

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

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

June 30, 2014 and 2013

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

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

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Salem State University (an agency of the Commonwealth of Massachusetts) (the "University"), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements. We also audited the separate financial statements of the University's component units, Salem State University Assistance Corporation, Inc. (the "Assistance Corp.") and Salem State University Foundation, Inc. (the "Foundation") as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Salem State University as of June 30, 2014 and 2013, and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 23 to the financial statements, the University and one of its component units restated prior balances with regards to the adoption of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Schedules

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of Salem State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Salem State University's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.
Certified Public Accountants
Braintree, Massachusetts

October 8, 2014

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

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2014 and 2013

I. Overview

We offer readers of Salem State University's (the "University") financial statements this narrative overview and analysis of the financial activities of the University for fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and related footnotes.

Salem State University, founded in 1854, is one of the largest of Massachusetts' nine state universities. The campus consists of 112 acres and thirty-seven buildings on five sites: North Campus, Central Campus, South Campus, Cat Cove and the O'Keefe Athletic Complex. Today the University is a comprehensive institution of academic strength offering high quality, balanced education at the undergraduate and graduate levels. The undergraduate schools or colleges offer the following degrees: Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Liberal Studies, Bachelor of Science, Bachelor of Science in Business Administration, Bachelor of Science in Nursing and Bachelor of Social Work. The curriculum spans the arts, sciences, and professional programs, with thirty baccalaureate majors in thirty academic departments and seventy-three minor programs. At the graduate level, a variety of study opportunities are available leading to the following degrees in a range of subject areas in the Arts and Sciences, Education, Business Administration, Social Work, Nursing and Occupational Therapy: Master of Arts, Master of Arts/Master of Arts in Teaching, Master of Arts in Teaching, Master of Science, Master of Business Administration, Master of Science in Nursing, Master of Social Work, and the Certificate of Advanced Graduate Study in Education, as well as offering a diversity of graduate certificate and licensure-only programs in Education, Nursing, Business Administration and the Arts and Sciences. In addition to credit offerings, there are several non-credit special programs, institutes, and life enrichment and career development offerings at both on and off-campus sites. The undergraduate level has approximately 6,800 and the graduate level has approximately 1,100 annual FTE enrollments. The University is accredited by the New England Association of Schools and Colleges (NEASC). In addition, many of the University's programs are accredited by program-specific accrediting bodies.

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

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

I. Overview - Continued

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

II. Significant Accomplishments for FY-2014

Completion of Frederick Berry Library and Learning Commons

In July, 2013 the University received approval for occupancy and began moving material and personnel into the facility for the September opening. Over fiscal years 2011 thru 2013 cumulative funding exceeding \$60 million has been reflected in previous financial statements. Additional project funding for FY-2014 of \$12.5 million is reflected on the Capital Grants line of the Statement of Revenue, Expenses and Changes in Net Position (Page 14).

Completion of the Gassett Fitness and Recreation Center

In October, 2013 the Gassett Fitness and Recreation Center at the O'Keefe Athletic Complex opened its doors. It now houses a number of athletic and recreational activities. The Center has been the site of numerous campus events including Commencement and the launch of the university's capital campaign in April, 2014.

Issuance of MSCBA Bonds for Capital Projects

In January, 2014 the Massachusetts State College Building Authority (MSCBA) sponsored a bond offering on behalf of the University for a number of major projects included in the university's Campus Master Vision Plan totaling \$74.5 million. The amounts bonded for SSU projects included in this offering were:

- Viking Hall- a 342 bed residence hall located on the Central Campus scheduled for opening in Fall, 2015. Bond proceeds for project: \$53.5 million.
- Canal Street Parking- to replace some of the parking spaces lost as a result of Viking Hall, the former Weir property located on Canal Street was converted to surface parking of over 300 spaces. Bond proceeds for project: \$1.9 million.

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

II. Significant Accomplishments for FY-2014 – Continued

- Relocate Public Safety- again to accommodate Viking Hall, the Public Safety department was relocated to office space located in the Central Campus academic building. Bond proceeds for project: \$2.1 million.
- Conversion of Main Stage Auditorium- planning and preliminary design has been accomplished. Bond proceeds for project \$14 million.
- Student Navigation Center- the center now houses the offices of Admissions (operations), Bursar, Clipper Card, Financial Aid, Registrar and Transfer Services. Bond proceeds for project: \$2 million.
- Future development- \$1 million of bond proceeds was allotted for future project needs.

Comprehensive Capital Campaign

During FY-2014, the campaign raised a total of \$6.6 million for the year. The campaign has raised over \$17.1 million as of August 31, 2014, which is 68% of the total campaign goal. There are 8,975 donors supporting the campaign (cumulative).

Increase in Investment Income

As reflected in the Statement of Revenue, Expenses, and Changes in Net Position the market value for the University's investment portfolio generated gains and income totaling almost \$0.5 million over FY-2013 for this non-operating revenue item.

III. Statement of Net Position Analysis

The Statement of Net Position presents information on all of the University's assets and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the University's financial position is improving or deteriorating. For FY- 2014, assets exceeded liabilities and deferred inflows of resources by \$144.6 million. By far the largest portion of the University's net position (90.1 % of total Net Position) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt, including capital leases, used to acquire those assets. The University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the University's

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

III. Statement of Net Position Analysis (continued)

investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>
Assets			
Current	\$ 62.7	\$ 47.1	\$ 15.6
Long Term	<u>155.5</u>	<u>133.8</u>	<u>21.7</u>
Total Assets	<u>218.2</u>	<u>180.9</u>	<u>37.3</u>
Liabilities			
Current	\$ 26.4	\$ 23.4	\$ 3.0
Long Term	<u>46.6</u>	<u>26.3</u>	<u>20.3</u>
Total Liabilities	<u>73.0</u>	<u>49.7</u>	<u>23.3</u>
Deferred Inflows of Resources	<u>\$ 0.6</u>	<u>\$ 0.9</u>	<u>\$ -0.3</u>
Net Position			
Invested in Plant	\$ 130.2	\$ 111.3	\$ 18.9
Restricted	4.5	4.2	0.3
Unrestricted	<u>9.9</u>	<u>14.8</u>	<u>-4.9</u>
Total Net Position	<u>144.6</u>	<u>130.3</u>	<u>14.3</u>
Total Liabilities and Net Position	<u>\$ 218.2</u>	<u>\$ 180.9</u>	<u>\$ 37.3</u>

IV. Statement of Revenues, Expenses, and Changes in Net Position Analysis

The Statements of Revenues, Expenses and Changes in Net Position (Page 14) present information showing how the University's net position changed during the past two fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows in future fiscal periods (e.g. accrued compensated absences).

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

IV. Statement of Revenues, Expenses, and Changes in Net Position Analysis (continued)

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

Revenues	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>
Tuition and Fees, net of scholarships	\$ 54.8	\$ 53.9	\$ 0.9
Federal, State, Private Grants	18.3	18.5	-0.2
Sales and Services	3.6	3.4	0.2
Auxiliary and Other	15.4	15.0	0.4
Total Operating Revenues	<u>\$ 92.1</u>	<u>\$ 90.8</u>	<u>\$ 1.3</u>
Expenses	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>
Compensation and benefits	\$ 101.3	\$ 96.6	\$ 4.7
Supplies and Services	32.1	29.3	2.8
Utilities	3.9	3.5	0.4
Depreciation and Amortization	6.9	5.0	1.9
Scholarships & Fellowships	5.6	5.7	- 0.1
Operating Expense	<u>\$ 149.8</u>	<u>\$ 140.1</u>	<u>\$ 9.7</u>
Total Non-Operating Revenues, Net	57.7	49.1	8.6
Capital Grants	14.2	24.7	-10.5
Increase in Net Position	<u>\$ 14.2</u>	<u>\$ 24.5</u>	<u>-10.3</u>

Highlights for Revenues

An increase of total operating revenues of \$1.3 million resulted from the following increases and decreases:

- Tuition and Fees (net of scholarships): total increase in this category was \$982 thousand. The gross tuition and fees increased by nearly \$486 thousand comprised of decreases in Day and Continuing Education (primarily non-credit courses) totaling \$708 thousand offset by graduate school increases of over \$355 thousand plus the net impact of the new Matriculation fee which garnered \$839 thousand. On the Financial Aid side, net aid in

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

IV. Statement of Revenues, Expenses, and Changes in Net Position Analysis (continued)

this category decreased \$497 thousand which increased the net bottom line for this category.

- Federal, State and Private Grants: total revenues decreased by \$277 thousand spread between each category (federal, state and private grants).
- Sales & Services of Educational Departments- total revenues increased slightly by \$197 thousand primarily in ticket revenues and other departmental sales.
- Auxiliary Enterprises- revenues increased by almost \$385 thousand attributable due to increased dormitory room rates and summer conference activity.
- Other Operating Revenues: increased revenues of \$53 thousand due to additional one-time credits realized during the year.

The increase of approximately \$8.6 million in non-operating revenues and decreases in capital grants of \$10.5 million are as follows:

- Non-Operating Revenues: This category increased by \$8.5 million, of which almost \$0.5 million was attributable to improved investment revenue. The State appropriation was increased by over \$5.2 million. Finally, gift income to the University was up by \$3.1 million primarily from the contribution to the Main Stage Theater project of \$3.0 million. This is included within "Deposits held by MSCBA and DCAMM" on the Statement of Net Position.
- Capital Grants: This decreased by over \$10.4 million over FY-2013 primarily due to the final allocation for construction of the Library/Learning Commons and other DCAMM energy projects.

Highlights for Expenses

Operating Expenses increased by almost \$9.7 million and the key changes were as follows:

- Compensation and Benefits: This increased by \$ 4.7 million primarily driven by contractual salary and fringe benefit increases partly offset by additional appropriation levels as reflected in non-operating revenues.
- Supplies and Services: total expenses increased by \$2.8 million primarily due to facility and information technology infrastructure work, \$1.5 million, auxiliary area increases

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

IV. Statement of Revenues, Expenses, and Changes in Net Position Analysis (continued)

primarily in Residence Halls, \$411 thousand, recruiting and strategic enrollment marketing efforts, \$685 thousand, and other minor increases throughout departments.

- Utilities: utility costs increased \$464 thousand due to new buildings coming on line offset by continued conservation efforts.
- Depreciation and Amortization: This increased \$1.9 million due to increased buildings improvements previously capitalized and now being depreciated.
- Scholarships: Scholarship expense in this category dipped slightly by \$133 thousand.

V. Investments in Capital Assets

The University's investment in capital assets as of June 30, 2014 amounted to \$151.4 million net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings, building and leasehold improvements, infrastructure, construction-in-progress, vehicles, and equipment. Capital assets are controlled but not owned by the University. The University defines capital assets as assets with an initial, individual cost of more than \$50,000-\$100,000 (depending upon asset class) in accordance with the Commonwealth's capitalization policy. Assets are recorded at historical cost or estimated historical cost if purchased or constructed.

As of June 30, 2014 and 2013, the University's capital assets are summarized as follows (rounded to millions):

	<u>2014</u>	<u>2013</u>
Land	\$ 2.5	\$ 2.5
Construction-in-Progress	9.3	71.9
Building (including improvements)	187.0	98.5
Equipment	28.1	26.6
Infrastructure	<u>1.6</u>	<u>1.6</u>
Total	\$ 228.5	\$ 201.1
Less: accumulated depreciation	<u>(77.1)</u>	<u>(70.2)</u>
Total capital assets, net of depreciation)	\$ <u>151.4</u>	\$ <u>130.9</u>

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

V. Investments in Capital Assets (continued)

For Fiscal Year 2014, total capital assets increased by \$20.5 million due to the following (in millions):

Library/Learning Commons (from DCAMM)	\$ 12.5
Initiation of new projects (Main Stage, MSCBA projects, Meier Hall)	6.5
Fitness Center (from MSCBA)	5.8
“Green” energy projects	1.1
Educational and Business Process Improvements	<u>1.5</u>
Total Additions to Capital Assets	\$ 27.4
Less: Additional Depreciation and Amortization	<u>(6.9)</u>
Total Increase to Capital Assets (Net of Depreciation)	\$ <u>20.5</u>

VI. Ratio Analysis

Ratio analysis can be a management tool to indicate the University's effective use of its resources, its overall financial viability, its direction in achieving institutional strategic goals and its ability to meet short and long term obligations in a managed fashion. It should be noted that ratios are most useful in analyzing trends of an institution over time. A one-year fluctuation in a ratio may be indicative of an aberration for that year or may indicate a relevant trend. In addition, there may be programmatic or strategic initiatives undertaken by the institution that may cause a particular ratio to move in a contrary or unfavorable manner. The ratios presented here are calculated in Salem State's traditional manner based on university-only without consideration for the component units. In future years the ratio presentation will be more comprehensive to increase the value to the reader.

Summary of Financial Ratios

<u>Ratios</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Primary	9.1%	13.2%	12.1%	14.4%
Viability	32.1%	80.8%	71.2%	234.8%
Return on Net Position	10.9%	23.1%	20.5%	25.2%
Net Operating Revenues	0.0%	0.0%	-1.9%	7.4%
Cash Ratio	93.5%	127.8%	132.4%	147.0%

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

VI. Ratio Analysis (Continued)

Debt Service Covenant Ratio	111.7%	128.8%	125.8%	144.1%
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Comments on Ratio Trends

Primary - This ratio provides a snapshot of a university's financial strength and flexibility by indicating how long a university can operate using expendable reserves without relying on additional new assets generated by operation. The level experienced in 2014 is below the three year average due to a decrease in the unrestricted (i.e. expendable) portion of this ratio.

Viability - This ratio measures a university's management of resources, including debt, and the availability of expendable net assets (cash and other liquid assets) to pay off long term debt. Similar to the Primary Ratio above, this decreased in FY-2014 due to a decrease in the unrestricted (i.e. expendable) portion of this ratio.

Return on Net Position – This ratio measures asset performance and management. By measuring total economic return, this ratio indicates whether a university's resources are growing, and if the university is better off financially than in previous years. A positive financial condition for Salem State is reflected in the twelfth consecutive year that the University has operated with a positive return on net position.

Net Operating Revenues - This ratio measures operating results. It indicates whether total operating activities produced a surplus or deficit and answers the question, "Did the University live within its means during a fiscal year?" The very slight negative calculation (less than 0.0%) is driven by non-cash financial adjustments such as investment income or depreciation.

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

Debt Service Covenant - This figure reflects the debt service covenants established by TD Bank for the Weir property acquisition. The required target per terms of the bond requires this coverage to be 101.25% for the University. For FY-2014, the University exceeded its required obligation.

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Management's Discussion and Analysis (Unaudited) - Continued

For the Years Ended June 30, 2014 and 2013

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 Chief Financial Officer, 352 Lafayette Street, Salem, Massachusetts 01970-5353.

SALEM STATE UNIVERSITY
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Statements of Net Position

June 30,

Assets

	Primary Government		Component Units	
	2014 University	2013 University (Restated)	2014 Combined	2013 Combined
Current Assets:				
Cash and equivalents	\$ 10,913,291	\$ 19,234,077	\$ 957,205	\$ 958,623
Restricted cash and equivalents	7,224,535	5,166,953	1,717,752	879,104
Deposits held by State Treasurer	5,281,471	3,517,158	-	-
Cash held by State Treasurer	1,303,320	1,954,054	-	-
Deposits held by MSCBA and DCAMM	20,440,308	3,032,909	-	-
Investments	12,797,940	10,679,856	-	-
Accounts, grants and other receivable, net	4,135,437	3,145,618	28,437	33,199
Pledges receivable, net	-	-	1,098,902	1,490,669
Note receivable	-	-	106,667	-
Loan receivable - current portion	302,336	299,161	-	-
Other current assets	288,730	99,819	28,403	21,025
Total Current Assets	62,687,368	47,129,605	3,937,366	3,382,620
Non-Current Assets:				
Investments	592,089	495,615	24,520,216	24,069,090
Loan receivable, net of current portion	1,942,174	2,058,408	-	-
Pledges receivable, net	-	-	2,785,961	2,331,239
Note receivables, net of current portion	-	-	404,444	-
Capital assets, net	151,437,091	130,941,348	10,456,334	10,309,804
Debt service reserve	1,495,447	334,349	-	-
Other non-current assets, net	-	1,786	-	-
Total Non-Current Assets	155,466,801	133,831,506	38,166,955	36,710,133
Total Assets	\$ 218,154,169	\$ 180,961,111	\$ 42,104,321	\$ 40,092,753

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities:				
Accounts payable and accrued expenses	\$ 5,634,394	\$ 3,194,136	\$ 314,376	\$ 291,728
Accrued payroll	9,144,071	9,352,006	-	-
Accrued compensated absences	5,846,120	5,568,812	-	-
Accrued workers' compensation	204,961	210,943	-	-
Unearned revenues	2,539,810	2,832,239	-	35,728
Current portion of note payable	71,078	-	139,506	30,354
Current portion of capital lease obligations	-	-	292,689	283,313
Current portion of bonds payable	1,300,622	765,093	-	-
Deposits	1,677,848	1,429,666	-	-
Other	14,827	16,497	-	-
Total Current Liabilities	26,433,731	23,369,392	746,571	641,123
Non-Current Liabilities:				
Accrued compensated absences	2,796,193	2,739,332	-	-
Accrued workers' compensation	813,733	765,644	-	-
Long term portion of note payable	234,387	-	1,645,939	1,230,702
Long term portion of bond payable	40,425,777	20,501,349	2,773,851	3,225,859
Loans payable - Federal financial assistance programs	2,319,172	2,340,929	-	-
Other non-current liabilities	-	-	32,595	33,170
Total Non-Current Liabilities	46,589,262	26,347,254	4,452,385	4,489,731
Total Liabilities	73,022,993	49,716,646	5,198,956	5,130,854
Deferred Inflows of Resources	571,526	919,257	-	-
Net Position:				
Net investment in capital assets	130,195,208	111,299,511	5,604,349	5,539,576
Restricted:				
Nonexpendable	650,915	570,758	17,552,278	16,465,608
Expendable	3,820,708	3,673,519	13,081,664	12,304,494
Unrestricted	9,892,819	14,781,420	667,074	652,221
Total Net Position	144,559,650	130,325,208	36,905,365	34,961,899
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 218,154,169	\$ 180,961,111	\$ 42,104,321	\$ 40,092,753

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY

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Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	Primary Government		Component Units	
	2014 University	2013 University (Restated)	2014 Combined	2013 Combined
Operating Revenues:				
Tuition and fees	\$ 68,625,699	\$ 68,139,932	\$ -	\$ -
Less: scholarships and fellowships	<u>(13,787,565)</u>	<u>(14,284,108)</u>	-	-
Net tuition and fees	54,838,134	53,855,824	-	-
Federal grants and contracts	13,107,378	13,227,539	-	-
State grants and contracts	4,949,300	5,065,564	-	-
Private grants and contracts	175,846	216,495	-	-
Gifts and contributions	-	-	3,888,865	2,540,103
Sales and services - educational departments	3,641,895	3,445,224	-	-
Auxiliary enterprises	14,900,746	14,516,042	1,327,366	1,120,811
Other operating revenues	<u>483,970</u>	<u>431,407</u>	<u>276,683</u>	<u>198,933</u>
Total Operating Revenues	<u>92,097,269</u>	<u>90,758,095</u>	<u>5,492,914</u>	<u>3,859,847</u>
Operating Expenses:				
Educational and general:				
Instruction	54,579,435	53,149,837	-	-
Public service	763,353	701,609	1,236,276	1,128,190
Academic support	14,451,985	13,928,122	-	-
Student services	15,763,997	13,921,343	-	-
Institutional support	24,288,030	22,726,470	3,466,090	409,315
Operation and maintenance of plant	12,798,047	10,804,483	-	-
Scholarships	5,593,842	5,726,894	299,462	259,600
Depreciation and amortization	6,899,222	4,995,472	222,408	212,108
Auxiliary enterprises	<u>14,654,931</u>	<u>14,098,860</u>	<u>951,836</u>	<u>854,446</u>
Total Operating Expenses	<u>149,792,842</u>	<u>140,053,090</u>	<u>6,176,072</u>	<u>2,863,659</u>
Net Operating Income (Loss)	<u>(57,695,573)</u>	<u>(49,294,995)</u>	<u>(683,158)</u>	<u>996,188</u>
Non-Operating Revenues (Expenses):				
State appropriations, net	52,155,777	46,914,521	98,979	162,402
Gifts	4,241,665	1,112,086	-	-
Investment income	1,935,289	1,441,453	2,958,823	1,867,756
Other non-operating revenue	-	-	(246,400)	3,600
Interest expense	<u>(655,053)</u>	<u>(319,256)</u>	<u>(184,778)</u>	<u>(184,149)</u>
Net Non-Operating Revenues	<u>57,677,678</u>	<u>49,148,804</u>	<u>2,626,624</u>	<u>1,849,609</u>
Increase (Decrease) in Net Position Before Capital Grants	(17,895)	(146,191)	1,943,466	2,845,797
Capital Appropriations	<u>14,252,337</u>	<u>24,659,774</u>	-	-
Total Increase in Net Position	14,234,442	24,513,583	1,943,466	2,845,797
Net Position, Beginning of Year	<u>130,325,208</u>	<u>105,811,625</u>	<u>34,961,899</u>	<u>32,116,102</u>
Net Position, End of Year	<u>\$ 144,559,650</u>	<u>\$ 130,325,208</u>	<u>\$ 36,905,365</u>	<u>\$ 34,961,899</u>

See accompanying notes to the financial statements.

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

Statements of Changes in Net Position

June 30, 2014 and 2013

	University				
	Investment in Capital Assets	Restricted Expendable	Restricted Nonexpendable	Unrestricted	Total
Balance June 30, 2012 as previously reported	\$ 88,675,838	\$ 3,440,971	\$ 509,507	\$ 13,343,385	\$ 105,969,701
Change in Accounting Principles (Note 23)	(158,076)	-	-	-	(158,076)
Balance, June 30, 2012 as restated	<u>88,517,762</u>	<u>3,440,971</u>	<u>509,507</u>	<u>13,343,385</u>	<u>105,811,625</u>
Changes in net position as previously reported, 2013	22,773,231	232,548	61,251	1,438,035	24,505,065
Change in Accounting Principles (Note 23)	8,518	-	-	-	8,518
Changes in net position for 2013 as restated	<u>22,781,749</u>	<u>232,548</u>	<u>61,251</u>	<u>1,438,035</u>	<u>24,513,583</u>
Balance, June 30, 2013 as restated	111,299,511	3,673,519	570,758	14,781,420	130,325,208
Changes in net position for 2014	<u>18,895,697</u>	<u>147,189</u>	<u>80,157</u>	<u>(4,888,601)</u>	<u>14,234,442</u>
Balance, June 30, 2014	<u>\$ 130,195,208</u>	<u>\$ 3,820,708</u>	<u>\$ 650,915</u>	<u>\$ 9,892,819</u>	<u>\$ 144,559,650</u>
	Component Units				
	Investment in Capital Assets	Restricted Expendable	Restricted Nonexpendable	Unrestricted	Total
Balance, June 30, 2012, as previously reported	\$ 5,578,828	\$ 10,051,164	\$ 16,104,742	\$ 590,710	\$ 32,325,444
Change in Accounting Principle (Note 23)	(143,333)	-	-	-	(143,333)
Balance, June 30, 2012, as restated	<u>5,435,495</u>	<u>10,051,164</u>	<u>16,104,742</u>	<u>590,710</u>	<u>32,182,111</u>
Changes in net position for 2013, as previously reported	104,081	2,253,330	360,866	103,758	2,822,035
Change in Accounting Principle (Note 23)	-	-	-	(42,247)	(42,247)
Changes in net position for 2013, as restated	<u>5,539,576</u>	<u>12,304,494</u>	<u>16,465,608</u>	<u>652,221</u>	<u>34,961,899</u>
Changes in net position for 2014	<u>64,773</u>	<u>777,170</u>	<u>1,086,670</u>	<u>14,853</u>	<u>1,943,466</u>
Balance, June 30, 2014	<u>\$ 5,604,349</u>	<u>\$ 13,081,664</u>	<u>\$ 17,552,278</u>	<u>\$ 667,074</u>	<u>\$ 36,905,365</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,

	<u>Primary Government</u>	
	<u>2014 University</u>	<u>2013 University</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 53,726,445	\$ 54,312,254
Grants and contracts	17,749,386	18,539,465
Payments to suppliers and vendors	(35,639,864)	(33,155,767)
Payments to employees	(82,637,927)	(78,633,676)
Payments for benefits	(6,526,392)	(6,877,275)
Payments to students	(5,593,842)	(5,726,894)
Loans issued to students	(397,523)	(497,520)
Collection of loans to students	505,040	443,135
Auxiliary enterprises receipts	15,156,821	14,982,648
Sales and services - educational departments	3,706,783	2,994,590
Other	<u>136,239</u>	<u>254,740</u>
Net Cash Applied to Operating Activities	<u>(39,814,834)</u>	<u>(33,364,300)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	41,243,500	37,349,093
Tuition remitted to State	(1,028,227)	(511,398)
Student interest received	10,969	34,791
Gifts	<u>4,241,665</u>	<u>1,112,086</u>
Net Cash Provided by Non-Capital Financing Activities	<u>44,467,907</u>	<u>37,984,572</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(10,593,809)	(14,873,624)
Principal paid on notes and bonds payable	(739,547)	(400,093)
Interest paid on debt	(765,035)	(122,883)
Payments of financing fees	(112,087)	-
Debt services reserve funding	(1,161,098)	-
Premiums on bond financing	2,243,185	-
Proceeds from bond financing	<u>19,030,000</u>	<u>-</u>
Net Cash Provided by (Applied to) Capital Financing Activities	<u>7,901,609</u>	<u>(15,396,600)</u>
Cash Flows from Investing Activities:		
Interest on investments	343,967	324,248
Proceeds from sale of investments	3,459,343	3,740,349
Purchase of investments	<u>(4,100,218)</u>	<u>(3,792,089)</u>
Net Cash Provided by (Applied to) Investing Activities	<u>(296,908)</u>	<u>272,508</u>
Net Increase (Decrease) in Cash and Equivalents	12,257,774	(10,503,820)
Cash and Equivalents, Beginning of the Year	<u>32,905,151</u>	<u>43,408,971</u>
Cash and Equivalents, End of the Year (Note 15)	<u>\$ 45,162,925</u>	<u>\$ 32,905,151</u>

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

Statements of Cash Flows

For the Years Ended June 30,

	<u>Primary Government</u>	
	<u>2014 University</u>	<u>2013 University</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (57,695,573)	\$ (49,294,995)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	6,899,222	4,995,472
Bad debts	191,862	(116,474)
Fringe benefits provided by State	10,912,277	10,076,826
Changes in assets and liabilities:		
Accounts receivable	(1,175,635)	240,253
Other non-current assets	-	1,354
Accounts payable and accrued liabilities	1,352,384	285,121
Accrued payroll and benefits	168,343	769,908
Other assets	(187,125)	(73,923)
Other liabilities	(1,670)	(16,948)
Loans to/from students	113,059	(42,559)
Deposits	248,182	(116,494)
Unearned revenues	<u>(640,160)</u>	<u>(71,841)</u>
Net Cash Applied to Operating Activities	<u>\$ (39,814,834)</u>	<u>\$ (33,364,300)</u>
Non-Cash Disclosures:		
Equipment financed with note payable	<u>\$ 363,653</u>	<u>\$ -</u>
Acquisition of equipment in payables	<u>\$ 2,184,896</u>	<u>\$ -</u>

See accompanying notes to financial statements.

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

Combining Statements of Net Position of Major Component Units

June 30, 2014

(with comparative totals for the year ended June 30, 2013)

	Assets			
	2014 Foundation	2014 Assistance Corp	2014 Combined	2013 Combined
Current Assets:				
Cash and equivalents	\$ 695,009	\$ 262,196	\$ 957,205	\$ 958,623
Restricted cash and equivalents	1,717,752	-	1,717,752	879,104
Accounts, grants and other receivable, net	-	28,437	28,437	33,199
Pledges receivable, net	1,098,902	-	1,098,902	1,490,669
Note receivable	106,667	-	106,667	-
Other current assets	28,403	-	28,403	21,025
Total Current Assets	3,646,733	290,633	3,937,366	3,382,620
Non-Current Assets:				
Investments	24,520,216	-	24,520,216	24,069,090
Pledges receivable, net of current portion	2,785,961	-	2,785,961	2,331,239
Note receivables, net of current portion	404,444	-	404,444	-
Capital assets, net	2,068	10,454,266	10,456,334	10,309,804
Total Non-Current Assets	27,712,689	10,454,266	38,166,955	36,710,133
Total Assets	\$ 31,359,422	\$ 10,744,899	\$ 42,104,321	\$ 40,092,753
	Liabilities and Net Position			
Current Liabilities:				
Accounts payable and accrued expenses	\$ 253,771	\$ 60,605	\$ 314,376	\$ 291,728
Unearned revenues	-	-	-	35,728
Current portion of note payable	-	139,506	139,506	30,354
Current portion of bond payable	-	292,689	292,689	283,313
Total Current Liabilities	253,771	492,800	746,571	641,123
Non-Current Liabilities:				
Note payable less current portion	-	1,645,939	1,645,939	1,230,702
Bond payable less current portion	-	2,773,851	2,773,851	3,225,859
Other non-current liabilities	-	32,595	32,595	33,170
Total-Non Current Liabilities	-	4,452,385	4,452,385	4,489,731
Total Liabilities	253,771	4,945,185	5,198,956	5,130,854
Net Position:				
Net investment in capital assets	2,068	5,602,281	5,604,349	5,539,576
Restricted:				
Nonexpendable	17,552,278	-	17,552,278	16,465,608
Expendable	13,081,664	-	13,081,664	12,304,494
Unrestricted	469,641	197,433	667,074	652,221
Total Net Position	31,105,651	5,799,714	36,905,365	34,961,899
Total Liabilities and Net Position	\$ 31,359,422	\$ 10,744,899	\$ 42,104,321	\$ 40,092,753

See accompanying notes to the financial statements.

SALEM STATE UNIVERSITY

(an agency of the Commonwealth of Massachusetts)

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

For the Year Ended June 30, 2014
(with comparative totals for the year ended June 30, 2013)

	<u>2014</u> <u>Foundation</u>	<u>2014</u> <u>Assistance Corp</u>	<u>2014</u> <u>Combined</u>	<u>2013</u> <u>Combined</u>
Operating Revenues:				
Gifts and contributions	\$ 3,888,865	\$ -	\$ 3,888,865	\$ 2,540,103
Auxiliary enterprises	-	1,327,366	1,327,366	1,120,811
Other operating revenues	<u>-</u>	<u>276,683</u>	<u>276,683</u>	<u>198,933</u>
Total Operating Revenues	<u>3,888,865</u>	<u>1,604,049</u>	<u>5,492,914</u>	<u>3,859,847</u>
Operating Expenses:				
Educational and general:				
Public service	1,236,276	-	1,236,276	1,128,190
Institutional support	3,466,090	-	3,466,090	409,315
Scholarships	299,462	-	299,462	259,600
Depreciation and amortization	-	222,408	222,408	212,108
Auxiliary enterprises	<u>-</u>	<u>951,836</u>	<u>951,836</u>	<u>854,446</u>
Total Operating Expenses	<u>5,001,828</u>	<u>1,174,244</u>	<u>6,176,072</u>	<u>2,863,659</u>
Net Operating Income (Loss)	<u>(1,112,963)</u>	<u>429,805</u>	<u>(683,158)</u>	<u>996,188</u>
Non-Operating Revenues (Expenses):				
State appropriations, net	-	98,979	98,979	162,402
Investment income	2,958,823	-	2,958,823	1,867,756
Other non-operating revenue	-	(246,400)	(246,400)	3,600
Interest expense	<u>-</u>	<u>(184,778)</u>	<u>(184,778)</u>	<u>(184,149)</u>
Net Non-Operating Revenues (Expenses)	<u>2,958,823</u>	<u>(332,199)</u>	<u>2,626,624</u>	<u>1,849,609</u>
Total Increase in Net Position	<u>1,845,860</u>	<u>97,606</u>	<u>1,943,466</u>	<u>2,845,797</u>
Net Position, Beginning of Year	<u>29,259,791</u>	<u>5,702,108</u>	<u>34,961,899</u>	<u>32,116,102</u>
Net Position, End of Year	<u>\$ 31,105,651</u>	<u>\$ 5,799,714</u>	<u>\$ 36,905,365</u>	<u>\$ 34,961,899</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Organization

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

Basis of Presentation and Accounting

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Basis of Presentation and Accounting - Continued

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

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

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Net Position

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

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

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

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

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

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

Cash and Equivalents

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Allowance for Doubtful Accounts

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

Investments

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

Capital Assets

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

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

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

Deposits Held by Other State Agencies

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2014 and 2013. Compensated sick leave represents 20% of amounts earned by those employees with ten or more years of state service at the end of each year. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

Deposits and Unearned Revenues

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

Student Fees

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

Tax Status

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

Use of Estimates

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

New Governmental Accounting Pronouncements

GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 69, *Government Combinations and Disposals of Government Operations*, is required for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB 68* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting. It does not expect any material impact.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Note 2 - **Cash and Equivalents**

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

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

At June 30, 2014 and 2013, the carrying amounts of the University's deposits, net of deposits and disbursements in transit, were \$45,162,925 and \$32,905,151, respectively. Of the carrying amounts, \$12,949,299 and \$18,661,536 was held by MMDT at June 30, 2014 and 2013, respectively. Included in this total are amounts held in deposit by the MSCBA and DCAM as follows:

	<u>2014</u>	<u>2013</u>
MSCBA	\$ 2,363,144	\$ 3,032,909
DCAMM	<u>18,077,164</u>	<u> -</u>
	<u>\$ 20,440,308</u>	<u>\$ 3,032,909</u>

At June 30, 2014 and 2013, the University had deposits of \$5,500,912 and \$5,491,712, respectively, held in a money market account which was insured by a third party up to a maximum of \$5.4 million.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

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

Amounts remaining that may be exposed to custodial risk at June 30, 2014 and 2013 were \$145,255 and \$533,831, respectively, which are primarily maintained as part of the University's investment portfolio.

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

Accounts payable and accrued salaries to be funded by cash forwarded by the University to and held by the State Treasurer for payment of so-called 'non-appropriated' liabilities at June 30, 2014 and 2013 through Massachusetts Management Accounting Reporting System (MMARS) were recorded in the sums of \$5,281,471 and \$3,517,158, respectively.

Accounts payable and accrued salaries to be funded by state appropriations at June 30, 2014 and 2013 were \$1,303,320 and \$1,954,054, respectively.

Note 4 - **Investments**

The University categorizes short-term investments according to the level of risk assumed by the University. At June 30, 2014 and 2013, the entire balance of investments was \$13,390,329 and \$11,175,471, 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, 2014 and 2013, there were no individual investments that represented 5% or more of the University's portfolio. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal policies approved by the University's Board of Trustees.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - **Investments - Continued**

University

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, 2014

Investment Maturity in Years

Investment Type:

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Securities	\$ 4,393,875	\$ 611,056	\$ 3,782,819	-	-
Bond mutual funds	57,722	2,896	54,826	-	-
U.S. agencies	<u>197,607</u>	<u>34,934</u>	<u>162,673</u>	<u>-</u>	<u>-</u>
Subtotal	<u>4,649,204</u>	<u>\$ 648,886</u>	<u>\$ 4,000,318</u>	<u>-</u>	<u>-</u>
Equity securities	8,313,173				
Exchange traded funds	<u>427,652</u>				
Totals	<u>\$13,390,029</u>				

The following table summarizes the quality ratings of the University's debt investments at June 30, 2014:

Quality Ratings

Related Debt Instruments

	<u>Fair Value</u>	<u>B MDYS</u>	<u>Baa1 MDYS</u>	<u>Baa3 MDYS</u>	<u>A1 MDYS</u>	<u>A2 MDYS</u>	<u>A3 MYDS</u>	<u>AA3 MDYS</u>	<u>AGCY MDYS</u>
Debt securities	\$ 4,393,875		\$ 830,436	\$ 259,607	\$ 987,478	\$ 1,170,885	\$ 763,045	\$ 180,688	\$ 201,736
Bond mutual funds	57,722	\$ 3,589	16,418	-	-	29,049	8,666	-	-
U.S. agencies	<u>197,607</u>	<u>14,522</u>	<u>47,562</u>	<u>-</u>	<u>-</u>	<u>9,296</u>	<u>24,940</u>	<u>-</u>	<u>101,287</u>
Totals	<u>\$ 4,649,204</u>	<u>\$ 18,111</u>	<u>\$ 894,416</u>	<u>\$ 259,607</u>	<u>\$ 987,478</u>	<u>\$ 1,209,230</u>	<u>\$ 796,651</u>	<u>\$ 180,688</u>	<u>\$ 303,023</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - **Investments - Continued**

University - Continued

June 30, 2013
Investment Maturity in Years

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - Investments - Continued

University - Continued

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

Quality Ratings

Related Debt Instruments

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

Foundation

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

	<u>2014</u>	<u>2013</u>
U.S. Government obligations	\$ 458,252	\$ 659,315
Corporate bonds	4,365,914	3,769,039
Money market	2,483,280	3,068,847
Certificate of deposit	116,586	241,601
Mutual funds	9,260,062	7,718,849
Common stock	7,774,269	7,140,377
State municipal bonds	50,240	1,470,562
Other	<u>11,613</u>	<u>500</u>
	<u>\$ 24,520,216</u>	<u>\$ 24,069,090</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - **Investments - Continued**

Investment Return

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

	<u>University</u>	<u>University</u>	<u>Component</u> <u>Units</u>	<u>Component</u> <u>Units</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 361,452	\$ 333,012	\$ 501,569	\$ 426,646
Net realized and unrealized gains and losses	<u>1,573,837</u>	<u>1,108,441</u>	<u>2,457,254</u>	<u>1,441,110</u>
	<u>\$ 1,935,289</u>	<u>\$ 1,441,453</u>	<u>\$ 2,958,823</u>	<u>\$ 1,867,756</u>

Note 5 - **Accounts Receivable**

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

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 9,540,121	\$ 8,752,441
Grants receivable	560,552	730,758
Other	<u>1,054,100</u>	<u>523,760</u>
	<u>11,154,773</u>	<u>10,006,959</u>
Less: allowance for doubtful accounts	<u>(7,019,336)</u>	<u>(6,861,341)</u>
Total Accounts Receivable	<u>\$ 4,135,437</u>	<u>\$ 3,145,618</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Pledges Receivable - Foundation

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

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 1,098,902	\$ 1,490,669
Receivable in one to five years	2,797,057	2,640,202
Receivable after five years	410,000	15,556
Less: Allowance for doubtful accounts	<u>(85,000)</u>	<u>(77,000)</u>
Net unconditional promises to give	4,220,959	4,069,427
Less: discount to net present value at 3%	<u>(336,096)</u>	<u>(247,519)</u>
Net contributions receivable	\$ <u>3,884,863</u>	\$ <u>3,821,908</u>

Notes Receivable - Component Units

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Pledges Receivable and Notes Receivable - Continued

Notes Receivable - Component Units - Continued

Future minimum maturities of the notes receivable for years subsequent to June 30, 2014 are as follows:

Years Ending <u>June 30,</u>	
2015	\$ 106,667
2016	106,667
2017	51,110
2018	40,000
2019	40,000
Thereafter	<u>166,667</u>
Total	\$ <u>511,111</u>

Note 7 - Loans Receivable and Payable

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

Amounts that would have to be repaid to the Federal Government upon liquidation by the University at June 30, 2014 and 2013 are \$1,566,328 and \$1,597,261, respectively for Perkins and \$752,844 and \$743,668, respectively for NSL, and they are included as a non-current liability in the financial statements, aggregating \$2,319,172 and \$2,340,929 for 2014 and 2013, respectively.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

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

Loans receivable include the following at June 30:

	<u>2014</u>	<u>2013</u>
Perkins	\$ 1,536,464	\$ 1,556,977
Nursing	668,076	762,511
Other	<u>39,970</u>	<u>38,081</u>
Total loans receivable	2,244,510	2,357,569
Less: amount due in one year	<u>(302,336)</u>	<u>(299,161)</u>
Long-Term Loans Receivable	\$ <u>1,942,174</u>	\$ <u>2,058,408</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - Capital Assets

Capital asset activity for the University for the year ended June 30, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in process	<u>71,896,829</u>	<u>20,582,311</u>	<u>(83,226,195)</u>	<u>9,252,945</u>
Total not depreciated	<u>74,433,002</u>	<u>20,582,311</u>	<u>(83,226,195)</u>	<u>11,789,118</u>
Capital assets, depreciated:				
Buildings	98,465,086	5,910,360	82,608,476	186,983,922
Building improvements	26,565,324	902,294	617,719	28,085,337
Furniture and equipment	<u>1,638,552</u>	<u>-</u>	<u>-</u>	<u>1,638,552</u>
Total depreciated	<u>126,668,962</u>	<u>6,812,654</u>	<u>83,226,195</u>	<u>216,707,811</u>
Total capital assets	<u>201,101,964</u>	<u>27,394,965</u>	<u>-</u>	<u>228,496,929</u>
Less: accumulated depreciation:				
Buildings, including improvements	49,929,570	5,158,169	-	55,087,739
Furnishings and equipment	19,615,572	1,620,471	-	21,236,043
Infrastructure	<u>615,474</u>	<u>120,582</u>	<u>-</u>	<u>736,056</u>
Total accumulated depreciation	<u>70,160,616</u>	<u>6,899,222</u>	<u>-</u>	<u>77,059,838</u>
Capital Assets, Net	<u>\$ 130,941,348</u>	<u>\$ 20,495,743</u>	<u>\$ -</u>	<u>\$ 151,437,091</u>

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - Capital Assets - Continued

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 2,536,173	\$ -	\$ -	\$ 2,536,173
Construction in progress	<u>35,604,524</u>	<u>39,491,569</u>	<u>(3,199,264)</u>	<u>71,896,829</u>
Total not depreciated	<u>38,140,697</u>	<u>39,491,569</u>	<u>(3,199,264)</u>	<u>74,433,002</u>
Capital assets depreciated:				
Buildings	96,510,664	-	1,954,422	98,465,086
Building improvements	25,266,944	53,538	1,244,842	26,565,324
Furniture and equipment	<u>1,638,552</u>	<u>-</u>	<u>-</u>	<u>1,638,552</u>
Total depreciated	<u>123,416,160</u>	<u>53,538</u>	<u>3,199,264</u>	<u>126,668,962</u>
Total capital assets	<u>161,556,857</u>	<u>39,545,107</u>	<u>-</u>	<u>201,101,964</u>
Less: accumulated depreciation:				
Buildings	46,586,913	3,342,657	-	49,929,570
Building improvements	18,083,340	1,532,232	-	19,615,572
Furniture and equipment	<u>494,891</u>	<u>120,583</u>	<u>-</u>	<u>615,474</u>
Total accumulated depreciation	<u>65,165,144</u>	<u>4,995,472</u>	<u>-</u>	<u>70,160,616</u>
Capital Assets, Net	\$ <u>96,391,713</u>	\$ <u>34,549,635</u>	\$ <u>-</u>	\$ <u>130,941,348</u>

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - Capital Assets - Continued

Capital asset activity of the component units for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ <u>4,664,794</u>	\$ <u>288,800</u>	\$ <u>2,034,175</u>	\$ <u>6,987,769</u>
Total not depreciated	<u>4,664,794</u>	<u>288,800</u>	<u>2,034,175</u>	<u>6,987,769</u>
Capital assets depreciated:				
Buildings	3,358,818	61,200	(2,250,000)	1,170,018
Building improvements	4,182,442	22,713	-	4,205,155
Furniture and equipment	<u>220,208</u>	<u>4,146</u>	-	<u>224,354</u>
Total depreciated	<u>7,761,468</u>	<u>88,059</u>	<u>(2,250,000)</u>	<u>5,599,527</u>
Total capital assets	<u>12,426,262</u>	<u>376,859</u>	<u>(215,825)</u>	<u>12,587,296</u>
Less: accumulated depreciation:				
Buildings	599,404	85,446	(215,825)	469,025
Building improvements	1,346,842	125,255	-	1,472,097
Furniture and equipment	<u>170,212</u>	<u>19,628</u>	-	<u>189,840</u>
Total accumulated depreciation	<u>2,116,458</u>	<u>230,329</u>	<u>(215,825)</u>	<u>2,130,962</u>
Capital assets, net	\$ <u>10,309,804</u>	\$ <u>146,530</u>	\$ <u> -</u>	\$ <u>10,456,334</u>

In accordance with generally accepted accounting principles, the net book value of a building that was demolished for the purpose of providing additional parking to the University was reclassified to land.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - Capital Assets - Continued

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ <u>4,664,794</u>	\$ _____ -	\$ _____ -	\$ <u>4,664,794</u>
Total not depreciated	<u>4,664,794</u>	_____ -	_____ -	<u>4,664,794</u>
Capital assets depreciated:				
Buildings	3,358,818	-	-	3,358,818
Building improvements	4,149,132	33,310	-	4,182,442
Furniture and equipment	<u>180,339</u>	<u>39,869</u>	_____ -	<u>220,208</u>
Total depreciated	<u>7,688,289</u>	<u>73,179</u>	_____ -	<u>7,761,468</u>
Total capital assets	<u>12,353,083</u>	<u>73,179</u>	_____ -	<u>12,426,262</u>
Less: accumulated depreciation				
Buildings	515,447	83,957	-	599,404
Building improvements	1,226,127	120,715	-	1,346,842
Furniture and equipment	<u>157,347</u>	<u>12,865</u>	_____ -	<u>170,212</u>
Total accumulated depreciation	<u>1,898,921</u>	<u>217,537</u>	_____ -	<u>2,116,458</u>
Capital assets, net	<u>\$10,454,162</u>	<u>\$ (144,358)</u>	\$ _____ -	<u>\$ 10,309,804</u>

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Unearned Revenues

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

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

	<u>2014</u>	<u>2013</u>
Tuition and fees	\$ 2,320,541	\$ 2,548,804
Grants	<u>219,269</u>	<u>283,435</u>
 Total Unearned Revenue	 \$ <u>2,539,810</u>	 \$ <u>2,832,239</u>

Note 10 - Long-Term Liabilities

Long-term liabilities of the University at June 30, 2014 consist of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds and loans payable:					
Bond payable	\$ 19,447,519	\$ 19,030,000	\$ 681,359	\$ 37,796,160	\$ 1,101,359
Bond premium	1,818,923	2,243,187	131,871	3,930,239	199,263
Loans payable	2,340,929	-	21,757	2,319,172	-
Note payable	<u>-</u>	<u>363,653</u>	<u>58,188</u>	<u>305,465</u>	<u>71,078</u>
 Total bonds and loans payable	 <u>23,607,371</u>	 <u>21,636,840</u>	 <u>893,175</u>	 <u>44,351,036</u>	 <u>1,371,700</u>
 Other long-term liabilities:					
Accrued compensated absences	8,308,144	334,169	-	8,642,313	5,846,120
Workers' compensation	<u>976,587</u>	<u>42,107</u>	<u>-</u>	<u>1,018,694</u>	<u>204,961</u>
 Total other long-term liabilities	 <u>9,284,731</u>	 <u>376,276</u>	 <u>-</u>	 <u>9,661,007</u>	 <u>6,051,081</u>
 Total Long-Term Liabilities	 \$ <u>32,892,102</u>	 \$ <u>22,013,116</u>	 \$ <u>893,175</u>	 \$ <u>54,012,043</u>	 \$ <u>7,422,781</u>

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 10 - Long-Term Liabilities - Continued

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

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

Bonds Payable

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

O'Keefe Athletic Complex Fields

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Bonds Payable - Continued

Central Campus Athletic Field and Tennis Court

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

Clean Renewable Energy Initiatives

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

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

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

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Bonds Payable - Continued

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

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

Mainstage Theater and Other Projects

During January 2014, the MSCBA issued 2014 project bonds on behalf of the University. These bond proceeds along with other University funds will be used to fund the construction of various projects on campus. These projects include the creation of the Student Navigation Center, comprehensive renovations to the Mainstage Theater, relocation of the Public Safety station and the development and creation of a parking lot on Assistance Corporation owned land (Note 22). 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. As of June 30, 2014, all projects related to these bond issuances are in the construction phase.

Debt Service Reserves

Debt Service Reserves are held by the MSCBA for past bond issuances and amounted to \$1,495,447 and \$334,349 at June 30, 2014 and 2013, respectively.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Bonds Payable - Continued

Maturities of the bonds payable subsequent to June 30, 2014 are as follows:

Years Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,300,622	\$ 2,080,259	\$ 3,380,881
2016	1,620,622	1,748,872	3,369,494
2017	1,675,622	1,694,100	3,369,722
2018	1,740,622	1,614,818	3,355,440
2019	1,800,622	1,542,550	3,343,172
2020-2024	10,214,517	6,525,874	16,740,391
2025-2029	10,642,999	3,976,462	14,619,461
2030-2034	10,614,013	1,825,000	12,439,013
2035-2036	<u>2,116,760</u>	<u>124,375</u>	<u>2,241,135</u>
Total	\$ <u>41,726,399</u>	\$ <u>21,132,310</u>	\$ <u>62,858,709</u>

Note Payable

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

Years Ending <u>June 30,</u>	
2015	\$ 71,078
2016	72,469
2017	73,887
2018	75,333
2019	<u>12,698</u>
Total	\$ <u>305,465</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Assistance Corporation

Capital debt for the Assistance Corporation at June 30, 2014 consisted of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Term Loan	\$ 1,261,056	\$ 638,944	\$ 114,555	\$ 1,785,445	\$ 139,506
Bond Liability	\$ 3,509,172	\$ -	\$ 442,632	\$ 3,066,540	\$ 292,689

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Term Loan	\$ 1,101,222	\$ 1,261,056	\$ 1,101,222	\$ 1,261,056	\$ 30,354
Bond Liability	\$ 3,937,445	\$ -	\$ 428,273	\$ 3,509,172	\$ 283,313

Notes Payable - Assistance Corporation

In August 2013, assets consisting of land and buildings were purchased and completely financed through two promissory notes totaling \$600,000. Under the terms of the first promissory note, the Assistance Corporation agreed to pay the Salem State University Foundation \$400,000 plus interest accruing at 6.98% per annum. Principal payments in the amount of \$3,333 plus interest are due monthly. Under the agreement, the interest rate will be adjusted so that it is equal to 475 basis points above the Federal Home Loan Bank of Boston Classic rate for 5 year maturities. The entire outstanding principal balance of the note along with any accrued interest is due on August 2023. Under the terms of the second promissory note, the Assistance Corporation agreed to pay the Salem State University Foundation \$200,000 plus interest accruing at 1.25% per annum. Principal payments in the amount of \$5,555.55 plus interest are due monthly. The entire outstanding principal balance of the note along with any accrued interest is due in August of 2016.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 10 - Long-Term Liabilities - Continued

Component Entities

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

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

Years Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 139,506	\$ 75,271
2016	140,827	70,325
2017	86,641	65,586
2018	69,044	69,274
2019	57,324	64,153
Thereafter	<u>1,292,103</u>	<u>237,861</u>
Total	\$ <u>1,785,445</u>	\$ <u>582,470</u>

Bonds Payable - Assistance Corporation

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

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Bonds Payable - Assistance Corporation

Subsequent to June 30, 2014, principal and interest payments on the revenue bond payable for the next five years and thereafter are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 292,689	\$ 105,837
2016	302,374	96,151
2017	312,380	86,145
2018	322,717	75,808
2019	333,397	65,129
2020-2021	<u>1,502,983</u>	<u>65,854</u>
Total	\$ <u>3,066,540</u>	\$ <u>494,924</u>

Note 11 - **Deferred Inflows of Resources**

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

The term of the agreement was extended until 2022, and the amortization 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, 2014 and 2013, the unamortized portion of these contributions approximated \$512,000 and \$832,000, respectively. Amounts received from other vendors at June 30, 2014 and 2013 approximated \$60,000 and \$87,000, respectively, and are included in deferred inflows of resources.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - **Rental Income**

The Assistance Corporation has long-term operating leases with lessees. Minimum future rentals under the non-cancellable operating leases subsequent to June 30, 2014 are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2015	\$ 1,219,683
2016	872,807
2017	797,761
2018	778,840
2019	649,019
Thereafter	<u>667,000</u>
Total	\$ <u>4,985,110</u>

One of the lease agreements is with Salem State University who during both fiscal years 2014 and 2013 paid \$552,000, as base rent for the lease, which commenced August 1, 2010. The base rent is paid directly to TD Bank and is applied to the debt service due under the acquisition loan from HEFA. The base rent under the terms of the lease was in excess of such debt service. In subsequent years, the base rent under the lease is equal to the debt service due under the acquisition loan, provided that the University, at its sole option, has the right to pay additional base rent in order to reduce the principal balance of the HEFA loan.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 13 - **Operating Leases**

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,013,206
2016	941,572
2017	939,854
2018	667,970
2019	552,000
Thereafter	<u>1,219,000</u>
Total	\$ <u>5,333,602</u>

Note 14 - **Restricted Net Position**

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

	<u>2014</u>	<u>2013</u>
Restricted - nonexpendable:		
Scholarships and fellowships	\$ <u>650,915</u>	\$ <u>570,758</u>
Restricted - expendable:		
Scholarships and fellowships	\$ 100,817	\$ 54,459
Research	533,029	523,500
Loans	499,222	463,312
Capital projects	5,645	5,645
Other	<u>2,681,995</u>	<u>2,626,603</u>
	\$ <u>3,820,708</u>	\$ <u>3,673,519</u>

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

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 15 - Cash Flow Information

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

	<u>2014</u>	<u>2013</u>
Cash and equivalents	\$ 10,913,291	\$ 19,234,077
Restricted cash and equivalents	7,224,535	5,166,953
Deposits held by State Treasurer	5,281,471	3,517,158
Cash held by State Treasurer	1,303,320	1,954,054
Deposits held by MSCBA and DCAMM	<u>20,440,308</u>	<u>3,032,909</u>
Total	<u>\$ 45,162,925</u>	<u>\$ 32,905,151</u>

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

	<u>2014</u>	<u>2013</u>
Fringe benefits provided by the state	\$ <u>10,912,277</u>	\$ <u>10,076,826</u>
Acquisition of capital assets through DCAMM	\$ <u>14,252,337</u>	\$ <u>24,659,774</u>

Note 16 - Commitments and Contingencies

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

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

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

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 16 - **Commitments and Contingencies - Continued**

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

The U.S. Environmental Protection Agency (EPA) notified the University in August 1998 that it is a potential responsible party with respect to environmental impacts resulting from contaminated soil upon the removal of underground oil tanks in 1991. The EPA has not closed out their investigation. During fiscal years 2014 and 2013, the University paid no remediation costs and received no communication from Federal or state agencies. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

Note 17 - **Operating Expenses**

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

	<u>2014</u>	<u>2013</u>
Compensation and benefits	\$ 101,273,165	\$ 96,550,205
Supplies and services	32,114,334	29,332,721
Utilities	3,912,279	3,447,798
Depreciation and amortization	6,899,222	4,995,472
Scholarships and fellowship	<u>5,593,842</u>	<u>5,726,894</u>
Total	\$ <u>149,792,842</u>	\$ <u>140,053,090</u>

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 18 - **Retirement Plan**

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

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of the University employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth. The retirement portion of employees paid through state appropriation accounts are met by the Commonwealth. Such pension expense amounted to \$3,242,293 and \$2,536,699 for the years ended June 30, 2014 and 2013, respectively.

The University also makes direct contributions on behalf of employees who were paid by funds other than state appropriations at the same fringe benefit charge assessed by the Commonwealth. Retirement benefits paid directly to the Commonwealth by the University on behalf of employees amounted to \$1,786,035 and \$1,511,399 for the years ended June 30, 2014 and 2013, respectively. Employees also contribute a percentage of their regular compensation to fund the annuity portion of the Retirement System.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 18 - **Retirement Plan - Continued**

The overall fringe benefit charge increased from 27.27% in 2013 to 27.68% in 2014 including 1.29% and 1.42% in payroll taxes, respectively. The retirement portion of the fringe benefit charge increased from 6.76% in 2013 to 7.93% in 2014. In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

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

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

As of June 30, 2014, the University had paid or accrued for all amounts charged to it through the Commonwealth's fringe benefit recovery program.

SALEM STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 19 - **Massachusetts Management Accounting Reporting System (MMARS)**

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

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

	<u>2014</u>	<u>2013</u>
Direct unrestricted appropriations	\$ 42,271,727	\$ 37,349,093
<u>Add:</u>		
Fringe benefits for benefited employees on the state payroll	10,912,277	10,076,826
<u>Less:</u>		
Day school tuition remitted to the state and included in tuition and fee revenue	<u>(1,028,227)</u>	<u>(511,398)</u>
 Total unrestricted appropriations	 \$ <u>52,155,777</u>	 \$ <u>46,914,521</u>

A reconciliation between the University and MMARS fund 901 activity as of June 30, 2014 is as follows (unaudited):

Revenue per MMARS	\$ 108,210,532
Revenue per University	<u>108,210,532</u>
Difference	\$ <u> -</u>

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

The University distributed approximately \$43,490,000 and \$42,410,000 for the years ended June 30, 2014 and 2013, respectively, for student loans through the William D. Ford Federal Direct Lending Program. These distributions and related funding sources are not included as revenues and expenses or as cash receipts and cash disbursements in the accompanying financial statements.

Note 21 - **Massachusetts State College Building Authority**

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

The portions of the semi-annual Revenue Assessments paid to the MSCBA by the University for residence halls, related maintenance, insurance, other costs, historical pooled obligations, other major renovations and improvements for the University for the years ended June 30, 2014 and 2013 were \$9,565,959 and \$9,399,267, respectively, and are included in the auxiliary enterprise, and institutional support category in the accompanying statements of revenues, expenses and changes in net assets. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 22 - **Assistance Corporation Parking Lot**

As part of the January 2014 bond issuance for the Mainstage Theatre and Other Projects, the University has obtained MSCBA bond financing of \$1,920,000 for the development and creation of a parking lot on Assistance Corporation owned land (Note 10). The parking lot is under development and has an unspent bond proceeds balance of approximately \$814,000 as of June 30, 2014.

Note 23 - **Change in Accounting Principle**

As a result of implementing GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities* (GASB 65), the University has restated Net Position in the Statement of Revenues, Expenses and Changes in Net Position by \$149,558 and \$158,076 as of June 30, 2013 and 2012, respectively. The decrease results from no longer reflecting the unamortized balance of Bond Debt Issuance Costs included in Other Non-Current Assets, net within the Statement of Revenues, Expenses and Changes in Net Position.

<u>As of June 30, 2013:</u>	<u>As originally Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
Other non-current assets, net	\$ 151,344	\$ 1,786	\$ (149,558)
Net investment in capital assets	\$ 111,449,069	\$ 111,299,511	\$ (149,558)
Depreciation and amortization	\$ 5,003,990	\$ 4,995,472	\$ (8,518)

The Assistance Corporation also implemented GASB 65 and, as a result, has restated its net position by \$22,247 and \$163,333 as of June 30, 2013 and 2012, respectively.

<u>As of June 30, 2013:</u>	<u>As originally Reported</u>	<u>As Restated</u>	<u>Effect of Change</u>
Other non-current assets, net	\$ 42,247	\$ -	\$ (42,247)
Net position	\$ 101,998	\$ 79,751	\$ (22,247)
Bond issuance costs, net	\$ 143,333	\$ -	\$ (143,333)

SUPPLEMENTAL INFORMATION

SALEM STATE UNIVERSITY
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Schedules of Net Position
Dormitory Trust Fund Report (Unaudited)

June 30,

Assets

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and equivalents	\$ 2,147,219	\$ 1,568,261
Accounts receivable, net	57,095	464,591
Other receivables, net	<u>62,183</u>	<u>14,307</u>
Total Assets	<u>\$ 2,266,497</u>	<u>\$ 2,047,159</u>

Liabilities and Net Position

Liabilities:		
Accounts payable	\$ 118,812	\$ 81,335
Accrued payroll and fringe benefits	165,395	148,688
Dormitory deposits	474,008	392,326
Accrued compensated absences	<u>172,380</u>	<u>148,908</u>
Total Liabilities	930,595	771,257
Net Position	<u>1,335,902</u>	<u>1,275,902</u>
Total Liabilities and Net Position	<u>\$ 2,266,497</u>	<u>\$ 2,047,159</u>

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

For the Years Ended June 30,

	<u>2014</u>	<u>2013</u>
Revenues:		
Student fees	\$ 14,560,569	\$ 14,380,935
Commissions	44,700	46,617
Rentals	287,951	132,698
Interest	15,000	15,000
Other	<u>53</u>	<u>1,580</u>
Total Revenues	<u>14,908,273</u>	<u>14,576,830</u>
Expenses:		
Regular employee compensation	1,809,335	1,785,937
Regular employee related expenses	644	700
Special employee compensation	554,067	503,711
Pension and insurance related	492,611	488,523
Administrative	233,780	23,542
Facility operational	192,289	180,273
Energy and space rental	1,276,915	1,356,171
Consultant services	37,925	12,271
Operational services	6,571	13,182
Equipment purchase	50,064	779
Equipment maintenance	919,935	757,074
Scholarships and fellowships	699,408	820,394
Loans and special payments	9,113,227	8,953,734
Information technology	<u>(32,432)</u>	<u>22,962</u>
Total Expenses	<u>15,354,339</u>	<u>14,919,253</u>
Excess of Revenues over Expenses	(446,066)	(342,423)
Net Transfers	<u>506,066</u>	<u>405,000</u>
Total Increase in Net Position	60,000	62,577
Net Position, Beginning of Year	<u>1,275,902</u>	<u>1,213,325</u>
Net Position, End of Year	<u>\$ 1,335,902</u>	<u>\$ 1,275,902</u>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salem State University (the "University"), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 8, 2014