

**SALEM STATE UNIVERSITY  
FOUNDATION, INC.**

**(a component unit of Salem State University)**

---

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 and 2016**

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Financial Statements**

**June 30, 2017 and 2016**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Salem State University Foundation, Inc.  
Salem, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Salem State University Foundation, Inc. (a component unit of Salem State University) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salem State University Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2017, on our consideration of Salem State University Foundation Inc.'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 Foundation Inc.'s internal control over financial reporting and compliance.

O'Connell and Duen, P.C.

**Certified Public Accountants  
Braintree, Massachusetts**

September 11, 2017

**SALEM STATE  
UNIVERSITY FOUNDATION, INC.**  
(a component unit of Salem State University)

**Statements of Financial Position**

**June 30,**

**Assets**

	<u>2017</u>	<u>2016</u>
<b>Current Assets:</b>		
Cash and equivalents	\$ 1,412,112	\$ 804,044
Restricted cash and equivalents	861,762	308,059
Pledges receivable	1,303,299	1,844,881
Notes receivable	40,000	51,111
Other current assets	<u>2,407</u>	<u>26,998</u>
<b>Total Current Assets</b>	<u>3,619,580</u>	<u>3,035,093</u>
<b>Other Assets:</b>		
Investment securities	29,486,822	26,559,559
Long-term pledges receivable, net	4,174,556	1,521,280
Notes receivable, net of current portion	<u>206,667</u>	<u>246,667</u>
<b>Total Other Assets</b>	<u>33,868,045</u>	<u>28,327,506</u>
<b>Total Assets</b>	<u>\$ 37,487,625</u>	<u>\$ 31,362,599</u>

**Liabilities and Net Assets**

<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 298,981	\$ 311,587
Deferred revenue	<u>-</u>	<u>39,000</u>
<b>Total Liabilities</b>	<u>298,981</u>	<u>350,587</u>
<b>Net Assets:</b>		
Unrestricted:		
Operating	1,147,502	509,231
Board designated	<u>412,007</u>	<u>411,026</u>
Total unrestricted net assets	1,559,509	920,257
Temporarily restricted	12,580,873	11,033,273
Permanently restricted	<u>23,048,262</u>	<u>19,058,482</u>
<b>Total Net Assets</b>	<u>37,188,644</u>	<u>31,012,012</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 37,487,625</u>	<u>\$ 31,362,599</u>

*The accompanying notes are an integral part of the financial statements.*

**SALEM STATE  
UNIVERSITY FOUNDATION, INC.**  
(a component unit of Salem State University)

**Statement of Activities and Changes in Net Assets**

**For the Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues, Gains and Other Support:</b>				
Contributions and gifts	\$ 417,921	\$ 1,471,488	\$ 3,877,409	\$ 5,766,818
Interest and dividends	4,616	593,793	-	598,409
Endowment appreciation appropriated for operations	578,791	-	-	578,791
Speaker series	<u>321,935</u>	<u>-</u>	<u>-</u>	<u>321,935</u>
	1,323,263	2,065,281	3,877,409	7,265,953
Net assets released from restrictions:				
Satisfaction of donor restrictions	<u>2,080,104</u>	<u>(2,080,104)</u>	<u>-</u>	<u>-</u>
<b>Total Operating Revenues, Gains and Other Support</b>	<u>3,403,367</u>	<u>(14,823)</u>	<u>3,877,409</u>	<u>7,265,953</u>
<b>Expenses:</b>				
<b>Program Expenses:</b>				
Departmental gifts	1,063,073	-	-	1,063,073
Scholarships	445,941	-	-	445,941
Speaker series	432,285	-	-	432,285
Awards	345,200	-	-	345,200
Facility improvements and expansion	1,851	-	-	1,851
Special programs	<u>486</u>	<u>-</u>	<u>-</u>	<u>486</u>
<b>Total Program Expenses</b>	<u>2,288,836</u>	<u>-</u>	<u>-</u>	<u>2,288,836</u>
<b>Support Services:</b>				
Management and general	334,003	-	-	334,003
Fundraising costs	<u>47,056</u>	<u>-</u>	<u>-</u>	<u>47,056</u>
<b>Total Support Services</b>	<u>381,059</u>	<u>-</u>	<u>-</u>	<u>381,059</u>
<b>Total Expenses</b>	<u>2,669,895</u>	<u>-</u>	<u>-</u>	<u>2,669,895</u>
<b>Changes in Net Assets from Operating Activities</b>	733,472	(14,823)	3,877,409	4,596,058
<b>Non-Operating Activity:</b>				
Realized and unrealized gains (losses) on investments, net	(94,220)	2,253,585	-	2,159,365
Endowment appreciation appropriated for operations	<u>-</u>	<u>(578,791)</u>	<u>-</u>	<u>(578,791)</u>
<b>Changes in Net Assets from Non-Operating Activities</b>	(94,220)	1,674,794	-	1,580,574
Transfers	<u>-</u>	<u>(112,371)</u>	<u>112,371</u>	<u>-</u>
<b>Total Changes in Net Assets</b>	639,252	1,547,600	3,989,780	6,176,632
Net Assets, Beginning of Year	<u>920,257</u>	<u>11,033,273</u>	<u>19,058,482</u>	<u>31,012,012</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,559,509</u>	<u>\$ 12,580,873</u>	<u>\$ 23,048,262</u>	<u>\$ 37,188,644</u>

*The accompanying notes are an integral part of the financial statements.*

**SALEM STATE  
UNIVERSITY FOUNDATION, INC.**  
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**Statement of Activities and Changes in Net Assets**

**For the Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues, Gains and Other Support:</b>				
Contributions and gifts	\$ 548,858	\$ 1,513,904	\$ 483,187	\$ 2,545,949
Interest and dividends	3,331	596,050	-	599,381
Endowment appreciation appropriated for operations	539,082	-	-	539,082
Speaker series	<u>8,450</u>	<u>-</u>	<u>-</u>	<u>8,450</u>
	1,099,721	2,109,954	483,187	3,692,862
Net assets released from restrictions:				
Satisfaction of donor restrictions	<u>2,707,575</u>	<u>(2,707,575)</u>	<u>-</u>	<u>-</u>
<b>Total Operating Revenues, Gains and Other Support</b>	<u>3,807,296</u>	<u>(597,621)</u>	<u>483,187</u>	<u>3,692,862</u>
<b>Expenses:</b>				
<b>Program Expenses:</b>				
Departmental gifts	1,278,273	-	-	1,278,273
Scholarships	380,449	-	-	380,449
Speaker series	4,768	-	-	4,768
Awards	363,320	-	-	363,320
Facility improvements and expansion	1,100,000	-	-	1,100,000
Special programs	<u>2,032</u>	<u>-</u>	<u>-</u>	<u>2,032</u>
<b>Total Program Expenses</b>	<u>3,128,842</u>	<u>-</u>	<u>-</u>	<u>3,128,842</u>
<b>Support Services:</b>				
Management and general	260,763	-	-	260,763
Fundraising costs	<u>15,540</u>	<u>-</u>	<u>-</u>	<u>15,540</u>
<b>Total Support Services</b>	<u>276,303</u>	<u>-</u>	<u>-</u>	<u>276,303</u>
<b>Total Expenses</b>	<u>3,405,145</u>	<u>-</u>	<u>-</u>	<u>3,405,145</u>
<b>Changes in Net Assets from Operating Activities</b>	402,151	(597,621)	483,187	287,717
<b>Non-Operating Activities:</b>				
Realized and unrealized losses on investments, net	(124,310)	(733,120)	-	(857,430)
Endowment appreciation appropriated for operations	<u>-</u>	<u>(539,082)</u>	<u>-</u>	<u>(539,082)</u>
<b>Changes in Net Assets from Non-Operating Activities</b>	(124,310)	(1,272,202)	-	(1,396,512)
Transfers	<u>-</u>	<u>(93,312)</u>	<u>93,312</u>	<u>-</u>
<b>Total Changes in Net Assets</b>	<u>277,841</u>	<u>(1,963,135)</u>	<u>576,499</u>	<u>(1,108,795)</u>
Net Assets, Beginning of Year	<u>642,416</u>	<u>12,996,408</u>	<u>18,481,983</u>	<u>32,120,807</u>
<b>Net Assets, End of Year</b>	<u>\$ 920,257</u>	<u>\$ 11,033,273</u>	<u>\$ 19,058,482</u>	<u>\$ 31,012,012</u>

*The accompanying notes are an integral part of the financial statements.*

**SALEM STATE  
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**Statements of Cash Flows**

**For the Years Ended June 30,**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 6,176,632	\$ (1,108,795)
Adjustments to reconcile changes in net assets to net cash applied to operating activities:		
Donated securities	172,501	63,032
Contributions restricted for long-term investments	(3,877,409)	(483,187)
Unrealized (gains) losses on investments	(1,736,443)	790,902
Realized gains on investments	(517,729)	(57,504)
Changes in assets and liabilities:		
Pledges receivable, net	(2,111,694)	(27,518)
Other current assets	24,591	(7,572)
Accounts payable and accrued expenses	(12,606)	(70,300)
Deferred revenue	<u>(39,000)</u>	<u>39,000</u>
Net Adjustments	<u>(8,097,789)</u>	<u>246,853</u>
Net Cash Applied to Operating Activities	<u>(1,921,157)</u>	<u>(861,942)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of investment securities	2,014,751	7,534,451
Collections on notes receivable	51,111	106,667
Purchase of investment securities	<u>(2,860,343)</u>	<u>(8,228,303)</u>
Net Cash Applied to Investing Activities	<u>(794,481)</u>	<u>(587,185)</u>
<b>Cash Flows from Financing Activity:</b>		
Contributions restricted for long-term investments	<u>3,877,409</u>	<u>483,187</u>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	1,161,771	(965,940)
Cash and Equivalents, Beginning of Year	<u>1,112,103</u>	<u>2,078,043</u>
<b>Cash and Equivalents, End of Year</b>	<u>\$ 2,273,874</u>	<u>\$ 1,112,103</u>

*The accompanying notes are an integral part of the financial statements.*

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements**

**June 30, 2017 and 2016**

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

*Organization*

Salem State University Foundation, Inc. (the "Foundation") was incorporated in 1977 as a 501(c)(3) private, not-for-profit organization. Its mission is to assist Salem State University (the "University") in meeting its needs and goals by raising and distributing private contributions to the University. In so doing, the Foundation invests and manages these contributions that assist in providing support for University programs and students not met through public funding. In accordance with the Governmental Standards Accounting Board, the Foundation's financial information is required to be included in the University's financial statements, shown discretely.

*Basis of Accounting*

The financial statements of Salem State University Foundation, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). References to U.S. GAAP in these notes are to the Financial Accounting Standards Board Codification ("ASC").

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Foundation's three classes of net assets are further classified for display purposes as follows:

*Unrestricted Net Assets* - Bear no external restrictions and are generally available for use by the Foundation. The Foundation has grouped unrestricted net assets into the following categories:

- 1) Operating - Represents funds available to carry on and grow operations.
- 2) Board Designated - Represents funds set aside by the Board of Directors for specific purposes.

*Temporarily Restricted Net Assets* - Represent unexpended endowment fund earnings subject to restriction, as well as funds that are subject to restrictions of gift instruments not requiring that the principal be invested in perpetuity.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

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

*Basis of Accounting - Continued*

Restricted cash and equivalents are funds that are held for future scholarships and other program related expenses that are shown as temporarily restricted net assets on the Statement of Financial Position in the accompanying financial statements.

*Permanently Restricted Net Assets* - Represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be used for specific purposes.

*Measure of Operations*

In its statement of activities and changes in net assets, the Foundation includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Net realized and unrealized gains and losses and the Foundation's authorized endowment spending amount are recognized as non-operating activities.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the discounting of long-term receivables and valuation of in-kind donations.

*Cash and Equivalents*

Highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

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

*Pledges Receivable*

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

The Foundation provides an allowance for doubtful accounts equal to estimated pledge defaults. The estimated defaults are based on historical collection experience together with a review of the current status of the existing receivables. The allowance totaled \$85,000 at June 30, 2017 and 2016.

*Contributions*

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

*In-Kind Contributions*

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

*Fair Value of Financial Instruments*

The Foundation determines the fair value of the financial instruments and includes this information in the notes to the financial statements when the value is materially different than the carrying value of those financial instruments.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

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

*Federal Income Tax*

Salem State University Foundation, Inc. is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for Federal income taxes in the accompanying financial statements. As a not-for-profit entity exempt from income taxes, the Foundation may, however, be subject to tax on unrelated business income.

Accounting principles generally accepted in the United States of America require an entity to assess the probability that a tax position has a more likely than not (“MLTN”) sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized.

Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances the statute of limitations may remain open indefinitely.

*Property and Equipment*

Property and equipment is stated at cost. Major renewals, additions and betterments are charged to the property accounts, while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed in the year incurred.

*Depreciation*

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

<u>Assets</u>	<u>Life in Years</u>
Office equipment	3-5

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

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

*Investments*

Investments are valued at fair market value, as determined by quoted market prices. Investment gains and income are reported as increases to unrestricted or temporarily restricted net assets depending upon the existence or absence of donor restrictions in the Statements of Financial Position.

*Endowment Funds*

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor restricted funds and focuses on the prudent spending of the entire donor restricted fund, including accumulated earnings, rather than the historical dollar concept. UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor's intended purpose of the endowment fund, stipulated or otherwise.

UPMIFA requires donor restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net assets until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net assets until approved for expenditure by the organization.

The Foundation's Board of Directors classifies donor restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to unrestricted net assets. Unrealized gains will be classified as unrestricted net assets to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with the Foundation's spending policy.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

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

*Endowment Funds - Continued*

The Foundation's investment policy for endowment funds is intended to preserve capital to the extent possible and provide a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

*Permanently Restricted Endowment Funds*

The Foundation's Endowment Fund policy requires a minimum balance of \$25,000 to be achieved within five years for the endowment to be considered permanently restricted. In the event that the donor does not meet the minimum balance amount, all contributions shall be added to the General Scholarship Fund. Upon reaching the minimum amount, the Foundation transfers the endowment from temporarily restricted to permanently restricted.

*Transfers*

During the years ended June 30, 2017 and 2016, unrestricted and temporarily restricted net assets were reclassified to permanently restricted net assets in the amount of \$112,371 and \$93,312, respectively. These reclassifications came as a result of changes in terms of agreements with donors.

*Deferred Revenue*

Fees from special events are deferred and recognized in the period in which the events take place.

*Functional Allocation of Expenses*

The costs of providing the Foundation's various programs and activities have been summarized on a functional basis on the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

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

*New Accounting Pronouncements*

Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities, an amendment to Topic 958, Not-for-Profit Entities*, was issued by the Financial Accounting Standards Board in June 2016 with an effective date for fiscal years beginning after December 15, 2017. The purpose of this amendment is to improve the transparency and utility of information contained in the financial statements of such entities. Net assets will be presented in two categories, net assets with donor restrictions and net assets without donor restrictions, as opposed to the current three categories. Additional information and disclosures will be required to enable a reader to more readily understand liquidity limitations due to restrictions on net assets. Early application is permitted. Management has not begun its review of the standard, but does not expect implementation to have a material effect on financial position or results of operations.

*Reclassification*

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

Note 2 - **Promises to Give**

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

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 1,303,299	\$ 1,844,881
Receivable in one to five years	4,696,662	1,646,793
Receivable after five years	103,417	210,217
Less: allowance for doubtful accounts	<u>(85,000)</u>	<u>(85,000)</u>
Total unconditional promises to give	6,018,378	3,616,891
Less: discount to net present value at 3%	<u>(540,523)</u>	<u>(250,730)</u>
Pledges receivable, net	5,477,855	3,366,161
Less: current portion of receivable	<u>(1,303,299)</u>	<u>(1,844,881)</u>
Long-term pledges receivable, net	<u>\$ 4,174,556</u>	<u>\$ 1,521,280</u>

Note 3 - **Equipment**

At June 30, 2017 and 2016, the Foundation holds equipment totaling \$38,418 that is fully depreciated.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 4 - **Notes Receivable**

During 2014, the Foundation provided a loan of \$600,000 to the Salem State University Assistance Corporation ("SSUAC") 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%, which matured in August 2016; the second in the amount of \$400,000, requiring monthly principal payments of \$3,333 plus interest at 6.98% through August 2018, at which point the interest will be adjusted to the Federal Home Loan Bank of Boston Classic Rate for five year maturities (2.28% and 1.57% at June 30, 2017 and 2016, respectively) plus 475 basis points. This note matures in August, 2023. Funding was provided from the Foundation's investment portfolios and all repayments, including principal and interest, will be reinvested therein.

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

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

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 5 - **Investment Securities**

Investment securities are stated at fair value and consist of the following at June 30,:

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 10,820,228	\$ 9,088,244
Common stocks	9,228,960	8,305,369
Corporate bonds	5,999,953	5,362,503
Money market	2,670,673	3,066,192
U.S. Government obligations	649,922	620,165
Other	500	500
Certificates of deposit	<u>116,586</u>	<u>116,586</u>
	<u>\$ 29,486,822</u>	<u>\$ 26,559,559</u>

Investment return, net is summarized as follows:

	<u>2017</u>	<u>2016</u>
Unrealized gains (losses)	\$ 1,736,443	\$ (790,902)
Interest and dividend income	598,409	599,381
Realized gains	<u>517,729</u>	<u>57,504</u>
	2,852,581	(134,017)
Less: investment fees	<u>(94,807)</u>	<u>(124,036)</u>
Total	<u>\$ 2,757,774</u>	<u>\$ (258,053)</u>

Investment fees are included in unrestricted activity on the line for realized and unrealized gains and losses on investments, net, on the Statement of Activities and Changes in Net Assets.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 6 - **Fair Value Measurements**

Financial Accounting Standards Codification (ASC) 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

- |         |   |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.   |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability; and</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> |

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- |         |   |
|---------|---|
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |
|---------|---|

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 6 - **Fair Value Measurements – Continued**

The following is a description of the valuation methodologies used for assets measured at fair value:

*Mutual funds and money market accounts:* Valued at the net assets value ("NAV") of shares held by the Foundation at year end.

*Common stocks:* The Foundation uses quoted market prices to determine the fair value of marketable securities, which are publicly-traded equity securities.

*Corporate bonds and state municipal bonds:* Valued at the closing price reported in the active market in which the individual securities are traded.

*U.S. Government obligations:* Valued at the closing price reported in the active market in which the individual securities are traded.

*Certificates of deposit:* Valued at the initial investment cost.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 6 - **Fair Value Measurements – Continued**

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value measured on a recurring basis:

*Assets at Fair Value as of June 30, 2017*

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

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 6 - **Fair Value Measurements – Continued**

*Assets at Fair Value as of June 30, 2016*

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

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 7 - **Restrictions on Net Assets**

*Temporarily Restricted Net Assets*

Temporarily restricted net assets were available for the following at June 30:

	<u>2017</u>	<u>2016</u>
Appreciation for:		
Cumulative appreciation and reinvested gains on permanently restricted net assets which are subject to prudent appropriations by the Board of Directors in accordance with provisions of Massachusetts law	\$ 6,066,235	\$ 4,131,607
Scholarships and other academic purposes	493,655	283,501
Salem State University Capital Campaign & departmental gifts	190,519	201,081
Alumni Plaza	801	176
Donated Principal:		
Scholarship and other academic purposes	4,605,249	4,481,189
Salem State University Capital Campaign	1,032,963	965,025
Salem State University departmental gifts	169,062	948,819
Alumni Plaza	<u>22,389</u>	<u>21,875</u>
	<u>\$ 12,580,873</u>	<u>\$ 11,033,273</u>

Net assets released from restrictions for satisfaction of donor restrictions were comprised of the following for the years ending June 30:

	<u>2017</u>	<u>2016</u>
Salem State University departmental gifts	\$ 1,127,519	\$ 739,449
Scholarships and awards	950,141	866,002
Campaign and special events	1,851	1,100,000
Alumni Plaza	<u>593</u>	<u>2,124</u>
	<u>\$ 2,080,104</u>	<u>\$ 2,707,575</u>

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 7 - **Restrictions on Net Assets – Continued**

*Permanently Restricted Net Assets*

Permanently restricted net assets at June 30, 2017 and 2016 are restricted for investment in perpetuity, the income from which is available to support scholarships and other academic purposes. Scholarships comprised 35% and 40% and other educational expenses comprised 65% and 60% of the income from permanently restricted net assets at June 30, 2017 and 2016, respectively.

Note 8 - **Endowments**

Changes in endowment net assets for the year ended June 30, 2017 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,131,607	\$ 19,058,482	\$ 23,190,089
Contributions	-	3,877,409	3,877,409
Investment return:			
Unrealized gains	1,586,726	-	1,586,726
Realized gains	472,696	-	472,696
Investment income	453,997	-	453,997
Endowment appreciation appropriated for operations	<u>(578,791)</u>	<u>-</u>	<u>(578,791)</u>
Total Investment Return	1,934,628	-	1,934,628
Other changes:			
Transfer to permanently restricted net assets	<u>-</u>	<u>112,371</u>	<u>112,371</u>
Endowment net assets, end of year	<u>\$ 6,066,235</u>	<u>\$ 23,048,262</u>	<u>\$ 29,114,497</u>

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 8 - **Endowments – Continued**

Changes in endowment net assets for the year ended June 30, 2016 were as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,914,498	\$ 18,481,983	\$ 23,396,481
Contributions	-	483,187	483,187
Investment return:			
Unrealized loss	(724,919)	-	(724,919)
Realized gains	52,824	-	52,824
Investment income	428,286	-	428,286
Endowment appreciation appropriated for operations	<u>(539,082)</u>	<u>-</u>	<u>(539,082)</u>
Total Investment Return	(782,891)	-	(782,891)
Other changes:			
Transfer to permanently restricted net assets	<u>-</u>	<u>93,312</u>	<u>93,312</u>
Endowment net assets, end of year	<u>\$ 4,131,607</u>	<u>\$ 19,058,482</u>	<u>\$ 23,190,089</u>

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles ("GAAP"), deficiencies of this nature are reported in unrestricted net assets. Under the policy of the Foundation, the endowment assets are invested conservatively with the intent of providing a predictable stream of funding to programs supported by the endowment. At June 30, 2017 and 2016, there are no underwater funds.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 8 - **Endowments – Continued**

The Foundation invests in government bonds, corporate bonds, money market and other equity-based investments to achieve its long-term return objectives within limited risk constraints. Actual returns in any year may vary from budgeted amounts due to market fluctuations.

The Foundation's Board of Directors established an investment policy that governs investments and the spending policy for its endowment funds. Under the policy, up to 4% of the market value of the endowment funds, determined annually and averaged over a rolling three year period, may be used for operations. For the years ended June 30, 2017 and 2016, the Foundation appropriated endowment appreciation of \$578,791 and \$539,082, respectively, for current operations. With Board approval, in any given year when the market value of each of the endowment funds falls below historic basis, income earned from the previous 12 months may be expended. In accordance with generally accepted accounting principles and Massachusetts state law, appreciation (depreciation) on permanently restricted investments is included in temporarily restricted net assets.

Note 9 - **Concentrations**

Contributions from one donor and three donors accounted for approximately 63% and 22% of the Foundation's total revenues and other support for the years ended June 30, 2017 and 2016, respectively.

Transactions with two donors accounted for approximately 75% and 49% of the Foundation's pledges receivable as of June 30, 2017 and 2016, respectively.

Note 10 - **In-Kind Contributions**

The Foundation is provided administrative services from personnel of the University. The fair value of the administrative services from University personnel was \$176,745 and \$173,136 for the years ended June 30, 2017 and 2016, respectively, of which the Foundation has reported \$39,237 and \$38,982 as both contribution revenue and management and general expense on the accompanying Statement of Activities and Changes in Net Assets for the years ended June 30, 2017 and 2016, respectively. The remaining amounts of \$137,508 and \$134,154 were owed to the University at June 30, 2017 and 2016, respectively and are included in accounts payable and accrued expenses on the accompanying Statements of Financial Position. These amounts were paid in the following year.

**SALEM STATE UNIVERSITY FOUNDATION, INC.**  
**(a component unit of Salem State University)**

**Notes to the Financial Statements - Continued**

**June 30, 2017 and 2016**

Note 10 - **In-Kind Contributions – Continued**

During the years ended June 30, 2017 and 2016, the Foundation received the following non-cash donations of materials, services, marketable securities and free use of facilities that have been reflected in the financial statements of the Foundation:

	<u>2017</u>	<u>2016</u>
Marketable securities	\$ 172,501	\$ 63,032
Other non-cash contributions	51,490	29,257
Professional services	39,237	38,982
Free use of facilities	18,000	18,000
Donated rare books	<u>-</u>	<u>125,955</u>
	<u>\$ 281,228</u>	<u>\$ 275,226</u>

Note 11 - **Risks and Uncertainties**

*Cash*

From time to time, the Foundation's cash balances at financial banking institutions exceed the Federally insured limit. Management monitors the financial condition of the banking institution, along with its balances in cash to keep this potential risk at a minimum.

Note 12 - **Management's Acceptance of Financial Statements**

*Subsequent Events*

Management has evaluated subsequent events through September 11, 2017, the date for which the financial statements were available for issuance. Management has accepted the financial statements and did not identify any events subsequent to June 30, 2017 requiring disclosure in the financial statements.

**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***



**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 Directors of  
Salem State University Foundation, Inc.  
Salem, Massachusetts

We have audited, in accordance with the 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 Foundation, Inc. (“the Foundation”), a component unit of Salem State University, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 Foundation'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**

September 11, 2017