrestricted net loss for FY 2016          | <u>2,218</u>               | <u>(4,368)</u>                | <u>(2,150)</u>          |
| Unrestricted Net Position at June 30, 2016 | <u>\$ 9,483</u>            | <u>\$ (26,527)</u>            | <u>\$ (17,044)</u>      |

The total net pension liability balance in the June 30, 2016 and 2015 financial statements amounted to approximately \$44.3 million and \$21.9 million, respectively.

**Special Payment - 9C Reduction**

During January 2015, the Commonwealth of Massachusetts mandated a return of appropriated monies or a payment to alleviate the statewide fiscal budget deficit. The University's portion and payment made to the Commonwealth was approximately \$622 thousand. This was recorded as a component of state appropriations, net in the fiscal 2015 financial statements.

**Overview of University Financial Statements**

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

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

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**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 FY 2016 declined by \$7.9 million or 7%. Of this amount, approximately \$4.8 million is associated with an additional pension expense passed along to the university due to the GASB 68 accounting standard and \$1 million is caused by the required accounting treatment between the university and the Assistance Corporation for the property acquisition previously discussed. A summarized comparison of the University's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2016, 2015 and 2014 is as follows:

**Statement of Net Position Summary & Analysis**

*(In Thousands)*

| <u>Assets</u>  | 2016              | 2015              | 2014              |
|--|-------------------|-------------------|-------------------|
| Current Assets                                       | \$ 46,113         | \$ 56,729         | \$ 62,687         |
| Capital Assets (net)                                 | 163,705           | 155,388           | 151,437           |
| Noncurrent Assets                                    | 3,815             | 3,936             | 4,031             |
| Total Assets   | <u>213,633</u>    | <u>216,053</u>    | <u>218,155</u>    |
| Deferred Outflows of Resources                       | 19,078            | 4,231             | 1,734             |
| Total Assets and Deferred Outflows                   | <u>\$ 232,711</u> | <u>\$ 220,284</u> | <u>\$ 219,889</u> |
| <br>   |                   |                   |                   |
| <u>Liabilities</u>                                   |                   |                   |                   |
| Current Liabilities                                  | \$ 26,552         | \$ 25,390         | \$ 26,434         |
| Noncurrent Liabilities                               | 92,453            | 70,819            | 70,955            |
| Total Liabilities                                    | <u>119,005</u>    | <u>96,209</u>     | <u>97,389</u>     |
| Deferred Inflows of Resources                        | 2,726             | 5,170             | 571               |
| <br>   |                   |                   |                   |
| <u>Net Position</u>                                  |                   |                   |                   |
| Net investment in capital assets                     | 122,168           | 128,381           | 130,540           |
| Restricted   | 5,856             | 5,418             | 5,150             |
| Unrestricted   | <u>(17,044)</u>   | <u>(14,894)</u>   | <u>(13,761)</u>   |
| Total Net Position                                   | <u>110,980</u>    | <u>118,905</u>    | <u>121,929</u>    |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$ 232,711</u> | <u>\$ 220,284</u> | <u>\$ 219,889</u> |

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

Total assets decreased in FY 2016 by \$2.4 million or 1% since the prior year, similar to the prior year decrease in FY 2015 of \$2.1 million, also 1%. Most of the changes within the asset categories are associated with completion of capital projects from cash generated by bonds or long-term contractual agreements. Total liabilities increased in FY 2016 by \$22.8 million (24%) over prior year primarily due to the net pension liability increase of \$22.4 million.

The deferred outflows of resources are for pension related balances which were first recorded in FY 2015. These balances increased \$14.8 million in FY 2016 compared to an increase in FY 2015 of \$4.2 million. Both of these increases are derived from actuarial calculations and are detailed in the pension footnote of these financial statements.

For fiscal 2016, 2015 and 2014, total net position amounted to \$111.0 million, \$118.9 million and \$121.9 million, respectively. The University's net position in the investment in capital assets (e.g. land, buildings, and equipment) less any related debt used to acquire those assets is the largest component of the total net position, which is consistent with prior years and is detailed below in the next section. The University uses its capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, such as room rents, auxiliary, and other fees, since the capital assets themselves cannot be used to liquidate these liabilities.

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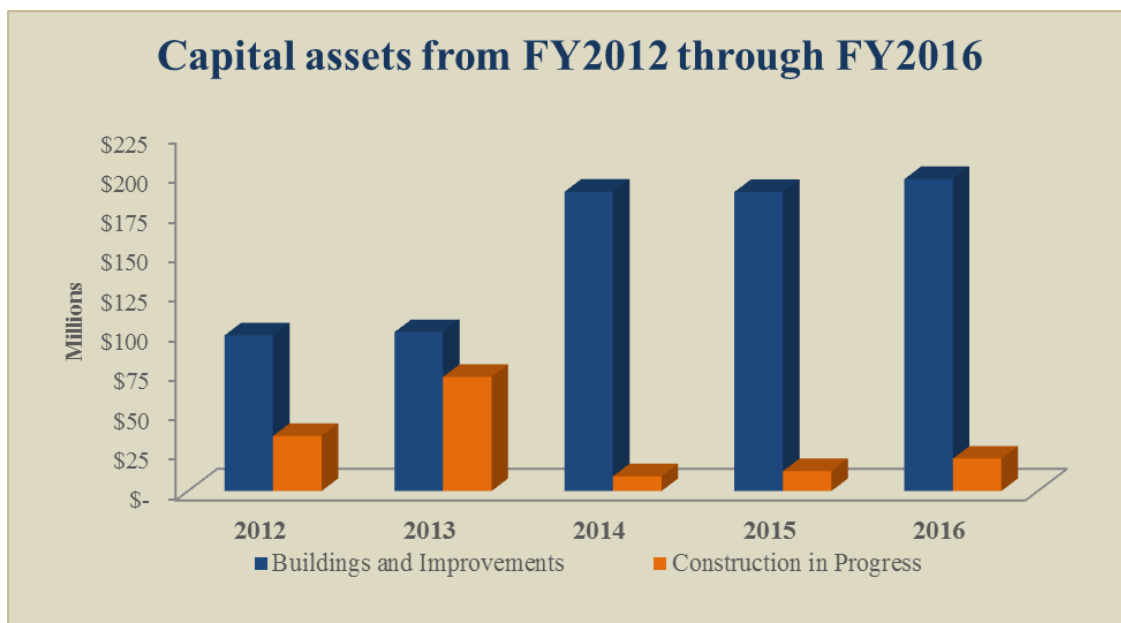
**Management's Discussion and Analysis**  
**(Unaudited)**

**Capital Assets**

A summarized comparison of the University's capital assets categories at June 30, 2016, 2015 and 2014 is as follows:

| <b>Capital Asset Summary</b>     |                       |                   |                   |
|----------------------------------|-----------------------|-------------------|-------------------|
|                                  | <i>(In Thousands)</i> |                   |                   |
|                                  | 2016                  | 2015              | 2014              |
| Building and improvements        | \$ 196,564            | \$ 188,503        | \$ 188,622        |
| Construction in progress         | 20,361                | 12,456            | 9,253             |
| Land                             | 2,536                 | 2,536             | 2,536             |
| Furnishing and equipment         | 29,508                | 29,280            | 28,086            |
| <b>Total</b>                     | <b>248,969</b>        | <b>232,775</b>    | <b>228,497</b>    |
| Less: Accumulated depreciation   | (85,264)              | (77,387)          | (77,060)          |
| <b>Total capital assets, net</b> | <b>\$ 163,705</b>     | <b>\$ 155,388</b> | <b>\$ 151,437</b> |

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



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*Capital Assets Changes*

The University's total capital assets changes as of June 30, 2016, 2015 and 2014 are depicted below:

| Changes in Capital Assets                          |                       |                 |                  |
|--|-----------------------|-----------------|------------------|
|  | <i>(In Thousands)</i> |                 |                  |
|  | 2016                  | 2015            | 2014             |
| <u>Building and Improvements</u>                   |                       |                 |                  |
| Meier Hall Renovation                              | \$ 321                | \$ 1,244        | \$ -             |
| Library and Learning Commons Improvements          | 521                   | 1,005           | 67,311           |
| Gasset Fitness Center and O'Keefe                  | -                     | -               | 19,395           |
| Bertolon Building Improvements                     | -                     | -               | 1,302            |
| Lower Dining Improvements                          | -                     | -               | 511              |
| Student Navigation Center (MSCBA Bonds)            | 84                    | 1,728           | -                |
| Starbucks Leasehold Improvement (Viking Hall)      | 514                   | -               | -                |
| Public Safety Relocation (MSCBA Bonds)             | -                     | 2,097           | -                |
| Canal Street Parking (MSCBA Bonds)                 | 147                   | 2,076           | -                |
| Equipment purchases for IT and Biology Departments | 1,675                 | 1,194           | -                |
| Comprehensive Energy Performance Contract Project  | 4,799                 | -               | -                |
| Additions to Buildings, Equipment & Infrastructure | 8,061                 | 9,344           | 88,519           |
| Disposal of Old Library & Former Police Station    | -                     | (8,269)         | -                |
| Net Additions to Buildings and Improvements        | <u>8,061</u>          | <u>1,075</u>    | <u>88,519</u>    |
| <u>Construction in Progress</u>                    |                       |                 |                  |
| Sophia Gordon Center Theatre                       | 10,619                | 2,820           | 908              |
| Various Ongoing Renovation Projects                | 3,281                 | 6,708           | 18,066           |
| IT Projects  | 774                   | 1,135           | 1,191            |
| Capitalized Bond Interest                          | 554                   | 782             | 417              |
| Additions to Construction in Progress              | 15,228                | 11,445          | 20,582           |
| Reclassifications to Buildings and Equipment       | (7,323)               | (8,242)         | (83,226)         |
| Net Additions to Construction in Progress          | <u>7,905</u>          | <u>3,203</u>    | <u>(62,644)</u>  |
| <u>Furniture &amp; Equipment</u>                   |                       |                 |                  |
| Art & Design Computer Equipment                    | 228                   | -               | -                |
| Gasset Fitness, IT and Network Equipment           | -                     | -               | 1,520            |
| Net Additions to Furniture and Equipment           | <u>228</u>            | <u>-</u>        | <u>1,520</u>     |
| Total Net Asset Additions                          | <u>16,194</u>         | <u>4,278</u>    | <u>27,395</u>    |
| Depreciation Expense for the Year                  | 7,877                 | 7,655           | 6,899            |
| Write Off of Old Library & Former Police Station   | -                     | (7,328)         | -                |
| Net Accumulated Depreciation                       | <u>7,877</u>          | <u>327</u>      | <u>6,899</u>     |
| Net Change in Capital Assets                       | <u>\$ 8,317</u>       | <u>\$ 3,951</u> | <u>\$ 20,496</u> |

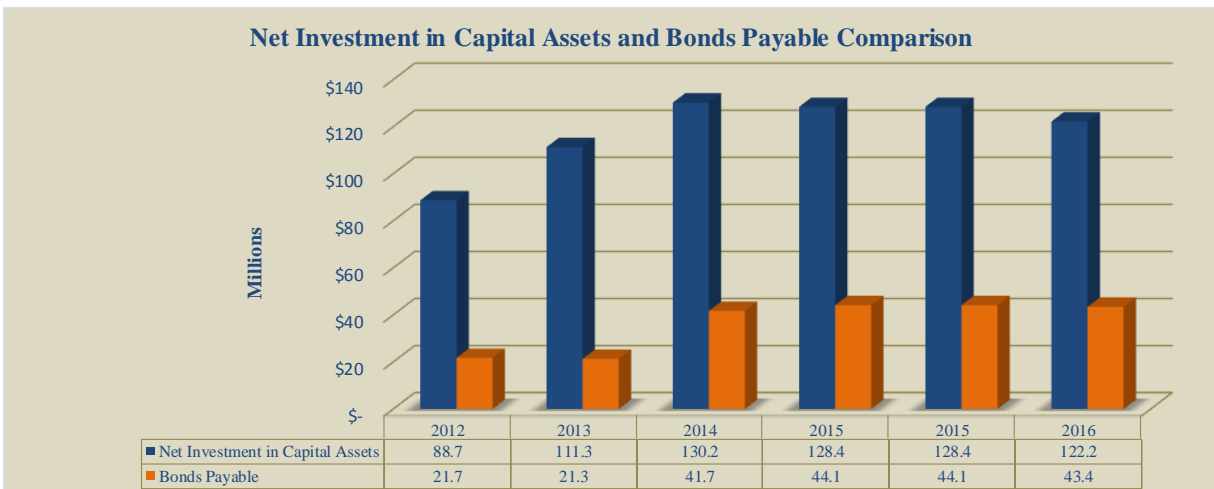


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**Management’s Discussion and Analysis**  
**(Unaudited)**

*Net Investment in Capital Assets and Bonds Payable Comparison*

The following graph displays long-term debt for Bond Payables and the Net Investment in Capital Assets balances for fiscal years ended 2012 through 2016:



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

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

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

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

**Management's Discussion and Analysis**  
**(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, 2016, 2015 and 2014 is as follows:

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

|  | <i>(In Thousands)</i> |            |           |
|--|-----------------------|------------|-----------|
|  | 2016                  | 2015       | 2014      |
| <u>Operating Revenues</u>                |                       |            |           |
| Tuition and Fees, Net                    | \$ 62,685             | \$ 58,890  | \$ 55,797 |
| Federal, State, Private Grants           | 18,820                | 19,782     | 18,232    |
| Sales and Services                       | 1,426                 | 1,255      | 1,196     |
| Auxiliary and Other                      | 21,274                | 18,134     | 16,872    |
| Total Operating Revenues                 | 104,205               | 98,061     | 92,097    |
| <u>Operating Expenses</u>                |                       |            |           |
| Compensation and benefits                | 112,436               | 107,510    | 101,273   |
| Supplies and services                    | 35,957                | 32,934     | 32,115    |
| Utilities                                | 4,276                 | 4,337      | 3,912     |
| Depreciation                             | 7,877                 | 7,655      | 6,899     |
| Scholarships                             | 4,789                 | 5,801      | 5,594     |
| Change for GASB 68 pension activity      | 4,368                 | (473)      | -         |
| Total Operating Expense                  | 169,703               | 157,764    | 149,793   |
| <u>Non-Operating Revenues (Expenses)</u> |                       |            |           |
| State appropriations                     | 56,416                | 54,442     | 52,156    |
| Contribution to Assistance Corporation   | (911)                 | -          | -         |
| Gifts                                    | 2,665                 | 1,784      | 4,242     |
| Investment Income                        | (111)                 | 592        | 1,935     |
| Interest Expense                         | (1,269)               | (985)      | (655)     |
| Total Non-Operating Revenues, Net        | 56,790                | 55,833     | 57,678    |
| Capital Grants                           | 783                   | 846        | 14,252    |
| Increase (Decrease) in Net Position      | \$ (7,925)            | \$ (3,024) | \$ 14,234 |

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

***Highlights for Operating Revenues***

The increase in total operating revenues of \$6.1 million (6%) and \$6.0 million (6%) for fiscal years 2016 and 2015, respectively, over prior year resulted primarily from the following changes:

Tuition and Fees, net: The tuition and fees, net of scholarships and fellowships improved in both FY 2016 and FY 2015 by 6% (\$3.8 million in FY 2016 and \$3.1 million in FY 2015) over prior year due to increase in enrollment and fees.

Federal, State and Private Grants: Federal, state and private grant revenues decreased in FY 2016 by \$1.0 million (5%). This decrease is primarily due to a decrease in state grants (\$0.8 million). A slight decrease in federal grants of \$0.3 million was offset by a slight increase in private grants of \$0.2 million. In 2015, grants increased 9% over 2014 due to increased federal (\$0.9 million) and state (\$0.8 million) revenue.

Auxiliary Enterprises and Other: Auxiliary enterprises and other revenues increased in FY 2016 \$3.1 million (17%) over prior year. This is primarily attributable to increased dormitory room revenue associated with the opening of Viking Hall (\$2.3 million). Other increases were from vendor and commission revenues of \$0.8 million over the prior year. In FY 2015, auxiliary and other revenues increased \$1.3 million (7%) over prior year due to increased dormitory room rates and occupancy levels that remained well over the design capacity while awaiting the opening of Viking Hall.

***Highlights for Operating Expenses***

The increase in total operating expenses of \$11.9 million (8%) and \$8.0 million (5%) in FY 2016 and FY 2015, respectively, over prior year resulted primarily from the following changes:

Compensation and Benefits: Compensation and benefits increased during FY 2016 by \$4.9 million (5%) and FY 2015 by \$6.2 million (6%) over prior year. This is primarily due to contractual salary increases, including retroactive salary increases, and fringe benefit rate increases.

Supplies and Services: The \$3.0 million (9%) increase in supplies and services during FY 2016 over prior year is primarily due to a \$3.2 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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**(Unaudited)**

Utilities: In FY 2016, there was a slight decrease of \$61 thousand (1%) in utility costs over prior year due to a decrease in natural gas expense (\$221 thousand), somewhat offset by increases in electricity and fuel (\$179 thousand). In FY 2015, there was an increase of 11% over the prior year that was attributable to electricity expenses for the newly opened Library and the Fitness Center.

Depreciation: The \$222 thousand (3%) increase in depreciation expense in FY 2016 over prior year is due to the increase in depreciable buildings and building improvements. Projects that were previously included in construction in progress have been completed and have begun to be depreciated in fiscal 2016. For similar reasons during FY 2015, depreciation increased \$756 thousand (11%) over the prior year.

Change for GASB 68 Pension Activity: The second year of adoption of GASB 68 resulted in an increase of pension expense in FY 2016 of \$4.8 million over prior year. This is due to changes in actuarial assumptions and changes in the allocation methodology utilized by the Comptroller's Office.

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

The increase in non-operating revenues (expenses) in FY 2016 of \$1.0 million (2%) and the decrease in FY 2015 of \$1.8 million (3%) resulted primarily from the following net changes:

State Appropriations: State appropriations increased by \$2.0 million (4%) and \$2.3 million (4%) in FY 2016 and FY 2015, respectively, over prior year primarily to support employee payroll and related fringe benefit costs. This includes direct General Appropriation Act funding as well as the cost of fringe benefits that are covered by state appropriation for the piece of the University's payroll that is funded by the state operating appropriation.

Contribution to the Assistance Corporation: Two properties were purchased amounting to \$911 thousand for the Assistance Corporation with bond proceeds owed by the University. See Significant Events and Accomplishments above under Capital Projects - Land Acquisition Bond.

Gifts: Gift revenue is a variable source. During FY 2016, gifts increased over the prior year by \$881 thousand (49%) due to a contribution for a capital project. This compares to a decrease in 2015 of \$2.5 million due to non-recurrence of a \$3.0 million capital project gift received during 2014.

Investment Income: Investment income decreased by \$703 thousand (119%) and \$1.3 million (69%) in FY 2016 and FY 2015, respectively, and was primarily attributable to unrealized losses on investments due to market conditions.

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

Interest Expense: The \$284 thousand (29%) increase in FY 2016 of interest expense over prior year is due to a full year of interest payments on certain debt and additional debt acquired by the University for construction projects. It should be noted that \$555 thousand and \$782 thousand of interest incurred in FY 2016 and FY 2015, respectively, was capitalized to construction in progress for an ongoing construction project not yet completed (Sophia Gordon Center for Creative and Performing Arts).

**Statement of Cash Flows**

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

A summarized comparison of the University's cash flows and the resulting increase or decrease in cash at June 30, 2016, 2015 and 2014 follows. *It should be noted that for the presentation below, the appropriations are shown in Operating Activities rather than Non-Capital Financing Activities because the State appropriations are intended and used to support operations.* According to accounting standards, on the Cash Flow Statement of the Financial Statements, the appropriations are presented as required in Non-Capital Financing Activities. This summary demonstrates that the reason for the decline in cash during FY15 and FY16 is the use of bond proceeds to undertake the construction projects previously discussed.

**Summary of Cash Flows**

|                                  | <i>(In Thousands)</i> |             |           |
|----------------------------------|-----------------------|-------------|-----------|
|                                  | 2016                  | 2015        | 2014      |
| Operating Activities             | \$ 5,502              | \$ (111)    | \$ 1,428  |
| Non Capital Financing Activities | 941                   | 389         | 3,225     |
| Capital Financing Activities     | (17,500)              | (10,667)    | 7,902     |
| Investing Activities             | 1,239                 | 273         | (297)     |
| Net Increase (Decrease) in Cash  | \$ (9,818)            | \$ (10,116) | \$ 12,258 |

# SALEM STATE UNIVERSITY

(an agency of the Commonwealth of Massachusetts)

## Management’s Discussion and Analysis (Unaudited)

### *Highlights for Cash Flows*

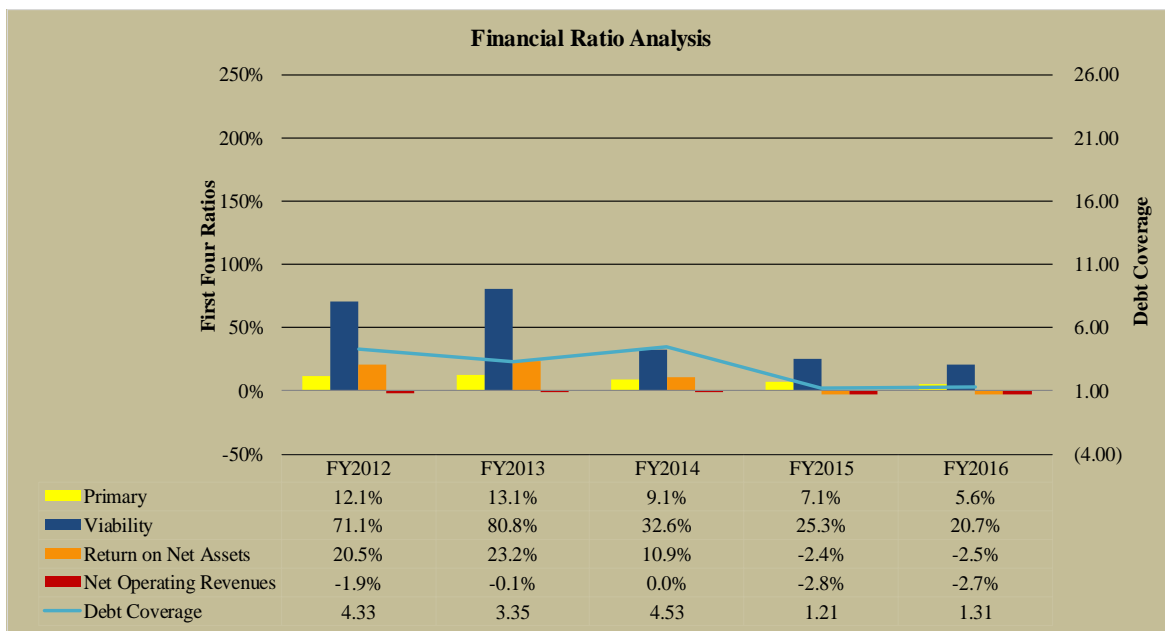
The overall decrease in cash and cash equivalents for fiscal 2016 amounted to \$9.8 million and is primarily associated with the payment of construction projects (e.g. Sophia Gordon Center for Creative Performing Arts) and the repayment of bond principal and related interest costs.

The overall decrease in cash and cash equivalents for fiscal 2015 amounted to \$10.1 million and is primarily associated with purchases of capital assets.

The overall increase in cash and cash equivalents for fiscal 2014 amounted to \$12.3 million and is primarily associated with acquisition of bonds and its premium proceeds of \$21.3 million which was offset by the purchase of capital assets.

### Ratio Analysis

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



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

*Comments on Ratio Trends*

**Primary**

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

**Viability**

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

**Return on Net Position**

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

**Debt Service Coverage**

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

**Looking Ahead to FY17**

The University is expecting to complete the Sophia Gordon Center for Creative and Performing Arts during FY 2017. The University is updating its physical master plan (North Campus Precinct Study) and refreshing its overall strategic plan. These studies, when approved, will guide future actions and investments.

**Requests for Further Information**

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

**SALEM STATE UNIVERSITY**  
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**Statements of Net Position**

**June 30, 2016 and 2015**

Assets and Deferred Outflows of Resources

|  | Primary<br>Government |                       | Component<br>Units   |                      |
|--|-----------------------|-----------------------|----------------------|----------------------|
|  | 2016<br>University    | 2015<br>University    | 2016<br>Combined     | 2015<br>Combined     |
| <b>Current Assets:</b>                                 |                       |                       |                      |                      |
| Cash and cash equivalents                              | \$ 6,992,132          | \$ 7,604,784          | \$ 1,189,849         | \$ 1,356,481         |
| Restricted cash and cash equivalents                   | 9,664,860             | 6,866,181             | 308,059              | 1,073,166            |
| Deposits held by State Treasurer                       | 2,333,595             | 3,863,536             | -                    | -                    |
| Cash held by State Treasurer                           | 781,242               | 469,687               | -                    | -                    |
| Deposits held by MSCBA and DCAMM                       | 5,456,628             | 16,242,716            | -                    | -                    |
| Investments  | 11,760,256            | 13,035,406            | -                    | -                    |
| Accounts, grants and other receivable, net             | 8,823,080             | 8,230,120             | 26,562               | 17,045               |
| Pledges receivable, net                                | -                     | -                     | 1,844,881            | 1,690,618            |
| Note receivable  | -                     | -                     | 51,111               | 106,667              |
| Loans receivable                                       | 264,430               | 250,126               | -                    | -                    |
| Other current assets                                   | 37,166                | 166,297               | 26,998               | 19,426               |
| <b>Total Current Assets</b>                            | <b>46,113,389</b>     | <b>56,728,853</b>     | <b>3,447,460</b>     | <b>4,263,403</b>     |
| <b>Non-Current Assets:</b>                             |                       |                       |                      |                      |
| Investments  | 599,771               | 590,105               | 26,559,559           | 26,662,137           |
| Loans receivable, net of current portion               | 1,741,372             | 1,938,475             | -                    | -                    |
| Pledges receivable, net of current portion             | -                     | -                     | 1,521,280            | 1,648,025            |
| Note receivable, net of current portion                | -                     | -                     | 246,667              | 297,778              |
| Capital assets, net                                    | 163,704,987           | 155,388,160           | 11,043,297           | 10,301,838           |
| Debt service reserve                                   | 1,473,340             | 1,406,835             | -                    | -                    |
| <b>Total Non-Current Assets</b>                        | <b>167,519,470</b>    | <b>159,323,575</b>    | <b>39,370,803</b>    | <b>38,909,778</b>    |
| <b>Total Assets</b>                                    | <b>213,632,859</b>    | <b>216,052,428</b>    | <b>42,818,263</b>    | <b>43,173,181</b>    |
| <b>Deferred Outflow of Resources:</b>                  |                       |                       |                      |                      |
| Deferred outflows for pensions                         | 19,078,090            | 4,231,261             | -                    | -                    |
| <b>Total Deferred Outflows of Resources</b>            | <b>19,078,090</b>     | <b>4,231,261</b>      | <b>-</b>             | <b>-</b>             |
| <b>Total Assets and Deferred Outflows of Resources</b> | <b>\$ 232,710,949</b> | <b>\$ 220,283,689</b> | <b>\$ 42,818,263</b> | <b>\$ 43,173,181</b> |



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

**Statements of Net Position**

**June 30, 2016 and 2015**

Liabilities, Deferred Inflows of Resources and Net Position

|  | Primary<br>Government |                       | Component<br>Units   |                      |
|--|-----------------------|-----------------------|----------------------|----------------------|
|  | 2016<br>University    | 2015<br>University    | 2016<br>Combined     | 2015<br>Combined     |
| <b>Current Liabilities:</b>  |                       |                       |                      |                      |
| Accounts payable and accrued expenses  | \$ 3,401,781          | \$ 3,054,468          | \$ 349,502           | \$ 475,442           |
| Accrued payroll  | 7,294,496             | 6,362,920             | -                    | -                    |
| Accrued compensated absences   | 6,029,533             | 5,908,154             | -                    | -                    |
| Accrued workers' compensation  | 202,631               | 256,291               | -                    | -                    |
| Unearned revenues  | 7,427,804             | 6,801,187             | 39,000               | -                    |
| Note payable   | 73,887                | 72,469                | 86,424               | 141,968              |
| Bonds payable  | 1,865,148             | 1,791,058             | 333,838              | 318,197              |
| Deposits   | 256,620               | 1,143,326             | -                    | -                    |
| <b>Total Current Liabilities</b>   | <b>26,551,900</b>     | <b>25,389,873</b>     | <b>808,764</b>       | <b>935,607</b>       |
| <b>Non-Current Liabilities:</b>  |                       |                       |                      |                      |
| Accrued compensated absences   | 3,528,230             | 3,294,730             | -                    | -                    |
| Accrued workers' compensation  | 755,451               | 920,553               | -                    | -                    |
| Note payable, net of current portion   | 88,032                | 161,919               | 1,421,433            | 1,505,090            |
| Bonds payable, net of current portion  | 41,524,732            | 42,262,746            | 1,802,562            | 2,290,846            |
| Loans payable - federal financial assistance programs                        | 2,259,532             | 2,290,470             | -                    | -                    |
| Net pension liability  | 44,297,126            | 21,889,032            | -                    | -                    |
| Other non-current liabilities  | -                     | -                     | 34,078               | 31,630               |
| <b>Total Non-Current Liabilities</b>   | <b>92,453,103</b>     | <b>70,819,450</b>     | <b>3,258,073</b>     | <b>3,827,566</b>     |
| <b>Total Liabilities</b>   | <b>119,005,003</b>    | <b>96,209,323</b>     | <b>4,066,837</b>     | <b>4,763,173</b>     |
| <b>Deferred Inflows of Resources:</b>  |                       |                       |                      |                      |
| Service concession arrangements  | 1,309,021             | 547,198               | -                    | -                    |
| Deferred gain on bond refunding  | 109,970               | 122,186               | -                    | -                    |
| Deferred inflows for pensions  | 1,306,921             | 4,500,277             | -                    | -                    |
| <b>Total Deferred Inflows of Resources</b>                                   | <b>2,725,912</b>      | <b>5,169,661</b>      | <b>-</b>             | <b>-</b>             |
| <b>Net Position:</b>   |                       |                       |                      |                      |
| Net investment in capital assets   | 122,168,440           | 128,381,296           | 7,399,040            | 6,045,737            |
| Restricted:  |                       |                       |                      |                      |
| Nonexpendable  | 732,690               | 739,323               | 19,058,482           | 18,481,983           |
| Expendable   | 5,122,824             | 4,678,114             | 11,033,273           | 12,996,408           |
| Unrestricted   | (17,043,920)          | (14,894,028)          | 1,260,631            | 885,880              |
| <b>Total Net Position</b>  | <b>110,980,034</b>    | <b>118,904,705</b>    | <b>38,751,426</b>    | <b>38,410,008</b>    |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Net Position</b> | <b>\$ 232,710,949</b> | <b>\$ 220,283,689</b> | <b>\$ 42,818,263</b> | <b>\$ 43,173,181</b> |

*See accompanying notes to the financial statements.*

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

**Statements of Revenues and Expenses**

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

|  | Primary<br>Government |                       | Component<br>Units |                     |
|--|-----------------------|-----------------------|--------------------|---------------------|
|  | 2016<br>University    | 2015<br>University    | 2016<br>Combined   | 2015<br>Combined    |
| <b>Operating Revenues:</b>                                       |                       |                       |                    |                     |
| Tuition and fees   | \$ 79,474,916         | \$ 74,250,345         | \$ -               | \$ -                |
| Less: scholarships and fellowships                               | (16,790,060)          | (15,360,590)          | -                  | -                   |
| Net tuition and fees   | 62,684,856            | 58,889,755            | -                  | -                   |
| Federal grants and contracts                                     | 13,642,619            | 13,966,348            | -                  | -                   |
| State grants and contracts                                       | 4,878,842             | 5,728,274             | -                  | -                   |
| Private grants and contracts                                     | 298,808               | 87,864                | -                  | -                   |
| Gifts and contributions  | -                     | -                     | 2,554,399          | 3,362,160           |
| Sales and services of educational departments                    | 1,426,136             | 1,254,757             | -                  | -                   |
| Auxiliary enterprises  | 20,976,201            | 17,658,163            | 1,468,387          | 1,468,965           |
| Other operating revenues   | 297,565               | 476,543               | 199,219            | 457,392             |
| <b>Total Operating Revenues</b>                                  | <b>104,205,027</b>    | <b>98,061,704</b>     | <b>4,222,005</b>   | <b>5,288,517</b>    |
| <b>Operating Expenses:</b>                                       |                       |                       |                    |                     |
| <b>Educational and general:</b>                                  |                       |                       |                    |                     |
| Instruction  | 62,105,259            | 56,305,715            | -                  | -                   |
| Public service   | 691,148               | 588,061               | 1,663,933          | 1,555,505           |
| Academic support   | 15,852,834            | 15,345,064            | -                  | -                   |
| Student services   | 18,831,101            | 16,646,315            | -                  | -                   |
| Institutional support  | 27,789,245            | 26,103,283            | 1,360,763          | 819,036             |
| Operation and maintenance of plant                               | 13,707,696            | 13,672,500            | -                  | -                   |
| Scholarships   | 4,788,660             | 5,800,876             | 380,449            | 330,255             |
| Depreciation   | 7,876,670             | 7,655,460             | 169,365            | 167,458             |
| Auxiliary enterprises  | 18,060,246            | 15,647,277            | 1,150,288          | 1,235,568           |
| <b>Total Operating Expenses</b>                                  | <b>169,702,859</b>    | <b>157,764,551</b>    | <b>4,724,798</b>   | <b>4,107,822</b>    |
| <b>Net Operating Income (Loss)</b>                               | <b>(65,497,832)</b>   | <b>(59,702,847)</b>   | <b>(502,793)</b>   | <b>1,180,695</b>    |
| <b>Non-Operating Revenues (Expenses):</b>                        |                       |                       |                    |                     |
| State appropriations, net  | 56,416,180            | 54,441,708            | 1,249,979          | 131,147             |
| Contribution to the Assistance Corporation                       | (910,824)             | -                     | -                  | -                   |
| Gifts  | 2,665,232             | 1,784,500             | -                  | -                   |
| Investment income  | (110,922)             | 591,642               | (258,049)          | 359,860             |
| Other non-operating revenue                                      | -                     | -                     | 3,600              | 3,600               |
| Interest expense   | (1,269,370)           | (984,575)             | (151,319)          | (170,659)           |
| <b>Net Non-Operating Revenues</b>                                | <b>56,790,296</b>     | <b>55,833,275</b>     | <b>844,211</b>     | <b>323,948</b>      |
| <b>Increase (Decrease) in Net Position Before Capital Grants</b> | <b>(8,707,536)</b>    | <b>(3,869,572)</b>    | <b>341,418</b>     | <b>1,504,643</b>    |
| Capital grants   | 782,865               | 846,009               | -                  | -                   |
| <b>Total Increase (Decrease) in Net Position</b>                 | <b>\$ (7,924,671)</b> | <b>\$ (3,023,563)</b> | <b>\$ 341,418</b>  | <b>\$ 1,504,643</b> |

*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, 2016 and 2015**

|                                  | University                          |                             |                          |                        | Total                 |
|----------------------------------|-------------------------------------|-----------------------------|--------------------------|------------------------|-----------------------|
|                                  | Net Investment<br>in Capital Assets | Restricted<br>Nonexpendable | Restricted<br>Expendable | Unrestricted           |                       |
| Balance at June 30, 2014         | \$ 130,538,766                      | \$ 722,872                  | \$ 4,427,261             | \$ (13,760,631)        | \$ 121,928,268        |
| Changes in net position for 2015 | <u>(2,157,470)</u>                  | <u>16,451</u>               | <u>250,853</u>           | <u>(1,133,397)</u>     | <u>(3,023,563)</u>    |
| Balance, June 30, 2015           | <u>128,381,296</u>                  | <u>739,323</u>              | <u>4,678,114</u>         | <u>(14,894,028)</u>    | <u>118,904,705</u>    |
| Changes in net position for 2016 | <u>(6,212,856)</u>                  | <u>(6,633)</u>              | <u>444,710</u>           | <u>(2,149,892)</u>     | <u>(7,924,671)</u>    |
| Balance, June 30, 2016           | <u>\$ 122,168,440</u>               | <u>\$ 732,690</u>           | <u>\$ 5,122,824</u>      | <u>\$ (17,043,920)</u> | <u>\$ 110,980,034</u> |
|                                  | Component Units                     |                             |                          |                        |                       |
|                                  | Net Investment<br>in Capital Assets | Restricted<br>Nonexpendable | Restricted<br>Expendable | Unrestricted           | Total                 |
| Balance at June 30, 2014         | \$ 5,604,349                        | \$ 17,552,278               | \$ 13,081,664            | \$ 667,074             | \$ 36,905,365         |
| Changes in net position for 2015 | <u>441,388</u>                      | <u>929,705</u>              | <u>(85,256)</u>          | <u>218,806</u>         | <u>1,504,643</u>      |
| Balance, June 30, 2015           | <u>6,045,737</u>                    | <u>18,481,983</u>           | <u>12,996,408</u>        | <u>885,880</u>         | <u>38,410,008</u>     |
| Changes in net position for 2016 | <u>1,353,303</u>                    | <u>576,499</u>              | <u>(1,963,135)</u>       | <u>374,751</u>         | <u>341,418</u>        |
| Balance, June 30, 2016           | <u>\$ 7,399,040</u>                 | <u>\$ 19,058,482</u>        | <u>\$ 11,033,273</u>     | <u>\$ 1,260,631</u>    | <u>\$ 38,751,426</u>  |

*See accompanying notes to the financial statements.*

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

**Statements of Cash Flows**

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

|   | Primary<br>Government |                      |
|---|-----------------------|----------------------|
|   | 2016                  | 2015                 |
|   | University            | University           |
| Cash Flows from Operating Activities:                     |                       |                      |
| Tuition and fees  | \$ 61,098,611         | \$ 57,302,954        |
| Grants and contracts                                      | 19,710,059            | 19,520,439           |
| Payments to suppliers and vendors                         | (40,252,712)          | (37,845,522)         |
| Payments to employees                                     | (88,898,871)          | (89,252,225)         |
| Payments for benefits                                     | (9,691,870)           | (7,713,129)          |
| Payments to students                                      | (4,788,910)           | (5,800,876)          |
| Loans issued to students                                  | (209,871)             | (354,417)            |
| Collection of loans to students                           | 376,083               | 388,870              |
| Auxiliary enterprises receipts                            | 21,988,607            | 16,002,662           |
| Sales and services of educational departments             | 1,463,111             | 3,833,465            |
| Other   | 163,411               | 579,492              |
|   | <u>(39,042,352)</u>   | <u>(43,338,287)</u>  |
| Net Cash Used in Operating Activities                     |                       |                      |
| Cash Flows from Non-Capital Financing Activities:         |                       |                      |
| State appropriations                                      | 44,543,834            | 43,226,888           |
| Tuition remitted to State                                 | (905,670)             | (769,606)            |
| Student interest received (paid)                          | (1,764)               | (3,054)              |
| Special payments to State (9c reduction)                  | -                     | (622,233)            |
| Contribution to the Assistance Corporation                | (910,824)             | -                    |
| Gifts   | 2,758,963             | 1,784,500            |
|   | <u>45,484,539</u>     | <u>43,616,495</u>    |
| Net Cash Provided by Non-Capital Financing Activities     |                       |                      |
| Cash Flows from Capital and Related Financing Activities: |                       |                      |
| Purchases of capital assets                               | (14,855,786)          | (11,041,995)         |
| Principal paid on bonds payable                           | (1,679,263)           | (1,530,374)          |
| Interest paid on bonds payable                            | (1,987,751)           | (2,169,499)          |
| Proceeds from bond financing                              | 1,090,000             | 3,985,962            |
| Debt service reserve funding                              | (66,505)              | 88,612               |
|   | <u>(17,499,305)</u>   | <u>(10,667,294)</u>  |
| Net Cash Used in Capital and Related Financing Activities |                       |                      |
| Cash Flows from Investing Activities:                     |                       |                      |
| Investment income   | 457,197               | 401,486              |
| Proceeds from sale of investments                         | 4,456,576             | 4,372,433            |
| Purchase of investments                                   | (3,675,102)           | (4,500,854)          |
|   | <u>1,238,671</u>      | <u>273,065</u>       |
| Net Cash Provided by Investing Activities                 |                       |                      |
| Net Decrease in Cash and Cash Equivalents                 | (9,818,447)           | (10,116,021)         |
| Cash and Cash Equivalents, Beginning of the Year          | <u>35,046,904</u>     | <u>45,162,925</u>    |
| Cash and Cash Equivalents, End of the Year                | <u>\$ 25,228,457</u>  | <u>\$ 35,046,904</u> |

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

**Statements of Cash Flows**

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

|   | 2016                   | 2015                   |
|---|------------------------|------------------------|
|   | <u>University</u>      | <u>University</u>      |
| Reconciliation of Net Operating Loss to Net Cash                                      |                        |                        |
| Applied to Operating Activities:  |                        |                        |
| Net operating loss  | \$ (65,497,832)        | \$ (59,702,847)        |
| Adjustments to reconcile net operating loss to net cash used in operating activities: |                        |                        |
| Depreciation  | 7,876,670              | 7,655,460              |
| Bad debts   | 237,522                | 22,722                 |
| Fringe benefits provided by State   | 12,778,016             | 12,606,659             |
| Loss on disposal of capital assets  | -                      | 940,701                |
| Changes in assets and liabilities:  |                        |                        |
| Accounts receivable   | (859,740)              | (4,043,520)            |
| Accounts payable and accrued expenses   | 331,537                | (2,258,579)            |
| Accrued payroll and benefits  | 1,067,693              | (2,062,431)            |
| Other assets  | 129,131                | 122,436                |
| Other liabilities   | -                      | (31,267)               |
| Loans to/from students  | 182,799                | 55,909                 |
| Deposits  | (886,706)              | (534,522)              |
| Unearned revenues   | 481,042                | 4,364,326              |
| Deferred inflows  | (2,443,749)            | -                      |
| Deferred outflows   | (14,846,829)           | -                      |
| Net pension activity  | 22,408,094             | (473,334)              |
|   | <u>22,408,094</u>      | <u>(473,334)</u>       |
| Net Cash Used in Operating Activities   | <u>\$ (39,042,352)</u> | <u>\$ (43,338,287)</u> |

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

**Statements of Cash Flows**

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

Schedule of noncash investing and financing activities

|   | Primary<br>Government |                    |
|---|-----------------------|--------------------|
|   | 2016<br>University    | 2015<br>University |
| Acquisition of capital assets                             | \$ 16,193,497         | \$ 12,547,230      |
| Accounts payable thereon                                  |                       |                    |
| Beginning of year   | -                     | 122,250            |
| End of year   | -                     | -                  |
| Payments made by DCAMM                                    | (782,865)             | (846,009)          |
| Net interest incurred and earned, capitalized in CIP      | (554,846)             | (781,476)          |
| Payments for capital assets                               | \$ 14,855,786         | \$ 11,041,995      |
| Unrealized gain (loss) on marketable securities           | \$ (484,011)          | \$ (420,982)       |
| Fringe benefits paid by the Commonwealth of Massachusetts | \$ 12,778,016         | \$ 11,837,053      |

Reconciliation of cash and cash equivalent balances

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Cash and cash equivalents            | \$ 6,992,132  | \$ 7,604,784  |
| Restricted cash and cash equivalents | 9,664,860     | 6,866,181     |
| Deposits held by State Treasurer     | 2,333,595     | 3,863,536     |
| Cash held by State Treasurer         | 781,242       | 469,687       |
| Deposits held by MSCBA and DCAMM     | 5,456,628     | 16,242,716    |
| Total cash and cash equivalents      | \$ 25,228,457 | \$ 35,046,904 |

*See accompanying notes to the financial statements.*

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

**Combining Statements of Net Position - Major Component Units**

**June 30, 2016**  
(with comparative totals for the year ended June 30, 2015)

|  | <u>Assets</u>                       |                          |                      |                      |
|--|-------------------------------------|--------------------------|----------------------|----------------------|
|  | 2016<br>Foundation                  | 2016<br>Assistance Corp. | 2016<br>Combined     | 2015<br>Combined     |
| <b>Current Assets:</b>                     |                                     |                          |                      |                      |
| Cash and equivalents                       | \$ 804,044                          | \$ 385,805               | \$ 1,189,849         | \$ 1,356,481         |
| Restricted cash and equivalents            | 308,059                             | -                        | 308,059              | 1,073,166            |
| Accounts, grants and other receivable, net | -                                   | 26,562                   | 26,562               | 17,045               |
| Pledges receivable, net                    | 1,844,881                           | -                        | 1,844,881            | 1,690,618            |
| Note receivable                            | 51,111                              | -                        | 51,111               | 106,667              |
| Other current assets                       | 26,998                              | -                        | 26,998               | 19,426               |
| <b>Total Current Assets</b>                | <b>3,035,093</b>                    | <b>412,367</b>           | <b>3,447,460</b>     | <b>4,263,403</b>     |
| <b>Non-Current Assets:</b>                 |                                     |                          |                      |                      |
| Investments                                | 26,559,559                          | -                        | 26,559,559           | 26,662,137           |
| Pledges receivable, net of current portion | 1,521,280                           | -                        | 1,521,280            | 1,648,025            |
| Note receivable, net of current portion    | 246,667                             | -                        | 246,667              | 297,778              |
| Capital assets, net                        | -                                   | 11,043,297               | 11,043,297           | 10,301,838           |
| <b>Total Non-Current Assets</b>            | <b>28,327,506</b>                   | <b>11,043,297</b>        | <b>39,370,803</b>    | <b>38,909,778</b>    |
| <b>Total Assets</b>                        | <b>\$ 31,362,599</b>                | <b>\$ 11,455,664</b>     | <b>\$ 42,818,263</b> | <b>\$ 43,173,181</b> |
|  | <u>Liabilities and Net Position</u> |                          |                      |                      |
| <b>Current Liabilities:</b>                |                                     |                          |                      |                      |
| Accounts payable and accrued expenses      | \$ 311,587                          | \$ 37,915                | \$ 349,502           | \$ 475,442           |
| Unearned revenues                          | 39,000                              | -                        | 39,000               | -                    |
| Note payable                               | -                                   | 86,424                   | 86,424               | 141,968              |
| Bond payable                               | -                                   | 333,838                  | 333,838              | 318,197              |
| <b>Total Current Liabilities</b>           | <b>350,587</b>                      | <b>458,177</b>           | <b>808,764</b>       | <b>935,607</b>       |
| <b>Non-Current Liabilities:</b>            |                                     |                          |                      |                      |
| Note payable, net of current portion       | -                                   | 1,421,433                | 1,421,433            | 1,505,090            |
| Bond payable, net of current portion       | -                                   | 1,802,562                | 1,802,562            | 2,290,846            |
| Other non-current liabilities              | -                                   | 34,078                   | 34,078               | 31,630               |
| <b>Total Non-Current Liabilities</b>       | <b>-</b>                            | <b>3,258,073</b>         | <b>3,258,073</b>     | <b>3,827,566</b>     |
| <b>Total Liabilities</b>                   | <b>350,587</b>                      | <b>3,716,250</b>         | <b>4,066,837</b>     | <b>4,763,173</b>     |
| <b>Net Position:</b>                       |                                     |                          |                      |                      |
| Net investment in capital assets           | -                                   | 7,399,040                | 7,399,040            | 6,045,737            |
| <b>Restricted:</b>                         |                                     |                          |                      |                      |
| Nonexpendable                              | 19,058,482                          | -                        | 19,058,482           | 18,481,983           |
| Expendable                                 | 11,033,273                          | -                        | 11,033,273           | 12,996,408           |
| Unrestricted                               | 920,257                             | 340,374                  | 1,260,631            | 885,880              |
| <b>Total Net Position</b>                  | <b>31,012,012</b>                   | <b>7,739,414</b>         | <b>38,751,426</b>    | <b>38,410,008</b>    |
| <b>Total Liabilities and Net Position</b>  | <b>\$ 31,362,599</b>                | <b>\$ 11,455,664</b>     | <b>\$ 42,818,263</b> | <b>\$ 43,173,181</b> |

*See accompanying notes to the financial statements.*

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

**Combining Statements of Revenue and Expenses - Major Component Units**

**For the Year Ended June 30, 2016**  
**(with comparative totals for the year ended June 30, 2015)**

|  | 2016<br>Foundation    | 2016<br>Assistance Corp. | 2016<br>Combined  | 2015<br>Combined    |
|--|-----------------------|--------------------------|-------------------|---------------------|
| <b>Operating Revenues:</b>                       |                       |                          |                   |                     |
| Gifts and contributions                          | \$ 2,554,399          | \$ -                     | \$ 2,554,399      | \$ 3,362,160        |
| Auxiliary enterprises                            | -                     | 1,468,387                | 1,468,387         | 1,468,965           |
| Other operating revenues                         | -                     | 199,219                  | 199,219           | 457,392             |
| <b>Total Operating Revenues</b>                  | <b>2,554,399</b>      | <b>1,667,606</b>         | <b>4,222,005</b>  | <b>5,288,517</b>    |
| <b>Operating Expenses:</b>                       |                       |                          |                   |                     |
| <b>Educational and general:</b>                  |                       |                          |                   |                     |
| Public service                                   | 1,663,933             | -                        | 1,663,933         | 1,555,505           |
| Institutional support                            | 1,360,763             | -                        | 1,360,763         | 819,036             |
| Scholarships                                     | 380,449               | -                        | 380,449           | 330,255             |
| Depreciation and amortization                    | -                     | 169,365                  | 169,365           | 167,458             |
| Auxiliary enterprises                            | -                     | 1,150,288                | 1,150,288         | 1,235,568           |
| <b>Total Operating Expenses</b>                  | <b>3,405,145</b>      | <b>1,319,653</b>         | <b>4,724,798</b>  | <b>4,107,822</b>    |
| <b>Net Operating Income (Loss)</b>               | <b>(850,746)</b>      | <b>347,953</b>           | <b>(502,793)</b>  | <b>1,180,695</b>    |
| <b>Non-Operating Revenues (Expenses):</b>        |                       |                          |                   |                     |
| State appropriations, net                        | -                     | 1,249,979                | 1,249,979         | 131,147             |
| Investment income                                | (258,049)             | -                        | (258,049)         | 359,860             |
| Other non-operating revenue                      | -                     | 3,600                    | 3,600             | 3,600               |
| Interest expense                                 | -                     | (151,319)                | (151,319)         | (170,659)           |
| <b>Net Non-Operating Revenues</b>                | <b>(258,049)</b>      | <b>1,102,260</b>         | <b>844,211</b>    | <b>323,948</b>      |
| <b>Total Increase (Decrease) in Net Position</b> | <b>\$ (1,108,795)</b> | <b>\$ 1,450,213</b>      | <b>\$ 341,418</b> | <b>\$ 1,504,643</b> |

*See accompanying notes to the financial statements.*



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

**June 30, 2016 and 2015**

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.

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**  
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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

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, 2016 and 2015, the Foundation distributed scholarships in the amount of \$380,449 and \$330,255, 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.

*Basis of Presentation*

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 consolidated financial information in the University's financial statements.

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

**June 30, 2016 and 2015**

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.

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.

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.

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

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

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

**June 30, 2016 and 2015**

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.

*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**  
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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

Investments

Investments for the University are reported at fair value. Any investments held with the Commonwealth's State Treasurer and Receiver-General in the Massachusetts Municipal Depository Trust ("MMDT") are also at fair value. This external investment pool, run by the State Treasurer and Receiver-General, operates in accordance with appropriate laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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.

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

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

**June 30, 2016 and 2015**

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

*Loans Receivable and Payable*

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

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

*Capital Assets*

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

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

**June 30, 2016 and 2015**

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

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

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

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

*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.

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**June 30, 2016 and 2015**

Pensions

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

Fringe Benefits

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

Compensated Absences

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

Deposits and Unearned Revenues

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

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.



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*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 2016 and 2015, total interest costs incurred were approximately \$1,825,000 and \$1,767,000, respectively. During 2016 and 2015, total interest costs capitalized were approximately \$555,000 and \$782,000, respectively.

*Tax Status*

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

*Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying footnotes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

*Reclassifications*

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

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

The carrying amounts of the University's cash and cash equivalents and deposits, net of amounts in transit at June 30, 2016 and 2015 were \$25,228,457 and \$35,046,904, respectively, which include amounts held in deposit as follows:

|       | <u>2016</u>          | <u>2015</u>          |
|-------|----------------------|----------------------|
| MSCBA | \$ 815,503           | \$ 986,004           |
| MMDT  | 11,975,615           | 9,087,092            |
| DCAMM | 4,641,125            | 15,256,712           |
|       | <u>\$ 17,432,243</u> | <u>\$ 25,329,808</u> |

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At June 30, 2016 and 2015, the University had deposits of \$5,016,890 and \$5,509,169, respectively, held in a money market account which was insured by a third party up to a maximum of \$5 million.

*Custodial Credit Risk*

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

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

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

Amounts remaining that may be exposed to custodial risk at June 30, 2016 and 2015 were \$300,356 and \$323,819, 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.

*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

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& 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, 2016 and 2015, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$11,975,615 and \$9,087,092, respectively. At June 30, 2016, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 54% at 30 days or less; 29% at 31-90 days; 11% at 91-180 days; and 6% at 181 days or more. At June 30, 2016, approximately 97% of the MMDT's cash portfolio had a credit quality rating of P1 and the remaining 3% had a credit quality rating of P2.

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

Cash forwarded by the University to and held by the State Treasurer for payment of so-called "non-appropriated" liabilities at June 30, 2016 and 2015 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sums of \$2,333,595 and \$3,863,536, respectively.

Liabilities to be funded by state appropriations at June 30, 2016 and 2015 were \$781,242 and \$469,687, respectively.

Note 4 - **Investments**

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

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

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

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**Level 3** - Unobservable inputs for an asset or liability.

University

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

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

The University's investments at fair value measurement are as follows at June 30, 2015:

|                             | Level 1              | Level 2     | Level 3     | Total                |
|-----------------------------|----------------------|-------------|-------------|----------------------|
| Mutual funds:               |                      |             |             |                      |
| International equities      | \$ 1,376,877         | \$ -        | \$ -        | \$ 1,376,877         |
| U.S. equities               | 325,441              | -           | -           | 325,441              |
| Corporate bonds             | 1,054,955            | -           | -           | 1,054,955            |
| International emerging      | 380,835              | -           | -           | 380,835              |
| Mid-cap equities            | 186,575              | -           | -           | 186,575              |
| Short-term fixed income     | 117,738              | -           | -           | 117,738              |
| Total mutual funds          | 3,442,421            | -           | -           | 3,442,421            |
| Common stocks               | 6,497,553            | -           | -           | 6,497,553            |
| Corporate bonds             | 3,406,553            | -           | -           | 3,406,553            |
| U.S. Government obligations | 278,984              | -           | -           | 278,984              |
| Total investment assets     | <u>\$ 13,625,511</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,625,511</u> |

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*Foundation*

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

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

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**June 30, 2016 and 2015**

The Foundation's investments at fair value measurement are as follows at June 30, 2015:

|   | Level 1              | Level 2     | Level 3     | Total                |
|---|----------------------|-------------|-------------|----------------------|
| Mutual funds:                                   |                      |             |             |                      |
| International equities                          | \$ 3,789,716         | \$ -        | \$ -        | \$ 3,789,716         |
| U.S. equities                                   | 1,837,883            | -           | -           | 1,837,883            |
| U.S. Treasury inflation<br>protected securities | 1,071,631            | -           | -           | 1,071,631            |
| Large cap equities                              | 391,213              | -           | -           | 391,213              |
| Hard assets                                     | 388,381              | -           | -           | 388,381              |
| International bonds                             | 199,805              | -           | -           | 199,805              |
| U.S. bonds and notes                            | 1,373,569            | -           | -           | 1,373,569            |
| Small and mid-cap equities                      | 222,270              | -           | -           | 222,270              |
| Short-term fixed income                         | 163,517              | -           | -           | 163,517              |
| International emerging                          | 452,403              | -           | -           | 452,403              |
| International real estate                       | 312,462              | -           | -           | 312,462              |
| U.S. real estate                                | 117,188              | -           | -           | 117,188              |
| Total mutual funds                              | 10,320,038           | -           | -           | 10,320,038           |
| Common stocks                                   | 8,024,529            | -           | -           | 8,024,529            |
| Corporate bonds                                 | 4,572,711            | -           | -           | 4,572,711            |
| Money market                                    | 3,254,422            | -           | -           | 3,254,422            |
| U.S. Government obligations                     | 372,203              | -           | -           | 372,203              |
| Certificates of deposits                        | 116,586              | -           | -           | 116,586              |
| Other   | 1,648                | -           | -           | 1,648                |
| Total investment assets                         | <u>\$ 26,662,137</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,662,137</u> |

University

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2016 and 2015, investments totaled \$12,360,027 and \$13,625,511, 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, 2016 and 2015, there were no individual investments that represented 5% or more of the University's portfolio. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal policies approved by the University's Board of Trustees.

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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

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, 2016 Investment Maturity in Years

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

June 30, 2015 Investment Maturity in Years

| Investment Type:            | Fair Value           | Less than 1       | 1-5                 | 6-10              |
|-----------------------------|----------------------|-------------------|---------------------|-------------------|
| Corporate bonds             | \$ 3,406,553         | \$ 380,238        | \$ 2,829,991        | \$ 196,324        |
| Corporate bond fund         | 1,054,955            | -                 | 484,340             | 570,615           |
| U.S. Government obligations | 278,984              | 25,140            | 253,844             | -                 |
| Short-term fixed income     | 117,738              | 117,738           | -                   | -                 |
| Total fixed income          | <u>4,858,230</u>     | <u>\$ 523,116</u> | <u>\$ 3,568,175</u> | <u>\$ 766,939</u> |
| Equity securities           | 8,767,281            |                   |                     |                   |
| Total investments           | <u>\$ 13,625,511</u> |                   |                     |                   |

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

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

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**June 30, 2016 and 2015**

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

|                             | Quality Ratings     |                   |                   |                  |                   |                     |                   |                   |                   |                   |                   |
|-----------------------------|---------------------|-------------------|-------------------|------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                             | Fair Value          | B2                | Baa1              | Baa2             | Baa3              | A1                  | A2                | A3                | AA1               | AGCY              | Not Rated         |
| Corporate bonds             | \$ 3,406,553        | \$ -              | \$ 462,077        | \$ 25,271        | \$ 101,740        | \$ 1,072,873        | \$ 734,985        | \$ 829,271        | \$ 180,336        | \$ -              | \$ -              |
| Corporate bond fund         | 1,054,955           | 434,182           | -                 | -                | -                 | -                   | 35,462            | -                 | -                 | -                 | 585,311           |
| U.S. Government obligations | 278,984             | -                 | -                 | -                | -                 | -                   | -                 | -                 | -                 | 278,984           | -                 |
| Short-term fixed income     | 117,738             | -                 | -                 | -                | -                 | -                   | -                 | -                 | -                 | -                 | 117,738           |
| <b>Totals</b>               | <b>\$ 4,858,230</b> | <b>\$ 434,182</b> | <b>\$ 462,077</b> | <b>\$ 25,271</b> | <b>\$ 101,740</b> | <b>\$ 1,072,873</b> | <b>\$ 770,447</b> | <b>\$ 829,271</b> | <b>\$ 180,336</b> | <b>\$ 278,984</b> | <b>\$ 703,049</b> |

**Investment Income (Loss)**

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

|  | <u>University</u>   | <u>University</u> | <u>Foundation</u>   | <u>Foundation</u> |
|--|---------------------|-------------------|---------------------|-------------------|
|  | <u>2016</u>         | <u>2015</u>       | <u>2016</u>         | <u>2015</u>       |
| Interest and dividends                         | \$ 373,089          | \$ 484,582        | \$ 599,381          | \$ 530,432        |
| Net realized and unrealized gains and (losses) | (484,011)           | 107,060           | (857,430)           | (170,572)         |
| <b>Total investment income (loss)</b>          | <b>\$ (110,922)</b> | <b>\$ 591,642</b> | <b>\$ (258,049)</b> | <b>\$ 359,860</b> |

**Note 5 - Accounts, grants and other receivables**

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

|  | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| Student accounts   | \$ 14,366,931       | \$ 13,274,108       |
| Grants   | 581,952             | 1,290,868           |
| Other  | 788,296             | 683,111             |
| Total gross receivables                                  | 15,737,179          | 15,248,087          |
| Less: allowance for doubtful accounts                    | (6,914,099)         | (7,017,967)         |
| <b>Total accounts, grants and other receivables, net</b> | <b>\$ 8,823,080</b> | <b>\$ 8,230,120</b> |



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**June 30, 2016 and 2015**

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

*Pledges Receivable - Foundation*

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

|                                     | 2016         | 2015         |
|-------------------------------------|--------------|--------------|
| Within one year                     | \$ 1,844,881 | \$ 1,690,618 |
| Between one to five years           | 1,646,793    | 1,662,382    |
| More than five years                | 210,217      | 330,000      |
| Total pledges receivables           | 3,701,891    | 3,683,000    |
| Less:                               |              |              |
| Allowance for doubtful accounts     | (85,000)     | (85,000)     |
| Discount to net present value at 3% | (250,730)    | (259,357)    |
| Pledges receivable, net             | 3,366,161    | 3,338,643    |
| Less: current portion of receivable | (1,844,881)  | (1,690,618)  |
| Long-term pledges receivable, net   | \$ 1,521,280 | \$ 1,648,025 |

*Notes Receivable - Foundation*

During 2014, the Foundation provided a loan of \$600,000 to the Assistance Corporation to be used to purchase a property that was then leased to the University. The loan consisted of two notes: the first in the amount of \$200,000, requiring monthly principal payments of \$5,556 plus interest at 1.25%, maturing in August 2016; the second in the amount of \$400,000, requiring monthly principal payments of \$3,333 plus interest at 6.98% through August 2018, at which point the interest will be adjusted to the Federal Home Loan Bank of Boston Classic Rate for five-year maturities (1.57% and 2.13% at June 30, 2016 and 2015, 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.

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**June 30, 2016 and 2015**

Future minimum maturities of the notes receivable for years subsequent to June 30, 2016 are as follows:

| Years Ending<br>June 30, |                   |
|--------------------------|-------------------|
| <u>2017</u>              | \$ 51,111         |
| 2018                     | 40,000            |
| 2019                     | 40,000            |
| 2020                     | 40,000            |
| 2021                     | 40,000            |
| Thereafter               | 86,667            |
| Total                    | <u>\$ 297,778</u> |

Note 7 - **Loans Receivable and Payable**

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

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

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**June 30, 2016 and 2015**

Loans receivable from students include the following at June 30:

|                              | 2016         | 2015         |
|------------------------------|--------------|--------------|
| Perkins                      | \$ 1,368,007 | \$ 1,505,610 |
| Nursing                      | 615,411      | 657,381      |
| Other                        | 22,384       | 25,610       |
| Total loans receivable       | 2,005,802    | 2,188,601    |
| Less: Amount due in one year | (264,430)    | (250,126)    |
| Long-term loan receivables   | \$ 1,741,372 | \$ 1,938,475 |

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

|                     | 2016         | 2015         |
|---------------------|--------------|--------------|
| Perkins             | \$ 1,507,927 | \$ 1,541,964 |
| Nursing             | 751,605      | 748,506      |
| Total loans payable | \$ 2,259,532 | \$ 2,290,470 |

The federal law authorizing the disbursing of Perkins loans expired on September 30, 2015. As of October 1, 2015, the University is prohibited from issuing new Perkins loans to students who have not received them prior to October 1, 2014. As of the date of the financial statements, the Perkins loans program will end any further new loans being issued after June 30, 2017. The University may remit all federal proceeds and loans at any time thereafter to the Department of Education or continue to maintain them for five more years.

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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

Note 8 - **Capital Assets**

*University*

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

|                                      | Beginning<br>Balance  | Additions           | Reclassifications  | Ending<br>Balance     |
|--------------------------------------|-----------------------|---------------------|--------------------|-----------------------|
| Capital assets not depreciated:      |                       |                     |                    |                       |
| Land                                 | \$ 2,536,173          | \$ -                | \$ -               | \$ 2,536,173          |
| Construction in process              | 12,455,886            | 15,228,683          | (7,323,289)        | 20,361,280            |
| Total capital assets not depreciated | <u>14,992,059</u>     | <u>15,228,683</u>   | <u>(7,323,289)</u> | <u>22,897,453</u>     |
| Capital assets depreciated:          |                       |                     |                    |                       |
| Buildings                            | 90,129,935            | 589,717             | -                  | 90,719,652            |
| Building and land improvements       | 98,373,297            | 102,019             | 7,197,290          | 105,672,606           |
| Furniture and equipment              | 29,279,716            | 273,078             | 125,999            | 29,678,793            |
| Total capital assets depreciated     | <u>217,782,948</u>    | <u>964,814</u>      | <u>7,323,289</u>   | <u>226,071,051</u>    |
| Total capital assets                 | <u>232,775,007</u>    | <u>16,193,497</u>   | <u>-</u>           | <u>248,968,504</u>    |
| Less: Accumulated depreciation:      |                       |                     |                    |                       |
| Buildings                            | 22,968,084            | 1,928,974           | -                  | 24,897,058            |
| Building improvements                | 31,576,762            | 4,302,209           | -                  | 35,878,971            |
| Furniture and equipment              | 22,842,001            | 1,645,487           | -                  | 24,487,488            |
| Total accumulated depreciation       | <u>77,386,847</u>     | <u>7,876,670</u>    | <u>-</u>           | <u>85,263,517</u>     |
| Capital assets, net                  | <u>\$ 155,388,160</u> | <u>\$ 8,316,827</u> | <u>\$ -</u>        | <u>\$ 163,704,987</u> |

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**June 30, 2016 and 2015**

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

|                                      | Beginning<br>Balance  | Additions           | Deletions           | Reclassifications  | Ending<br>Balance     |
|--------------------------------------|-----------------------|---------------------|---------------------|--------------------|-----------------------|
| Capital assets not depreciated:      |                       |                     |                     |                    |                       |
| Land                                 | \$ 2,536,173          | \$ -                | \$ -                | \$ -               | \$ 2,536,173          |
| Construction in process              | 9,252,945             | 11,445,037          | -                   | (8,242,096)        | 12,455,886            |
| Total capital assets not depreciated | <u>11,789,118</u>     | <u>11,445,037</u>   | <u>-</u>            | <u>(8,242,096)</u> | <u>14,992,059</u>     |
| Capital assets depreciated:          |                       |                     |                     |                    |                       |
| Buildings                            | 97,256,216            | -                   | (7,126,281)         | -                  | 90,129,935            |
| Building and land improvements       | 91,366,264            | -                   | (1,142,871)         | 8,149,904          | 98,373,297            |
| Furniture and equipment              | 28,085,331            | 1,102,193           | -                   | 92,192             | 29,279,716            |
| Total capital assets depreciated     | <u>216,707,811</u>    | <u>1,102,193</u>    | <u>(8,269,152)</u>  | <u>8,242,096</u>   | <u>217,782,948</u>    |
| Total capital assets                 | <u>228,496,929</u>    | <u>12,547,230</u>   | <u>(8,269,152)</u>  | <u>-</u>           | <u>232,775,007</u>    |
| Less: Accumulated depreciation:      |                       |                     |                     |                    |                       |
| Buildings                            | 27,714,626            | 1,939,892           | (6,686,434)         | -                  | 22,968,084            |
| Building improvements                | 28,109,166            | 4,109,613           | (642,017)           | -                  | 31,576,762            |
| Furniture and equipment              | 21,236,046            | 1,605,955           | -                   | -                  | 22,842,001            |
| Total accumulated depreciation       | <u>77,059,838</u>     | <u>7,655,460</u>    | <u>(7,328,451)</u>  | <u>-</u>           | <u>77,386,847</u>     |
| Capital assets, net                  | <u>\$ 151,437,091</u> | <u>\$ 4,891,770</u> | <u>\$ (940,701)</u> | <u>\$ -</u>        | <u>\$ 155,388,160</u> |

During the year ended June 30, 2015, buildings with a net value of \$940,701 were demolished for the purpose of MSCBA building a residence hall for the University. The loss on disposition has been recorded as a component of operating and maintenance of plant under operating expenses in the accompanying statement of revenues and expenses for fiscal year 2015.

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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

*Assistance Corporation*

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

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

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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

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

|                                      | Beginning<br>Balance | Additions           | Ending<br>Balance    |
|--------------------------------------|----------------------|---------------------|----------------------|
| Capital assets not depreciated:      |                      |                     |                      |
| Land                                 | \$ 6,987,769         | \$ -                | \$ 6,987,769         |
| Total capital assets not depreciated | <u>6,987,769</u>     | <u>-</u>            | <u>6,987,769</u>     |
| Capital assets depreciated:          |                      |                     |                      |
| Buildings and improvements           | 1,170,018            | -                   | 1,170,018            |
| Furniture and equipment              | 4,205,155            | 9,786               | 4,214,941            |
| Infrastructure                       | 187,936              | 3,176               | 191,112              |
| Total capital assets depreciated     | <u>5,563,109</u>     | <u>12,962</u>       | <u>5,576,071</u>     |
| Total capital assets                 | <u>12,550,878</u>    | <u>12,962</u>       | <u>12,563,840</u>    |
| Less accumulated depreciation:       |                      |                     |                      |
| Buildings                            | 469,025              | 29,250              | 498,275              |
| Buildings improvements               | 1,472,097            | 126,418             | 1,598,515            |
| Furniture and equipment              | 155,490              | 9,722               | 165,212              |
| Total accumulated depreciation       | <u>2,096,612</u>     | <u>165,390</u>      | <u>2,262,002</u>     |
| Capital assets, net                  | <u>\$ 10,454,266</u> | <u>\$ (152,428)</u> | <u>\$ 10,301,838</u> |

Note 9 - **Accounts payable and accrued expenses**

Accounts payable and accrued expenses include the following at June 30, 2016 and 2015:

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| Accounts payable - trade                    | \$ 1,219,241        | \$ 1,109,125        |
| Accrued interest payable                    | 362,094             | 366,282             |
| Tuition due to state                        | 76,817              | 93,462              |
| Due to agencies                             | 665,019             | 824,794             |
| Other liabilities                           | 1,078,610           | 660,805             |
| Total accounts payable and accrued expenses | <u>\$ 3,401,781</u> | <u>\$ 3,054,468</u> |

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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

**Note 10 - Unearned Revenues**

Unearned revenues include tuition received in advance from students for courses commencing after June 30 primarily for summer and fall semesters (FY 2017) and grant funds received in advance. Unearned revenues of the University include the following at June 30:

|                         | 2016         | 2015         |
|-------------------------|--------------|--------------|
| Tuition and fees        | \$ 7,079,442 | \$ 6,457,873 |
| Grants                  | 328,324      | 326,605      |
| Other                   | 20,038       | 16,709       |
| Total unearned revenues | \$ 7,427,804 | \$ 6,801,187 |

**Note 11 - Long-Term Liabilities**

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

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



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**June 30, 2016 and 2015**

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

|  | Beginning<br>Balance<br>(Restated) | Additions           | Reductions          | Ending<br>Balance    | Current<br>Portion  |
|--|------------------------------------|---------------------|---------------------|----------------------|---------------------|
| <b>Bonds, loans and note payable:</b>      |                                    |                     |                     |                      |                     |
| Bonds payable                              | \$ 37,796,160                      | \$ 3,985,962        | \$ 1,459,290        | \$ 40,322,832        | \$ 1,591,795        |
| Bond premiums                              | 3,930,239                          | -                   | 199,267             | 3,730,972            | 199,263             |
| Loans payable                              | 2,319,172                          | -                   | 28,702              | 2,290,470            | -                   |
| Note payable                               | 305,465                            | -                   | 71,077              | 234,388              | 72,469              |
| <b>Total bonds, loans and note payable</b> | <b>44,351,036</b>                  | <b>3,985,962</b>    | <b>1,758,336</b>    | <b>46,578,662</b>    | <b>1,863,527</b>    |
| <b>Other long-term liabilities:</b>        |                                    |                     |                     |                      |                     |
| Accrued compensated absences               | 8,642,313                          | 560,571             | -                   | 9,202,884            | 5,908,154           |
| Workers' compensation                      | 1,018,694                          | 158,150             | -                   | 1,176,844            | 256,291             |
| Net pension liability                      | 24,365,686                         | -                   | 2,476,654           | 21,889,032           | -                   |
| <b>Total other long-term liabilities</b>   | <b>34,026,693</b>                  | <b>718,721</b>      | <b>2,476,654</b>    | <b>32,268,760</b>    | <b>6,164,445</b>    |
| <b>Total long-term liabilities</b>         | <b>\$ 78,377,729</b>               | <b>\$ 4,704,683</b> | <b>\$ 4,234,990</b> | <b>\$ 78,847,422</b> | <b>\$ 8,027,972</b> |

*Bonds Payable - University*

Over the past 10 years, the University, in association with the MSCBA, the Massachusetts Development Finance Agency (“MDFA”) and the Commonwealth of Massachusetts DCAMM, 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%. These bonds were partially refunded during the year ended June 30, 2015 as described in Note 13. The outstanding balance of this obligation including unamortized bond premium was \$1,746,756 and \$1,870,548 at June 30, 2016 and 2015, respectively.

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**Notes to the Financial Statements**

**June 30, 2016 and 2015**

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 \$2,150,153 and \$2,323,182 at June 30, 2016 and 2015, 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 \$85,800 and \$100,100 at June 30, 2016 and 2015, respectively.

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 this obligation was \$187,643 and \$204,702 at June 30, 2016 and 2015, respectively.

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

In January of 2012, the MSCBA issued 2012A Project Bonds. The University was allotted \$16,028,603 for the construction of a Fitness Center as part of the O’Keefe Athletic Complex. The University’s portion of this issue consisted of principal of \$14,230,000 with a premium of \$1,798,603. The term of this debt extends to June 30, 2036 with a true interest cost (“TIC”) of 3.94%. The outstanding balance of this obligation including unamortized bond premium was \$14,592,610 and \$15,050,991 at June 30, 2016 and 2015, respectively.

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**June 30, 2016 and 2015**

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

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

During January 2014, the MSCBA issued 2014 project bonds on behalf of the University. These bond proceeds along with other University funds are being used to fund the construction of various projects on campus. These projects include the creation of the Student Navigation Center, comprehensive renovations to the Sophia Gordon Center for Creative and Performing Arts Theatre (in process), relocation of the Public Safety station and the development and creation of a parking lot on Assistance Corporation owned land. These bonds consist of principal in the amount of \$19,030,000, issued at a premium of \$2,243,187. The average annual coupon rate is approximately 4.0% over the life of the issue, and the term of this debt extends to June 30, 2033. The outstanding balance of this obligation including unamortized bond premium was \$19,923,996 and \$20,719,525 at June 30, 2016 and 2015, respectively.

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 \$1,127,129 at June 30, 2016.

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

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**June 30, 2016 and 2015**

University campus wide lighting and lighting controls, water conservation and vending machine controls, motors, steam traps, pipe insulation, kitchen hood controls, energy management system upgrades, high efficiency gas boilers and HVAC modifications.

The total project cost for Phase 1 is \$1,694,560 and is to be repaid over 15 years at 4.0% interest per annum. Annual payments of principal and interest for Phase 1 in the amount of \$152,411 commenced in January 2015. The total project cost for Phase 2 is \$2,291,402 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 outstanding balance of the obligations for Phase 1 and 2 was \$3,575,793 and \$3,784,756 at June 30, 2016 and 2015, respectively.

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

Debt Service Reserves

Debt service reserves are held by the MSCBA for past bond issuances and amounted to \$1,473,340 and \$1,406,835 at June 30, 2016 and 2015, respectively.

Maturities of the bonds payable subsequent to June 30, 2016 are as follows:

| Years Ending<br>June 30, | Principal            | Amortization<br>of Premium | Interest             | Total                |
|--------------------------|----------------------|----------------------------|----------------------|----------------------|
| 2017                     | \$ 1,664,256         | \$ 200,892                 | \$ 1,896,701         | \$ 3,761,849         |
| 2018                     | 1,766,172            | 200,892                    | 1,827,726            | 3,794,790            |
| 2019                     | 1,846,098            | 200,892                    | 1,746,741            | 3,793,731            |
| 2020                     | 1,937,623            | 200,892                    | 1,665,480            | 3,803,995            |
| 2021                     | 2,023,109            | 200,892                    | 1,579,255            | 3,803,256            |
| 2022-2026                | 11,319,127           | 1,001,029                  | 6,400,060            | 18,720,216           |
| 2027-2031                | 10,934,652           | 952,690                    | 3,687,130            | 15,574,472           |
| 2032-2036                | 7,710,000            | 606,114                    | 1,046,005            | 9,362,119            |
| 2037-2041                | 210,000              | 8,145                      | 123,630              | 341,775              |
| 2042-2046                | 270,000              | 8,145                      | 66,454               | 344,599              |
| 2047-2048                | 125,000              | 3,260                      | 8,552                | 136,812              |
| Total                    | <u>\$ 39,806,037</u> | <u>\$ 3,583,843</u>        | <u>\$ 20,047,734</u> | <u>\$ 63,437,614</u> |

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**June 30, 2016 and 2015**

*Note Payable University*

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

| Years Ending<br>June 30, |                   |
|--------------------------|-------------------|
| 2017                     | \$ 73,887         |
| 2018                     | 75,333            |
| 2019                     | 12,699            |
| Total                    | <u>\$ 161,919</u> |

*Long-term Liabilities - Assistance Corporation*

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

|               | Beginning<br>Balance | Reductions        | Ending<br>Balance   | Current<br>Portion | Non-Current<br>Portion |
|---------------|----------------------|-------------------|---------------------|--------------------|------------------------|
| Notes Payable | \$ 1,647,058         | \$ 139,201        | \$ 1,507,857        | \$ 86,424          | \$ 1,421,433           |
| Bonds payable | 2,609,043            | 472,643           | 2,136,400           | 333,838            | 1,802,562              |
|               | <u>\$ 4,256,101</u>  | <u>\$ 611,844</u> | <u>\$ 3,644,257</u> | <u>\$ 420,262</u>  | <u>\$ 3,223,995</u>    |

Long-term liabilities for the Assistance Corporation at June 30, 2015 consisted of:

|               | Beginning<br>Balance | Reductions        | Ending<br>Balance   | Current<br>Portion | Non-Current<br>Portion |
|---------------|----------------------|-------------------|---------------------|--------------------|------------------------|
| Notes payable | \$ 1,785,445         | \$ 138,387        | \$ 1,647,058        | \$ 141,968         | \$ 1,505,090           |
| Bonds payable | 3,066,540            | 457,497           | 2,609,043           | 318,197            | 2,290,846              |
|               | <u>\$ 4,851,985</u>  | <u>\$ 595,884</u> | <u>\$ 4,256,101</u> | <u>\$ 460,165</u>  | <u>\$ 3,795,936</u>    |

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**June 30, 2016 and 2015**

Notes Payable Assistance Corporation

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

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

A final balloon payment representing the outstanding balance is due in September 2022. The loan is secured by a mortgage on real estate owned by the Assistance Corporation.

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

| Years Ending<br>June 30, | Principal           | Interest          |
|--------------------------|---------------------|-------------------|
| 2017                     | \$ 86,424           | \$ 65,818         |
| 2018                     | 70,135              | 68,187            |
| 2019                     | 70,187              | 66,404            |
| 2020                     | 71,613              | 62,145            |
| 2021                     | 73,107              | 57,584            |
| 2022-2023                | 1,136,391           | 525,329           |
| Total                    | <u>\$ 1,507,857</u> | <u>\$ 845,467</u> |

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*Bonds Payable Assistance Corporation*

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

Subsequent to June 30, 2016, principal and interest payments on the revenue bond payable for the next five years are as follows:

| Years Ending<br>June 30, | Principal           | Interest          |
|--------------------------|---------------------|-------------------|
| 2017                     | \$ 333,838          | \$ 64,688         |
| 2018                     | 344,885             | 53,641            |
| 2019                     | 356,298             | 42,228            |
| 2020                     | 368,088             | 30,437            |
| 2021                     | 733,291             | 5,722             |
| Total                    | <u>\$ 2,136,400</u> | <u>\$ 196,716</u> |

Note 12 - **Pensions**

Substantially all of the University's full-time employees are covered by the Massachusetts State Employees' Retirement System ("MSERS"). MSERS, a public employee retirement system ("PERS"), is a cost-sharing multi-employer defined benefit plan that is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. The Commonwealth does not issue separately audited financial statements for the plan. The financial position and results of operations of the plan are incorporated into 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.

MSERS 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

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employees hired after April 1, 2012, retirement allowances are calculated on the basis of 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, group creditable service and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' 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 MSERS 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 MSERS vary depending on the most recent date of membership:

| <u>Hire Date</u>        | <u>% of Compensation</u>                                       |
|-------------------------|--|
| Prior to 1975           | 5% of regular compensation                                     |
| 1975 to 1983            | 7% of regular compensation                                     |
| 1984 to June 30, 1996   | 8% of regular compensation                                     |
| July 1, 1996 to present | 9% of regular compensation                                     |
| 1979 to present         | An additional 2% of regular compensation in excess of \$30,000 |

The University is not required to contribute from its appropriation allocation or other University funds to MSERS for employees compensated from State appropriations. For University employees covered by MSERS but compensated from a trust fund or other source, the University is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of current funding by the State related to the University's employees during 2016, 2015, and 2014 was \$6,631,960, \$6,969,180, and \$4,842,031, respectively. Annual covered payroll was approximately 78%, 77%, and 77% of annual total payroll for the University in 2016, 2015, and 2014, respectively.



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At June 30, 2016 and 2015, the University reported a liability of \$44,297,126 and \$21,889,032, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2015 and 2014, respectively, and the State's total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on an effective contribution methodology which allocates total contributions amongst the employers in a consistent manner based on an employer's share of total covered payroll. At June 30, 2016 and 2015, the University's proportion was 0.3892%, which was an increase of .0944% from its proportion measured as of June 30, 2015. At June 30, 2015, the University's proportion was 0.2948%, which was an increase of .0211% from its proportion measured as of June 30, 2014.

For the years ended June 30, 2016 and 2015, the University recognized pension expense of approximately \$11 million and \$6.5 million, respectively. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred<br>Outflows of<br>Resources | Deferred Inflows<br>of Resources |
|--|--------------------------------------|----------------------------------|
| Changes of assumptions   | \$ 7,671,355                         | \$ -                             |
| Net difference between projected and actual earnings on pension plan investments | -                                    | 1,272,915                        |
| Differences between expected and actual experience                               | 875,604                              |                                  |
| Changes in proportion due to Internal Allocation                                 | 8,084,944                            | -                                |
| Changes in proportion from Commonwealth  | -                                    | 34,006                           |
| University contributions subsequent to the measurement date                      | 2,446,187                            | -                                |
| Total  | <b>\$ 19,078,090</b>                 | <b>\$ 1,306,921</b>              |

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\$2,446,187 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Years ending June 30:</u> |    |                   |
|------------------------------|----|-------------------|
| 2017                         | \$ | 3,023,160         |
| 2018                         |    | 3,023,160         |
| 2019                         |    | 3,023,160         |
| 2020                         |    | 4,469,555         |
| 2021                         |    | <u>1,785,947</u>  |
| Total                        | \$ | <u>15,324,982</u> |

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return (8.0% for the year ended June 30, 2014), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. 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 has increased by approximately \$230 million as of June 30, 2015.
4. Mortality rates were as follows:
  - (i) Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) which is a change from RP - 2000 Employees Table projected 20 years with Scale AA (gender distinct).

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- (ii) Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) which is a change from Healthy Annuitant Table projected 15 years with Scale AA (gender distinct).
- (iii) 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) which is a change from the mortality rate assumed to be in accordance with the RP - 2000 Table projected five years with Scale AA (gender distinct) set forward three years for males.

Investment assets of MSERS 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, 2015 and 2014 are summarized in the following table:

| Asset Class                     | Target Allocation | Long-term Expected Real Rate of Return |       |
|---------------------------------|-------------------|--|-------|
|                                 |                   | 2015                                   | 2014  |
| Global equity                   | 40.00%            | 6.90%                                  | 7.20% |
| Core fixed income               | 13.00%            | 2.40%                                  | 2.50% |
| Hedge funds                     | 9.00%             | 5.80%                                  | 5.50% |
| Private equity                  | 10.00%            | 8.50%                                  | 8.80% |
| Real estate                     | 10.00%            | 6.50%                                  | 6.30% |
| Value added fixed income        | 10.00%            | 5.80%                                  | 6.30% |
| Portfolio completion strategies | 4.00%             | 5.50%                                  | N/A   |
| Timber/natural resources        | 4.00%             | 6.60%                                  | 5.00% |
| Total                           | 100.00%           |  |       |

The discount rate used to measure the total pension liability for the measurement years ended June 30, 2015 and 2014 was 7.5% and 8.0%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the University’s

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contributions will be made at rates equal to the difference between actuarially determined contribution 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.

The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.5% and 8.0%, respectively, for the measurement years ended June 30, 2015 and 2014, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5% and 7.0%) or 1-percentage-point higher (8.5% and 9.0%) than the current rate:

| Measurement Year Ended | 1% Decrease   | Discount Rate | 1% Increase   |
|------------------------|---------------|---------------|---------------|
| June 30, 2014          | \$ 31,703,280 | \$ 21,889,032 | \$ 13,483,038 |
| June 30, 2015          | 60,214,065    | 44,297,126    | 30,568,182    |

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth's financial statements.

Note 13 - **Deferred Inflows of Resources**

*Service Concession Arrangements*

Deferred inflows of resources include contributions made by certain vendors. The University's food service operations are managed under an agreement by an outside party. In accordance with an agreement and subsequent amendments, the vendor has made several contributions over the period from January 2002 through October 2015 totaling \$4,380,000.

The term of the agreement was extended until 2022, and the amortization tables were adjusted accordingly. Either party may terminate this agreement at any time, without cause, by providing sixty days written notice. In the event of termination, the unamortized portion is to be returned. At June 30, 2016 and 2015, the unamortized portion of these contributions approximated \$867,000 and \$354,000, respectively.

Amounts related to agreements with other vendors at June 30, 2016 and 2015 approximated \$442,000 and \$193,000, respectively.

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*Bond Refunding*

During December 2014, the MSCBA refunded the bonds for the Athletic Complex Fields and Central Campus Athletic Field and Tennis Court (Note 11) and resulted in a gain by reducing the amount the University owed by approximately \$128,000. The unamortized portion of this gain approximates \$110,000 and \$122,000 at June 30, 2016 and 2015, respectively, and is included in the deferred inflows of resources total in the financial statements.

Note 14 - **Rental Income**

*Assistance Corporation*

The Assistance Corporation has long-term operating leases with lessees including Salem State University. Minimum future rentals under the non-cancellable operating leases subsequent to June 30, 2016 are as follows:

| Years Ending<br>June 30, | Amount              |
|--------------------------|---------------------|
| 2017                     | \$ 1,124,893        |
| 2018                     | 898,099             |
| 2019                     | 542,993             |
| 2020                     | 448,672             |
| 2021                     | 786,422             |
| Thereafter               | 93,336              |
| Total                    | <u>\$ 3,894,415</u> |

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

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Note 15 - **Operating Lease Commitments**

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

| Years Ending<br>June 30, | Assistance<br>Corporation | Outside<br>Vendors | Total                |
|--------------------------|---------------------------|--------------------|----------------------|
| 2017                     | \$ 1,391,172              | \$ 360,915         | \$ 1,752,087         |
| 2018                     | 1,267,970                 | 75,634             | 1,343,604            |
| 2019                     | 992,735                   | 17,571             | 1,010,306            |
| 2020                     | 507,943                   | 10,539             | 518,482              |
| 2021                     | 389,287                   | 10,539             | 399,826              |
| 2022-2026                | 1,992,860                 | 2,635              | 1,995,495            |
| 2027-2031                | 2,171,803                 | -                  | 2,171,803            |
| 2032-2036                | 2,236,957                 | -                  | 2,236,957            |
| 2037-2040                | 1,998,059                 | -                  | 1,998,059            |
| Total                    | <u>\$ 12,948,786</u>      | <u>\$ 477,833</u>  | <u>\$ 13,426,619</u> |

The rent expense on these leases amounted to approximately \$949,000 and \$697,000 for fiscal years 2016 and 2015, respectively.

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Note 16 - **Restricted Net Position**

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

|  | 2016         | 2015         |
|--|--------------|--------------|
| Restricted - nonexpendable:  |              |              |
| Scholarship and fellowship   | \$ 732,690   | \$ 739,323   |
| <br>Restricted - expendable:                                       |              |              |
| Scholarship, fellowship<br>loans, research grants and<br>contracts | \$ 5,122,824 | \$ 4,678,114 |

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

Note 17 - **Commitments and Contingencies**

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

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

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

The University participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for the future tuition at the cost of tuition at the time of election to participate, increased by

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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 2016, the University paid no remediation costs and received no communication from federal or state agencies. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

During March 2016, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' DCAMM to undertake a Comprehensive Energy Performance Contracting Project - Phase III (the "project"). The project's goal is a comprehensive energy and water saving performance contract which includes ice rink renovations, lighting upgrades, EMS and HVAC upgrades and work is expected to commence in FY 2017. The total project cost for the University for Phase III is \$2,801,950 and will be repaid over 20 years at 3.0% interest per annum commencing on January 1, 2018. The annual payments of principal and interest for Phase III amount to \$188,335 per annum.

Note 18 - **Operating Expenses**

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

|                              | <u>2016</u>           | <u>2015</u>           |
|------------------------------|-----------------------|-----------------------|
| Compensation and benefits    | \$ 116,804,359        | \$ 107,036,247        |
| Supplies and services        | 35,956,827            | 32,934,647            |
| Utilities                    | 4,276,093             | 4,337,321             |
| Depreciation                 | 7,876,670             | 7,655,460             |
| Scholarships and fellowships | 4,788,910             | 5,800,876             |
| Total operating expenses     | <u>\$ 169,702,859</u> | <u>\$ 157,764,551</u> |



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Note 19 - **Fringe Benefit Program**

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

The overall fringe benefit charge increased from 28.86% in 2015 to 30.82% in 2016 including 1.59% and 1.65% in payroll taxes, respectively. The retirement portion of the fringe benefit charge decreased from 10.39% in 2015 to 9.45% in 2016. In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2016, 2015, and 2014 were \$5,202,742, \$3,995,322, and \$3,863,599, 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.

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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.

The GIC is a quasi-independent state agency governed by an 11-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2016 and 2015, 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).

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

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

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

|  | 2016          | 2015          |
|--|---------------|---------------|
| Direct unrestricted appropriations   | \$ 44,543,834 | \$ 43,996,494 |
| <u>Add:</u>  |               |               |
| Fringe benefits for benefited employees on the state payroll                     | 12,778,016    | 11,837,053    |
| <u>Less:</u>   |               |               |
| Special payment to state (9C reduction)  | -             | (622,233)     |
| Day school tuition remitted to the state and included in tuition and fee revenue | (905,670)     | (769,606)     |
| Total unrestricted appropriations  | \$ 56,416,180 | \$ 54,441,708 |

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

|                        | 2016          | 2015           |
|------------------------|---------------|----------------|
| Revenue per MMARS      | \$ 67,384,750 | \$ 110,635,495 |
| Revenue per University | 67,384,750    | 110,635,495    |
| Difference             | \$ -          | \$ -           |

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

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**Notes to the Financial Statements**

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

The University distributed approximately \$47,580,000 and \$45,813,000 for the years ended June 30, 2016 and 2015, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included in the accompanying financial statements.

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

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

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

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

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations, other major renovations and improvements for the University for the years ended June 30, 2016 and 2015 were \$12,857,064 and \$9,681,042, 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.

**SUPPLEMENTARY INFORMATION**

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**Schedules of the University's Proportionate Share of the Net Pension Liability  
and Schedules of University Contributions**

**June 30, 2016 and 2015**

|   | 2016          | 2015          |
|---|---------------|---------------|
| University's proportion of the net pension liability (asset)  | 0.3892%       | 0.2948%       |
| University's proportionate share of the net pension liability (asset)   | \$ 44,297,126 | \$ 21,889,032 |
| University's covered-employee payroll   | 70,055,539    | 66,950,386    |
| University's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 63.23%        | 32.69%        |
| Plan fiduciary net position as a percentage of the total pension liability  | 67.87%        | 76.32%        |

\* The amounts presented for each fiscal year were determined as of 6/30.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

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**Schedules of the University's Proportionate Share of the Net Pension Liability  
and Schedules of University Contributions**

**June 30, 2016 and 2015**

|  | 2016          | 2015          |
|--|---------------|---------------|
| Contractually required contribution                                  | \$ 6,631,960  | \$ 6,969,180  |
| Contributions in relation to the contractually required contribution | (6,631,960)   | (6,969,180)   |
| Contribution deficiency (excess)                                     | \$ -          | \$ -          |
| University's covered-employee payroll                                | \$ 70,055,539 | \$ 66,950,386 |
| Contributions as a percentage of covered-employee payroll            | 9.47%         | 10.41%        |

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

*See independent auditor's report on page 1.*

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**Notes to the Required Supplementary Information**

**June 30, 2016 and 2015**

Note 1 - **Changes in Benefit Terms and Assumptions**

*Changes in Benefit Terms*

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 has increased approximately \$230 million as of June 30, 2015.

*Changes in Assumptions*

The investment rate of return changed to 7.5% from 8%.

The mortality assumptions changed as follows:

- (i) Pre-retirement - was changed to reflect the RP-2000 Employees Table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP - 2000 Employees Table projected 20 years with Scale AA (gender distinct).
- (ii) Post-retirement - was changed to reflect the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2009 (gender distinct) from Healthy Annuitant Table projected 15 years with Scale AA (gender distinct).
- (iii) Disability - was changed to the mortality rate 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) from the mortality rate assumed to be in accordance with the RP - 2000 Table projected five years with Scale AA (gender distinct) set forward three years for males.

The discount rate used to measure the total pension liability changed to 7.5% from 8%.



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

**Schedules of Net Position**  
**Dormitory Trust Fund Report**

**June 30, 2016 and 2015**

|  | <u>Assets</u>                           |                         |
|--|---|-------------------------|
|  | <u>2016</u>                             | <u>2015</u>             |
| Assets:                                |   |                         |
| Cash and cash equivalents              | \$ 1,391,316                            | \$ 1,698,929            |
| Accounts receivable, net               | 202,233                                 | 179,643                 |
| Other receivables, net                 | <u>33,240</u>                           | <u>21,526</u>           |
| <br>Total Assets                       | <br><u>\$ 1,626,789</u>                 | <br><u>\$ 1,900,098</u> |
|  | <br><u>Liabilities and Net Position</u> |                         |
| Liabilities:                           |   |                         |
| Accounts payable                       | \$ 16,074                               | \$ 175,833              |
| Accrued payroll and fringe benefits    | 106,132                                 | 89,741                  |
| Dormitory deposits                     | -                                       | 299,599                 |
| Accrued compensated absences           | <u>260,789</u>                          | <u>245,078</u>          |
| <br>Total Liabilities                  | <br>382,995                             | <br>810,251             |
| <br>Net Position                       | <br><u>1,243,794</u>                    | <br><u>1,089,847</u>    |
| <br>Total Liabilities and Net Position | <br><u>\$ 1,626,789</u>                 | <br><u>\$ 1,900,098</u> |

*See independent auditor's report on page 1.*

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

**Schedules of Revenues, Expenses and Changes in Net Position**  
**Dormitory Trust Fund Report**

**For the Years ended June 30, 2016 and 2015**

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| Revenues:   |                     |                     |
| Student fees                                      | \$ 18,351,760       | \$ 15,790,400       |
| Less: scholarships and fellowships                | (978,675)           | (846,965)           |
| Commissions                                       | 57,893              | 64,328              |
| Rentals   | 173,607             | 229,160             |
| Interest  | -                   | 190                 |
|   | <u>17,604,585</u>   | <u>15,237,113</u>   |
| Expenses:   |                     |                     |
| Regular employee compensation                     | 2,211,497           | 2,099,263           |
| Regular employee related expenses                 | 271                 | 2,828               |
| Special employee compensation                     | 778,265             | 624,913             |
| Pension and insurance related                     | 694,857             | 575,869             |
| Administrative                                    | 62,327              | 218,434             |
| Facility operational                              | 89,758              | 160,599             |
| Energy and space rental                           | 1,556,511           | 1,680,614           |
| Consultant services                               | -                   | 1,250               |
| Operational services                              | 60,425              | 153,496             |
| Equipment purchase                                | 47,253              | 15,320              |
| Equipment maintenance                             | 811,179             | 867,770             |
| Loans and special payments                        | 11,576,973          | 9,226,903           |
| Information technology                            | 18,859              | 53,984              |
|   | <u>17,908,175</u>   | <u>15,681,243</u>   |
| Excess of Expenses over Revenues Before Transfers | (303,590)           | (444,130)           |
| Net Transfers                                     | <u>457,537</u>      | <u>198,075</u>      |
| Total Increase (Decrease) in Net Position         | <u>153,947</u>      | <u>(246,055)</u>    |
| Net Position, Beginning of Year                   | <u>1,089,847</u>    | <u>1,335,902</u>    |
| Net Position, End of Year                         | <u>\$ 1,243,794</u> | <u>\$ 1,089,847</u> |

*See independent auditor's report on page 1.*