October 17th Finance Meeting Packet



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NOTICE

A MEETING OF THE WORCESTER STATE UNIVERSITY BOARD OF TRUSTEES FINANCE & FACILITIES COMMITTEE WILL BE HELD ON TUESDAY, OCTOBER 17, 2017 AT 4:00 P.M. IN THE BANQUET HALL OF THE MAY STREET BUILDING.

- 1. CALL TO ORDER *Notice/Agenda
- 2. *VOTES
- 3. APPROVAL OF MINUTES September 12, 2017
- 4. *FY 2017 DRAFT AUDIT REPORT
- 5. *REPLACEMENT OF BOILER 535 CHANDLER STREET
 - A) Memo and Quotes
 - B) BHE Standards for Expenditures of Trust Funds
- 6. OTHER BUSINESS
- 7. ADJOURNMENT

*Attachment

Judith A. St. Amand
October 10, 2017

Finance & Facilities Committee

Trustee Madaus, Chair

Trustee Fazzone

Trustee Nichols

Trustee Steele

Trustee Taylor

Trustee Blais, Ex-Officio Voting Member

President Maloney, Ex-Officio Non-Voting Member

Finance & Facilities Votes

Upon a motion made and seconded, it was

VOTED: to approve the minutes of September 12, 2017 as submitted.

Upon a motion made and seconded, it was

VOTED: to adjourn the meeting for the purpose of touring the May Street Building and

to reconvene in open session to act upon remaining agenda items.

Upon a motion made and seconded, it was

<u>VOTED</u>: to recommend approval of the FY2017 Draft Audit Report as presented.

Upon a motion made and seconded, it was

VOTED: to recommend approval to proceed with the boiler replacement project

at 535 Chandler Street (President's Residence) at an estimated cost not-to-exceed \$30,000, allowing for the potential of additional cost related to

unforeseen circumstances.

Upon a motion made and seconded, it was

VOTED: to adjourn the meeting at

WORCESTER STATE UNIVERSITY BOARD OF TRUSTEES

FINANCE & FACILITIES COMMITTEE

September 12, 2017

PRESENT: Trustee Stephen Madaus, Chair

Trustee Marina Taylor

Trustee Craig Blais, Ex-Officio Voting Member (joined at 4:50 p.m.)

President Barry Maloney – Ex-Officio Non-Voting Member Trustee Maryanne Hammond – Non-Voting Member

Trustee Amber Suarez, Non-Voting Member Ms. Judith St. Amand, Assistant Secretary

ABSENT: Trustee Aleta Fazzone

Trustee Shirley Steele

In accordance with the provisions of General Laws, Chapter 30A having been complied with, Chairman Madaus called the meeting to order at 4:40 p.m. Having no quorum present, Chairman Madaus announced that no business will be undertaken until a quorum is present. Trustee Blais joined the meeting at 4:50 p.m. constituting a quorum. The meeting convened business at 4:52 p.m. in room 204 of the Wellness Center.

APPROVAL OF MINUTES – June 6, 2017

Upon a motion by Trustee Taylor and seconded by Trustee Blais, it was

VOTED: to approve the minutes of June 6, 2017 as submitted.

A-133 AUDIT REPORT/FINANCIAL STATEMENTS – FY'16

- VP Kathy Eichelroth introduced Mr. Jeff Swanberg from the firm of Bollus Lynch LLP who conducted the audit
- The new information provided in this report is in addition to the previously approved audit report
- Accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements
- Audit was conducted for the purpose of forming an opinion on the financial statements as a whole
- According to the independent auditors, their opinion is that the information is fairly stated, in all material respects, and in relation to the financial statements as a whole
- Audit focused on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2016
- Federal awards include all grants, contracts and similar agreements entered into directly between Worcester State and departments of the federal government

- University considers programs with expenditures that exceed \$1,059,547 to be Type A programs smaller programs are designated as Type B
- WSU's total Federal Expenditures were \$35,318,231
- In the auditing firm's opinion, the University complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016
- In the opinion of Bollus Lynch, the University complied, in all material respects with the types of compliance requirements that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Internal Control Findings

The audit of the basic financial statements of Worcester State University as of and for the year ended June 30, 2016, disclosed no matters involving the internal control over financial reporting and its operations that are considered to be significant deficiencies or material weaknesses.

Compliance Finding

The audit disclosed no instance of noncompliance which are material to the basic financial statement of WSU as of and for the year ended June 30, 2016.

Findings and Questioned Costs for Federal Awards

Internal Control over Compliance – No findings noted as of June 30, 2016

Compliance Finding – No finding noted as of June 30, 2016

Upon a motion by Trustee Taylor and seconded by Trustee Blais, it was unanimously

VOTED: to recommend the approval of the A-133 Audit Report and Financial Statements for FY'16 as submitted.

NAMING OPPORTUNITY POLICY

- VP Tom McNamara reminded the group that the members of the Planning & Development Committee met in April of 2017 and reviewed the wording of the proposed Naming Policy and recommended approval
- The document contained amendments proposed by the BHE
- Also reviewed was the named and identified available spaces by building for the naming of over 200 naming options
- WSU's buildings, rooms and other designated areas provide many wonderful naming opportunities that can be named for a monetary gift
- Since there is a financial component to the policy, it was forwarded to the Finance & Facilities Committee for the "gift" section approval

- All areas were presented with a price for naming and VP McNamara noted that the Foundation Board had reviewed and approved the policy as well
- Following a thorough review of the "gift options" a motion was made by Trustee Taylor and seconded by Trustee Blais and it was unanimously

VOTED: to recommend approval of the "Gift Amounts" for the Naming Opportunity Policy as submitted.

Upon a motion by Trustee Taylor and seconded by Trustee Blais, it was unanimously

VOTED: to adjourn the meeting at 5:30 p.m.

Respectfully submitted,

Judith a Stanard

Judith A. St. Amand

Assistant Secretary

WORCESTER STATE UNIVERSITY (AN AGENCY OF THE COMMONWEALTH OF MASSACHUSETTS)

FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH SUPPLEMENTARY INFORMATION, STATISTICAL
INFORMATION AND OTHER REPORTS

YEARS ENDED JUNE 30, 2017 AND 2016

AND

INDEPENDENT AUDITOR'S REPORT

(An Agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS WITH SUPPLEMENTARY INFORMATION, STATISTICAL INFORMATION AND OTHER REPORTS

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees Worcester State University Worcester, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Worcester State University (an agency of the Commonwealth of Massachusetts) (the "University") and the financial statements of Worcester State Foundation, Inc., its discretely presented component unit, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

INDEPENDENT AUDITOR'S REPORT

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and certain information pertaining to the pension liability recorded in accordance with Government Accounting Standards Board Statement Number 68, Accounting and Financial Reporting for Pensions on pages 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Worcester State University's basic financial statements. The supplemental schedules and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 36 through 42 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The statistical information on pages 43 through 48 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Worcester,	Massachusetts
, 20	017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

WORCESTER STATE UNIVERSITY (An Agency of the Commonwealth of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Worcester State University, we offer readers of Worcester State University's financial statements this narrative overview and analysis of the financial activities of Worcester State University for the fiscal year ended June 30, 2017. This discussion is provided by management and should be read in conjunction with the financial statements and notes thereto.

Worcester State University was founded in 1871, and is one of nine comprehensive public colleges/universities in the Commonwealth of Massachusetts. The University affirms the principles of liberal learning as the foundation for all advanced programs of study and offers programs in the traditional liberal arts and science disciplines, while maintaining its historical focus on teacher education. The University offers 60 undergraduate majors and minors, 29 graduate programs, 80 study abroad programs, 21 honor societies and a student-to-faculty ratio of 18:1. The University currently has 5,381 full and part-time undergraduate students and 1,090 full and part-time graduate students.

Financial Highlights

- The assets and deferred outflows of resources of Worcester State University exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$99,846,050 (net position). Of this amount, \$13,392,096 is classified as unrestricted net position. The figure is down from FY 2016 due to increasing depreciation expense, in addition to the required GASB 68 accrual of pension expense of \$1,557,466.
- The University's total unrestricted net assets decreased by \$200,222 with a total change in net position of \$(4,433,143). Operational items that influenced the total change in net position include increased depreciation of \$663,835 due to the Wellness Center coming on line, a net reduction in investment income of \$996,912 compared to the prior year due to significant unrealized loss in agency and treasury bonds, and a Residence Life Trust Fund operating loss of \$560,817. In addition to those operational items, the accrual required to reflect the Commonwealths obligation for post-retirement pension distributions required posting of additional benefit expense of approximately \$1,557,466.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Worcester State University's basic financial statements. Worcester State University's basic financial statements comprise two components: 1) the financial statements and 2) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Financial Statements are designed to provide readers with a broad overview of Worcester State University's finances in a manner similar to a private sector college.

The Statement of Net Position presents information on all of the University's assets, deferred outflows of resources, 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 financial position of the University is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the University's net position changed during the most recent fiscal year. 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the accrual for compensated absences.)

(An Agency of the Commonwealth of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Statement of Cash Flows is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services.) The Government Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used.

The financial statements and related footnotes are presented separately from this Management Discussion and Analysis.

The University reports its activity as a business-type activity using the full accrual measurement focus and basis of accounting. The University is a component unit of the Commonwealth of Massachusetts. Therefore, the results of the University's operations, its net position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements and are presented separately.

Other information: In addition to the financial statements and accompanying notes, this report also contains certain required supplementary information concerning Worcester State University.

Financial Analysis

As noted earlier, net position may serve over time as a useful indication of Worcester State University's financial position. In the case of Worcester State University, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$99,846,050 at the close of Fiscal Year 2017.

By far the largest portion of the Worcester State University's 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 that are still outstanding. Worcester State University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Worcester State University's investment in its capital assets is reported net of related debt.

Worcester State University's Net Position as of June 30, 2017, with comparative data as of June 30, 2016

367	2017	2016
Current and other assets Capital assets	\$ 51,803,517 107,486,081	\$ 61,506,343 104,522,725
Total assets	159,289,598	166,029,068
Deferred outflows of resources	7,714,625	7,637,363
Non-current outstanding liabilities Other liabilities	46,041,055 12,939,451	47,076,397 15,575,584
Total liabilities	58,980,506	62,651,981
Deferred inflows of resources	8,177,667	6,735,257
Net position		
Invested in capital assets, net of related debt	83,469,474	87,321,688
Restricted	2,984,480	3,365,187
Unrestricted	13,392,096	13,592,318
Total net position	\$ 99,846,050	\$ 104,279,193

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A portion of the Worcester State University's net position (3.0 percent) as of June 30, 2017 represent funds that are subject to external restrictions on how they must be used. Unrestricted net position of \$13,392,096 may be used to meet the University's ongoing obligations to its stakeholders. The University's net position decreased by \$4,433,143 during the year ended June 30, 2017. At the end of the current fiscal year, Worcester State University reports a positive balance in unrestricted and restricted fund balances.

The University's primary reserve ratio, calculated as expendable net position divided by total expenses, is 16.15% and 17.49%, respectively, for the years ended June 30, 2017 and June 30, 2016. This ratio provides a snapshot of financial strength and flexibility by indicating the percent of operating expenses that could be funded by expendable reserves without relying on additional net position generated by operations.

The state pension accruals required by GASB 68 continue to negatively impact operating results. The pension accrual for FY 2017 resulted in additional fringe benefit expense of \$1,557,466. In addition, the University experienced an unrealized loss in investments due to fluctuations in the bond market which completely offset investment income earned during the year. Furthermore, there was a slight reduction in enrollment for the spring semester which prompted a mid-year budget reduction, while the residence halls did not achieve maximum occupancy during the year. The University has begun updating its Capital Financing Plan and will establish a percentage goal and timeline to improve its primary reserve ratio so that it can be used as financial leverage when planning future capital projects.

The University's return on net position ratio, calculated as the change in total net position divided by total net position – beginning of the year, is (4.25)% and 25.83%, respectively, for the years ended June 30, 2017 and June 30, 2016. This ratio measures total economic return including capital investment and positive operating results. An improving trend indicates increasing net position which provide for increased financial flexibility.

Construction of the Wellness Center was completed in FY 2017. While there were smaller scale projects completed during the year, the value of capitalized assets was down significantly compared to the previous year. In years of significant infrastructure investment, the net positon ratio experiences a spike in value which levels out when the campus returns to traditional deferred maintenance and infrastructure investments levels.

The net operating revenue ratio is (4.64)% and (1.71)%, respectively, for the years ended June 30, 2017, and June 30, 2016. The ratio measures whether an institution is living within its available resources. Worcester State University strives to achieve an annual operating surplus as measured by this ratio as part of its long-term plan to improve its primary reserve and viability ratios and maintain a healthy annual return on net position.

In FY 2017 the University experienced a net loss before other revenue, expenses, gains or losses of (\$4,495,795). Various factors contributed to the net loss including an increase to the pension accrual of \$1,557,466, an increase in depreciation expense attributed to the Wellness Center coming on line, a net reduction in investment income over the prior year of \$996,912 due to unrealized losses on agency and treasury bonds as of June 30, 2017, and a Residence Life Trust Fund operating loss of \$560,817 due to room vacancies and additional housing grant awards.

The increase in net capital assets in FY 2017, was \$2,963,356, while depreciation expense on capital assets was \$5,328,423. During the year funds were expended on completions of the Wellness Center and roof repairs and replacement air handlers were installed in the Student Center.

The University's viability ratio, calculated as expendable net assets divided by long term debt, is 1:0.68 as of June 30, 2017 and June 30, 2016. The viability ratio measures the availability of expendable net position to cover debt as of the statement of net position date. A ratio of 1:1 or greater indicates an institution has sufficient expendable net assets to satisfy its debt obligations as of the balance sheet date.

The University anticipated a significant downturn in its viability ratio in FY 2016 due to the transfer of \$9.5M to DCAM in September of 2016 in accordance with the financing plan for the Wellness Center, in addition to the negative impact of the GASB 68 pension adjustment. In the coming year a plan will be put in place to restore reserves and improve the University's operational ratios.

(An Agency of the Commonwealth of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Worcester State University's Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2017 with comparative data for the year ended June 30, 2016

	2017	2016
Operating Revenues		
Tuition and fees, net of scholarships discounts and allowances	\$ 48,483,889	\$ 48,411,331
Operating grants and contributions	13,007,729	12,070,608
Sales and services of auxiliary enterprises and other sources	440,172	444,478
Total operating revenues	61,931,790	60,926,417
Operating Expenses		
Instruction	35,523,651	34,662,566
Public service	1,270,991	955,701
Academic support	7,072,401	7,768,616
Student service	11,153,602	9,396,733
Institutional support	14,397,858	15,447,340
Operations and maintenance of plant	11,230,348	9,297,557
Scholarships	2,052,956	2,653,813
Depreciation	5,328,423	4,664,588
Debt service	497,152	289,560
Auxiliary enterprises	12,881,466	11,838,607
Total operating expense	101,408,848	96,975,081
Net operating loss	(39,477,058)	(36,048,664)
Non-operating revenues (expenses)		
State appropriation, including fringe benefits provided to employees by		
the Commonwealth, net of tuition remitted to the Commonwealth	35,169,690	33,605,906
Investment income	(195,547)	801,365
Other and transfers	7,120	10,477
Total non-operating revenues	34,981,263	34,417,748
Loss before other revenues, expenses, gains or losses	(4,495,795)	(1,630,916)
Capital appropriations	62,652	23,038,527
Increase in net position	(4,433,143)	21,407,611
Net position - July 1	104,279,193	82,871,582
Net position - June 30	\$ 99,846,050	\$ 104,279,193

State appropriations for operations, including fringe benefits and net of tuition remission, experienced a net increase in FY 2017. The Commonwealth of Massachusetts final budget for FY 2017 did not include any additional dollars for collective bargaining obligations. However, it did include performance based funding for the State University system. The formula provided additional resources of \$263,474 to Worcester State University in 2017.

WORCESTER STATE UNIVERSITY (An Agency of the Commonwealth of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

State appropriations are reported net of the amount of in-state day school tuition collected by the University on behalf of the Commonwealth. The in-state day tuition collected is remitted back to the Commonwealth as dictated by Massachusetts General Law. Included in State appropriations are the fringe benefit costs for University employees paid by the Commonwealth. In addition to operating appropriations, in FY2017 and FY2016 the University received capital appropriations for the construction of the Wellness Center. Capital appropriations are funded by Massachusetts General Obligation Bonds which are issued to fund Commonwealth infrastructure improvements. The funds are provided to the campus in the form of a capital grant and as such the University is not responsible for repayment of the funds.

The following schedule details the Commonwealth appropriations received by the University for the years ending June 30, 2017 and June 30, 2016, respectively.

	2017	2016
State Appropriations	\$ 26,666,525	\$ 26,390,124
Appropriations to cover fringe benefits provided to employe	ees of the	
Commonwealth	9,065,561	7,821,097
Tuition remitted back to the State	(562,396)	(605,315)
Net appropriations	35,169,690	33,605,906
Additional State capital appropriations	62,652	23,038,527
Total Appropriations	\$ 35,232,342	\$ 56,644,433

Loss from Operations

State appropriations are a significant source of funding for the University. Under GASB 35, appropriations are considered non-operating revenue. As such, the University incurs a loss from operations. The Commonwealth's Board of Higher Education sets tuition for the day division. The University's Board of Trustees sets all fees and tuition of the Division of Graduate and Continuing Education. The University's Board of Trustees approves the annual budget with the intention of mitigating losses after consideration of Commonwealth appropriations while balancing educational and operational needs. The following schedule presents Worcester State University's incurred losses from operations for the fiscal years ended June 30, 2017 and 2016, respectively.

	2017	2016	Change
Net Tuition and Fee Revenue	\$ 48,483,889	\$ 48,411,331	\$ 72,558
Other Revenue, net of Student Financial Aid	13,447,901	12,515,086	932,815
Operational Expenses	(101,408,848)	(96,975,081)	(4,433,767)
Operating loss	(39,477,058)	(36,048,664)	(3,428,394)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll,	•		
net of remitted tuition to the Commonwealth	35,169,690	33,605,906	1,563,784
Investment and non-operating income	(188,427)	811,842	(1,000,269)
Capital appropriations	62,652	23,038,527	(22,975,875)
Change in net position	\$ (4,433,143)	\$ 21,407,611	\$(25,840,754)

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Assets and Debts of the University

Capital Assets: Worcester State University's investment in capital assets as of June 30, 2017 amounts to 107,486,081 net of accumulated depreciation, compared to \$104,522,725 net of accumulated depreciation as of June 30, 2016. The University's investment in capital assets includes, land (including improvements), building (including improvements,) furnishings and equipment, and books. In FY 2017 gross capital assets increased by \$8,056,076. The majority of the increase was for Wellness Center construction. The Wellness Center opened for business in September 2016.

Capital assets are defined by the University and the Commonwealth of Massachusetts as assets with an initial, individual cost of \$50,000 or greater. Information about the Worcester State University's capital assets can be found in the notes to the financial statements

Long-Term Debt

<u>Compensated Absences:</u> The accrual for compensated absences consists of the long-term portion of sick and vacation pay relating to employees on the University's payroll and is anticipated to be funded by future state appropriations

MHEFA Financing: On December 4, 2002, the College entered in to a financing agreement with MHEFA to receive \$14,000,000 for renovations to the Sullivan and Administration Buildings. A call provision became available on this bond issue in December 2012. As a result the issue was refunded on December 18, 2012, with \$10,585,000 MDFA Revenue Bonds, Worcester State University Series 2012. There is no debt service reserve related to this issue. Annual principal payments range from \$255,000 to \$325,000 through November of 2022. Annual principal payments range from \$665,000 to \$875,000 through November of 2032.

Massachusetts Development Financing Agency (MDFA) Clean Renewable Energy Bond: On November 9, 2007, the College entered into a financing agreement with MDFA to receive \$310,000 to facilitate the financing of the installation of a 100 KW Photovoltaic Panel, mounting system and inverter on the roof of the Learning Resource Center. The bond proceeds are non-interest bearing and are to be re-paid in equal annual installments of \$20,667 over a fifteen year period beginning December 31, 2007.

Massachusetts State College Building Authority (MSCBA) WSU Student Life Project: MSCBA issued revenue bonds for various projects on December 20, 2012. Included in the issue was a component to provide \$15,000,000 of debt financing to Worcester State University's Wellness Center in accordance with the Memorandum of Agreement between, the Commonwealth, MSCBA and the University. The proceeds from the bond issue, combined with funds earmarked by the University and General Obligation bond funds earmarked by the Commonwealth, provide the resources for construction of a new Wellness Center at WSU. The Wellness Center is an asset of the Commonwealth and is recorded as a fixed asset on the University's financial records. The MSCBA holds Debt Service Reserve funds of \$249,214 on this component of the issue. Annual principal payments ranging from \$135,000 to \$767,000 are scheduled through May, 2042. Campus trust funds provide the revenue source for the annual debt service.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Economic Factors that will affect the Future:

The FY 2018 comprehensive budget approved by the Board of Trustees in April reflects a 4% increase in mandatory student fees over the previous year. The increase in fees has been distributed to the Capital Improvement Trust fund at an annual rate of increase of \$120 per full time student. In addition, campus funded student financial aid has been increased at an annual rate of increase of \$60 per full time student. The remaining portion of the annual increase has been used to restore funding of FY 2017 mid-year budget cuts ensuring that departmental budgets in FY 2018 are sustained at FY 2017 levels. Modest funds remain to address a handful of FY 2018 prioritized commitments that were identified in the FY 2018 budget process.

In general, the FY 2018 budget process for the Commonwealth highlighted a significant projected revenue shortfall for the coming year, significantly larger than the estimate that had been used to develop the initial budget in the spring. As a result, Governor Baker vetoed \$320 million from the House and Senate budget, including the \$1 million matching state university internship incentive program contained within the DHE administrative line. In addition, the Nursing Allied Health and the PIF line item also received reductions.

The state universities individual base appropriations have remained at FY 2017 levels. The universities continue to advocate for full funding of collective bargaining obligations that were underwritten by campus trust funds in FY 2017. FY 2017 was the last year of funding of the current collective bargaining agreements. All agreements are currently being negotiated and it is not known at this time what the final outcome will be.

As discussed during FY 2017 budget conversations, we need to begin to build back the unrestricted reserve balance of the university. We continue to experience increased demands on resources to maintain the existing campus infrastructure, in addition to addressing ongoing needs to provide classrooms and technology that supports the curriculum being offered and the expectations of our students. There are also several large-scale infrastructure projects on the horizon, such as the May Street Building renovation and a possible future parking complex that will require significant financial investment.

Growing the unrestricted reserve balance will provide a stronger financial foundation to the operations of the university and increased leverage to fund capital projects in the future. The plan to increase unrestricted reserves through FY 2023 will be accomplished through strict budget control ensuring positive operating results on an annual basis, in addition to increases to the Capital Improvement Fee beginning in FY 2018.

Requests for Information

This financial report is designed to provide a general overview of the Worcester 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 Office of the Vice President of Administration and Finance, 486 Chandler Street, Worcester, MA 01602-2597.

FINANCIAL STATEMENTS

(An Agency of the Commonwealth of Massachusetts)

STATEMENTS OF NET POSITION

JUNE 30, 2017 AND 2016

			Compone	
	Worcester Sta		Worcester Stat	
	2017	2016	2017	2016
ASSETS				. \
Current Assets:				
Cash and cash equivalents	\$ 16,134,966	\$ 14,954,373	\$ 1,119,146	\$ 854,102
Cash held by State Treasurer	5,202,770	14,603,183		<i>y</i> -
Cash held by Foundation	125,004	139,172	1 1	-
Accounts receivable, net	1,174,544	1,810,502	2,000	2,750
Current portion of loans receivable	196,129	169,159		-
Current portion of contributions receivable	- 24.502	-	596,722	546,355
Inventories	34,593	33,889	60,884	58,392
Prepaid expenses and other current assets	180,585	270,789	29,816	13,830
Total current assets	23,048,591	31,981,067	1,808,568	1,475,429
Non-current Assets:				
Investments	20,046,060	20,444,141	22,008,634	19,672,076
Deposits held with trustee	249,214	249,214	-	-
Loans receivable, less current portion	649,383	785,842	-	-
Contributions receivable, less current portion	-	-	1,149,939	467,175
Other non-current assets	7,810,269	8,046,079	320,421	338,659
Capital assets, net of accumulated depreciation	107,486,081	104,522,725	4,403,923	4,598,879
Total non-current assets	136,241,007	134,048,001	27,882,917	25,076,789
Total assets	159,289,598	166,029,068	29,691,485	26,552,218
DEFERRED OUTFLOWS OF RESOURCES				
Resources related to pension obligations	7,621,068	7,537,958		
Loss on refunding of long-term debt	93,557	99,405	-	-
Total deferred outflows of resources	7,714,625	7,637,363		
	7,714,023	7,037,303		
LIABILITIES				
Current Liabilities:				
Current portion of bonds payable	660,667	635,667	14,809	39,225
Current portion of capital lease obligation	412,606	467,514	-	
Accounts payable	1,842,747	2,396,043	82,166	1,129,327
Accrued payroll and fringe benefits	4,269,045	6,994,985	-	-
Accrued interest and other liabilities	122,197	125,395	29,239	21,623
Funds held for others	-	-	156,221	177,227
Student deposits and unearned revenue	1,853,750	1,486,828	65,209	61,608
Current portion of split-interest agreements	-	-	49,536	49,536
Current portion of accrued workers' compensation	149,143	114,672	-	-
Current portion of accrued compensated absences	3,629,296	3,354,480		
Total current liabilities	12,939,451	15,575,584	397,180	1,478,546
	,,,,,,,	,,		-,,
Non-current liabilities:				
Bonds payable, less current portion	23,449,497	24,145,858	2,641,073	2,683,858
Capital lease obligation, less current portion	115,572	451,100	-	-
Split-interest agreements, less current portion	-	-	77,518	122,518
Accrued workers' compensation, less current portion	640,790	498,568	-	-
Accrued compensated absences, less current portion	2,171,167	2,085,323	-	-
Accrued pension obligations	18,674,184	18,901,770	-	-
Refundable grant - federal financial assistance program	989,845	993,778		
Total liabilities	58,980,506	62,651,981	3,115,771	4,284,922
DEFERRED INFLOWS OF RESOURCES				
Resources related to pension obligations	2,464,365	610,180	_	_
Deferred service concession arrangements	5,713,302	6,125,077	_	_
Total deferred inflows of resources	8,177,667	6,735,257		
	-,,	.,,		
NET POSITION	ac			
Invested in capital assets, net	83,469,474	87,321,688	-	-
Restricted - Non-expendable	-	-	14,248,420	13,009,586
Restricted - Expendable for	2,984,480	3,365,187	8,842,065	5,873,509
Unrestricted	13,392,096	13,592,318	3,485,229	3,384,201
Total net position	\$ 99,846,050	\$ 104,279,193	\$ 26,575,714	\$ 22,267,296

See accompanying independent auditor's report and notes to financial statements.

(An Agency of the Commonwealth of Massachusetts)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2017 AND 2016

			Component Unit	
	Worcester Sta	ate University	Worcester State	e Foundation
	2017	2016	2017	2016
				A
REVENUES				1 , 1
Operating Revenues:				
Student tuition and fees	\$ 45,060,846	\$ 45,355,093	\$ 387,205	\$ 331,475
Auxiliary enterprises, student housing	11,837,360	11,698,320	- \	
Less: Scholarship discounts and allowance	8,414,317	8,642,082	-	-
Net student tuition and fees	48,483,889	48,411,331	387,205	331,475
Contributions	-	-	2,694,998	2,137,750
Federal grants and contracts	7,144,353	7,172,962	^ <u> </u>	-
State and local grants and contracts	1,328,165	1,259,516	-	-
Nongovernmental grants and contracts	3,502,787	2,492,114	-	-
Auxiliary enterprises, other	440,172	444,478	218,613	227,567
Other operating revenues	1,032,424	1,146,016	261,196	254,716
Total operating revenues	61,931,790	60,926,417	3,562,012	2,951,508
EXPENSES				
Operating expenses:	27 722 771	21.552.755		
Instruction	35,523,651	34,662,566	-	-
Public service	1,270,991	955,701	-	-
Academic support	7,072,401	7,768,616	-	-
Student services	11,153,602	9,396,733	-	-
Institutional support	14,397,858	15,447,340	1,228,321	1,171,475
Operation and maintenance of plant	11,230,348	9,297,557	134,189	123,238
Scholarship	2,052,956	2,653,813	524,103	605,706
Depreciation	5,328,423	4,664,588	212,506	213,749
Debt service	497,152	289,560	61,011	61,512
Auxiliary enterprises	12,881,466	11,838,607		-
Total operating expenses	101,408,848	96,975,081	2,160,130	2,175,680
Operating loss	(39,477,058)	(36,048,664)	1,401,882	775,828
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	35,169,690	33,605,906	_	-
Interest and investment income (loss)	(195,547)	801,365	2,590,431	(393,759)
Other payments to Worcester State University	-	-	(897,500)	(1,937,727)
Other non-operating revenues	7,120	10,477		
Net non-operating revenues	34,981,263	34,417,748	1,692,931	(2,331,486)
Ingoma (loss) hefore other revenues				
Income (loss) before other revenues, expenses, gains, or losses	(4,495,795)	(1,630,916)	3,094,813	(1,555,658)
Capital appropriations	62,652	23,038,527	-	-
Additions to permanent endowments			1,213,605	745,844
Change in net position	(4,433,143)	21,407,611	4,308,418	(809,814)
NET POSITION				
Beginning of year	104,279,193	82,871,582	22,267,296	23,077,110
End of year	\$ 99,846,050	\$ 104,279,193	\$ 26,575,714	\$ 22,267,296

See accompanying independent auditor's report and notes to financial statements.

WORCESTER STATE UNIVERSITY (An Agency of the Commonwealth of Massachusetts)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	Primary Government	
	2017	2016
		_ \
Cash flows from operating activities:		
Student tuition, fees and charges	\$ 46,805,606	\$ 45,691,233
Federal grants and contracts	7,144,353	7,172,962
State and local grants and contracts	1,328,165	1,259,516
Nongovernmental grants and contracts	3,502,787	2,492,114
Auxiliary enterprise charges	440,172	444,478
Employee compensation and fringe benefit payments	(63,187,831)	(58,194,973)
Payments to suppliers	(31,249,895)	(29,079,570)
Interest paid	(571,953)	(366,018)
Loans repaid by students	109,489	48,692
Other receipts	1,248,504	12,276
	, ,	
Net cash used in operating activities	(34,430,603)	(30,519,290)
Cash flows from noncapital financing activities:		
State appropriations	35,169,690	33,605,906
Net deposits	352	(71,840)
Net cash provided by noncapital financing activities	35,170,042	33,534,066
rect cash provided by hoheapital infahenig activities	33,170,042	33,334,000
Cash flows from capital and related financing activities:		
Capital appropriations	62,652	23,038,527
Purchases of capital assets	(8,105,689)	(31,185,547)
Principal payments of bonds payable	(671,361)	(651,361)
Principal payments of capital lease obligation	(504,924)	(425,818)
Decrease in cash restricted for capital activities	(304,924)	5,081
	5,848	
Decrease in deferred loss on refunding of bonds payable		5,846
Perkins loan program, net funds paid	(3,933)	(49,094)
Other activities	7,120	10,477
Net cash used in capital and related financing activities	(9,210,287)	(9,251,889)
	(-),	(-, - , - , - , - , - , - , - , - , - ,
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	7,491,599	-
Purchases of investments	(7,774,380)	(1,022,703)
Interest and investment income	519,641	574,109
Net cash provided by (used in) investing activities	236,860	(448,594)
Net decrease in cash and cash equivalents	(8,233,988)	(6,685,707)
Cash and cash equivalents, beginning of year	29,696,728	36,382,435
Cash and cash equivalents, end of year	\$ 21,462,740	\$ 29,696,728

See accompanying independent auditor's report and notes to financial statements.

(An Agency of the Commonwealth of Massachusetts)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016 (Continued)

Primary Government	
2017	2016
	_ ' \
\$ (39,477,058)	\$ (36,048,664)
) `
5,328,423	4,664,588
235,810	235,810
<u> </u>	
635,958	(648,652)
109,489	48,692
(704)	7,880
55,879	-
1,543,489	1,769,390
(553,296)	(245,570)
(2,725,940)	467,778
(74,801)	(76,457)
176,693	(120,009)
366,570	(139,598)
360,660	(22,703)
(411,775)	(411,775)
\$ (34,430,603)	\$ (30,519,290)
	2017 \$ (39,477,058) 5,328,423 235,810 635,958 109,489 (704) 55,879 1,543,489 (553,296) (2,725,940) (74,801) 176,693 366,570 360,660 (411,775)

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS

1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

Organization

Worcester State University (the "University") is a public, state-supported University, located in Worcester, Massachusetts. The University is governed by a local Board of Trustees under the discretion of the Massachusetts Department of Higher Education. As one of nine four-year, state-supported colleges and universities, the University is empowered to award baccalaureate and masters' degrees in education and in the arts and sciences, as well as programs of continuing education.

The University is an agency of the Commonwealth of Massachusetts (the "State", the "Commonwealth"). Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the University had been operated as an independent institution.

Component units

Worcester State Foundation, Inc. (the "Foundation") is a legally separate, tax exempt component unit of the University. The Foundation's primary role is to prudently manage and steward privately contributed resources meant to supplement the resources that are available to the University in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2017 and 2016, the Foundation distributed \$1,570,094 and \$2,671,576, respectively, to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Worcester State University Business Office at 486 Chandler Street, Worcester, MA 01602.

Basis of presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (US GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The accompanying statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within 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 instead reported as general revenue.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

The University's policies for defining operating activities in the Statement 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 in accordance with GASB Statement No. 35. These non-operating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts, and net investment income.

Net position

GASB establishes accounting and financial reporting standards for public colleges and universities. These standards require that, for accounting and reporting purposes, resources be classified into four net position categories, described as follows:

<u>Invested in capital assets, net of related debt</u> - Includes all capital assets, net of accumulated depreciation and the principal balances of any outstanding debt used to construct, acquire or improve the assets.

<u>Restricted net position</u> - These resources are further differentiated between those that are nonexpendable and expendable.

<u>Nonexpendable</u> resources are those that are subject to externally imposed constraints that they be maintained permanently.

<u>Expendable</u> resources are those whose use is subject to externally imposed constraints that can be satisfied by specific actions or by the passage of time.

<u>Unrestricted</u> - These resources are not subject to any externally imposed constraints. Such net position may be designated for specific purposes by action of the governing Board.

Accounting 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 and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Subsequent events

The University has evaluated the financial statement impact of subsequent events occurring through _____, 2017, the date that the financial statements were available to be issued.

Cash, temporary investments, and investments

The University considers its cash on hand, cash held by both the State Treasurer and Worcester State Foundation, Inc. for the benefit of the University and all debt securities with a maturity of three months or less to be cash equivalents.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Cash, temporary investments, and investments (continued)

The University's investments are recorded at fair value. Realized and unrealized gains and losses are included in non-operating revenues. Realized gains and losses are determined based on the specific identification of the securities sold. Investment income is recognized when earned. The method of allocated interest earned on pooled cash and investments among fund types provides that, unless otherwise restricted, all interest is recorded in the unrestricted current fund. All gains and losses arising from the sale, maturity, or other disposition of investments are accounted for in the trust fund which owns the related asset. Ordinary income derived from investments is accounted for in the trust fund owning such assets.

The Governmental Accounting Standards Board requires government entities to categorize investments to give an indication of the level of credit risk assumed by the University at year end. Category 1 includes investments that are insured or registered, or for which securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which securities are held by a trust department in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by a trust department but not in the University's name.

Fair value measurements

The University follows the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

The University uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with GASB 72, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there may be no quoted market prices for the University's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

In accordance with GASB 72, the University groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Fair value measurements (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The University's component unit utilizes a similar market approach which uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities

Allowance for doubtful accounts

Accounts receivable are reported at the amount management expects to collect in the future on balances outstanding at year end. Management estimates allowances for losses based on the history of collections and the knowledge acquired about specific items. Adjustments to the allowance are charged to bad debt expense. Interest is not charged on accounts receivable. Uncollectible amounts are written off against the reserve when deemed uncollectible; recoveries are recorded when received. An amount is considered uncollectible when reasonable efforts to collect the account have been exhausted.

Inventories

The University's inventories consist primarily of operating supplies which are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Loans receivable and payable

Loans receivable consist of the Federal Perkins Loan Program ("Perkins"). The federal government provides 90% of the funds to support this program. Loan payments received from students made under the Perkins program may be re-loaned after collection. The 90% portion of the Perkins Loan Program provided by the federal government is refundable back to the federal government upon the termination of the University's participation in the program.

The prescribed practices for the Perkins program 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 uncollectiblity and have been accepted (assigned) by the Department of Education.

Capital assets

Capital assets are controlled, but not owned by the University. The University is not able to sell or otherwise encumber these assets since they are owned by the Commonwealth. All capital assets acquired prior to June 30, 1990 are stated at cost or estimated historical cost. Capital assets acquired subsequent to June 30, 1990 are stated at cost. All additions of individual capital assets greater than or equal to \$50,000 are capitalized, in accordance with the Commonwealth's capitalization policy. Donated capital assets are recorded at the estimated fair value at the date of the donation.

Capital assets, with the exception of land, are depreciated using the straight-line method over the estimated useful life of the asset, which range from 3 to 40 years.

All library books are capitalized at actual cost for purchased materials and at fair value for donated items. The cost of such books is expensed after five years.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Student deposits and unearned revenue

Deposits and advance payments received for tuition and fees related to the University's Summer Session II program are deferred and are recorded as unrestricted current funds unearned revenue.

Bond premiums

Bond premiums are being amortized on a straight-line basis, which approximates the effective interest method, over the terms of the related debt agreements.

Funds held for others

Funds held for others are agency funds consisting of resources held by the University as custodian or fiscal agent of student organizations, the State Treasurer and others. Transactions are recorded to assets and liability accounts.

State appropriations

The University's unrestricted State appropriations amounted to \$35,732,086 and \$34,211,221 for the years ended June 30, 2017 and 2016, respectively. State supported tuition, in the amounts of \$562,396 and \$605,315 for the years ended June 30, 2017 and 2016, respectively, were remitted to the State and have been offset against these appropriations. State supported tuition receipts and transfers have been recorded in an agency fund during the year with a net amount due the Commonwealth of \$55,808 and \$26,081 as of June 30, 2017 and 2016, respectively.

Pension plan

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

Compensated absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation leave is the amount earned by all eligible employees through June 30, 2017. Pursuant to statewide experience on sick pay buy-back agreements applicable to state employees, the University accrues sick leave to a level representing 20 percent of amounts earned by those University employees with ten or more years of State service at the end of the fiscal year. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Fringe benefits

The University participates in the Commonwealth's fringe benefit programs, including health insurance, pension and workers' compensation benefits. Health insurance, pension and administrative costs are billed through a fringe benefit rate charged to the University. The University's workers' compensation program is administered by the Commonwealth's Division of Public Employee Retirement Administration. Workers' compensation costs are assessed separately based on the University's actual experience.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Trust funds

The University's operations are accounted for in different trust funds. All of these trust funds have been consolidated and are included in these financial statements.

Tax status

The University is an agency of the Commonwealth of Massachusetts and is therefore exempt from federal and state income taxes under Code Section 115 of the Internal Revenue Code. The Foundation is exempt from income taxes under the provisions of section 501(c)(3) of the Internal Revenue Code.

New government accounting pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, is required for periods beginning after June 15, 2017. This Statement addresses accounting and financial reporting for other post-employment benefits provided to employees of state and local governmental employers, as well as establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Management is in the process of reviewing this statement and potential effects on their financial reporting.

GASB Statement No. 83, Accounting for Certain Asset Retirement Obligations, is required for periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based in the guidance in this statement. Management is in the process of reviewing this statement and potential effects on their financial reporting.

GASB Statement No. 85, *Omnibus 2017*, is required for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including goodwill, fair value measurements, and postemployment benefits (pensions and other postemployment benefits). Management is in the process of reviewing this statement and potential effects on their financial reporting.

GASB Statement No. 87, *Leases* is required for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement established as single model for lease accounting based on the foundational principle that leases are financings of the right to use an underling asset. It requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Management is in the process of reviewing this statement and potential effects on their financial reporting.

2 - ADOPTION OF ACCOUNTING PRINCIPLE

In February 2015, the GASB issued GASB Statement No.72, Fair Value Measurement and Application.. The primary objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The adoption of this statement requires the University to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value, as well as requires additional financial statement disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

3 - CASH AND TEMPORARY INVESTMENTS

The University's cash and temporary investments are as follows as of June 30, 2017 and 2016:

	2017	2016
Carrying amount	\$ 16,134,966	\$ 14,954,373
Bank balance	\$ 18,727,294	\$ 16,360,935
Less amounts		\ >
Covered by depository insurance	1,523,204	1,523,204
Collateralized repurchase agreements	11,508,771	10,360,119
Remaining bank balance	\$ 5,695,319	\$ 4,477,612

The differences between the carrying amounts and the bank balances are attributable to deposits-in-transit and outstanding checks. While the remaining bank balance is uninsured and uncollateralized, the University has lowered its risk of loss by maintaining these funds in high quality financial institutions. Further, as of June 30, 2017 and 2016, the University held \$237,734 and \$95,814 respectively, of the funds in money market mutual funds invested in federal securities.

As of June 30, 2017 and 2016, the University was party to a repurchase agreement with a bank. The value of this agreement was \$11,508,771 and \$10,360,119 as of June 30, 2017 and 2016, respectively.

The money market mutual funds constitute a Category 2 investment and the repurchase agreements constitute a Category 3 investment, as defined under GASB regulations.

4 - CASH HELD BY STATE TREASURER

The University has recorded cash held for the benefit of the University by the State Treasurer in the amounts of \$1,135,691 and \$7,768,475 as of June 30, 2017 and 2016, respectively. In addition, the State Treasurer held cash for certain University trust funds in the amounts of \$4,067,079 and \$6,834,708 as of June 30, 2017 and 2016, respectively. None of these cash balances are insured or collateralized.

5 - <u>INVESTMENTS</u>

The University maintains pooled investments in long-term U.S. Treasury and Agency Securities. The fair value of these investments as of June 30, 2017 and 2016 are as follows:

	Investment Maturities (in years)			
June 30, 2017	Fair Value	Less Than 1	1 to 5	Greater than 5
Investment type U.S. Treasuries U.S. Agencies	\$ 14,090,728 5,955,332	\$ - 1,338,909	\$ 8,672,573 4,293,242	\$ 5,418,155 323,181
Total	\$ 20,046,060	\$ 1,338,909	\$ 12,965,815	\$ 5,741,336

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

5 - <u>INVESTMENTS</u> (Continued)

	Investment Maturities (in years)						
	Fair	Less		Greater			
June 30, 2016	Value	Than 1	1 to 5	than 5			
Investment type							
U.S. Treasuries	\$ 11,972,598	\$ -	\$ 8,472,035	\$ 3,500,563			
U.S. Agencies	8,471,543	2,010,905	4,983,144	1,477,494			
Total	\$ 20,444,141	\$ 2,010,905	\$ 13,455,179	\$ 4,978,057			

Interest Rate Risk

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The weighted average life of the maturities is evaluated regularly with the weighted average life of the portfolio being limited to five years or less, whenever possible. The weighted average life of the portfolio at June 30, 2017 was 3.9 years.

Credit Risk

The University manages its exposure to credit risk by investing solely in U.S. Treasury and U.S. Agency securities.

Concentration of Credit Risk

The University places no limit on the amount that may be invested in one issuer, maintaining its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University controls this risk by placing its securities in a trust account with a safekeeping agent other than the counterparty.

The components of investment income, including investment return on deposits held with trustee, are as follows:

	 2017	 2016
Interest	\$ 485,315	\$ 619,561
Realized loss on investments	(93,223)	(69,975)
Unrealized gain (loss) on investments	 (587,639)	 251,779
	\$ (195,547)	\$ 801,365

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

5 - INVESTMENTS (Continued)

Component Unit

Investments of the component unit are stated at fair value and are composed of the following:

	2	017	2016		
	Carrying	Fair	Carrying	Fair	
	Value	Value	Value	Value	
Money market funds	\$ 460,364	\$ 460,364	\$ 700,578	\$ 700,578	
Mutual funds – equity based	10,179,765	12,289,594	9,258,622	9,967,260	
Mutual funds – bonds based	4,508,450	4,418,893	4,073,576	3,879,351	
Security based investment fund	4,450,575	4,432,437	5,282,644	4,801,034	
Limited partnership interest	250,000	407,346	250,000	323,853	
	\$ 19,849,154	\$ 22,008,634	\$ 19,565,420	\$ 19,672,076	

6 - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

U.S. treasury securities and U.S. agency securities: Valued at the closing price reported in the active market in which the individual securities are traded.

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 Uinversity believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The University's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2017 as follows:

	Level 1	Level 2		Level 3		Total
Investments:						
U.S. Treasuries	\$ 14,090,728	\$	-	\$	-	\$ 14,090,728
U.S. Agencies	5,955,332		-		-	5,955,332
Total investments, at fair value	\$ 20,046,060	\$	-	\$	=	\$ 20,046,060

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

6 - FAIR VALUE MEASUREMENTS (Continued)

The University's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2016 as follows:

	Level 1	Level 2		Level 3		Total
Investments:						
U.S. Treasuries	\$ 11,972,598	\$	-	\$	-	\$ 11,972,598
U.S. Agencies	8,471,543		-		-	8,471,543
Total investments, at fair value	\$ 20,444,141	\$	-	\$	- \	\$ 20,444,141

The University does not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of net position.

7 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2017 and 2016:

	2017	2016
Students	\$ 664,245	\$ 676,619
Other	758,449	1,381,589
	1,422,694	2,058,208
Less: Allowance for uncollectible accounts	248,150	247,706
	\$ 1,174,544	\$ 1,810,502

8 - CONTRIBUTIONS RECEIVABLE - COMPONENT UNIT

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue.

Payments of contributions receivable as of June 30, 2017 are expected to be received as follows:

2018	\$ 596,722
2019	282,819
2020	153,520
2021	129,532
2022	195,945
Thereafter	491,535
Less: Discount on contributions receivable	1,850,073 (103,412)
	\$ 1,746,661

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

9 - <u>DEPOSITS HELD WITH TRUSTEE</u>

The University's bond payable indentures require the maintenance of restricted construction and debt service reserve funds on deposit with a bank trustee. Deposits with bank trustee are held in various trust accounts and are available for future debt service of \$249,214 as of June 30, 2017 and 2016.

10 - LOANS RECEIVABLE

The University participates in the Federal Perkins Loan Program. This program is funded through a combination of Federal and institutional resources. The portion of this program that has been funded with Federal funds is ultimately refundable to the U.S. government upon the termination of the University's participation in the program. The loans receivable balance of \$845,512 and \$955,001 at June 30, 2017 and 2016, respectively, represents student loans issued through the Perkins Loans program and consists of the following as of June 30, 2017 and 2016:

		2017	 2016
Enrolled students	\$	380,768	\$ 487,131
Repayment on schedule	A > 7	128,047	132,097
In default		336,697	 335,773
	<u>\$</u>	845,512	\$ 955,001

11 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance Increases		Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 188,650	\$ -	\$ -	\$ 188,650
Construction in process	48,474,306	14,278,897	61,686,439	1,066,764
Capital assets, being depreciated				
Land improvements	5,273,909	-	-	5,273,909
Buildings, including improvements	100,241,213	53,391,367	-	153,632,580
Furnishings and equipment	11,316,890	2,307,955	-	13,624,845
Books	235,704		235,704	
Total capital assets	165,730,672	69,978,219	61,922,143	173,786,748
Less accumulated depreciation for				
Land improvements	3,657,214	242,349	-	3,899,563
Buildings, including improvements	47,728,335	4,177,299	-	51,905,634
Furnishings and equipment	9,822,398	673,072		10,495,470
Total accumulated depreciation	61,207,947	5,092,720		66,300,667
Capital assets, net	\$104,522,725	\$ 64,885,499	\$ 61,922,143	\$107,486,081

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

11 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2016 was as follows:

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital assets, not being depreciated				A 1
Land	\$ 188,650	\$ -	\$ -	\$ 188,650
Construction in process	18,398,236	31,335,546	1,259,476	48,474,306
Capital assets, being depreciated			1	
Land improvements	5,273,909	-		5,273,909
Buildings, including improvements	99,057,836	1,183,377	- 1	100,241,213
Furnishings and equipment	10,473,461	843,429		11,316,890
Books	728,586		492,882	235,704
Total capital assets	134,120,678	33,362,352	1,752,358	165,730,672
Less accumulated depreciation for		\sim \sim		
Land improvements	3,414,865	242,349	-	3,657,214
Buildings, including improvements	44,317,685	3,410,650	-	47,728,335
Furnishings and equipment	9,303,691	518,707		9,822,398
Total accumulated depreciation	57,036,241	4,171,706		61,207,947
Capital assets, net	\$ 77,084,437	\$ 29,190,646	\$ 1,752,358	\$104,522,725

12 - MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

The land on which the dormitory residence halls are located is leased by the Massachusetts State College Building Authority (MSCBA) from the Commonwealth of Massachusetts at a yearly cost of one dollar. The residence halls have various lease terms which extend to the year and 2022 and 2026. The leases can be extended at the end of these terms for additional ten year periods.

The University, under the terms of a management and service agreement between MSCBA and the Commonwealth, is charged a semi-annual revenue assessment which is based on the certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations are guaranteed by the Commonwealth. The assessments charged for the years ended June 30, 2017 and 2016, in the amounts of \$8,734,911 and \$8,244,800, respectively, and have been recorded as auxiliary enterprise expenditures.

The Commonwealth of Massachusetts also executed a lease with MSCBA for land on which a parking garage is located. MSCBA owns the parking garage and has entered in to a long-term lease agreement with the University to occupy and operate the facility.

All facilities and obligations of the MSCBA are included in the financial statements of MSCBA. The specific asset cost or liability attributable to the University cannot be reasonably determined. The leases, therefore, have been accounted for under the operating method for financial statement purposes.

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NOTES TO FINANCIAL STATEMENTS (Continued)

13 - <u>DEFERRED SERVICE CONCESSION ARRANGEMENTS</u>

Deferred service concession arrangements at June 30, 2017 and 2016 in the amounts of \$5,713,302 and \$6,125,077, respectively, consist of the unamortized balances of multiple food service agreements with an outside party. This outside party contributed multiple payments since 2004 totaling \$8,788,017, to upgrade the food service facilities. The contributions are being amortized over various periods ranging from 12 to 18 years. Amortization of these contributions was \$411,775 as of June 2017 and 2016.

14 - <u>LONG-TERM LIABILITIES</u>

Long-term liabilities of the university at June 30, 2017 were as follows:

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	Portion
Bonds payable	\$ 24,781,525	\$ -	\$ 671,361	\$ 24,110,164	\$ 660,667
Capital lease obligations	918,614	114,488	504,924	528,178	412,606
Accrued workers' compensation	613,240	368,125	191,432	789,933	149,143
Accrued compensated absences	5,439,803	360,660	-	5,800,463	3,629,296
Accrued pension obligations	18,901,770		227,586	18,674,184	-
Refundable grant	993,778		3,933	989,845	
	\$ 51,648,730	\$ 651,841	\$ 1,407,804	\$ 50,892,767	\$ 4,851,712

Long-term liabilities of the university at June 30, 2016 were as follows:

	Beginning	/		Ending	Current
	Balance	Additions	Reductions	Balance	Portion
Bonds payable	\$ 25,432,886	\$ -	\$ 651,361	\$ 24,781,525	\$ 635,667
Capital lease obligations	501,003	843,429	425,818	918,614	467,514
Accrued workers' compensation	733,249	102,624	222,633	613,240	114,672
Accrued compensated absences	5,462,506	-	22,703	5,439,803	3,354,480
Accrued pension obligations	9,357,928	9,543,842	-	18,901,770	-
Refundable grant	1,042,872		49,094	993,778	
	\$ 42,530,444	\$ 10,387,271	\$ 1,268,985	\$ 51,648,730	\$ 4,572,333

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

15 - BONDS PAYABLE

- (A) On November 9, 2007, the University signed a financing agreement to receive \$310,000 from a Massachusetts Development Financing Agency (MDFA) clean renewable energy bond. These funds have been received and were used for the installation of a 100 KW photovoltaic panel, mounting system and inverter on the roof of the Learning Resource Center. The bond is non-interest bearing with annual principal installments of \$20,667 due through 2022.
- (B) On December 4, 2002, the University signed a financing agreement used for the renovation of the Sullivan and Administration Buildings, which was completed in 2009. A call provision became available on this bond issue and the issue was refunded on December 18, 2012, with \$10,585,000 of Massachusetts Development Financing Agency (MDFA) Revenue Bonds. The obligation is being repaid solely by the University through revenues. Interest on the MDFA bonds is due in semi-annual installments at varying rates ranging from 2.00% to 4.00%. Annual principal installments ranging from \$255,000 to \$875,000 are due through November 2032. The refunding of the MHEFA bonds resulted in a loss, which is included in deferred outflows of resources and will be amortized over the term of the bond. Amortization of this loss for the year ended June 30, 2017, was \$5,848. The remaining loss to be amortized at June 30, 2017 is \$93,557.
- (C) On December 20, 2012, the University signed a financing agreement to receive \$15,000,000 from a Massachusetts State College Building Authority (MSCBA) revenue bond. These funds will be used for the construction of a new Wellness Center. Interest on the bonds is due in semi-annual installments at varying rates ranging from 2.00% to 5.00%. Annual principal installments ranging from \$135,000 to \$765,000 are due through May 2042.

The composition of the University's Bonds payable for the year ended June 30, 2017 is as follows:

	2017	2016
(A) Bond payable, MDFA 2007 Series(B) Bond payable, MDFA 2012 Series(C) Bond payable, MSCBA	\$ 103,333 9,784,965 14,221,866	\$ 124,000 10,070,588 14,586,937
Less: Current maturities	24,110,164 660,667 \$ 23,449,497	24,781,525 635,667 \$ 24,145,858
Debt service requirements as of June 30, 2017 are as follows:	<u> </u>	<u> </u>
Year Ended June 30	Principal	Interest
2018 2019	\$ 660,667 680,667	\$ 729,413 705,948
2020 2021	705,667 730,667	679,088 654,488
2022 2023 - 2027	760,667 5,485,000	623,363 2,610,777
2028 - 2032 2033 - 2037	6,720,000 3,985,000	1,694,419 840,075
2038 - 2042	3,610,000	331,350
Unamortized premium	23,338,335 771,829	8,868,921
	\$ 24,110,164	\$ 8,868,921

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

16 - <u>LEASE COMMITMENTS</u>

The University leases property, a motor vehicle, modular building, and furniture and equipment under various lease agreements. These leases are classified as either capital or operating in the financial statements. Operating lease expenditures were \$6,420 and \$6,727 for 2017 and 2016, respectively.

Property and equipment includes the following acquired under capital lease agreements:

	 2017	\	2016
Buildings, including improvements	\$ 789,809	\$	789,809
Furnishings and equipment	 957,918	<u>) </u>	843,430
Total capital assets	1,747,727		1,633,239
Less: Accumulated depreciation	990,365		645,855
	\$ 757,362	\$	987,384

Future minimum lease payments under leases, together with the present value of future minimum lease payments as of June 30, 2017 are as follows:

	Capital	(Operating
Year Ending	 Lease		Lease
2018	\$ 420,526	\$	71,072
2019	97,568		44,815
2020	18,425		-
2021	 1,535		
Total minimum lease payments	538,054	\$	115,887
Less: Amount representing interest	 9,876		
Present value of minimum lease payments	\$ 528,178		

17 - NET POSITION

Unrestricted net position is not subject to externally imposed stipulations; however, it may be subject to internal restrictions. For example, unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2017 and 2016, unrestricted net position of \$17,023,684 and \$14,536,575, respectively, has been internally designated by the University for future capital investments. Undesignated unrestricted net position was \$(3,631,588) and \$(944,257) at June 30, 2017 and 2016, respectively.

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:

<i>y</i>		2017	 2016
Restricted - expendable			
Capital projects	\$	127,017	\$ 123,819
Scholarships and other grants	_	2,857,463	 3,241,368
	<u>\$</u>	2,984,480	\$ 3,365,187

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

17 - NET POSITION (Continued)

The component units' restricted - expendable net position consists of funds whose income is mainly used for scholarships and grants. The component units' restricted-nonexpendable net position consists of investments to be held in perpetuity and the income is restricted for the purpose of providing scholarships and other activities that benefit the University.

18 - FACULTY COMPENSATION

Contracts for full-time faculty begin on September 1, and end May 31 of any given academic year. The Commonwealth of Massachusetts and the University pay all faculty members over the twelve-month period of September 1 through August 31. Consequently, on June 30 of each year there is a balance due on each faculty contract which is to be paid from the subsequent year's appropriation. The balance due as of June 30, 2017 and 2016 of \$2,540,363 and \$2,490,975 respectively, has been recorded in the financial statements.

19 - ACCRUED WORKERS' COMPENSATION

Independent actuarial reviews of the outstanding loss reserve requirements for the Commonwealth of Massachusetts' self-insured Workers' Compensation program were conducted as of June 30, 2017 and 2016. Based upon the Commonwealth's analyses, accrued workers' compensation in the amount of \$789,833 and \$613,240 as of June 30, 2017 and 2016, respectively have been recorded in the unrestricted current fund. Workers' compensation expense charged to operations was \$368,125 and \$102,624 in 2017 and 2016, respectively. The actual workers' compensation paid by the University was \$194,479 and \$222,634 in 2017 and 2016, respectively.

20 - ACCRUED COMPENSATED ABSENCES

Included in accrued compensated absences are \$3,011,553 for accrued vacation time and \$2,788,910 for accrued sick time as of June 30, 2017 and \$2,759,023 for accrued vacation time and \$2,680,780 for accrued sick time as of June 30, 2016. Of these balances, \$257,059 and \$300,677 for June 30, 2017 and 2016, respectively, represent obligations due to employees funded through sources other than State appropriations, and \$5,543,404 and \$5,139,126 as of June 30, 2017 and 2016, respectively, represent obligations to employees funded through State appropriations. The University anticipates that the obligations due to employees funded by State appropriations will be discharged through future State appropriations.

21 - FRINGE BENEFIT CHARGES

Certain fringe benefit costs associated with University staff, compensated through State appropriations, are paid out of non-University State budget line items. The University is required to reimburse the State for such costs for employees funded from other than State appropriations, based on a percentage of payroll. For 2017, the University reimbursed the State a total of \$4,925,072 (\$1,586,119 for pensions and \$3,338,953 for health care premiums). For 2016, the University reimbursed the State a total of \$3,657,781 (\$1,303,999 for pensions and \$2,353,782 for health care premiums).

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

22 - <u>RETIREMENT PLAN</u>

The University reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the Massachusetts State Employee's Retirement System (MSERS). The following information is about MERS:

Plan Description

The Massachusetts State Employees' Retirement System (MSERS) is a public employee retirement system (PERS), covering substantially all of the University's non-student full-time employees. It a cost-sharing multipleemployer defined benefit pension plan administered by the Massachusetts State Retirement Board. Under the costsharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits through the plan, regardless of the status of the employers' payment of its pension obligations to the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

Benefit Provisions

MSERS provides retirement, disability, survivor and death benefits to plan members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service and group classification. The authority for establishing and amending these provisions rests with the Massachusetts Legislature, Chapter 32A of the General Laws of the Commonwealth of Massachusetts.

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

Contributions

The MSERS's funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for MSERS vary depending on the most recent date of membership:

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

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

22 - <u>RETIREMENT PLAN</u> (Continued)

<u>Contributions</u> (continued)

The University is not required to contribute from its appropriation allocation or other University funds to MSERS for employees compensated from State appropriations. For University employees covered by MSERS but compensated from a trust fund or other source, the University is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate determined by the State. The rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and June 30, 2016, respectively. The University contributed \$1,098,173 and \$972,477 for the fiscal years ended June 30, 2017 and June 30, 2016, equal to 100% of the required contributions for the year.

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

At June 30, 2017 and 2016, the University reported a net pension liability of \$18,674,184 and \$18,901,770 for its proportionate share of the net pension liability related to its participation in MSERS. The net pension liability was measured as of June 30, 2016, the measurement date, as determined by an actuarial valuation. The University's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed the University for the fiscal years 2016 and 2015. The Commonwealth's proportionate share was based on actual employer contributions to the MSERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for each respective fiscal year. At June 30, 2016 and 2015, the University's proportion was 0.147% and 0.181% respectively. For the year end June 30, 2017 and 2016, the University recognized pension expense of \$2,655,639 and \$2,764,131, respectively.

At June 30, 2017 and 2016, the University reported in the statement of net position deferred outflows and deferred inflows of resources related to pensions from the following sources:

	2017	2016
Deferred outflows of resources:		
Change in plan actuarial assumptions	\$ 2,070,843	\$ 3,273,399
Differences between expected and actual experience	886,974	373,624
Changes in proportion from Commonwealth of due to internal allocation	2,311,515	2,918,458
Differences between projected and actual earnings on plan investments	1,253,563	-
Contributions subsequent to the measurement date	1,098,173	972,477
	\$ 7,621,068	\$ 7,537,958
Deferred inflows of resources:		
Differences between projected and actual earnings on plan investments	\$ -	\$ 543,158
Changes in proportion from Commonwealth of due to internal allocation	2,464,365	67,022
	\$ 2,464,365	\$ 610,180

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

22 - <u>RETIREMENT PLAN</u> (Continued)

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources</u> (continued)

Contributions of \$1,098,073 and \$972,477, respectively, are reported as deferred outflows of resources related to pensions resulting from the University contributions in fiscal year 2017 and 2016 subsequent to the measurement date, which will be recognized as a reduction of the net pension liability for the year ended June 30, 2018 and 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

2019	\$ 1,110,617
2019	1,110,617
2020	1,596,791
2021	238,502
2020	2,003
	\$ 4,058,530

Actuarial Assumptions

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

	2016	2015
Cost of living increases	3.0%	3.0%
Salary increases	4.0% to 9.0%	3.5% to 9.0%
• Investment rate of return	7.5%	7.5%
 Interest rate credit to the annuity savings fund 	3.5%	3.5%

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

In May 2015, an early retirement incentive (ERI) was created for certain members MSERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of MSERS has increased by approximately \$230 million as of June 30, 2015.

Pre-retirement mortality rates reflect the RP-2000 Employees table, projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement mortality rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). Mortality rates for disability were assumed to be in accordance with the RP-2000 Health Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct).

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target assets allocation as of June 30, 2016 and 2015 are summarized in the following table:

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

22 - RETIREMENT PLAN (Continued)

Actuarial Assumptions (continued)

		Long-term expected real Rate of return		
Asset Class	Target allocation	2016	2015	
Global equity	40%	6.90%	6.90%	
Core fixed income	13%	1.60%	2.40%	
Hedge funds	9%	4.00%	5.80%	
Private equity	10%	8.70%	8.50%	
Real estate	10%	4.60%	6.50%	
Value added fixed income	10%	4.80%	5.80%	
Portfolio completion strategies	4%	3.60%	5.50%	
Timber/natural resources	4%	5.40%	6.60%	
Total	100%			

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following illustrates the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2016. In particular, the table presents the MSERS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one percentage-point higher than the current discount rate:

	2016	2015
1% decrease to 6.5%	\$ 23,957,506	\$ 25,693,708
Current discount rate 7.5%	18,674,184	18,901,770
1% increase to 8.5%	13,876,123	13,043,629

23 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The University provides postretirement health care and life insurance benefits through the State, in accordance with State statutes. All full-time employees and their dependents who retire from the University on or after attaining age 55 with 10 years of credited service or at any age with 20 years of credited service are eligible. Costs for such benefits are appropriated in non-University line items of the State budget. The costs of these benefits are not material to the University's financial statements.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

24 - STATE CONTROLLED ACCOUNTS

Certain significant costs and benefits associated with the operations of the University are appropriated, expended, controlled and reported by the State through non-University line items in the State's budget. Under accounting principles generally accepted in the United States of America such transactions must be recorded in the financial statements of the University. These transactions include payments by the State for the employer's share of funding the Massachusetts State Employee's Retirement System and for the employer's share of health care premiums. The estimated amounts of funding attributable for the State retirement system contribution and the employer's share of health care premiums for 2017 were \$2,919,554 and \$6,145,977, respectively. The estimated amounts of funding attributable for the State retirement system contribution and the employer's share of health care premiums for 2016 were \$2,788,221 and \$5,032,876, respectively.

25 - MANAGEMENT ACCOUNTING AND REPORTING SYSTEM - (UNAUDITED)

Section 15C of Chapter 15A of the Massachusetts General Law requires Commonwealth colleges and universities report activity of campus based funds to the Comptroller of the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and 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 for the years ended June 30:

	2017	2016
Direct unrestricted appropriations	\$ 26,666,525	\$ 26,390,124
Fringe benefits for benefitted employees on state payroll	9,065,561	7,821,097
Tuition remitted	(562,396)	(605,315)
Total appropriations	\$ 35,169,690	\$ 33,605,906

A reconciliation between the University and MMARS fund 901 activity as of June 30, 2017 is as follows:

Revenue per MMARS	\$ 7	70,422,985
Revenue per University		70,712,956
Net reporting classification and differences	\$	(289,971)

26 - RELATED PARTY TRANSACTIONS

The University provided, at no cost, office space and certain personnel services to the Worcester State Foundation, Inc. (the "Foundation").

Worcester State Foundation, Inc. acts as an agent for the University by periodically accepting grants on its behalf. The proceeds of the grants are recorded as an asset of the Foundation until remitted to the University.

(An Agency of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS (Continued)

26 - <u>RELATED PARTY TRANSACTIONS</u> (Continued)

The University and the Foundation have entered into an affiliation agreement with the Worcester Center for Crafts, Inc. to collaboratively offer venues for teaching and learning in the arts, exhibition space, safe, well-equipped studios for community-based programs as well as undergraduate visual and performing art classes. As part of the agreement, the University provides various forms of support to the Crafts Center including annual fees of \$250,000 for allowing the University to use the facilities. Service agreement fees were \$250,000 for the years ended June 30, 2017 and 2016. In addition, the University provided support including personnel, equipment, repairs and maintenance and other operating expenses. The value of this support is estimated to be \$318,841 and \$315,664 for the years ended June 30, 2017 and 2016 respectively.

The University provides certain operating costs for WSF Real Estate, Inc. in exchange of the use property adjacent to the University campus for various purposes. WSF Real Estate, Inc. is under the control and holds property on behalf of the Foundation. Operating costs provided by the University were \$92,775 and \$92,203 during the years ended June 30, 2017 and 2016, respectively.

27 - AUXILIARY ENTERPRISES

The University's auxiliary enterprises consist of residence life and housing and health services. The related revenues and expenses for the years ended June 30, 2017 and 2016 are as follows:

	201	7	2016					
	Residence Life and Housing	Health Services	Residence Life and Housing	Health Services				
Total revenue Total expenses	\$ 11,837,360 12,398,177	\$ 440,172 483,289	\$ 11,698,320 11,948,788	\$ 444,478 442,515				
Increase (decrease) in net position before transfers	\$ (560,817)	\$ (43,117)	\$ (250,468)	\$ 1,963				

28 - COMMITMENTS AND CONTINGENCIES

Litigation

Pending or threatened lawsuits against governmental agencies arise in the ordinary course of operations. In the opinion of the University's administration, the ultimate resolution of any pending legal actions involving the University will not have a material adverse effect on the financial position of the University.

Grants and entitlements

The University receives financial assistance from federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit by the granting agency. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of the University's administration, the outcome of any findings with respect to disallowed expenditures will not have a material adverse effect on the financial position of the University.

29 - <u>RECLASSIFICATIONS</u>

Certain reclassifications have been made to the 2016 financial statements, with no effect on change in net position, to conform to the 2017 presentation.

SUPPLEMENTARY INFORMATION

Operation and

WORCESTER STATE UNIVERSITY (An Agency of the Commonwealth of Massachusetts)

FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017 (With Comparative Totals for 2016)

		Public	Academic	Student	Institutional	Maintenance	Totals		
	Instruction	Service	Support	Services	Support	of Plant	2017	2016	
Regular employee compensation	\$ 19,550,037	\$ 293,327	\$ 3,363,228	\$ 4,633,086	\$ 7,241,501	\$ 3,103,271	\$ 38,184,450	\$ 37,778,592	
Special employee contracted services	7,104,416	457,463	461,598	867,415	430,418	108,625	9,429,935	9,398,570	
Pension and insurance	6,569,800	238,602	1,308,980	2,061,336	2,674,395	2,075,235	14,928,348	13,112,267	
Total payroll and employee benefits	33,224,253	989,392	5,133,806	7,561,837	10,346,314	5,287,131	62,542,733	60,289,429	
Regular employee related expenses	192,442	12,373	189,447	115,988	198,300	53,918	762,468	796,237	
Administrative	843,292	34,643	1,075,440	646,458	1,695,630	344,596	4,640,059	4,963,211	
Facility operations support and related expenses	265,475	91,730	317,366	675,401	507,345	28,430	1,885,747	1,703,257	
Energy and space rental	13,167	471	2,621	834,032	616,264	1,526,564	2,993,119	2,991,120	
Professional services	279,543	48,951	130,176	211,250	427,851	746,865	1,844,636	1,242,112	
Operational services	292,991	35,297	123,472	370,524	267,847	37,102	1,127,233	1,102,678	
Equipment purchases	326,212	6,862	69,234	79,462	134,220	401,071	1,017,061	875,502	
Equipment lease and maintenance	86,276	51,272	30,839	658,650	204,087	272,098	1,303,222	1,195,865	
Construction and building improvements	- 4					2,532,573	2,532,573	2,369,102	
Total operating expenses	2,299,398	281,599	1,938,595	3,591,765	4,051,544	5,943,217	18,106,118	17,239,084	
Total educational and general expenses	\$ 35,523,651	\$ 1,270,991	\$ 7,072,401	\$ 11,153,602	\$ 14,397,858	\$ 11,230,348	\$ 80,648,851	\$ 77,528,513	

(An Agency of the Commonwealth of Massachusetts)

SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY Massachusetts State Employees' Retirement Plan

YEAR ENDED JUNE 30, 2017 (With Comparative Totals for 2016, 2015 and 2014)

	2017	2016	2015	2014
University's proportion of the net pension liability	0.15%	0.18%	0.14%	0.14%
University's proportion of the net pension liability	\$ 18,674,184	\$ 18,901,770	\$ 9,357,928	\$ 11,308,376
University's covered-employee payroll	11,331,835	11,013,323	10,245,240	11,163,731
University's proportionate share of the net pension liability as a percentage of its covered employee payroll	164.79%	171.63%	91.34%	101.30%
Plan fiduciary net position as apercentage of the total pension liability	63.48%	67.87%	76.32%	70.31%

(An Agency of the Commonwealth of Massachusetts)

SCHEDULE OF UNIVERSITY PENSION CONTRIBUTIONS

Massachusetts State Employees' Retirement Plan

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for 2016 and 2015)

	2017	2016	2015	2014
Statutorily required contribution	\$ 972,477	\$ 1,039,592	\$ 741,444	\$ 700,426
Contributions in relation to the statutorily required contribution	972,477	1,039,592	741,444	700,426
Annual contribution deficiency (excess)	<u>\$</u>	\$ -	\$ -	\$ -
University's covered-employee payroll	11,331,835	11,013,323	10,245,240	11,163,731
Contributions as a percentaive of covered-employee payroll	8.58%	9.44%	7.24%	6.27%

(An Agency of the Commonwealth of Massachusetts)

NOTES TO SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF UNIVERSITY CONTRIBUTIONS

JUNE 30, 2017 AND 2016

1 - CHANGES IN ACTUARIAL ASSUMPTIONS

The actuarial assumptions used as of the June 30, 2016 measurement date included a change in the range of assumed salary increases from 3.5% to 9.0% in 2015 to 4.0% to 9.0%.

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

The actuarial assumptions used as of the June 30, 2015 measurement date included a change in the investment rate of return and discount rate from 8.0% to 7.5%. The projection of cash flows used to determine the investment rate of return and discount rate assumed that plan member contributions will be made at the current contributions rates and the members rates.

In May 2015, an early retirement incentive (ERI) was created for certain members MSERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of MSERS has increased by approximately \$230 million as of the June 30, 2015 measurement date.

The Actuarial assumptions used as of the June 30, 2015 measurement date included a change in mortality rates. As of this date, pre-retirement mortality rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender district). Post-retirement mortality rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scan BB (gender district). Disability rates were assumed to be in accordance with the RP- 2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct).

Mortality rates included as of the June 30, 2014 included pre-retirement mortality rates reflecting the RP-2000 Employees table projected 20 years with Scale AA (gender district). Post-retirement mortality rates reflect the RP-2000 Healthy Annuitant table projected 15 years with Scan AA (gender distinct). Disability rates were assumed to be in accordance with the RP- 2000 table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

WORCESTER STATE UNIVERSITY (An Agency of the Commonwealth of Massachusetts)

RESIDENCE LIFE AND HOUSING

STATEMENTS OF NET POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS) '
Cash	\$ 3,327,520	\$ 3,899,989
Accounts receivable, net	90,178	86,506
Total assets	3,417,698	3,986,495
LIABILITIES		
Unearned rental income	255,803	262,525
Accrued and other liabilities	225,447_	226,705
Total liabilities	481,250	489,230
NET POSITION Unrestricted	\$ 2,936,448	\$ 3,497,265

WORCESTER STATE UNIVERSITY (An Agency of the Commonwealth of Massachusetts)

RESIDENCE LIFE AND HOUSING

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
DEVENYING		
REVENUES	¢ 11 402 240	¢ 11 462 172
Fees	\$ 11,483,340	\$ 11,462,173
Other income	354,020	236,147
Total revenues	11,837,360	11,698,320
EXPENSES		
Regular employee compensation	1,207,992	1,116,442
Special employees/contracted services	214,585	97,581
Pension and insurance	412,579	343,792
Regular employee related expenses	41,469	30,043
Administrative	133,845	150,113
Debt payment	7,904,458	7,607,741
Facility operations support and related expenses	199,304	237,892
Energy and space rental	720,592	813,959
Professional services	20,045	19,469
Operational services	25,108	140,879
Equipment purchases	10,086	21,103
Equipment lease and maintenance	110,988	96,781
Building improvements	686,285	714,120
Benefits programs	710,841	558,873
Total expenses	12,398,177	11,948,788
Change in net position	(560,817)	(250,468)
NET POSITION	2 40 7 2 4 7	0.747.72
Beginning of year	3,497,265	3,747,733
End of year	\$ 2,936,448	\$ 3,497,265

(An Agency of the Commonwealth of Massachusetts)

HEALTH SERVICES

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2017 AND 2016

		2017		2016
REVENUES),	
Fees	\$	440,002	\$	444,367
Other income		170		111
Total revenues		440,172		444,478
EXPENSES	入 `	Y		
Regular employee compensation		133,050		116,254
Special employees/contracted services		10,560		5,637
Pension and insurance		47,544		37,587
Regular employee related expenses		2,382		6,622
Administrative		5,361		1,681
Facility operations support and related expenses		20,642		18,087
Professional services		258,004		254,800
Operational services		-		905
Equipment purchases		2,578		-
Equipment maintenance		2,780		325
Benefits programs		388		617
Total expenses		483,289		442,515
Change in net position	\$	(43,117)	\$	1,963

STATISTICAL INFORMATION (UNAUDITED)

	 2012	2013	2014	2015	2016	2017
Invested in capital assets, net of related debt Restricted-expendable Restricted-nonexpendable Unrestricted	\$ 54,324,836 \$ 3,561,378 - 30,428,591	53,993,527 \$ 3,150,370 - 30,722,888	54,295,189 \$ 3,120,338 - 34,051,290	56,137,097 \$ 3,902,909 - 22,831,576	87,321,688 \$ 3,365,187 - 13,592,318	83,469,474 2,984,480 - 13,392,096
Total primary government net position	\$ 88,314,805 \$	87,866,785 \$	91,466,817 \$	82,871,582 \$	104,279,193 \$	99,846,050

	 2008	2009	2010	2011		2012		2013	2014		2015	2016	2017
Resident Undergraduate									1 /200	1			
Tuition	\$ 970	\$ 970	\$ 970	\$ 970	\$	970	\$	970 \$	970	\$	970	\$ 970	\$ 970
Mandatory Fees	4,894	5,200	5,636	6,186		6,683		7,187	7,587		7,587	7,887	8,232
Total Annual	\$ 5,864	\$ 6,170	\$ 6,606	\$ 7,156	\$	7,653	\$	8,157 \$	8,557	\$	8,557	\$ 8,857	\$ 9,202
Non Resident Undergraduate							~	7					
Tuition	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$	7,050	\$	7,050 \$	7,050	\$	7,050	\$ 7,050	\$ 7,050
Mandatory Fees	 4,894	5,200	5,636	6,186		6,683	<u> </u>	7,187	7,587		7,587	7,887	8,232
Total Annual	\$ 11,944	\$ 12,250	\$ 12,686	\$ 13,236	\$	13,733	\$	14,237 \$	14,637	\$	14,637	\$ 14,937	\$ 15,282
Resident Graduate				A									
Tuition	\$ 150	\$ 150	\$ 150	\$ 150	\$	150	\$	150 \$	150	\$	150	\$ 150	\$ 150
Mandatory Fees	 95	95	95	112	Ø)	115		115	117		117	138	148
Total per Credit Hours	\$ 245	\$ 245	\$ 245	\$ 262	\$	265	\$	265 \$	267	\$	267	\$ 288	\$ 298

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Faculty - Primary Instruction /1	420	405	512	416	419
Part-time	225	204	306	214	215
Full-time	195	201	206	202	204
Staff and Administrators	335	339	363	353	354
Part-time	13	15	12	13	12
Full-time	322	324	351	340	342
Total Faculty & Staff Employees	755	744	875	769	773
Part-time	238	219	318	227	227
Full-time	517	525	557	542	546
Non-Benefitted Employees /2	657	609	651	615	704
Contract Workers	77	63	103	141	174
Coaches	38	38	31	474	530
Student Workers	355	325	347	<u>-</u>	-
Work Study Students	187	183	170	-	-
Total All Employees	1,412	1,353	1,526	1,384	1,477

^{/1} Includes Instruction, Research & Public Service

Notes: 1) This schedule reflects personnel as of November 1 and includes employees paid from both state appropriation and local trust funds.

²⁾ Beginning 2009 all benefitted and non-benefitted personnel are reflected regardless of funding source.

Worcester State University Admissions, Enrollment, and Degree Statistics Last Five Years

	Fall Term											
Admissions-Freshman /1	2012	2013	2014	2015	2016							
Applications	4,425	5,632	5,662	4,828	4,963							
Applications accepted	3,189	3,467	3,479	3,458	3,651							
Accepted as a percentage of applications	72.07%	61.56%	61.44%	71.62%	73.56%							
Students enrolled /2	1,345	1,415	1,409	1,454	1,366							
Enrolled as a percentage of accepted	42.18%	40.81%	40.50%	42.05%	37.41%							

^{/1} Includes all undergraduate admissions including transfer students.

^{/2} Includes only students who were accepted and enrolled. Enrolled alone would include students who were not accepted but enrolled as non-degree seeking students.

	Annual										
Enrollment	FY13	FY14	FY15	FY16	FY17						
Full-time equivalent	5,337.7	5,437.3	5,373.0	5,339.5	5,409.8						
Unduplicated credit headcount	10,063	10,078	9,797	9,774	10,679						
Percent undergraduate /3	85.31%	86.18%	87.61%	87.44%	83.16%						
Percent graduate	14.69%	13.82%	12.39%	12.56%	16.84%						

^{/3} Percent undergraduate/graduate based on Fall semester registration, unduplicated headcount.

			Fall Term		
Student Population Demographics /4	2012	2013	2014	2015	2016
Percentage of men	37.69%	38.03%	38.27%	38.31%	37.09%
Percentage of women	62.31%	61.97%	61.73%	61.69%	62.91%
Percentage of African-American	5.19%	5.43%	6.13%	6.85%	7.08%
Percentage of White	75.21%	72.79%	71.09%	70.42%	68.95%
Percentage of Latino	6.56%	6.95%	7.94%	8.18%	9.21%
Percentage of Other /5	5.51%	6.08%	6.72%	6.77%	6.75%
< 20	24.44%	23.26%	23.60%	24.08%	23.74%
20 to 30	57.63%	58.98%	59.10%	58.76%	56.35%
31 to 40	8.64%	7.67%	7.40%	7.96%	8.54%
41 & Over	9.93%	10.08%	9.60%	9.20%	11.36%

^{/4} Percents within category are based on population of students who reported this information (gender, race/ethnicity, and age).

^{/5} Other includes American Indian/Alaskan Native, Asian, Native Hawaiian or Other Pacific Islander, Cape Verdean and Two or more races.

Degrees Granted	FY13	FY14	FY15	FY16	FY17
Bachelor's	924	986	1,008	1,115	1,076
Master's	191	262	192	205	225

	Academic Year		
	<u>2016</u>	<u>2017</u>	
Land (acreage)	57	57	
Buildings (square feet)			
100 Instruction/classroom	56,585	56,585	
200 Labs	54,613	54,613	
300 Administrative	111,966	111,966	
400 Study facilities	27,870	27,870	
52x Athletic	1,845	1,845	
5xx Other Special Use	6,470	6,470	
600 General Use	75,885	75,885	
700 Support facilities	172,937	172,937	
000 Unclassified	-	-	
Unassigned/unassignable	307,890	307,890	
Total Sq Ft	816,061	816,061	
Residence Halls	462,513	462,513	
Rental space	-	-	
Dormitories - # of residents	1,577	1,577	

Note: Classification of facilities space is consistent with Facilities Inventory & Classification Code guide.

]	Fiscal Year
	<u>2013</u>	<u>2014</u>		<u>2015</u>	<u>2016</u>		<u>2017</u>
Source of Revenue							
Student charges (net of scholarships)	\$ 41,388,967	\$ 41,992,749	\$	44,591,923	\$ 48,411,331	\$	48,483,889
Grants & contracts	8,463,834	9,404,005		10,575,227	10,924,592		11,975,305
Auxiliary enterprises	695,533	754,505		873,017	444,478		440,172
Other operating revenue	1,281,025	1,574,697		1,058,816	1,146,016		1,032,424
Total operating revenue	51,829,359	53,725,956		57,098,983	60,926,417		61,931,790
State support	26,483,839	30,055,723		31,840,805	33,605,906		35,169,690
Other non-operating revenue	(126,317)	420,498		471,712	811,842	A	(188,427)
Total non-operating revenue	 26,357,522	30,476,221		32,312,517	34,417,748		34,981,263
					A		
Total revenue	\$ 78,186,881	\$ 84,202,177	\$	89,411,500	\$ 95,344,165	\$	96,913,053
Functional Expense).	
Instruction	\$ 31,349,284	\$ 32,780,505	\$	33,402,333	\$ 34,662,566	\$	35,523,651
Academic support	6,782,540	7,025,574		6,607,824	7,768,616		7,072,401
Student services	7,220,968	7,469,711		8,625,036	9,396,733		11,153,602
Institutional support	11,443,858	13,443,252		13,432,296	15,447,340		14,397,858
Plant operations & maintenance	7,622,055	7,409,398		9,342,808	9,297,557		11,230,348
Research	-	-		A -	-		-
Public service	675,857	520,666		1,149,664	955,701		1,270,991
Scholarships	1,207,642	1,033,633		729,898	2,653,815		2,052,956
Sub-total	66,302,204	69,682,739		73,289,859	80,182,328		82,701,807
Auxiliary enterprises	7,423,424	8,243,709	~	12,299,488	11,838,607		12,881,466
Independent operations	-			<u>-</u>	-		-
All other	 734,283	574,866		270,821	4,954,148		5,825,575
Total operating expense	\$ 74,459,911	\$ 78,501,314	\$	85,860,168	\$ 96,975,083	\$	101,408,848
Memo: Depreciation	\$ 4,174,992	\$ 4,158,890	\$	4,224,797	\$ 4,664,588	\$	5,328,423

Note: This schedule does not include component units, such as foundations. Total operating expense does not include depreciation.

OTHER REPORTS



INDEPENDENT AUDITOR'S 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 Worcester State University Worcester, 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 Worcester State University, an agency of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Worcester State University's basic financial statements, and have issued our report thereon dated _______, 2017.

Internal Control over Financial Reporting

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

INDEPENDENT AUDITOR'S 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 (Continued)

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.

Worcester, Massachusetts _____, 2017



Vice President, Division of Administration and Finance

Phone: 508-929-8087 Fax: 508-929-8433

Memorandum

DATE:

October 6, 2017

TO:

Barry M. Maloney, President

FROM:

Kathleen Eichelroth, Vice President for Administration and Finanse

RE:

DRAFT FY 2017 AUDITED FINANCIAL STATEMENTS

Attached is a comprehensive draft of the FY 2017 audited financial statements examined by Bollus Lynch, LLP. The first two pages contain the Independent Auditor's Report. The Management Discussion and Analysis, which is prepared internally, is on pages 3-9. The Basic Financial Statements and related footnotes, which are subject to audit, are reflected on pages 10-35. Additional supplementary schedules and the report on internal controls comprise the remainder of the report.

Bollus Lynch will be attending the Finance and Facilities Committee Meeting on October 17, 2017 to present the audit report. At the conclusion of their presentation of the audited financial statements, I will present the Management Discussion and Analysis and will be available to answer questions regarding the fiscal year end.

Memorandum

DATE:

September 28, 2017

TO:

Steve Madaus, Chair, Finance and Facilities Subcommittee

FROM:

Kathleen Eichelroth, Vice President for Administration and Finance

RE:

BOILER REPLACEMENT – 535 CHANDLER STREET

I am writing to inform the Board of the need to replace the boiler at 535 Chandler Street. The existing boiler has exceeded its life span and had previously been converted from a coal boiler to oil. The replacement must be scheduled immediately in order that the work is complete prior to the onset of winter conditions. The work is expected to take at least a week, and the scope of work includes installation of a temporary electric water heater in order that hot water will be available during installation of the new permanent boiler. The electric water heater will remain in place as a backup after the new boiler is installed.

Attached is a quote for the work related to the installation of the temporary and new boiler and other necessary work to place it in operation. In addition, a quote is provided for removal and remediation of the existing asbestos laden boiler. The abatement and removal of the existing boiler must be performed by a vendor licensed in the Commonwealth to perform hazardous waste removal. The estimated total cost to abate and replace the existing boiler is \$24,514. The Administration is in the process of obtaining two additional quotes for the scope of work to ensure we are procuring the services in the most cost effective manner. All manufacturer and contractor warranties and related certifications regarding hazardous waste removal will be obtained from the vendors and kept on file upon completion of the work.

We are seeking approval to proceed with this project at an estimated cost not-to-exceed \$30,000, allowing for the potential of additional cost related to unforeseen circumstances.

Attached please find individual schedules and cost estimates from the two service suppliers chosen for this project.

Also, below please find our overall project schedule which integrates both vendors' individual timelines. Attached are the actual detailed cost estimates for this job per vendor.

Thursday / Renaud (the week prior to boiler removal)

- Install Electric water heater
- Disconnect existing boiler (see attached for additional detail)

Monday / Commercial Energy

 Removal of existing boiler including containment and removal of asbestos materials found during disassembly (see attached for additional detail)

Tuesday / Renaud

Prepare work areas both upstairs and in the basement. Begin assembling the new boiler.

Wednesday / Renaud

Continue installation and piping

Thursday / Renaud

- Final plumbing
- Start and test new system
- Clean up and remove surface protection

Final Project Estimates

Renaud: \$20,864.00

• Commercial Energy: \$3650.00

Total Project Cost: \$24,514.00

P.O. Box 26

18 Providence Road

Sutton, Massachusetts 01590

Telephone 508-865-2060

FAX 508-865-9070

September 15, 2017

Worcester State College

Temple Facility May Street Worcester, MA 01602-2597

Attn. John Capuano

Re: Chancellor House Boiler Replacement

We are proposing to replace the boiler at the President's house. The existing boiler has exceeded it's expected lifespan. It is a coal boiler converted to oil and is obsolete. I have included the installation of an electric water heater to provide temporary hot water during the installation. It will remain as back up for the tankless system after the installation is complete. Please see our scope and pricing below.

We propose the following:

- Furnish and install Weil McClain P-WTGO-6 oil boiler.
- Boiler have a tankless water heater.
- Furnish and install a Becket 6-sec burner.
- Unit to have all necessary safeties and controls.
- Boiler to tie into existing heating header.
- Existing pumps to be reused.
- A new jacketed oil line will be run. Line to be sealed and encased.
- All piping, fittings and hangers where required are included.
- Prep of floor to remove boiler through house is included.
- Electrical feed, zone controls and low voltage controls to be reused.
- Furnish and install a RUUD PROE 40-gallon electric water heater.
- All electrical wiring and permits are included.
- Renaud HVAC could not identify if there is any asbestos contained within the boiler. We are not responsible for asbestos removal. If asbestos is found in the boiler during the demolition process work will cease and the University notified. A plan for removal will be put in place. Once site is deemed safe we will complete the installation.
- All labor to comply with MA prevailing wage law.
- Any deficiencies, outside of the proposed scope will be noted and brought to the Universities' attention for review.

Boiler Installation:

Labor:

\$11,000.00

Materials:

\$6,650.00

Total Price: \$17,650.00

Water Heater Installation:

Labor:

\$880.00

Materials: \$2,334.00 Total Price: \$3,214.00

Grand Total: \$20,864.00

Terms:

Date of Acceptance

a) Progress billing for services performed, materials and equipment delivered. Net 30 Days.

We may withdraw this proposal if not accepted within 30 days

Sincerely,

Ken Boutiette Service Manager

Acceptance of Proposal – The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Payment will be made as outlined above.

Signature	
Signature	

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COMMERCIAL ENERGY, INC

P.O. BOX 30006 WORCESTER, MA 01603 (508)752-1322 FAX (508)832-5383

commenergy@hotmail.com

Date: September 26, 2017

Proposal submitted to: Worcester State University 486 Chandler St. Worcester, Ma Work performed at: The Presidents House 535 Chandler St. Worcester, Ma

Acceptance of proposal secures required notifications from the Department of Environmental Protection, Department of Labor Services, and the local Board of Health. This is required to engage in any asbestos abatement.

Work to be performed as follows: Complete removal and disposal of the existing asbestos containing boiler in the basement area. Asbestos gasket material is located in-between the sections of mentioned boiler.

Commercial Energy Inc., will properly remove the asbestos material, and the boiler in full accordance with all state and federal regulations.

Commercial Energy Inc., will also take precautions to protect the work area, and entry and exit areas. This will include plywood, and or poly with drop cloths to protect the flooring, full containment around the boiler. Upon completion of this project all plywood, poly and any other materials will be picked up and disposed of. An estimate of one day is required for this project. It is known that this is a prevailing rate project and employees will be paid as such.

All labor, professional services, supplies, and disposal fees... \$ 3,400.00 Ma DEP required independent hygienist for air testing... \$250.00

Cost of project: \$ 3,650.00

This proposal may be withdrawn within thirty days, if not accepted.

ACCEPTANCE OF PROPOSAL

The above price	s, specifications an	d conditions	are satisfactory	and hereby accepted.
Authorizat	ion of above work	as specified.	and payment a	s outlined above.

Signature	Date
-----------	------

MA Lic: AC000193

BOARD OF HIGHER EDUCATION	
STANDARDS FOR THE EXPENDITURES OF TRUST FUNDS Adopted May 9, 1989 Revised June 6, 1990 Revised October 13, 1992 Revised December 5, 2000	
The Commonwealth of Massachusetts	

ROLE OF TRUST FUNDS

The term "trust funds" as used in public higher education refers to non-appropriated funds held by the public institutions of higher education.

In Massachusetts, trust funds play an important role in financing the educational needs of all students in the public higher education system. The statutory authority for trust funds in Massachusetts is found in Massachusetts General Laws chapter 15A, Section 9 (N) and 22 (E), Chapter 73 Section 14 and Chapter 75 Section 11. The language contained in the various statutes provide authority for the Board of Higher Education and institutional boards of trustees to seek, accept, establish and administer trust funds for campus projects, programs and activities. The statutes stipulate that all income received be held in trust and be expended for the purposes for which the trust funds were established. It is important, therefore, that institutions carefully review the purposes for which a trust fund has been established before making any expenditures from the trust fund. Trust funds are used to complement state appropriations in order to ensure sufficient funding of an institution's total needs. Without trust funds, the Commonwealth's appropriation would have to be increased or some services could not be undertaken. Trust funds can also provide a vehicle to manage supplemental programs to better meet the needs of the college or university community.

Typically, trust fund revenues are used in connection with a variety of campus activities such as auxiliary enterprises (e.g., student housing, bookstores, food service, vending machines), student activities, financial aid, medical services, public services and research. These funds are self-sustaining. The public colleges and the University have two primary sources of income: state appropriations and local campus revenues or trust funds.

- The expenditure of state appropriated funds is governed by detailed state regulations which control expenditures for all state agencies. Statutory authority for enforcing state regulations rests with several entities including the State Comptroller. The Office of the State Auditor has authority under Chapter 11, Section 12 of the Massachusetts General Laws to audit colleges and universities programmatic and financial activity including trust funds in accordance with General Accepted Government Auditing Standards.
- Trust funds expenditures, however, are regulated differently. Although technically "public" funds, trust funds are not "appropriated" funds, and therefore, are not subject to the same spending rules and regulations as appropriated funds. In many cases, other external regulations govern expenditures of campus trust funds. For example, sponsored research trust funds would be subject to federal and state regulations concerning the expenditure of research monies. Student housing funds may be governed by regulations pertaining to debt service payments associated with dormitory construction. Where external, third-party regulations do not exist, responsibility for regulating and controlling the expenditure of campus trust funds rests with local boards of trustees. The Board of Higher Education

does not have statutory authority over institutional trust funds. The Office of the State Auditor has statutory authority to audit Trust Fund revenue and expenditures.

Because trust fund regulations are locally developed and controlled, they vary from institution to institution and there is a wide spectrum of institutional policies, procedures and regulations which apply. They range from extremely limited regulations to conformity with all state regulations pertaining to appropriated funds. In the vast majority of cases, the guidelines can be considered general in nature, leaving much to the discretion of institutional boards and administrators.

PURPOSE OF THE STANDARDS

A generally shared objective of the Commonwealth of Massachusetts is to improve the quality and effectiveness of its public higher education system and to raise it to a position of leadership in the United States. It is important that the development, utilization, and management of trust funds be conducted in a manner that meets with general approval. Clearly, expenditures from trust funds should be consistent with this overall, long-range goal.

Therefore, these standards for the expenditure of trust funds are intended:

- 1. To provide some guidance and suggestions on selected expenditures made in the interest of promoting the mission of the institution.
- To outline recommended standards for expenditures which have the appearance of providing personal benefits to college officials and friends, or of being lavish or extravagant in nature.

It is impossible to discuss every conceivable type of expenditure, which might be made from these funds. These standards are designed to provide greater clarity and more uniformity in the determination of appropriate and inappropriate expenditures of these funds.

The standards should be considered minimum standards. Local boards of trustees must develop institutional guidelines and standards which may be more but not less restrictive.

The standards in this report are designed to apply primarily to those trust funds, which permit broad, discretionary expenditures. However, they shall also be applied to expenditures from all trust funds established by boards of trustees, which are not governed by external (non-trustee) regulations or restrictions.

Underlying Principles

A number of important principles underlie these standards:

- Institutional autonomy and flexibility as well as local decision-making are important and should be encouraged. These standards should not be construed as an attempt to usurp local authority or to centralize decisionmaking. Each institution must have the flexibility to fulfill its distinctive mission within the public higher education system.
- 2. No set of general or detailed guidelines can be a substitute for personal ethics and sound judgment. Expenditures of trust funds should be made with the assumption that those decisions and choices will become public knowledge.
- Local boards of trustees have the responsibility to issue guidelines to ensure that all Trust Fund revenues due to be received have been received and properly deposited and accounted for.
- 4. Local boards of trustees have the responsibility to issue clear guidelines for the expenditure of trust funds and to establish the mechanism and structures to actively review these expenditures. Accountability is a critical component of local autonomy. Individuals and institutions should be held accountable for their choices and decisions, including the expenditure of trust funds.
- 5. Public colleges and the University are members of and participants in the larger communities they serve. As such, they must interact with community groups and civic associations and it can be appropriate for them to make modest and limited expenditures in support of these entities.
- 6. State institutions, like private institutions, must engage in activities which promote employee morale, generate philanthropic support and enhance the well-being of the institution. Accordingly, reasonable and appropriate expenditures to support such activities can and should be made.
- 7. Trust funds should not be spent in a manner which gives the impression of lavishness or extravagance. Travel, entertainment and other expenditures should be made in moderation and good taste.
- 8. Expenditure of trust funds may be subject to federal and state income taxation if they exceed normal allowances, are not adequately accounted for, and/or do not satisfy a requirement that the expenditure was accomplished to satisfy the business needs of the institution.

The following pages outline minimum standards to ensure the proper control of the receipt and expenditure of trust funds.

I. RESPONSIBILITY AND REPORTING

(1) Responsibility for the specific trust fund guidelines and regulations rests with the institutional board of trustees. These guidelines should include policies

- and procedures concerning trust fund revenue sources, appropriate and inappropriate expenditures, bank accounts, spending approval levels and required documentation.
- (2) Responsibility for trust administration rests with the president or chancellor of the institution. Records shall be maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts.
- (3) Policies, procedures and internal controls should be established for all Trust Fund administrative and financial activity. All transactions and significant events should comply with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, and the Office of the State Comptroller's Internal Control Guides for Departments.
- (4) All trust fund activities shall be subject to regular audit and inspection by the State Auditor's department and the Board of Higher Education.
- (5) Clear goals and objectives for the trust fund should be established by the institution and, where feasible, an annual budget should be developed, reviewed by the president and submitted to the board of trustees for approval before the beginning of each fiscal year. Such budgets should include sufficient detail to permit the identification of major expenditures. Expenditures should not exceed budgeted amounts for each Trust Fund without prior approval.
- (6) The president shall provide a detailed accounting of trust fund expenditures to the board of trustees on, at least, a quarterly basis and the audited financial statements to the Board of Higher Education on an annual basis. Additional reports may be requested at the discretion of either board.
- (7) The level of detail required in the quarterly and annual report is left to the discretion of the board of trustees at each campus. However, the level of detail must be sufficient to satisfy board member inquiries and audit requirements and it should also include:
 - certification by the president that all records were maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts, and
 - relationship of the expenditure to institutional mission should be clearly stated or evident

In addition, the president and/or board of trustees should report all violations of trust fund expenditure standards as well as the follow-up action taken to address each violation to the Board of Higher Education. This report should be made on a quarterly basis if violations occur. If no violations occur during

the year, the audit report and management letter are required as confirmation of this fact.

- (8) Also in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls at State Agencies, all unaccounted for variances, loses, shortages or theft of funds or property shall be immediately reported to the Office of the State Auditor (OSA). The OSA is responsible to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and, if appropriate, law-enforcement officials.
- (9) Wherever these standards require the board of trustees approval, approval may be given by any one of three entities: the full board, a sub-committee of the board or a designated trustee(s). The choice is up to the full board of trustees and should be included in the campus procedures or guidelines.
- (10) Wherever these standards require prior approval, the approval of the annual budget by the board of trustees satisfies prior approval requirements for any expenditure highlighted in these standards if that annual budget includes sufficient detail to permit the identification of said expenditure.
- (11) The president or his or her designees should have discretion over trust fund expenditures up to a ceiling specified by the board of trustees except in the following eight circumstances which require approval by the Board of Trustees regardless of the amount of the expenditures:
 - expenditures which personally benefit the president,
 - expenditures for renovations or repairs of president's office or home,
 - expenditures for individual's membership dues (in excess of \$500 for employees other than the president and for amounts in excess of \$1,000 for the president), except for fees or dues associated with professional organizations that directly advance the institution's mission,
 - expenditures for attendance at charitable dinners or events,
 - expenditures for trustee travel,
 - expenditures for entertainment of guests in president/chancellor's home.
 - expenditures for moving costs, and

 expenditures for purchase or lease of motor vehicles (for use by the president or other administrators.)

Additional discussion on the above expenditures are included in the following sections of the standards.

(12) Individual expenditures over the ceiling as specified by the board of trustees require the prior approval of the board of trustees. Each board of trustees shall inform the Chancellor of the Board of Higher Education of the ceiling specified by that board.

II. CATEGORIES OF EXPENDITURE

(1) Expenditures of a Personal Nature

- A. Whenever an expenditure would personally benefit or might be seen to personally benefit an individual, that person is prohibited from approving such an expenditure, regardless of the dollar amount. In addition to any board approval required elsewhere in this document, in all such circumstances, an institutional official at a higher organizational level must approve the expenditure in advance.
- B. In the case of a president, the board of trustees must provide prior approval of such expenditures.

(2) General Campus Operations

- A. Facilities renovations, repairs, or decorations may be funded through a combination of the institution's appropriation from the Commonwealth and trust funds. When such expenditures for president/chancellor's home or office are to be made, they must have the prior approval of the board of trustees except in an emergency, in which case the board should be informed as soon as practicable. All such expenditures shall conform to the competitive bidding policies of the Commonwealth and to its associated procurement procedures.
- B. Contractor and consultant fees paid from trust funds should conform to state law pertaining to such activities.
- C. Publications, including president's reports, newsletters, advertisements, magazines, invitations an others should avoid the appearance of extravagance.
- D. Individual's membership fees for civic, academic and/or professional organizations in excess of \$500 must have prior approval by the board of trustees except for such memberships for the president so long as fees are not in excess of \$1,000.

- E. Outright contributions to charitable organizations are prohibited. However, where attendance at a charitable dinner or event will further the public purpose of the institution, expenditure may be permitted subject to prior approval by the board of trustees. The board of trustees may wish to impose a reasonable annual limit on such events for each organization.
- F. Contributions to individuals (or their associated committees) seeking elected, public office are prohibited.
- G. Contributions to political action committees (PACs) or equivalent organizations are prohibited.

(3) Travel and Substance Costs

A. <u>Employee Travel</u>: When travelling to and from institutional business activities, actual expenditures for transportation, including bus, railroad, airline, subway, taxi and personal auto should be reimbursed to the extent that these expenditures exceed the normal daily cost of commuting to and from the institution. Where practical, the least expensive mode of transportation should be selected.

A comprehensive travel expense voucher must be filed for each trip. The voucher should reflect the cost of registration at a convention or meeting; transportation including local transportation, lodging, meals, and miscellaneous costs. Invoices in support of each item of cost shall be attached to the voucher. If one or more costs items have been separately paid by the institution (e.g. airfare), the cost item should be reported on the voucher, noted as paid and a copy of the airfare ticket or other invoice attached to the voucher. Adequate conference registration documentation should be attached to the voucher to demonstrate the extent to which meals were included in the registration fee.

In particular, all individuals should fly coach class or at discount fares where available.

Reimbursement for personal automobile mileage may be reimbursed at the prevailing state rate plus documented parking and tolls or the applicable collective bargaining agreement.

The circumstances of an out-of-town trip and the availability of public transportation may require the use of rental cars. Individuals should make every effort to take advantage of discount rates with car rental companies.

When travelling on institutional business, staff members should live and conduct business in a cost efficient manner which is both comfortable and safe. Where appropriate and available, discount rates on hotel and motel

stays should be taken advantage of. All charges, other than basic room charge and tax, such as meals, or phone calls should be separately identified on the expense report.

• Campus board of trustees should establish separate reimbursement policies for incidental travel expenses.

Business meals including food and beverages expenses must be reasonable and appropriate under the circumstances.

Examples of reasonable expenses:

- Meal expenditures which have a clear business purpose
- Meals while travelling out-of-town on institutional business
- Expenditures for the purpose of recruiting potential employees
- Meals incurred as part of attendance at conferences or meetings of professional organizations

Expense documentation should include:

- Date, city, restaurant and description of meal (lunch, dinner, etc.)
- Name(s), company, affiliation(s) and business relationship(s) of person(s) in attendance
- Business purpose and benefit to the institution for incurring the expenses
- Amount spent

In addition, business meal expenses must be documented by a receipt. Any meal not accompanied by a receipt may be reimbursed at the Commonwealth's per diem rate for meals. Also individuals monthly charges should be accompanied by an original receipt.

Expenditures of a personal nature, unreasonable or excessive expenses, and those not specifically related to the conduct of institutional business are not reimbursable. The following are indicative of the type of expenditures that should not be reimbursed:

- Excessive or extravagant costs (e.g., expensive wines, exclusive restaurants)
- Personal entertainment

- Travel insurance in excess of the amount automatically provided by the institution and the Commonwealth
- Fines for traffic or parking violations
- Insurance for a personally-owned car
- Articles stolen from a personal or rental car
- Briefcases and luggage
- Expenses incurred in connection with personal business
- Any unexplained expenses
- B. Non-employee Travel: Trust fund expenditures to pay for spouse or personal guest travel are not permitted. If the spouse or guest is a participant on a conference panel or program, expense reimbursement should be sought from the sponsoring organization or personal funds should be used.

At the president's direction, students may be allowed to incur travel expenses charged to the trust funds. Trustee travel must be approved by the chairman of the board of trustees. In all cases, the activities and expenses must be clearly related to the mission of the institution.

For such individuals, expense documentation should conform to the documentation required for employee expenses. In addition, the listing of unallowable expense noted for employees also applies to the aforementioned individuals.

(4) Personal and Student Loans

- A. Personal loans should not be granted to institutional staff, students or board members. This requirement does not apply to regular financial aid programs at the institution.
- B. In certain rare circumstances, it may be permissible to provide salary advances to employees if the institution cannot meet payroll due to technical difficulties (e.g., computer failure, etc.). Such advances should be repaid promptly to the trust fund.

(5) Employee and Student Recognition and Activities

- A. Within moderate limits set by the board of trustees, certain expenditures of trust funds to enhance employees and student morale or to recognize achievement, longevity, performance or retirement can be made. These circumstances include but are not limited to:
 - institutional social functions, and

employee and student recognition awards and dinners.

(6) Entertainment of institutional donors, alumni, friends, guests and visitors

- A. Such entertainment should be in moderation and good taste.
- B. It is appropriate for a college president to entertain guests in his or her home as part of official duties. Such expenditures must have prior approval of the board of trustees.
- C. Areas of expenditure for entertainment can include:
 - Equipment and furniture rentals
 - Materials and supplies
 - Food and beverage
 - Entertainment
 - Service staff
 - Travel and related expenses (in conformity with the travel guidelines noted above)
- D. Sports, theatre and other entertainment tickets cannot be purchased with trust funds unless the event is being held on campus and the expenditure benefits the mission of the institution or directly supports its instructional programs.

(7) Miscellaneous

- A. Moving expenses are appropriate for the President and selected employees of the institution. Attracting individuals of high quality can require moving them from other parts of the state or country. Moving expenses should not exceed the regional, average cost of moving between two points, and must have the prior approval of the board of trustees. Competitive bids for moving costs should be sought in all cases. These expenditures should not include storage fees while an employee waits to sell or purchase a home.
- B. Purchase or lease of any motor vehicle with trust funds (for use by the president or other administrators) must have prior approval of the board of trustees. The lease or purchase of a full-sized, mid-priced automobile for the president's use may be appropriate. If a more expensive vehicle is desired by the president, the difference between the stated limits and the actual cost should be paid with the president's personal funds. Compliance with IRS guidelines for the personal use of an institutional vehicle should be adhered to by a president or other administrator.
- C. Purchase of flowers, gifts and cards in moderation from trust funds may be appropriate. Appropriate occasions include but are not limited to:

- death or illness of an employee, student, trustee or person of special importance to the institution, or immediate family of said persons, and
- visit of special guests.
- D. Private clubs initiation fees and membership dues are not an allowable expense. Membership fees for professional or academic organizations and civic groups are an allowable expense; however, any initiation fee or annual membership fee for the president in excess of \$1,000 must have the prior approval of the institution's board of trustees. Membership fees in excess of \$500 for employees other than the president must have prior approval.
- E. Policies passed by the Board of Higher Education after approval of the Trust Fund Guidelines (last revised on December 5, 2000) shall supersede expenditure and reporting requirements as indicated in these Guidelines.

III. CLOSING COMMENTS

As noted previously, these proposed minimum standards for the expenditure of trust funds are not all-inclusive. It is impossible to outline every possible type of expenditure which might be made from these funds. However, when a trust fund expenditure decision must be made, it should be made in recognition of the public nature of these funds and in moderation of good taste.

Campus boards of trustees are expected to establish standards for the expenditures of trust funds that meet or exceed the Board of Higher Education's minimum standards as identified in this document. The institution's board of trustees shall approve campus-based standards. Each institution shall make its standards for the expenditure of trust fund available to the campus community.

The Board of Higher Education and the campuses will undertake a review of their standards for the expenditure of trust funds at least every five years.

October 17th Trustees Meeting Packet



President's Office Phone: 508-929-8020

Fax: 508-929-8191

Email: bmaloney@worcester.edu

NOTICE

A MEETING OF THE WORCESTER STATE UNIVERSITY BOARD OF TRUSTEES WILL BE HELD ON TUESDAY, OCTOBER 17, 2017 AT 6:30 P.M. IN THE BANQUET HALL OF THE MAY STREET BUILDING.

- 1. CALL TO ORDER *Notice/Agenda
- 2. *VOTES
- 3. APPROVAL OF MINUTES September 12, 2017
- 4. CHAIR'S UPDATE
 Tour of May Street Building
- 5. PRESIDENT'S REPORT
- 6. FINANCE & FACILITIES COMMITTEE REPORT
- OTHER BUSINESS
- 8. ADJOURNMENT

*Attachment

Judith A. St. Amand October 10, 2017

VOTES

Upon a motion made and seconded, it was

VOTED: to approve the minutes of September 12, 2017 as submitted.

Upon a motion made and seconded, it was

VOTED: to accept the recommendation of the Finance and Facilities Committee and

approve the DRAFT FY2017 Audit Report as presented.

Upon a motion made and seconded, it was

VOTED: to accept the recommendation of the Finance & Facilities Committee and

to approve proceeding with the boiler replacement project at 535 Chandler Street (President's Residence) at an estimated cost not-to-exceed \$30,000, allowing for the potential of additional cost related to unforeseen

circumstances.

Upon a motion made and seconded, it was

VOTED: to adjourn the meeting at

WORCESTER STATE UNIVERSITY BOARD OF TRUSTEES

September 12, 2017

PRESENT: Trustee Craig Blais, Chair

Trustee Maryanne Hammond, Vice Chair Trustee Stephen Madaus, Vice Chair

Trustee Lisa Colombo Trustee Aleta Fazzone Trustee Karen LaFond Trustee Dina Nichols Trustee Amber Suarez Trustee Marina Taylor Trustee David Tuttle

President Barry Maloney, Secretary

Ms. Judith St. Amand, Assistant Secretary

ABSENT: Trustee Shirley Steele

In accordance with the provisions of General Laws, Chapter 30A having been complied with, and a quorum present, a meeting of the Worcester State University Board of Trustees was held in room 204 of the Wellness Center. Chairman Blais called the meeting to order at 7:15 p.m.

WELCOME NEW TRUSTEES

Chairman Blais welcomed Amber Suarez newly elected Student Trustee Representative and Dr. Lisa Colombo who will serve as the Alumni Representative to the Board. Both were introduced at the Tri-Board Dinner prior to the meeting and he officially welcomed them to the Board.

APPROVAL OF MINUTES – June 6, 2017

Minutes were amended with correction to page numbers.

Upon a motion by Trustee LaFond and seconded by Trustee Hammond, it was

VOTED: to approve the amended minutes of June 6, 2017 as submitted.

CHAIR OF THE BOARD UPDATE

- Special thank you to Trustee Stephen Madaus for his willingness to assume the position of Chair of the Finance & Facilities Committee
- In June I asked trustees to share with me any special interests for serving on various standing committees – Trustee Nichols expressed her interest in the Finance & Facilities Committee and I am happy to appoint her to F&F
- Student Trustee will replace last year's representative on committees unless she expresses a specific interest
- Mentioned that he discussed with President Maloney the advantage of having his goals presented for a two year period will discuss further under that agenda item

Adopt a Scholar Program

- Scholarships for students continue to be a prime focus for fundraising
- Data provided by the Enrollment Management division show that students who are scholarship recipients persist and graduate at a greater rate than WSU students who don't
- With the addition of the Adopt a Scholar program last year, donors have an opportunity to support a student with an annual scholarship gift of \$1,000 for four years for the same student
- Thirteen Adopt a Scholar scholarships were established last year, the first year of the program, and an additional seven were created this year
- Donors committed \$4,000 over the course of four years to the program and Chairman Blais is asking the members of the Board to consider participation in this unique program
- Materials were provided to each trustee

PRESIDENT'S REPORT

- President also welcomed Student Trustee Amber Suarez and newly appointed Trustee
 Lisa Colombo to the Board
- Pleased to report that Dr. Colombo will be honored next month at the Distinguished Alumni Awards event
- President Maloney also expressed his sincere appreciation to former Trustee George
 Albro for his commitment and dedication during his tenure on the Board he was
 definitely a "Students First" person and worked hard for the students of WSU he will
 be truly missed, but will continue to serve on the Foundation Board and will continue as
 an active member of WSU family
- Tonight's Tri Board Dinner was quite successful and invitees included former members of the Alumni, Foundation and Trustee Boards
- For new trustees, President reported that at each meeting he provides a written President's Update highlighting areas of accomplishment since previous report
- Each update will highlight WSU's efforts to advance its Strategic Plan
- September's focus is on: Overarching Goal #3: Attract and enroll a diverse pool of highly motivated students and attach institution-wide priority to promoting their retention and success

Undergraduate Positioning & Institutional Strategy Study Presentation

- Provost Wims, VP Forsythe joined the Board and welcomed David Strauss from Art &
 Science Group LLC, who provided a presentation to the group
- Mr. Strauss explained that this project will help WSU move forward with institutional strategy that will strengthen its market position and expand its reach
- Approach is to identify an array of valid thrusts and facets of WSU's identity, plans, and strategic options, to vet them internally, and to subject them to testing through research, before making decisions about the most effective ways to proceed
- During the project they will work closely with a small working group of faculty and staff to answer questions and gather information

- Project will begin with an internal strategic analysis, including a two-day campus visit
 interviewing leadership, faculty, staff and students and review of background data and
 communications materials
- Will then conduct market research with three key domestic prospective student groups: in-state SAT-takers, out-of-state SAT takers, and students admitted to WSU
- Will analyze and present the findings of this research as it is completed, evaluate and present a summary of findings and their implications
- Finally, they will present recommendations of WSU's institutional strategy
- Provided a preliminary timeline October 2017 through November/December 2018
- Bios for the two leaders of the project, David Strauss and Courtney Connor were shared
- A question and answer period was held and members of the Board felt very positive in supporting this project and looks forward to receiving the final recommendations of the study

Presidential Goals

As previously reported by Chairman Blais, it was the consensus of opinion that the goals should be developed for a two-year period. The practice began with the submission of goals based on the Strategic Plan and were not presented on an annual basis. In keeping with this practice, and following review of the goals that were provided, a motion was made by Trustee Taylor and seconded by Trustee Nichols, and it was unanimously

VOTED: to approve the 2017 – 2019 Presidential Goals as submitted.

Media Policy

The Board of Trustees has had a long standing policy relative to Board members speaking with the press and President Maloney shared the policy with the Board for information only. It is quite clear that there be only one spokesperson for the Board of Trustees and that is the Chair. Trustees were advised that should they be contacted by the media, they should refer them to the Chair of the Board.

ENROLLMENT MANAGEMENT STRATEGY PROPOSAL REPORT

- A special meeting of the Board of Trustees was held on August 25th to discuss the *Enrollment Management Strategy Proposal* that was presented to the Finance & Facilities Committee on June 6th
- It was agreed at that meeting that a special committee be established to review the proposal and report back to the Board
- President Maloney invited Trustee Hammond to lead this group along with any trustees willing to volunteer to serve
- Proposal would allow WSU to establish an undergraduate recruitment and enrollment scholarship incentive to grow out-of-state student population among matriculating undergraduate students

- Incentive would be structured as a partial waiver of mandatory fees for qualified undergraduate first-time applicants enrolled in the undergraduate day program and matriculating in full-time status
- The awarding of the incentive to qualifying students shall be renewable and subject to academic and other conditions set by the President
- President shall report annually (or more frequently as needed) to the Board of Trustees on the number of such incentives awarded and other information deemed informative to the Board
- Out-of-state students, currently 4% at WSU, including 1% that are international, provide the benefit of diversifying student population and increasing net revenue
- Our recruitment efforts would benefit from a scholarship model that would speak to out-of-state students and their families
- Many private US higher education institutions provide a model with aggressive use of discounting, packaged as scholarships to attract students
- Members of this Special Committee were provided with an article, INSIDE HIGHER ED, a memorandum regarding – Out-of-State Student Enrollments and an Overview of International Students and Scholars at WSU (all of which are posted on the website for the 8-25-17 meeting
- Highly competitive programs (with strong academic draw) are considered the most in demand, i.e., nursing, communication disorders, and occupational therapy. These programs have robust application rates, well beyond the enrollment targets. This proposal would probably not affect this pool of applicants. Instead, this proposal would permit the University to target those who are considering WSU but not fully committed
- This proposal will not undercut the NEBHE program because those qualified students will not be considered for this tuition incentive
- The benefits of this proposal would be seen in the revenue generated and would assist in residence occupancy rates
- For international students, English language requirements would remain the same under this proposal and regular academic admission requirements would need to be met
- The Massachusetts Department of Higher Education administers all state financial aid programs in Massachusetts and establishes minimum admission criteria for all state universities, including Worcester State University
- All admission requirements would continue to be enforced for all applicants and the most qualified student would be admitted – as is the existing practice
- Financial benefit would continue to not be considered in the admission process
- WSU's objective is not looking to dramatically enlarge the out-of-state student population - if the present 4% were to increase over a period of time to 8-10%, it would be considered most successful, and well below the national norm at public institutions of our type
- Important to note that there is no cost to the university for this program and it is considered as an enrollment diversification and revenue generating strategy

Following discussion and a very thorough report of the Special Committee who reviewed this proposal, Trustee Taylor and seconded by Trustee Colombo, it was unanimously

VOTED:

to accept the recommendation of the Special Committee established to review the Enrollment Management Strategy Proposal and approve the *Proposal for a Non-Resident Scholarship Plan: Out-of-State Recruitment & Enrollment Incentive* as presented.

FINANCE & FACILITIES COMMITTEE REPORT

A-133 AUDIT REPORT/FINANCIAL STATEMENTS - FY'16

- A meeting of the Finance & Facilities Committee was held today, September 12th in the Wellness Center and was called to order by Chairman Madaus
- VP Kathy Eichelroth introduced Mr. Jeff Swanberg from the firm of Bollus Lynch LLP who conducted the audit
- The new information provided in this report is in addition to the previously approved audit report
- Audit was conducted for the purpose of forming an opinion on the financial statements as a whole
- According to the independent auditors, their opinion is that the information is fairly stated, in all material respects, and in relation to the financial statements as a whole
- Audit focused on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2016
- Federal awards include all grants, contracts and similar agreements entered into directly between Worcester State and departments of the federal government
- WSU's total Federal Expenditures were \$35,318,231
- In the opinion of Bollus Lynch, the University complied, in all material respects with the types of compliance requirements that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Internal Control Findings

The audit of the basic financial statements of Worcester State University as of and for the year ended June 30, 2016, disclosed no matters involving the internal control over financial reporting and its operations that are considered to be significant deficiencies or material weaknesses.

Compliance Finding

The audit disclosed no instance of noncompliance which are material to the basic financial statement of WSU as of and for the year ended June 30, 2016.

Findings and Questioned Costs for Federal Awards

- Internal Control over Compliance No findings noted as of June 30, 2016
- Compliance Finding No finding noted as of June 30, 2016

Upon a motion by Trustee Taylor and seconded by Trustee LaFond, it was unanimously

VOTED: to accept the recommend to approve the A-133 Audit Report and Financial Statements for FY'16 as submitted.

Naming Opportunity Policy

- VP Tom McNamara reminded the members of the Finance Committee that the Planning & Development Committee met in April of 2017 and reviewed the wording of the proposed Naming Policy and recommended approval of the document to the full Board
- The document contained amendments proposed by the BHE
- Also reviewed was the named and identified available spaces by building for the naming of over 200 naming options
- Since there is a financial component to the policy, it was forwarded to the Finance & Facilities Committee for the "gift" section approval
- All areas were presented with a price for naming and VP McNamara noted that the Foundation Board had reviewed and approved the policy as well
- Following a thorough review of the "gift options" a motion was made by Trustee Taylor and seconded by Trustee LaFond, and it was unanimously

VOTED: to accept the recommendation to approve the "gift amounts" for the *Naming Opportunity Policy as* presented.

Upon a motion by Trustee Nichols and seconded by Trustee Taylor, it was unanimously

VOTED: to adjourn the meeting at 8:45 p.m.

Respectfully submitted,

Judith a. S. anarch

Judith A. St. Amand Assistant Secretary

October 2017

President's Message



In this month's update, we look at building an inclusive and welcoming campus environment, one of the overarching goals in our strategic plan.

I have been encouraged by the progress we have made over the past year and a half since I proposed

five steps toward a more inclusive campus climate.

Our initial focus was on faculty and staff hiring. We homed in on ensuring that our hiring processes meet federal laws protecting underrepresented groups from discrimination, and we broadened recruitment efforts to ensure that we reach potential employees who are from diverse backgrounds. A large recent faculty hiring class, which resulted from the early retirement initiative of 2015, included 30% who were from such diverse backgrounds.

On the curriculum side, our governance committees approved the concentration in ethnic studies. This concentration was initiated last year, with more than 40 students enrolled. The concentration continues under the leadership of Communication's faculty member Emanuel Nneji. In addition, a faculty-initiated speaker series was kicked off this fall aimed at fostering a free exchange of ideas around timely topics. The Provost's Series on Democracy and Diplomacy features six speakers this fall and is expected to include more curriculum and interactive content next semester.

On the student side of Worcester State, our diversity officer Isaac Tesfay, in collaboration with Sociology faculty member Alex Briesacher, conducted surveys and focus groups with our students last year. We are using this data to implement changes that will affect students beginning this academic year.

Our work toward a more inclusive campus climate must be a campuswide effort, and I have been pleased to see strong support and a genuine commitment from all divisions, as we seek to become one of the most open and inclusive campuses in Massachusetts.



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PRESIDENT'S OFFICE

Worcester State University 486 Chandler Street Worcester, MA 01602 508-929-8000 www.worcester.edu



Action Items

Each issue of the **President's Update** will highlight the University's efforts to advance its Strategic Plan. October's focus is on:

Overarching Goal #4: Cultivate a vibrant campus life and a collaborative work and learning environment in which all members of the WSU community feel welcomed, included, respected, empowered, and valued.

Action Item: Increase Enrollment in Graduate and Continuing Education

The Division of Graduate and Continuing Education reports an increase of 2.1% undergraduate seats for the Fall 2017 semester over Fall 2016. Additionally, there is a 5.5% increase in graduate seats over the same period, for a 3.5% overall increase in Graduate and Continuing Education enrollment. In comparison with Worcester State's peers, this metric is impressive, as many have suffered enrollment losses over the same period. (Academic Affairs; Enrollment Management)

Action Item: Increase Program Exposure, Realize Additional Revenue

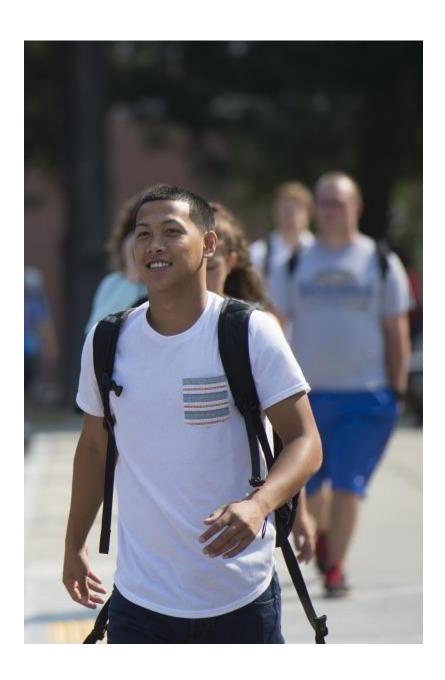
Communication Sciences and Disorders, in partnership with Graduate and Continuing Education, delivered a workshop for 169 professionals who work with dual language learners. This workshop produced \$14,000 in revenue. (Communication Sciences and Disorders; Academic Affairs)

Action Item: Sponsor Programs that Promote Greater Public Awareness

The Provost's Series on Democracy and Diplomacy offered its first two events: Alternative Media in the Age of Trump; and Cuban/American Relations. The event on alternative media drew 280 total attendees, with 72% reporting that they found the presentation interesting, that it increased their awareness of social issues, and that they would recommend the series to others. Data for the event on the Cuban/American relations session currently is being analyzed. (Academic Affairs; Marketing)

Action Item: Measure the Impact of Scholarship Funding

Processes have been developed to measure the impact of funding given by Worcester State for student and faculty scholarship and creative projects. This analysis will determine the number of those impacted by publications and presentations to assess scholarship funding per person impacted. Additionally, this analysis will document external funding generated relative to Worcester State's funding. Success will be determined in two ways: first, over the course of the academic year, there should be a decrease in the cost per person reached; second, over the course of the year, there should be an increase in the ratio between external funding for students and faculty scholarship and Worcester State funding for the same activities. (Academic Affairs; University Advancement)



Action Item: Enhance Campus Diversity

Starting November 2017, Worcester State will use the SAT as optional criteria for admissions. This is expected to enhance the number of accepted applicants from diverse backgrounds by as many as 69 additional students. (Enrollment Management)

Action Item: Increase Financial Support for Students

Worcester State has partnered with the Massachusetts Education and Career Opportunities organization (MassEdCO) to bring increased financial aid service to Worcester State students. As part of MassEdCO, the Educational Opportunity Center (EOC) has been serving central Massachusetts students for many years. Providing assistance to students with FAFSA completion, financial aid verification, and more, the EOC's mission is to help current and prospective college students succeed. (Enrollment Management)

Action Item: Support Students in Crisis

Worcester State has implemented a series of programs designed to help recognize and support students in distress. As part of this initiative, emergency responses were developed to promote greater campus safety. Measures of success include training all departments on recognizing indicators that students might be struggling, identifying the potential for imminent crises, responding to students in need, and referring students to appropriate campus resources. University Police will measure success by training all staff on Worcester State's Emergency Management Plan. (Student Affairs; Academic Affairs; Administration and Finance; University-wide Emergency Management Team; and University-wide Student Intervention Team)

Action Item: Promote Student Connections

This year, incoming first-year resident students are part of Residence Life and Housing First-Year Residential Experience Program (FYRE). The FYRE program will help students with personal, academic, and/or social concerns to transition to Worcester State. FYRE connects resident students with peers in a diverse, shared-living environment. This comprehensive program aims to motivate and deepen engagement through fun and rewarding activities. Success will be measured by the retention of first-year students and the percentage of returning FYRE students for the upcoming academic year. (Student Affairs; Academic Success; Enrollment Management)



Action Item: Promote Greater Connection with Alumni

September's Gala of Gratitude brought together 500 attendees for an evening of celebrating the Change Lives campaign, which raised \$17 million in support of Worcester State University. Students joined us at the event to thank alumni and friend donors to the Change Lives campaign, allowing Worcester State to further student-alumni engagement efforts.

Planning has begun for additional campus cross-collaboration efforts, including:

- The continuation of the Alumni Connections series (the first this academic year was hosted by Criminal Justice on October 10);
- An expanded Homecoming to include the inaugural Presidential Student Ambassadors Reunion (partnership with the President's Office) and the Multicultural Experience Tent (collaborative effort with the Office of Multicultural Affairs and the Office of Diversity and Inclusion);
- The Biennial Communications Sciences and Disorders Department Alumni Breakfast (scheduled for October 28) featuring opportunities to reconnect with fellow alumni and faculty and sharing details on Worcester State's first crowdfunding campaign, which focuses on faculty and student giving;

The second Backpack to Briefcase Series: Professional Advice for Life After WSU (partnership with Enactus), a week of professional workshops including resume writing, dress for success, and the Dinner with Strangers Student Alumni Dinner.

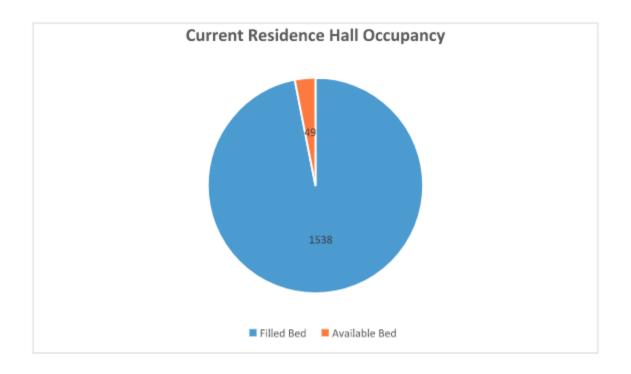


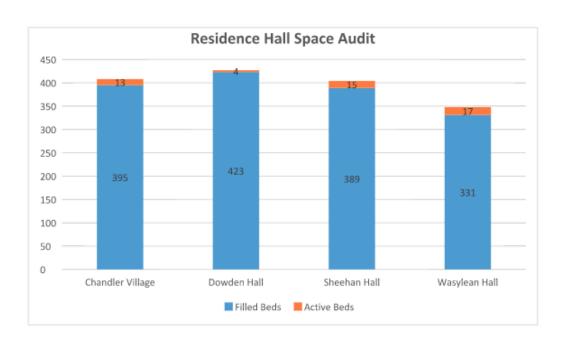
Clery Report

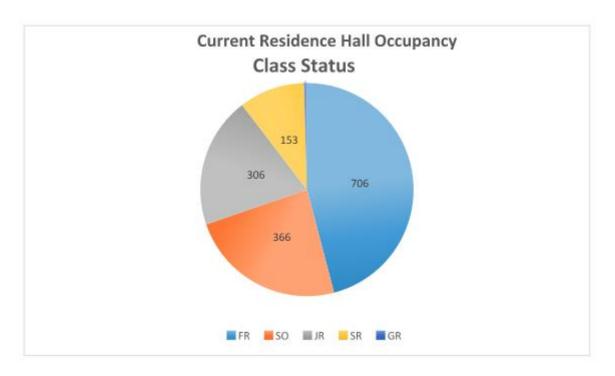
Each year, all colleges and universities both public and private, participating in federal student aid programs are required by law to comply with the Jeanne Clery Disclosure of the Campus Security Policy, the Campus Crime Statistics Act, and the Fire Safety Report. This annual document provides crime statistics for the past three calendar years, which have occurred on campus and the immediate adjacent streets surrounding the University. To view the report, go to http://www.worcester.edu/University-Police/ and click on Clery Report under "Related Links."

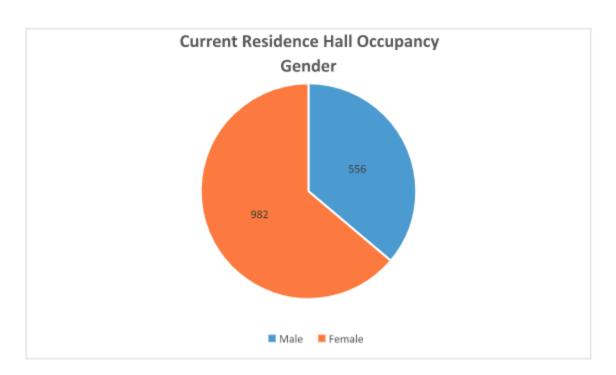


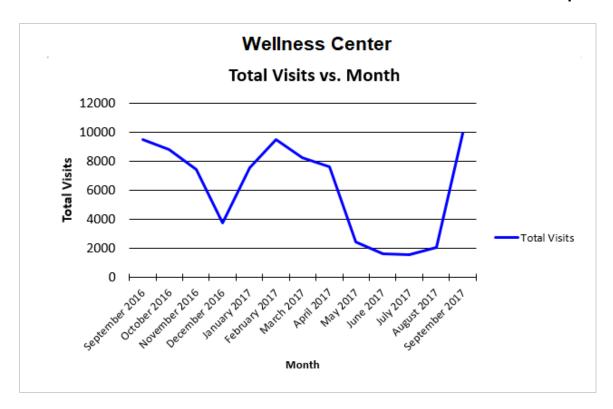
Charts, Graphs, Tables

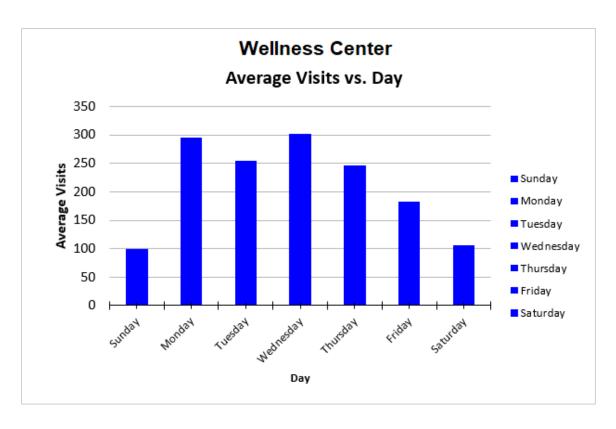








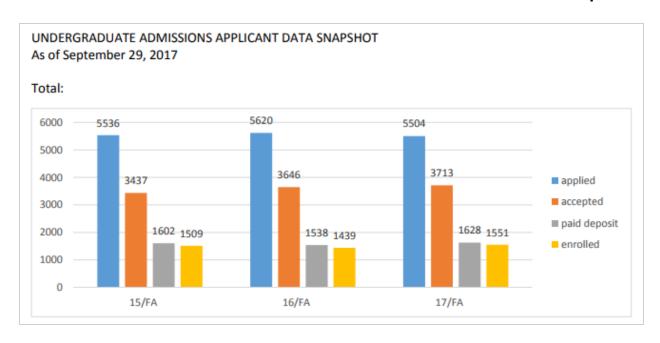


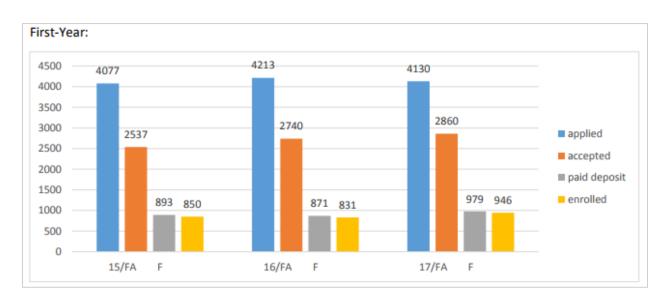


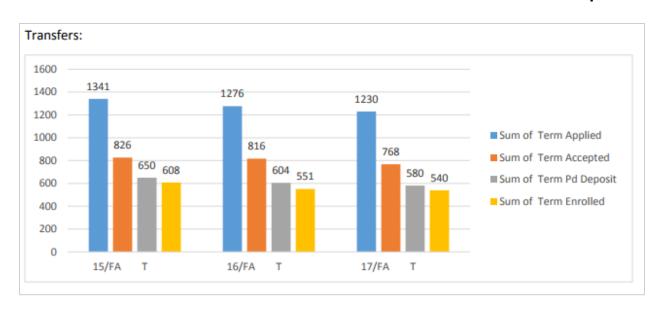
Experiential and Integrative Learning

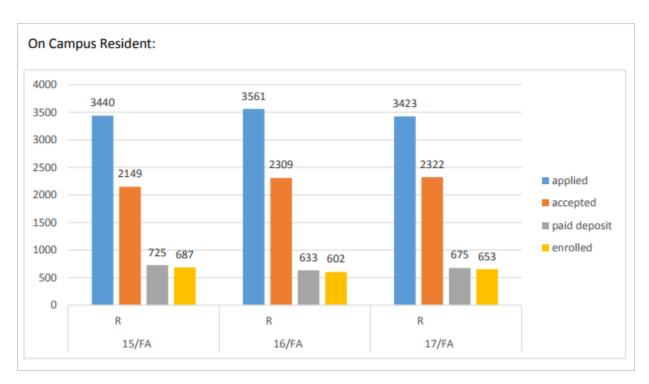
	Metric	October	Novembe r	January	March	April	June
Experiential		2,914					
and	Total # of						
Integrative	Opportunitie	(3,219)*					
Learning	s						
Opportunities							
Student		3,468					
Involvement	Total						
in	Participation	(3,773)*					
Experiential							
and	% of Degree-	Not					
Integrative	Seeking	measure					
Learning	Students	d yet					
Opportunities							
Experiential	,	84.0 %					
and	Percentage						
Integrative	of						
Learning	Opportunitie						
Participation	s Used by Students						
Rate	Students						

^{*}These higher totals include clinical supervisions, practica, internships, fieldwork, and field trips, which totaled 305 students through October 6. This number was also added to the opportunity total.









Marketing Campaign: Preliminary Metrics

September 12 - October 6, 2017

Landing Page	Audience	Campaign Age (Days)	Pageviews	Unique Pageviews	Pageviews per Day	
"Think Again"	High Schoolers	23	607	532	26	
"The Proof"	Influencers	23	1075	765	47	
"Ready To Finish"	Transfer Students	2	10	9	5	
Grand Total		23	1692	1,306	78	
Media Description	Audience	Campaign Start	Campaign End	Monthly Frequency/Impressions		
Digital Advertising	ALL	9/12/2017	5/30/2018	2,368,000		
Digital Advertising	ALL	9/13/2017	5/31/2018	1,071,428		
In-App Advertising	High Schoolers	10/1/2017	12/31/2017	4 000 000		
In-App Advertising	High Schoolers	3/1/2017	4/30/2018	1,000,000		
Radio	Transfer, Influencers	9/12/2017	10/31/2017	497		
Billboards	ALL	10/02/2017	12/24/2017	3,200,000		
Grand Total				4,439,925		

Observations:

- Digital channels are bringing in good traffic and we are starting to see landing page activity and form completions
- Mobile (In-App Advertising) is the best individual performing channel to date
- Digital is the best overall performing category to date
- The High Schooler landing page is the best performing in terms of activity (conversions, engagement) to date
- Incoming traffic seen from: MA, VA, NY, TX, CA, CT, RI, DC, FL, NJ, PA, AZ, GA, IL, MN, MO, NH, AL, ID, KS, KY, MI, UT

