

**Framingham State University
(a department of the Commonwealth
of Massachusetts)**

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Reports**

June 30, 2017 and 2016

Framingham State University
(a department of the Commonwealth of Massachusetts)

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Independent Auditor's Report

To the Board of Trustees
Framingham State University

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Framingham State University (the "University") (a department of the Commonwealth of Massachusetts), 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 index.

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 did not audit the financial statements of the discretely presented component unit, Framingham State University Foundation, Inc. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Framingham State University Foundation, Inc., is based solely on the report of the other auditors. 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 opinions.

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Framingham State University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Framingham State University and its discretely presented component unit are intended to present the respective financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Framingham State University and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension benefit schedules on pages 6 to 18 and 75, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the 2017 financial statements that collectively comprise the University's basic financial statements. The residence hall fund and residence hall damage fund activity shown on pages 77 to 79, and the statistical section on pages 80 to 85 are presented for purposes of additional analysis and are not a required part of the 2017 financial statements. The residence hall fund and residence hall damage fund activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2017 financial statements. The residence hall fund and residence hall damage fund activity information have been subjected to the auditing procedures applied in the audit of the 2017 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2017 financial statements or to the 2017 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the residence hall fund and residence hall damage fund activity information are fairly stated, in all

material respects, in relation to the 2017 financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the 2017 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017, on our consideration of Framingham State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Framingham State University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Framingham State University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Boston, Massachusetts
October 25, 2017



FRAMINGHAM STATE UNIVERSITY
FY2017 Financial Statements
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and June 30, 2016
Unaudited

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and results of operations of Framingham State University (the "University") for the years ended June 30, 2017 (Fiscal Year 2017) and June 30, 2016 (Fiscal Year 2016). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, as separately provided.

FY2017 FINANCIAL STATEMENTS HIGHLIGHTS

- The University's financial position remains strong as of June 30, 2017, with total assets of \$218.1 million (an increase of \$12.4 million, or +6.0%, from FY2016), liabilities of \$68.9 million (a decrease of -\$0.1 million, or -0.1%, from FY2016) and \$5.4 million in net deferred inflow/outflow of resources (associated with booked pension obligations). **Net Position, which represents the residual interest in the University's assets after liabilities and deferred inflows/outflows, increased \$12.8 million, or +9.1%, from fiscal year 2016 to \$154.7 million as of June 30, 2017.**
 - **Restricted net position and net investment in capital assets accounts total \$109.9 million (an increase of \$7.7 million, or +7.5%, from FY2016)** and include: \$104.7 million net investment in capital assets (an increase of \$7.1M; predominantly due to general obligation bond funding for the Science Project), \$3.9 million in scholarship reserves, and \$1.3 million in other restricted accounts.
 - **Aggregate accumulated unrestricted net position of \$44.8 million (an increase of \$5.1 million, or 12.9%, from FY2016)** may be used to meet the University's ongoing obligations to its stakeholders and supports University borrowing. The University may also allocate the unrestricted net position to potentially cover an annual deficit or other uses such as capital expansion or repair, new programs, and long-term investment.
- **Gross revenues from tuition and fees, state appropriations and capital support, federal grants, private fundraising, investment income, and other sources totaled \$118.3 million (an increase of \$7.2 million, or 6.6%, from FY2016).**
- **Expenses incurred during Fiscal Year 2017 totaled \$104.4 million (an increase of \$10.1 million, or +10.7%, from FY2016).**
- **While Framingham State University's Net Position increased \$12.8M from fiscal year 2016 to fiscal year 2017, this increase can largely be attributed to state capital funding of \$12.2M; that is, discounting for state capital support, overall FY2017 operations results were positive by \$0.6M representing 0.5% of total revenue.**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Framingham State University's basic financial statements. These statements are comprised of two components: 1) the financial statements and 2) the notes to the financial statements. The University's financial report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Financial Statements. The financial statements are designed to provide readers with a broad overview of the University's finances in a manner similar to a private-sector University.

The *Statement of Net Position* presents information on the University's assets and deferred outflows of resources, less its liabilities and deferred inflows of resources, with the residual balance being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the University is improving.

The *Statement of Revenues, Expenses and Changes in Net Position* presents 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 the 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.)

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).

Framingham State University reports its activity as a business-type activity under GASB using the full accrual measurement focus and basis of accounting. The University is a department 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.

The University's financial statements also include its discretely presented component unit, Framingham State University Foundation, Inc. Financial information for the component unit is also reported separately from the financial information presented for the University. Complete financial statements for Framingham State University Foundation, Inc. can be obtained from the office of the Executive Vice President of Framingham State University.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the separately attached financial statements.

Other Information. In addition to the financial statements and accompanying notes, supplemental information is also provided. The financial statements and related footnotes are presented separately from this discussion and analysis.

FINANCIAL ANALYSIS

Statement of Net Position

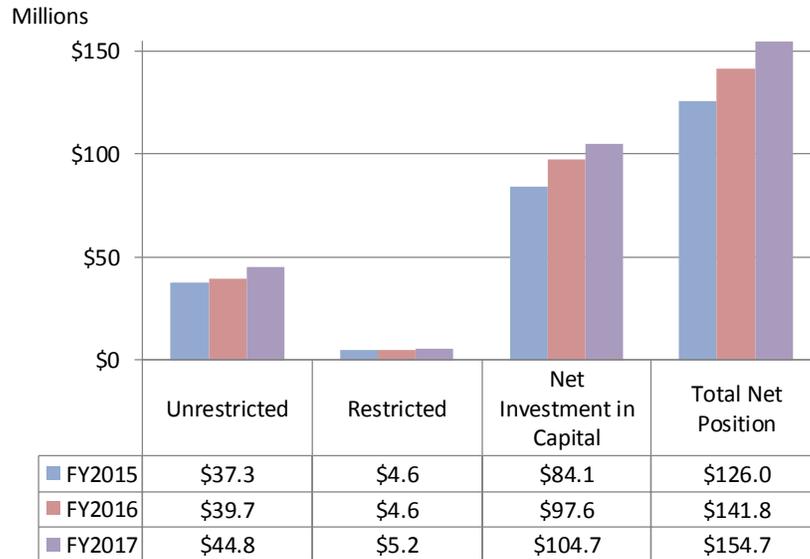
The statement of net position presents the financial position of the University at the end of the fiscal year and includes all assets and deferred outflows of resources less liabilities and deferred inflows of resources of the University. The difference between these amounts - net position - is one indicator of the current financial condition of the University, while the change in net position is an indicator of whether the overall financial condition has improved during the year. Assets, deferred outflow of resources, liabilities, and deferred inflows of resources are generally measured using current values. A condensed comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2017, June 30, 2016 and June 2015 is as follows:

University Accounts

	<i>(In Thousands)</i>		
	2017	2016	2015
Current assets	\$ 36,720	\$ 36,193	\$ 34,219
Capital assets	139,585	134,207	121,647
Other noncurrent assets	41,813	35,316	34,963
Total assets	218,118	205,716	190,829
Total deferred outflows of resources	5,961	5,463	1,031
Current liabilities	14,091	14,424	14,889
Noncurrent liabilities	54,808	54,557	49,705
Total liabilities	68,899	68,981	64,594
Total deferred inflows of resources	527	375	1,273
Net position			
Net investment in capital assets	104,694	96,687	84,138
Restricted	5,206	4,607	4,513
Unrestricted	44,753	40,529	37,342
Total net position	\$ 154,653	\$ 141,823	\$ 125,993

A review of the University's net position as of June 30, 2017 shows that the University enhanced its strong financial position during Fiscal Year 2017. The most significant changes include increases in Capital Assets and Net Investment in Capital Assets resulting from continuing state capital grant funding for the FSU Science Project as well as changes in Total Deferred Outflow of Resources that relates to the State Comptroller's assessment of future pension liabilities that are assigned to campus' financial statements.

Trend Analysis: Net Position

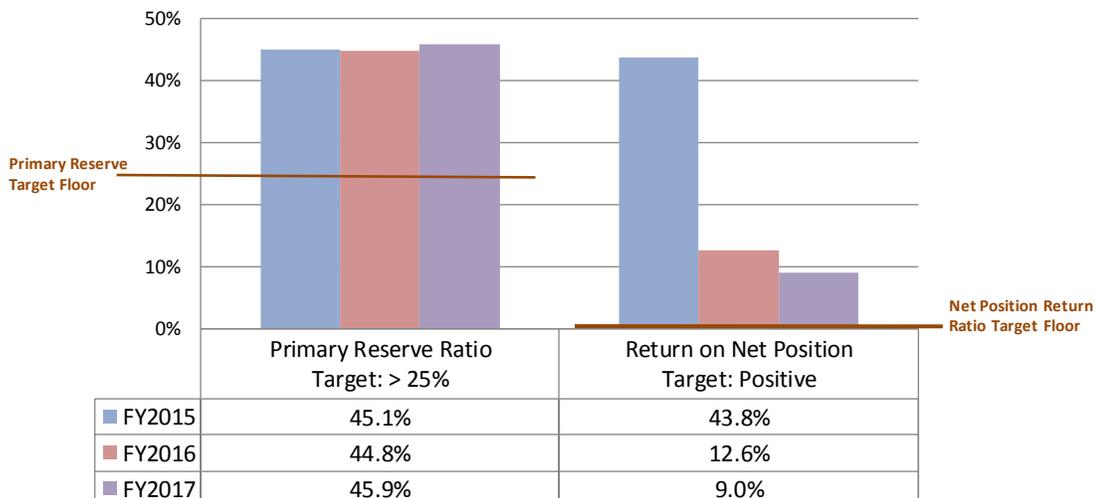


Net Position has increased \$12.8M, or +9.0%, since FY2016. The largest growth since FY2016 has been in Net Investment in Capital Assets (\$7.1M or +7.3% increase) and then in Unrestricted Assets (\$5.1M or +12.9% increase).

One indicator of fiscal health, that is included in the University's Board of Trustee-approved Debt Policy, is the Primary Reserve Ratio (that measures Unrestricted and Expendable Net Position divided by Total Operating Expenses). An industry standard of 25% (which is also a Massachusetts Department of Higher Education benchmark target) reflects essentially 3 months of available resources to cover annual expenditures. **The University's Primary Reserve Ratio as of the end of FY2017 was 45.9%.**

Another financial indicator noted in the University's Debt Policy is Return on Net Position (measuring Change in Net Position divided by Beginning of Year Net Position). This ratio identifies whether an institution's resources are growing and if it is financially better off than in previous years (signified by a positive ratio consistent with the University's Debt Policy benchmark). **The University's Return on Net Position Ratio for FY2017 was 9.0%.**

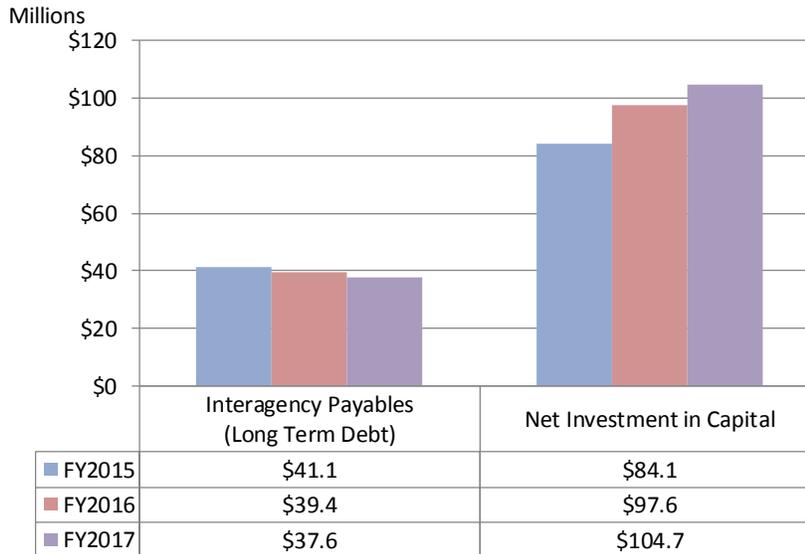
Trend Analysis: Primary Reserve and Return on Net Position Ratios



Capital Assets and Long-Term Debt

It should be noted that "Net Position: Net Investment in Capital Assets" represents a conservative accounting (cost approach) of the University's capital assets. This figure is net of related debt and net of accumulated depreciation and deferred inflow of resources that are attributable to the acquisition, construction or improvement of those assets. Capital Assets also do not include residence halls since they are recorded on the financial statements of the Massachusetts State College Building Authority. As of June 30, 2017, the University has \$207.4 million invested in capital assets, \$67.8 million in accumulated depreciation, and \$139.6 million in net capital assets (an increase of \$5.4 million over FY2016). **The University has \$37.6 million in aggregate interagency payables (predominantly long-term capital debt) as of the close of FY2017 (a decrease of \$1.8 million over FY2016). FY2017 Net Investment in Capital Assets was \$104.7 million.**

Trend Analysis: Interagency Payables (Long Term Debt); Net Capital Investment



Two debt capacity-focused financial ratios included in the University's Debt Policy are the Viability Ratio (measuring Unrestricted and Expendable Net Position divided by Total Long Term Debt) and the Debt Burden Ratio (measuring Annual Debt Service Expense divided by Total Operating Expenses). A Viability Ratio of 1.0 or higher theoretically indicates an institution has sufficient available net position/reserves that it could rely upon, if necessary, to immediately satisfy all debt requirements; **as of FY2017, the University's Viability Ratio is 1.27** indicating some debt capacity using this indicator. The Debt Burden Ratio (Annual Debt Service - that is, principal and interest - divided by Total Expenditures) is a traditionally more useful measure to determine debt capacity based on a benchmark that if more than 5% of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs could be compromised; **the University's Debt Burden Ratio, as of the end of FY2017, is 4.4%** signifying again some, but limited, additional debt capacity under this measure. For context, the debt burden ratio cap that guides borrowing decisions for the Commonwealth of Massachusetts is 8.0% while the University of Massachusetts debt burden cap is 10.0%.

Trend Analysis: Viability and Debt Burden Ratios



The FY2017 Financial Statement footnotes - Note 11 Interagency Payables - provides interest rate details as well as debt service schedules on bonds that are assigned to FSU Financial Statements (certain projects financing is noted on the financial statements of the MSCBA until time of property transfer). **Weighted average interest rate costs for outstanding bonds on FSU-assigned projects as of June 30, 2017 was 3.70%.**

FSU Outstanding Debt							2017	
Year	Term	Rate	Fixed/Var	Agency	Project	Orig. Debt Issuance	Principal Outstanding	
1998	25	1.14%	Variable	Mass. Dev. {HEFA}	Athletic Center	\$6,265,000	\$3,350,727	
2003	30	4.02%	Fixed	MSCBA	Athletic Fields/Parking	\$2,275,000	\$1,695,000	
2005	21	3.27%	Fixed	MSCBA	McCarthy Center	\$7,835,000	\$4,285,000	
2006	20	4.37%	Fixed	MSCBA	McCarthy Center	\$1,545,000	\$922,824	
2008	20	4.69%	Fixed	MSCBA	McCarthy Center	\$870,000	\$589,380	
2009	20	4.78%	Fixed	MSCBA	Parking	\$5,899,009	\$4,207,458	
2009	20	5.04%	Fixed	MSCBA	Property Acquisition	\$685,000	\$497,336	
2010	17	3.60%	Fixed	Mass. Dev.	Solar Project	\$177,705	\$104,532	
2010	25	3.64%	Fixed	MSCBA	Science Project	\$11,095,000	\$11,095,000	
2012	20	4.53%	Fixed	State G.O.	Clean Energy Program - I	\$373,537	\$308,398	
2012	15	3.94%	Fixed	State G.O.	Clean Energy Program - II	\$3,711,166	\$2,707,309	
2012	20	3.30%	Fixed	MSCBA	Science Project/Dining	\$4,155,000	\$3,836,810	
2014	20	4.93%	Fixed	MSCBA	Athletic Fields	\$3,185,000	\$3,227,567	
2014	20	4.83%	Fixed	MSCBA	Athletic Fields	\$680,000	\$765,771	
Total		3.70% Weighted Average				\$48,751,417	\$37,593,112	

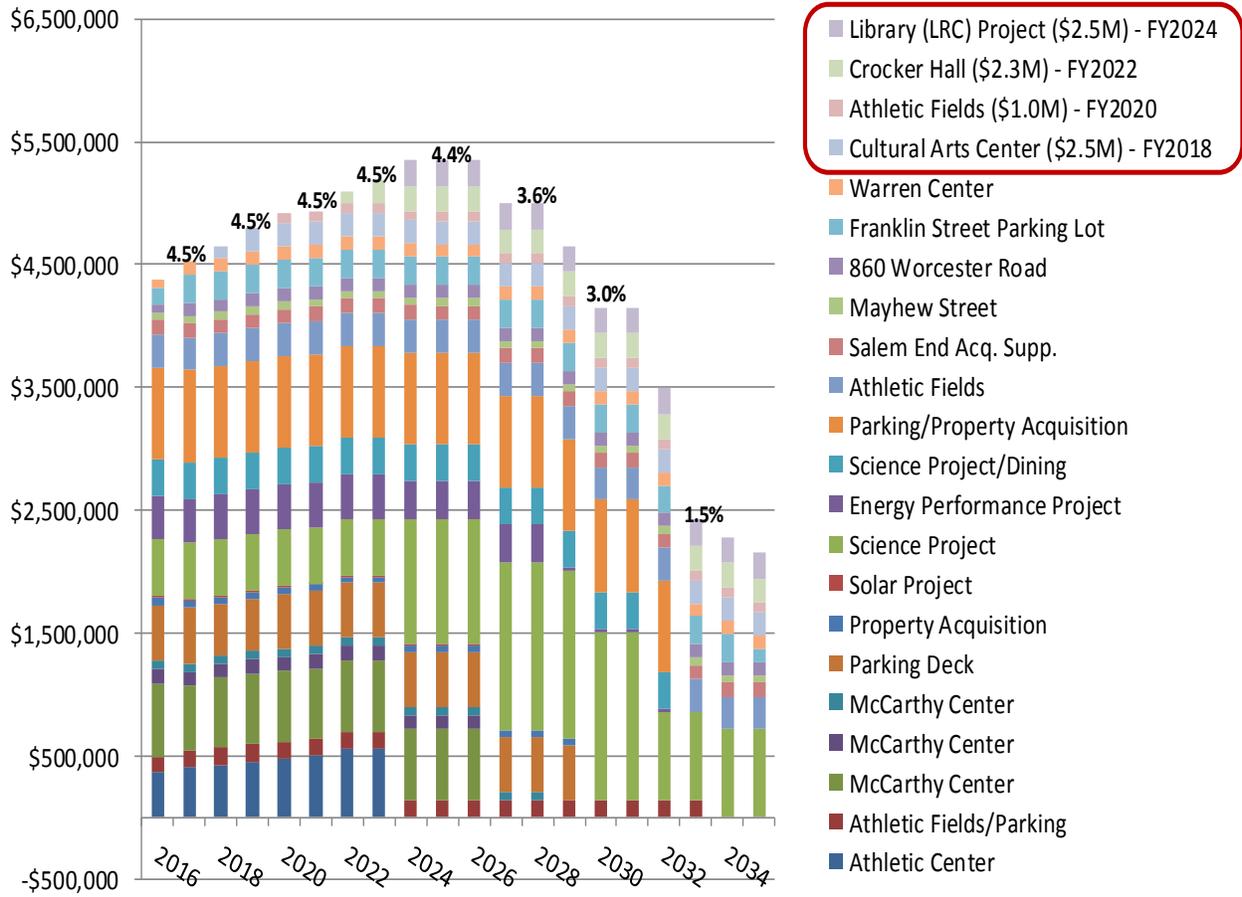
Current scheduled debt service burden, while anticipated to significantly increase in dollar terms over the next decade (by \$0.9M between FY2017 and FY2025), is projected to stay below the Board-designated 5.0% ceiling rate even with additional anticipated issuances - consistent with the FSU Capital Spending Plan - as illustrated below.

FSU Annual Debt Service/Assessment Schedule

Percentages indicate anticipated Debt Burden Ratio (annual debt service/total operational expenses); **FSU Debt Policy Ceiling is 5.0%.**

~ Future proposed scheduled financing includes \$2.5M FY2018; \$1.0M in FY2020; \$2.3M in FY2022; \$2.5M in FY2024

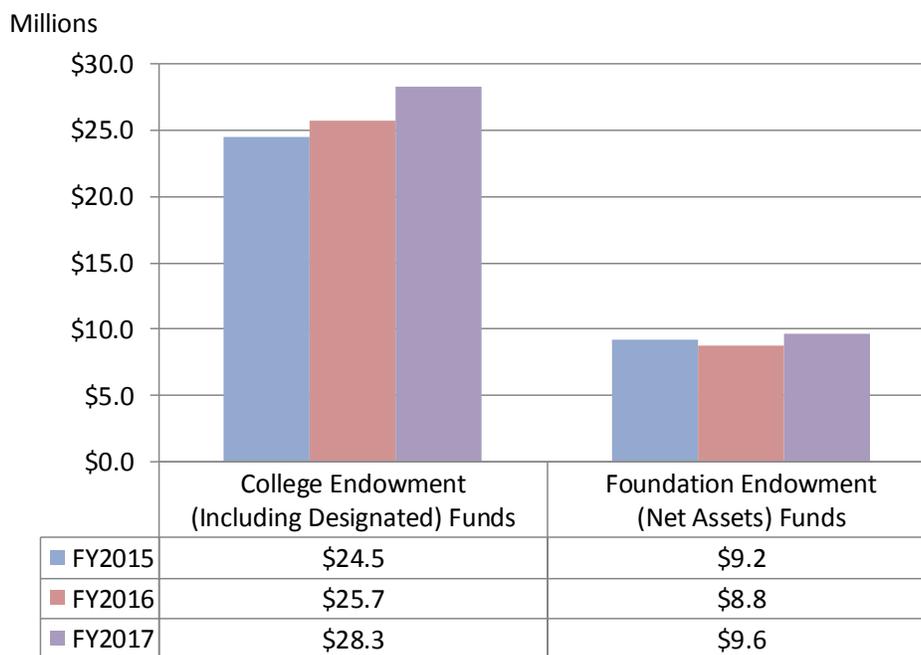
- Leaves some debt capacity, versus current ratio, to borrow additional funds if needed for DCAMM Major Projects funding match



Endowment Funds

A portion of the restricted net position includes endowment funds held by the University. The University itself has a very small designated endowment; \$2.1 million of non-expendable restricted funds. An additional \$1.8 million, at June 30, 2017, in restricted scholarship funds (designated as "expendable" but in practice allocations are limited to proceeds) acts as "quasi-endowment" funds. Further, the Board of Trustees has designated unrestricted net position with end of FY2017 value of \$24.4 million as quasi-endowment (noted as "Core Investment" funds in the University's annual approval of its Cash Management and Investment Policy). **Aggregate endowment and designated quasi-endowment funds held by the University total \$28.3M (representing an increase of \$2.6M or +10.1% from FY2016).** The University invests these assets, along with other cash holdings, in the Massachusetts Municipal Depository Trust (MMDT), the Common Fund, Eaton Vance, Brown Advisory, and Boston Trust.

Trend Analysis: Endowment (Including Designated) Funds



Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position represents the University's results from operations. A condensed summary of the University's revenues, expenses and changes in net position for the years ended June 30, 2017, June 30, 2016 and June 2015 is as follows:

<i>(In Thousands)</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Tuition and fees	\$ 43,927	\$ 42,531	\$ 41,556
Less scholarships	(8,173)	(8,110)	(7,770)
Sales and services	923	827	694
Auxiliary enterprises	15,630	14,707	14,209
Other revenues	12,076	13,495	10,929
	<u>64,383</u>	<u>63,450</u>	<u>59,618</u>
Total operating revenues			

<i>(In Thousands)</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating expenses			
Instruction	(33,166)	(31,337)	(29,050)
Research	(1,724)	(1,631)	(1,509)
Academic support	(12,630)	(11,852)	(9,998)
Student services	(13,015)	(11,912)	(11,158)
Institutional support	(11,774)	(10,815)	(9,010)
Operation/maintenance of plant	(12,193)	(11,440)	(11,167)
Depreciation	(5,892)	(4,735)	(4,202)
Scholarships	(71)	(105)	(141)
Auxiliary enterprises	(13,889)	(10,396)	(12,100)
Total operating expenses	<u>(104,354)</u>	<u>(94,223)</u>	<u>(88,335)</u>
Operating loss	<u>(39,971)</u>	<u>(30,773)</u>	<u>(28,717)</u>
Non-operating revenues (expenses)			
State appropriations (net)	37,022	35,478	32,664
Gifts	324	329	839
Net investment income	4,170	1,729	1,231
State capital appropriations/grants	12,189	20,696	34,999
Interest/issuance costs on debt	(1,104)	(829)	(586)
Transfers (to) from state agencies	200	(10,799)	(2,072)
Net non-operating revenues	<u>52,801</u>	<u>46,604</u>	<u>67,075</u>
Increase in net position	<u>\$ 12,830</u>	<u>\$ 15,831</u>	<u>\$ 38,358</u>

Due to the nature of public higher education accounting as it pertains to state appropriations, institutions incur a loss from operations before accounting for state support. State appropriations supplement University operations and act as a subsidy for operations not covered by operating revenues. Under GASB, appropriations are considered non-operating revenue. The following schedule illustrates the University's incurred losses from operations as well as change in net position for Fiscal Years ended June 30, 2017 June 30, 2016 and June 30, 2015:

Schedule of Loss from Operations

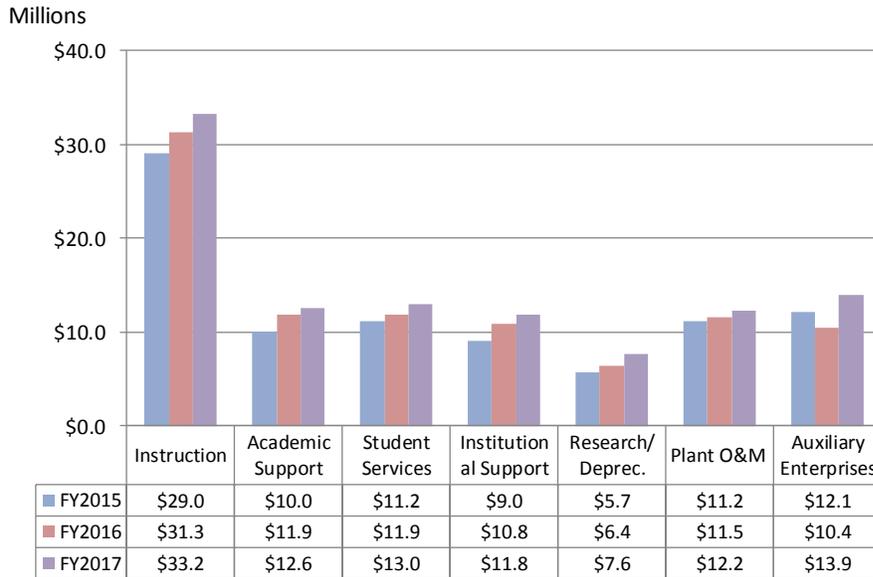
	(In Thousands)		
	<u>FY2017</u>	<u>FY2016</u>	<u>FY2015</u>
Tuition and fees revenue, net	\$ 35,754	\$ 34,421	\$ 33,786
Other operating revenue	<u>28,629</u>	<u>29,029</u>	<u>25,832</u>
Total operating revenue	64,383	63,450	59,618
Operating expenses	<u>(104,354)</u>	<u>(94,223)</u>	<u>(88,335)</u>
Operating loss	(39,971)	(30,773)	(28,717)
Net state appropriations	37,022	35,478	32,664
Other revenue/(expenses)	<u>15,779</u>	<u>11,126</u>	<u>34,411</u>
Increase in net position	<u>\$ 12,830</u>	<u>\$ 15,831</u>	<u>\$ 38,358</u>

Net position at the beginning of Fiscal Year 2017 was \$141.8 million. Net position at the end of Fiscal Year 2017 was \$154.7 million; representing a \$12.8 million (+9.0%) increase.

Revenues and Expenditures

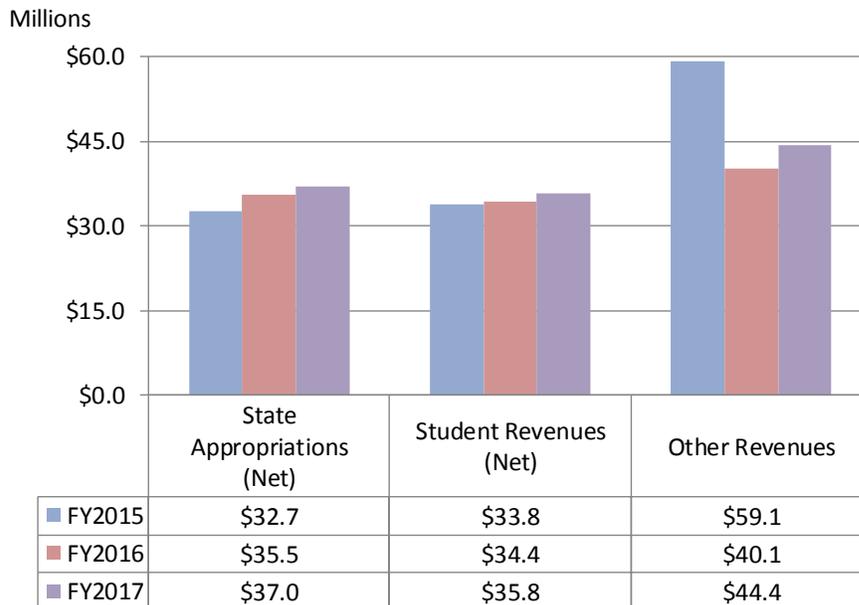
Expenditures on Auxiliary Enterprises experienced the largest increase over the past year, increasing \$3.5M (33.6%) associated with opening of a new residence hall. Instruction had the next largest increase at \$1.8M (5.8%) followed by Student Services at \$1.1M (9.3%).

Trend Analysis: Instruction, Support Services, Plant O&M, Aux. Ent. Expenditures



From FY2016 to FY2017, net state appropriations (including fringe benefits support) increased by \$1.5M (+4.2%), student net revenues increased by \$1.4M (+4.1%), and other revenues increased a total of \$4.3M (+10.7%).

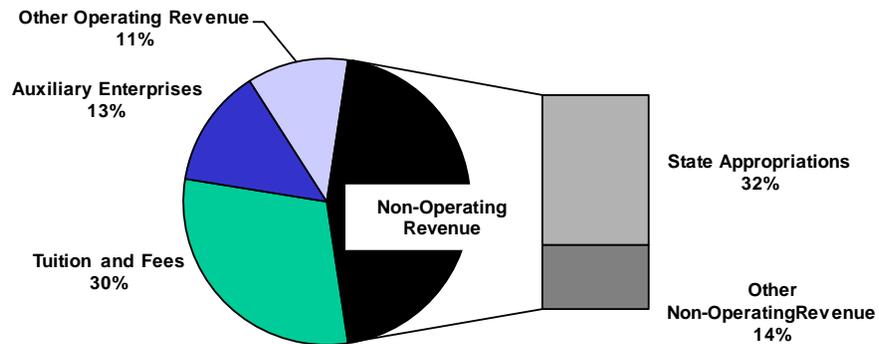
Trend Analysis: State Appropriations, Student and Other Revenues



Revenues Illustration

The following is an illustration of revenues by source (both operating and non-operating), which were used to fund the University's activities for the year ended June 30, 2017.

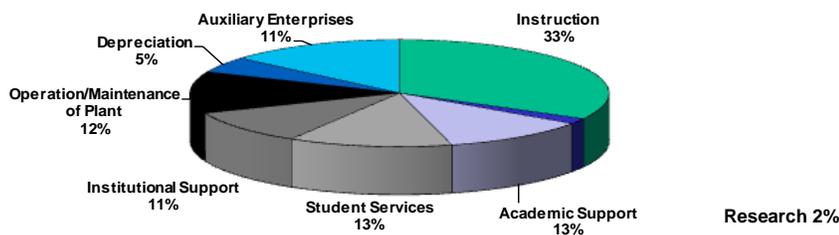
Fiscal Year 2017 Revenues



Student tuition and fees, along with state appropriations, are the primary sources of funding for the University. Fiscal Year 2017 net state appropriation support as a percent of total revenues (including fringe benefits support) was 32% while tuition and fees revenues represented 31% of total revenues and other revenue (including Auxiliary Enterprises) represented 37% of total revenues.

Expenditures Illustration

A graphic of the University's functional expenditures for FY2017 is as follows:



Expenditures on Instruction and Academic Support made up approximately 44% of total expenditures in FY2017 (a decrease from 46% in FY2016).

Statement of Cash Flows

The statement of cash flows provides information about the University's financial results, by reporting the major sources and uses of cash. A condensed summary of the statement of cash flows for fiscal years 2017, 2016 and 2015 is as follows:

<i>(In Thousands)</i>	<u>FY2017</u>	<u>FY2016</u>	<u>FY2015</u>
Cash flows from operating activities			
Cash received from operations	\$ 63,641	\$ 63,413	\$ 59,588
Cash expended for operations	(85,593)	(81,580)	(77,965)
Net cash provided/(used) by operating activities	<u>(21,952)</u>	<u>(18,167)</u>	<u>(18,377)</u>
Cash flows from noncapital financing activities			
State appropriations	25,417	30,247	26,133
Tuition remitted to the Commonwealth	(341)	(312)	(372)
Gifts and endowment	529	93	393
Net cash provided/(used) by noncapital financing activities	<u>25,605</u>	<u>30,028</u>	<u>26,154</u>
Cash flows from capital and related financing activities			
State capital appropriations	4,523	7,459	1,984
Perkins loan program net funds received	13	(50)	52
Payments for capital assets	(3,352)	(3,524)	(4,925)
Interagency payable proceeds received	-	-	801
Interagency principal payments	(1,772)	(1,702)	(1,592)
Interest paid on interagency payables	(1,403)	(1,430)	(1,348)
Transfers of funds to/from state agencies	200	(10,799)	(2,072)
Bond issuance costs	-	-	(6)
Net proceeds of bank line of credit	-	(1,153)	1,153
Net cash provided/(used) by capital and related financing activities	<u>(1,791)</u>	<u>(11,199)</u>	<u>(5,953)</u>
Cash flows from investing activities			
Purchase/sale (net) of marketable securities	(1,934)	(3,165)	(4,524)
Earnings on investments	2,212	1,362	1,691
Loan funds received (advanced)	-	1,153	(1,153)
Net cash provided/(used) by investing activities	<u>278</u>	<u>(650)</u>	<u>(3,986)</u>
Net increase/(decrease) in cash and cash equivalents	<u>\$ 2,140</u>	<u>\$ 12</u>	<u>\$ (2,162)</u>

Cash and cash equivalents at the beginning of Fiscal Year 2017 were \$31.2 million and at the end of the fiscal year were \$33.3M; reflecting a \$2.1M increase.

FACTORS THAT MAY AFFECT THE FUTURE

Framingham State University (FSU) is entering into a transition period where - after a sustained period of substantial enrollment growth - the University has experienced moderate decreases in new and aggregate student enrollment for the past two years. This situation is primarily a result of demographic changes (predominantly the number of Massachusetts high school graduates being produced annually) as well as other external factors such as increased competition for students (e.g., the University of Massachusetts system continues its enrollment growth strategy) and internal factors (e.g., a reduction in the FSU freshmen acceptance and yield rates during recent admissions cycles).

As significant as future enrollment changes impact on university operations will be, so will be the level of future state appropriation support. The one percent increase in FY2017 and level funding support in FY2018 in state funding for Massachusetts state colleges were significantly lower than prior years' levels of support; more substantial future state support will require increases in state general revenues greater than currently being experienced and projected. When state funding increases are not sufficient to keep up with university salary costs, the University has to move personnel to local trust funds and, subsequently, picks up additional fringe benefits costs on these faculty and staff (that is, for every one dollar of salary that gets transferred to local funds, the University is picking up an additional thirty-five cents in benefits costs in addition to the assumed salary costs).

Looking forward, progress in implementation of the new strategic plan will require the prudent use of state support, reliance on targeted additional student revenues, and further diversification of funding including private gifts and grant funding as well as alternative financing vehicles as important supplements to traditional state and student revenue streams. These actions, in conjunction with continuing cost containment measures, will enable the University to provide high-quality and affordable programs and services to its constituents.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of Framingham 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 Executive Vice President, Framingham State University, 100 State Street, P.O. Box 9101, Framingham, MA 01701-9101.

Framingham State University
(a department of the Commonwealth of Massachusetts)

Statements of Net Position
June 30, 2017 and 2016

	2017	2016	Component Unit Framingham State University Foundation, Inc.	
	2017	2016	2017	2016
Assets				
Current assets				
Cash and cash equivalents	\$ 16,421,922	\$ 18,463,702	\$ 722,311	\$ 490,913
Restricted cash and cash equivalents	1,674,586	1,549,249	-	-
Investments in marketable securities	15,097,837	13,745,314	7,083,668	6,903,212
Accounts receivable, net	2,793,284	1,904,425	-	-
Contribution receivable, net	-	-	63,064	75,277
Loans receivable - current portion	2,778	3,462	-	-
Other current assets	729,505	526,785	15,205	15,384
Total current assets	36,719,912	36,192,937	7,884,248	7,484,786
Noncurrent assets				
Restricted cash and cash equivalents	15,228,433	11,172,390	-	-
Endowment investments	-	-	1,772,452	1,587,990
Investment in marketable securities	24,374,633	21,835,618	-	-
Contributions receivable, net	-	-	48,454	50,923
Loans receivable, net of current portion	2,210,548	2,308,430	-	-
Capital assets, net	139,584,598	134,206,766	-	-
Total noncurrent assets	181,398,212	169,523,204	1,820,906	1,638,913
Total assets	218,118,124	205,716,141	9,705,154	9,123,699
Deferred outflows of resources				
Deferred outflows for pensions	5,961,111	5,463,391	-	-
Total deferred outflows of resources	5,961,111	5,463,391	-	-

Framingham State University
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Statements of Net Position
June 30, 2017 and 2016

			Component Unit Framingham State University Foundation, Inc.	
	2017	2016	2017	2016
Liabilities				
Current liabilities				
Interagency payables - current portion	1,914,058	1,818,555	-	-
Accounts payable and accrued liabilities	2,647,866	3,556,612	103,692	305,324
Accounts payable - construction	-	10,353	-	-
Accrued workers' compensation - current portion	110,794	109,477	-	-
Compensated absences - current portion	3,399,346	3,410,445	-	-
Faculty payroll accrual	3,209,692	2,722,997	-	-
Revenue received in advance	1,867,419	2,150,445	-	-
Deposits	321,978	338,905	-	-
Other current liabilities	619,200	305,864	-	-
Total current liabilities	14,090,353	14,423,653	103,692	305,324
Noncurrent liabilities				
Interagency payables, net of current portion	35,679,054	37,583,594	-	-
Accrued workers' compensation, net of current portion	501,330	409,371	-	-
Compensated absences, net of current portion	2,213,030	1,980,383	-	-
Loan payable - federal financial assistance programs	1,894,862	1,881,685	-	-
Net pension liability	14,519,987	12,702,384	-	-
Total noncurrent liabilities	54,808,263	54,557,417	-	-
Total liabilities	68,898,616	68,981,070	103,692	305,324

Framingham State University
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Statements of Net Position
June 30, 2017 and 2016

			Component Unit Framingham State University Foundation, Inc.	
	2017	2016	2017	2016
Deferred inflows of resources				
Deferred inflows for pensions	527,421	374,766	-	-
Total deferred inflows of resources	527,421	374,766	-	-
Net position				
Net investment in capital assets	104,693,789	97,567,357	-	-
Restricted for				
Non-expendable				
Scholarships and academic purposes	2,088,572	2,045,582	1,772,452	1,587,990
Expendable				
Scholarships	1,834,356	1,658,868	478,302	582,700
Academic purposes	-	-	1,592,544	1,465,146
Research	440,761	443,495	-	-
Loans	389,160	438,604	-	-
Capital projects	454,000	-	-	-
Debt service	-	21,302	-	-
Unrestricted	44,752,560	39,648,488	5,758,164	5,182,539
Total net position	\$ 154,653,198	\$ 141,823,696	\$ 9,601,462	\$ 8,818,375

See Notes to Financial Statements.

Framingham State University
(a department of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016	Component Unit Framingham State University Foundation, Inc. 2017	2016
Operating revenues				
Student tuition and fees	\$ 43,927,462	\$ 42,531,161	\$ -	\$ -
Less: Scholarship allowances	<u>(8,173,683)</u>	<u>(8,110,544)</u>	<u>-</u>	<u>-</u>
Net student tuition and fees	35,753,779	34,420,617	-	-
Federal grants and contracts	6,290,765	6,476,370	-	-
State and local grants and contracts	1,474,719	3,868,561	-	-
Private grants	2,116,834	1,939,165	-	-
Sales and services of educational departments	923,237	827,421	-	-
Gifts and contributions	-	-	420,989	207,454
Auxiliary enterprises				
Residential life	15,630,123	14,706,516	-	-
Other operating revenues	<u>2,193,522</u>	<u>1,211,446</u>	<u>48,767</u>	<u>51,198</u>
Total operating revenues	<u>64,382,979</u>	<u>63,450,096</u>	<u>469,756</u>	<u>258,652</u>
Operating expenses				
Educational and general				
Instruction	33,165,584	31,336,705	-	-
Research	1,723,725	1,630,714	-	-
Academic support	12,630,319	11,852,251	-	-
Student services	13,014,536	11,911,904	-	-
Institutional support	11,774,164	10,815,126	179,501	259,577
Operations and maintenance of plant	12,193,498	11,440,601	-	-
Depreciation	5,892,062	4,735,291	-	-
Scholarships	70,861	104,989	603,231	743,561
Auxiliary enterprises				
Residential life	<u>13,889,357</u>	<u>10,395,641</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>104,354,106</u>	<u>94,223,222</u>	<u>782,732</u>	<u>1,003,138</u>
Operating loss	<u>(39,971,127)</u>	<u>(30,773,126)</u>	<u>(312,976)</u>	<u>(744,486)</u>

Framingham State University
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

			Component Unit Framingham State University Foundation, Inc.	
	2017	2016	2017	2016
Nonoperating revenues (expenses)				
State appropriations	37,022,123	35,477,537	-	-
Gifts	323,530	328,515	-	-
Investment income, net of investment expense	4,170,089	1,729,499	909,414	260,102
Interest expense on Interagency payables and capital asset related debt	(1,103,808)	(829,081)	-	-
	40,411,934	36,706,470	909,414	260,102
Net nonoperating revenues before capital and endowment additions				
	440,807	5,933,344	596,438	(484,384)
Income (loss) before capital and endowment additions				
State capital appropriations	4,522,681	7,459,122	-	-
Transfers (to)/from state agencies	200,000	(10,798,765)	-	-
Capital grants	7,666,014	13,237,207	-	-
Private gifts for endowment purposes	-	-	186,649	136,131
	12,388,695	9,897,564	186,649	136,131
Total capital and endowment additions				
Increase (decrease) in net position	12,829,502	15,830,908	783,087	(348,253)
Net position - beginning of year	141,823,696	125,992,788	8,818,375	9,166,628
Net position - end of year	\$ 154,653,198	\$ 141,823,696	\$ 9,601,462	\$ 8,818,375

See Notes to Financial Statements.

Framingham State University
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Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Tuition and fees	\$ 35,103,655	\$ 34,530,967
Research grants and contracts	7,288,318	10,226,384
Private grants	2,428,309	1,597,521
Payments to suppliers	(27,289,871)	(29,376,527)
Payments to utilities	(3,883,505)	(3,660,203)
Payments to employees	(49,711,018)	(45,685,498)
Payments for benefits	(4,051,349)	(2,213,613)
Payments for scholarships	(416,964)	(392,989)
Loans issued to students	(223,678)	(234,768)
Collection of loans to students	322,244	309,517
Auxiliary enterprise receipts		
Residential life	15,630,123	14,706,516
Receipts from sales and services of educational departments	912,066	838,233
Room and parking fees	(16,927)	(16,555)
Other receipts	1,955,908	1,204,061
	<u>(21,952,689)</u>	<u>(18,166,954)</u>
Net cash used in operating activities		
Cash flows from noncapital financing activities		
State appropriations	25,416,504	30,247,129
Tuition remitted to State	(341,127)	(312,014)
Gifts from grants for other than capital purposes	529,064	92,554
	<u>25,604,441</u>	<u>30,027,669</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
State capital appropriations	4,522,681	7,459,122
Perkins loan program net funds received	13,177	(48,698)
Payments for capital assets	(3,351,867)	(3,524,859)
Interagency principal payments	(1,771,747)	(1,702,420)
Interest paid on Interagency payables	(1,402,947)	(1,429,623)
Net transfers of funds (to)/from State Agencies	200,000	(10,798,765)
Net repayments of bank line of credit	-	(1,152,765)
	<u>(1,790,703)</u>	<u>(11,198,008)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Proceeds from sale of marketable securities	14,393,270	3,632,927
Purchase of marketable securities	(16,326,557)	(6,797,414)
Earnings on investments	2,211,838	1,361,617
Loan funds received	-	1,152,765
	<u>278,551</u>	<u>(650,105)</u>
Net cash provided by (used in) investing activities		
Net increase in cash and cash equivalents	2,139,600	12,602
Cash and cash equivalents - beginning of year	<u>31,185,341</u>	<u>31,172,739</u>
Cash and cash equivalents - end of year	<u>\$ 33,324,941</u>	<u>\$ 31,185,341</u>

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Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (39,971,127)	\$ (30,773,126)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	5,892,062	4,735,291
Bad debt expense	8,222	41,396
Fringe benefits paid by the Commonwealth of Massachusetts	9,446,746	8,042,422
Change in net pension liability and deferred inflows and outflows for pensions	1,472,538	1,174,097
Changes in assets and liabilities		
Accounts receivable	(1,102,615)	(36,048)
Loans to students	98,566	74,749
Other current assets	(202,720)	220,718
Accounts payable and accrued liabilities	1,591,254	(1,800,655)
Accrued workers' compensation	93,276	58,351
Compensated absences	221,548	357,920
Faculty payroll accrual	486,695	106,248
Revenue received in advance	(283,026)	(358,176)
Deposits	(16,927)	(16,555)
Other current liabilities	312,819	6,414
Net cash used in operating activities	\$ (21,952,689)	\$ (18,166,954)
Schedule of noncash investing and financing activities		
Acquisition of capital assets	\$ 11,269,894	\$ 17,294,719
Accounts payable thereon		
Beginning of year	10,353	10,266
End of year	-	(10,353)
Payments made by DCAM	(7,666,014)	(13,237,207)
Net interest incurred and earned, capitalized in construction in progress	(262,366)	(532,566)
Payments for capital assets	\$ 3,351,867	\$ 3,524,859
Unrealized gain (loss) on marketable securities	\$ 1,958,251	\$ 367,882
Fringe benefits paid by the Commonwealth of Massachusetts	\$ 9,446,746	\$ 8,042,422
Reconciliation of cash and cash equivalent balances		
Current assets		
Cash and cash equivalents	\$ 16,421,922	\$ 18,463,702
Restricted cash and cash equivalents	1,674,586	1,549,249
Noncurrent assets		
Restricted cash and cash equivalents	15,228,433	11,172,390
Total cash and cash equivalents	\$ 33,324,941	\$ 31,185,341

See Notes to Financial Statements.

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Notes to Financial Statements
June 30, 2017 and 2016

Note 1 - Summary of significant accounting policies

Organization

Framingham State University (the "University") is a public, State-supported comprehensive four-year university which offers a quality education leading to baccalaureate and master's degrees in many disciplines. With its campus located in Framingham, Massachusetts, the University provides instruction in a variety of liberal arts, allied health, and business fields of study. The University also offers, through the Division of Continuing Education, credit and non-credit courses. The University is accredited by the New England Association of Schools and Colleges.

The University is a department of the Commonwealth of Massachusetts (the "State" or the "Commonwealth"). The accompanying financial statements reflect only the transactions of the University and its discretely presented component unit. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the University had been operated independently of the State.

Framingham State University Foundation, Inc. (the "Foundation") is a component unit of Framingham State University. The Foundation is a legally separate tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. It was organized on November 10, 1981, exclusively for the benefit of Framingham State University, to receive and maintain funds to be used for the development, promotion and best interests of the University and its students. 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.

Framingham State University Foundation Supporting Organization, Inc. (the "Foundation Supporting Organization") was organized on October 22, 2012 for the exclusive benefit of the Foundation and all of its educational and charitable activities. The Foundation Supporting Organization is a legally separate, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. As of June 30, 2017, the Foundation Supporting Organization has not had any activity. The financial information of the Foundation Supporting Organization is consolidated into the financial statements of the Foundation. The Foundation and Foundation Supporting Organization are collectively referred to hereinafter as the FSU Foundation.

During the year ended June 30, 2017, the FSU Foundation distributed scholarships in the amount of \$603,231 directly to students of the University, and incurred an additional \$179,501 in support of its mission in other ways. During the year ended June 30, 2016, the FSU Foundation distributed scholarships in the amount of \$743,561 directly to students of the University, and incurred an additional \$259,577 in support of its mission in other ways. Complete financial statements for the FSU Foundation can be obtained from the office of the Executive Vice President, Administration, Finance and Technology, Framingham State University, 100 State Street, P.O. Box 9101 Framingham, MA 01701-9101.

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Notes to Financial Statements
June 30, 2017 and 2016

Basis of presentation

The University's financial statements have been prepared using the "economic resources measurement focus" and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

FSU Foundation, as a nonprofit organization, reports under Financial Accounting Standards Board ("FASB") guidance on financial reporting for Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than the reclassification of certain items, no modifications have been made to FSU Foundation's consolidated financial information in the University's financial reporting entity for these differences.

The University's policy for defining operating activities in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts, and interest expense.

When both restricted and unrestricted resources are available for use, it is the University's policy to use the restricted resources first, then unrestricted resources as they are needed.

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following three net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

- Restricted:

Nonexpendable - Component of net position whose net assets are subject to externally-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

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

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

In accordance with the requirements of the Commonwealth of Massachusetts, the University's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

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Notes to Financial Statements
June 30, 2017 and 2016

Use of estimates

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

Cash and cash equivalents and investments

The University's cash and cash equivalents are considered to be cash on hand, cash and cash equivalents held by the Commonwealth's Treasurer and Receiver-General, Massachusetts Development Finance Agency ("MDFFA"), Massachusetts State College Building Authority ("MSCBA") and Division of Capital Asset Management ("DCAM"), and short term investments with original maturities of three months or less from the date of acquisition.

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

Investments include marketable debt and equity securities which are carried at their readily determinable fair values. Investments also include pooled investment funds with Commonfund which are valued at fair value based upon estimated net asset values provided by the management of Commonfund. These pooled investment funds are invested in marketable debt and equity securities. Realized and unrealized gains and losses are included in nonoperating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets.

Dividends, interest and net gains or losses on investments are reported in the Statements of Revenues, Expenses and Changes in Net Position. Any net earnings not expended are included in net position categories as follows:

- (i) as increases in restricted - nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- (ii) as increases in restricted - expendable net position if the terms of the gift or the University's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The University has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should be classified as restricted - expendable; and
- (iii) as increases in unrestricted net position in all other cases.

At June 30, 2017 and 2016, the University had \$102,127 and \$109,608, respectively, in endowment income available by authorization for expenditure, which is included in restricted-expendable net position for scholarships and fellowships.

Massachusetts General Law, Chapter 15 grants authority to the University's Board of Trustees (the "Trustees") to administer the general business of the University. Inherent in this authority is the authority to invest funds of the University. Chapter 15 further grants the Trustees the authority to delegate, to the President, any said powers or responsibilities. The Trustees of Framingham State

Framingham State University
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Notes to Financial Statements
June 30, 2017 and 2016

University have delegated the authority to make specific investment decisions to the Finance Committee of the Board of Trustees. Endowment funds are in cash and cash equivalents. The primary cash equivalents are within the MMDT, the external investment pool for political subdivisions of the Commonwealth.

The University's authorized spending rule provides that all earnings on endowment investments may be expended pursuant to the stipulations placed on those endowments. If a donor has not provided specific instructions, Massachusetts General Law permits the University's Board of Trustees to authorize for expense the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

FSU Foundation's investments include marketable debt and equity securities which are carried at their readily determinable market values. Realized and unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in unrestricted net position, unless a donor or law temporarily (expendable) or permanently (non-expendable) restricts their use. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method.

FSU Foundation maintains cash and an investment pool that is available for use by all funds. Each fund's portion is reflected in the financial statements under cash and cash equivalents and investments. Earnings on cash and investments of the unrestricted net position and temporarily restricted (expendable) net position are reflected in the fund in which the assets are recorded.

Accounts receivable

Accounts receivable are stated at the amount the University expects to collect from outstanding balances. The University provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the University has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Loans receivable and payable

Loans receivable consist, primarily, of the Federal Perkins Loan Program ("Perkins"). The federal government provides the majority of the funds to support this program. Loan payments received from students made under the Perkins program may be re-loaned after collection. The portion of the Perkins Program provided by the federal government is refundable to the federal government upon the ending (liquidation) 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 uncollectability and have been accepted (assigned) by the U.S. Department of Education ("ED"). Management closely monitors outstanding balances and assigns loans to the ED based upon such factors as student payment history, current status of applicable students, and the results of collection efforts.

The federal law authorizing the disbursement of Perkins loans expired on September 30, 2017. As of October 1, 2017, the University is prohibited from issuing new Perkins loans to undergraduate students. As of October 1, 2017, the University is prohibited from issuing new Perkins loans to

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graduate students who received them prior to October 1, 2016. The University may remit all federal proceeds and loans at any time thereafter to the Department of Education or continue to maintain them for five more years.

Capital assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, land improvements, buildings, building improvements, equipment and other assets are reported in the statements of net position at cost or fair market value, if donated. Capital assets are defined by the University as assets with an initial, individual cost of more than \$50,000 in accordance with the Commonwealth's capitalization policy. The University does not hold collections of historical treasures, works of art, or other items not requiring capitalization or depreciation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets, with the exception of land, are depreciated using the straight-line method over estimated useful lives of 40 years for buildings, 20 years for building and land improvements, 5 years for furniture and 3 to 10 years for equipment.

Library materials acquired for the most recent five-year period are capitalized. The cost of library materials purchased in the current year is added and the cost of purchases made in the earliest year of the five-year period is deducted from the net position balance.

The land on which the residence halls stand is leased by the MSCBA from the Commonwealth at a yearly cost of one dollar.

The University, in accordance with a management and services agreement between the MSCBA and the Commonwealth of Massachusetts, is charged a semi-annual revenue assessment which is based on a certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by the MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. The revenue assessment amounts for the years ended June 30, 2017 and 2016 were \$11,043,860 and \$7,213,806, respectively, and are included in the Residential life auxiliary enterprises in the accompanying statements of revenues, expenses and changes in net position. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA. It is not practical to determine the specific asset cost or liability attributable to the University. The leases, therefore, are accounted for under the operating method for financial statement purposes.

Compensated absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, each year. Pursuant to statewide experience on sick pay buy-back agreements applicable to state employees, the University accrues sick leave to a level representing 20% of amounts earned by those University employees with 10 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 (see Note 8).

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Student fees

Student tuition and fees are presented net of scholarships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are generally reflected as expenses.

Scholarship allowances consist of various forms of student financial assistance, which do not require repayment. Federal scholarships include Federal Supplemental Educational Opportunity Grants, Federal Pell Grants, and Teacher Education Assistance for College and Higher Education Grants ("TEACH Grants"). University scholarships include a wide variety of University and University department funded scholarship programs.

Scholarship allowances for the years ended June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Federal scholarships	\$ 5,849,615	\$ 5,928,153
University scholarships	<u>2,324,068</u>	<u>2,182,391</u>
Total	<u>\$ 8,173,683</u>	<u>\$ 8,110,544</u>

Revenue received in advance

Deposits and advance payments received for tuition and fees related to the University's summer programs and tuition billed for the following fiscal year are recorded as revenues received in advance. Funds received in advance from various grants and contracts are also included in revenues received in advance.

Agency funds

Agency funds consist of resources held by the University as custodian or fiscal agent of student organizations, the State Treasurer and others. Transactions are recorded to asset and liability accounts. There were no material balances at June 30, 2017 and 2016.

Bond premiums

Bond premiums are being amortized on a straight-line basis over the terms of the related debt agreements.

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Interest expense and capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2017 and 2016, total interest costs incurred were accounted for as follows:

	2017	2016
Total interest costs incurred	\$ 1,482,475	\$ 1,483,662
Less: Interest income on unused funds from tax exempt borrowings	(79,011)	(84,725)
Bond premium amortization	(37,290)	(37,290)
	1,366,174	1,361,647
Less: Capitalized portion of net interest earned and incurred	(262,366)	(532,566)
Interest expense	\$ 1,103,808	\$ 829,081

Pension plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employees' Retirement System ("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.

Fringe benefits

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

Tax status

The University is a department of the Commonwealth of Massachusetts and is therefore exempt from federal and state income taxes.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

Recently adopted accounting pronouncements

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB Statement No. 82 is to address issues associated with certain aspects of measurement and presentation of pension related information in the financial statements and schedule of required supplementary information.

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The impact of implementing GASB Statement No. 82 on the University's financial statements in fiscal 2017 is to require, in the schedule of required supplementary information, the presentation of covered payroll, defined as the payroll on which contributions to the pension plan are based, and ratios that use that measure. Prior to the implementation of GASB Statement No. 82, covered-employee payroll, defined as the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, were required to be presented in the schedule of required supplementary information. The schedule of required pension supplementary information has been restated for all years presented for the implementation of GASB Statement No. 82.

Note 2 - Cash and cash equivalents, and investments

Cash and cash equivalents - unrestricted and restricted - include the following at June 30, 2017 and 2016:

	2017		
	Current unrestricted	Current restricted	Noncurrent restricted
Cash and money market accounts ****	\$ 11,068,444	\$ 1,281,822	\$ 7,831,063
Massachusetts State Treasurer ***	5,331,929	-	4,254,641
Petty cash	21,549	2,100	-
Century Bancorp, Inc.	-	-	18,208
Cash and cash equivalents held by MDFA*	-	390,664	337,300
Cash and cash equivalents held by MSCBA **	-	-	2,687,221
Cash and cash equivalents held by DCAM *****	-	-	100,000
	<u>\$ 16,421,922</u>	<u>\$ 1,674,586</u>	<u>\$ 15,228,433</u>
	2016		
	Current unrestricted	Current restricted	Noncurrent restricted
Cash and money market accounts ****	\$ 13,945,878	\$ 1,177,917	\$ 6,971,571
Massachusetts State Treasurer ***	4,504,253	-	1,649,197
Petty cash	13,571	2,100	-
Century Bancorp, Inc.	-	-	18,171
Cash and cash equivalents held by MDFA*	-	369,232	349,281
Cash and cash equivalents held by MSCBA **	-	-	2,084,170
Cash and cash equivalents held by DCAM	-	-	100,000
	<u>\$ 18,463,702</u>	<u>\$ 1,549,249</u>	<u>\$ 11,172,390</u>

* This amount consists of cash and cash equivalents which are restricted by the Massachusetts Development Finance Agency ("MDFA") for the funding of payments to retire bonds when they mature (see Note 11) and for the funding of the installation of solar photovoltaic panels on the McCarthy Center and Athletic Center. The University does not have access to these funds except by the authorization of MDFA.

** This amount consists of cash and cash equivalents which are restricted by the Massachusetts State College Building Authority ("MSCBA") for the funding of certain construction projects at the University and payments to retire bonds (see Note 11). The University does not have

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access to these funds except by the authorization of MSCBA. Interest earned on debt service reserve funds is used on a current basis to offset annual debt service payments.

- *** This amount is held for the benefit of the University by the Massachusetts State Treasurer in the amounts of \$8,679,144 and \$5,449,327 at June 30, 2017 and 2016, respectively, for University funds. In addition, the University has recorded cash held for the benefit of the University by the Massachusetts State Treasurer in the amounts of \$907,426 and \$704,123 at June 30, 2017 and 2016, respectively, to pay year-end liabilities. The latter balances represent amounts paid from State appropriations subsequent to the fiscal year-end.
- **** This amount includes cash and cash equivalents held at MMDT in the amounts of \$14,106,697 and \$15,895,944 at June 30, 2017 and 2016, respectively.
- ***** This amount includes cash and cash equivalents which are restricted by the Massachusetts' Division of Capital Asset Management ("DCAM") for the funding of certain construction projects at the University. The University does not have access to these funds except by the authorization of DCAM.

The Massachusetts Municipal Depository Trust ("MMDT") is not subject to FDIC insurance. According to the MMDT, it is an external investment pool for political subdivisions in the Commonwealth which was designed as a legal means to safely invest temporarily available cash. Its primary purpose is to provide a safe, liquid, high-yield investment vehicle offering participation in a diversified portfolio of high quality debt instruments. The MMDT is not a bank, savings institution, or financial institution. The MMDT is an instrumentality of the State Treasurer.

The University maintains a cash and investment pool that is available for use by all trust funds. Each fund type's portion of this pool is reflected in the financial statements under the caption, cash and cash equivalents and investments. The method of allocating interest earned on pooled cash and investments is to record all interest to the appropriate fund based on that fund's average monthly balance. Interest earnings attributable to each trust fund are included under investment income.

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University's deposit policy provides for bank balances to be held in interest-bearing checking accounts and, where account activity and balances warrant it, in money market accounts. All bank balances are to be held at financial institutions of high credit quality. At June 30, 2017 and 2016, the University had uninsured cash balances totaling approximately \$6,919,000 and \$7,520,300, respectively. As of June 30, 2017 and 2016, the University's uninsured cash balances of \$6,919,000 and \$7,520,300, respectively, are fully collateralized under an Agreement with Bank of America.

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

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Certain investments are covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000, including \$250,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

The following University investments are held by the counterparty's trust department or agent but not in the University's name and, therefore, are subject to custodial credit risk as follows:

	2017	2016
U.S. Treasury Notes and Government Securities	\$ 3,383,555	\$ 5,031,840
Corporate Debt Securities	1,179,101	1,431,370
Equity Securities	11,679,292	13,166,018
Money Market Funds	5,525,798	409,958
Mutual Funds	5,820,414	5,009,108
Commonfund (pooled investment funds)	11,884,310	10,532,638
	39,472,470	35,580,932
Less insured amounts	500,000	500,000
Total subject to custodial credit risk	\$ 38,972,470	\$ 35,080,932

Credit risk

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

As of June 30, 2017 and 2016, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$14,106,697 and \$15,895,944, respectively. At June 30, 2017, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 59% at 30 days or less; 25% at 31-90 days; 13% at 91-180 days; and 3% at 181 days or more. At June 30, 2017, 100% of the MMDT's cash portfolio had a credit quality rating of P1.

The University's funds held at MDFA are invested in the Short Term Asset Reserve ("STAR") Fund and had fair values of \$727,964 and \$718,513 at June 30, 2017 and 2016, respectively. The STAR Fund invests primarily in U.S. Treasury bills, notes, and other obligations guaranteed by the U.S. government or its agencies or instrumentalities. Additionally, the fund invests in repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper, notes, and both

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corporate floating rate and corporate fixed-rate securities. The STAR Fund maintains a net asset value of \$1 per share and had a fund credit quality rating of AAAM as of both June 30, 2017 and 2016. The STAR Fund's investment securities maintain a weighted average maturity of 41 and 46 days at June 30, 2017 and 2016, respectively.

At June 30, 2017, certain of the University's funds are held at MSCBA. Of the total, \$1,056,273 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$1,630,948 is invested in various funds as listed below:

Investment type	Fair value	Investment maturities (in years)				Credit rating
		Less than 1	1-5	6-10	Greater than 10	
Fannie Mae Corporation discount note Federal Home Loan Mortgage Corp.	\$ 249,472	\$ 89,285	\$ 160,187	\$ -	\$ -	AAA
U.S. Govt. Issues	221,582	-	221,582	-	-	AAA
Federal Farm Credit	194,330	-	194,330	-	-	AAA
Massachusetts ST Bonds	965,564	-	-	-	965,564	AAA
Total	<u>\$ 1,630,948</u>	<u>\$ 89,285</u>	<u>\$ 576,099</u>	<u>\$ -</u>	<u>\$ 965,564</u>	

At June 30, 2016, certain of the University's funds are held at MSCBA. Of the total, \$453,222 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$1,630,948 is invested in various funds as listed below:

Investment type	Fair value	Investment maturities (in years)				Credit rating
		Less than 1	1-5	6-10	Greater than 10	
Fannie Mae Corporation discount note Federal Home Loan Mortgage Corp.	\$ 249,472	\$ 249,472	\$ -	\$ -	\$ -	AAA
U.S. Govt. Issues	221,582	-	221,582	-	-	AAA
Federal Farm Credit	194,330	-	-	194,330	-	AAA
Massachusetts ST Bonds	965,564	-	-	-	965,564	AAA
Total	<u>\$ 1,630,948</u>	<u>\$ 249,472</u>	<u>\$ 221,582</u>	<u>\$ 194,330</u>	<u>\$ 965,564</u>	

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The University's investments in marketable securities are represented by the following at June 30:

	2017		2016	
	Cost	Fair value	Cost	Fair value
Current				
<hr/>				
U.S. Treasury Notes and Government Securities	\$ 213,594	\$ 214,437	\$ 299,516	\$ 293,873
Corporate Debt Securities	81,228	82,095	116,815	66,734
Equity Securities	462,716	723,385	419,703	621,369
Money Market Funds	30,479	30,479	29,224	29,224
Mutual Funds	2,205,871	2,163,131	2,165,845	2,201,476
Commonfund (pooled investment funds)				
Multi-Strategy Bond Fund	1,019,735	1,076,740	989,742	1,059,722
Intermediate Term Fund	2,029,045	1,915,628	2,002,191	1,913,453
Equity Index Fund	5,751,171	8,891,942	5,751,430	7,559,463
	\$ 11,793,839	\$ 15,097,837	\$ 11,774,466	\$ 13,745,314
<hr/>				
Noncurrent				
<hr/>				
U.S. Treasury Notes and Government Securities	\$ 3,161,147	\$ 3,169,118	\$ 4,520,266	\$ 4,737,967
Corporate Debt Securities	1,110,619	1,097,006	1,288,014	1,364,636
Equity Securities	6,827,780	10,955,907	9,088,674	12,544,649
Money Market Funds	5,495,319	5,495,319	380,734	380,734
Mutual Funds	3,170,275	3,657,283	2,565,760	2,807,632
	\$ 19,765,140	\$ 24,374,633	\$ 17,843,448	\$ 21,835,618

The University's investment balances as of June 30, 2017 and 2016 include \$24,374,633 and \$21,950,722, respectively, which represent unrestricted net position designated by the Board of Trustees (see Note 15). These amounts consist of an original designated investment of \$13,500,000 (\$0 designated in fiscal years 2017 and 2016), plus accumulated investment income earned thereon.

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At June 30, 2017, the University's U.S. Treasury Notes and Government Securities and corporate debt securities along with their investment maturities and credit quality ratings are as follows:

Investment type	Fair value	Investment maturities (in years)				Credit rating
		Less than 1	1-5	6-10	Greater than 10	
U.S. Treasury Notes and Government Securities 0.125% to 5.450%	\$ 3,383,555	\$ 214,437	\$ 760,801	\$ 2,408,317	\$ -	AA+
Corporate Debt Securities 2.00%	15,054	-	15,054	-	-	AAA
Corporate Debt Securities 1.00%	14,946	14,946	-	-	-	AA+
Corporate Debt Securities 3.250%	104,739	-	104,739	-	-	AA
Corporate Debt Securities 2.100% to 4.950%	41,264	-	41,264	-	-	AA-
Corporate Debt Securities 2.300% to 3.850%	215,144	-	199,604	15,540	-	A+
Corporate Debt Securities 1.700% to 6.250%	448,510	52,139	142,486	253,885	-	A
Corporate Debt Securities 2.000% to 3.900%	151,609	15,011	30,513	106,085	-	A-
Corporate Debt Securities 2.400% to 2.650%	87,298	-	30,111	57,187	-	BBB+
Corporate Debt Securities 3.250%	100,537	-	-	100,537	-	BBB
Total	<u>\$ 4,562,656</u>	<u>\$ 296,533</u>	<u>\$ 1,324,572</u>	<u>\$ 2,941,551</u>	<u>\$ -</u>	

At June 30, 2016, the University's U.S. Treasury Notes and Government Securities and corporate debt securities along with their investment maturities and credit quality ratings are as follows:

Investment type	Fair value	Investment maturities (in years)				Credit rating
		Less than 1	1-5	6-10	Greater than 10	
U.S. Treasury Notes and Government Securities 1.000% to 5.450%	\$ 4,592,244	\$ 293,872	\$ 1,043,787	\$ 3,254,585	\$ -	AA+
U.S. Treasury Notes and Government Securities 0.125% to 4.500%	439,596	-	23,623	348,356	67,617	NR
Corporate Debt Securities 1.000% to 1.000%	15,037	-	15,037	-	-	AA+
Corporate Debt Securities 3.250% to 3.250%	108,181	-	108,181	-	-	AA
Corporate Debt Securities 2.100% to 4.950%	42,581	-	42,581	-	-	AA-
Corporate Debt Securities 1.700% to 7.900%	695,710	51,587	383,856	260,267	-	A
Corporate Debt Securities 2.550% to 3.850%	292,554	-	82,429	210,125	-	A+
Corporate Debt Securities 2.000% to 5.500%	204,409	65,709	30,844	107,856	-	A-
Corporate Debt Securities 2.400% to 2.650%	72,898	-	15,153	57,745	-	BBB+
Total	<u>\$ 6,463,210</u>	<u>\$ 411,168</u>	<u>\$ 1,745,491</u>	<u>\$ 4,238,934</u>	<u>\$ 67,617</u>	

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Money market funds include the State Street Institutional U.S. Government Money Market Fund in the aggregate amount of \$360,278 and \$409,958 at June 30, 2017 and 2016, respectively. The State Street Institutional U.S. Government Money Market Fund invests in U.S. Government securities and securities issued by the Government National Mortgage Association ("GNMA"). The fund seeks maximum current income consistent with the preservation of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset value. At June 30, 2017 and 2016, the fund's investment securities had a weighted average maturity of 25 and 41 days, respectively. The fund had an average credit quality rating of AAAM at each of June 30, 2017 and 2016.

Money market funds include the First American Government Obligation Fund in the aggregate amount of \$165,520 at June 30, 2017. The First American Government Obligation Fund invests primarily in U.S. Government securities and repurchase agreements collateralized by such obligations. The fund seeks maximum current income and daily liquidity. At June 30, 2017, the fund's investment securities had a weighted average maturity of 34 days. The fund had an average credit quality rating of AAAM at June 30, 2017.

Money market funds include the ICT Treasury Portfolio Institutional Shares in the aggregate amount of \$5,000,000 at June 30, 2017. The ICT Treasury Portfolio Institutional Shares invests primarily in U.S. Government securities and repurchase agreements collateralized by such obligations. The fund seeks maximum current income consistent with stability of capital. At June 30, 2017, the fund's investment securities had a weighted average maturity of 18 days. The fund had an average credit quality rating of AAAM at June 30, 2017.

Mutual funds include \$2,080,804 and \$2,077,134 held at the Massachusetts Municipal Depository Trust ("MMDT") in the MMDT Short Term Bond Portfolio at June 30 2017 and 2016, respectively. The fund's objective is to generate long-term performance exceeding the Barclays 1-5 Year Government/Credit Bond Index by investing in a diversified portfolio of investment-grade, short-term, fixed-income securities. The duration of the portfolio will approximate the duration of the Barclays 1-5 Year Government/Credit Bond Index. At June 30, 2017 and 2016, the fund's investment securities had a weighted average life of 2.9 years, each year, and an effective duration of 2.6 and 2.7 years, respectively. The fund had an average credit quality rating of AAA as of both June 30, 2017 and 2016.

The Intermediate Term Fund invests in high-quality fixed income securities with maturities generally ranging from 1-3 years. The fund may, however, invest in high-quality fixed income securities with maturities ranging from one day to 30 years. The fund's objective is to exceed the performance of the Merrill Lynch 1-3 Year Treasury Index. At June 30, 2017, and 2016, the fund's investment securities had a weighted average life of 2.4 years for both years, and an effective duration of 2.0 years for both years. The fund had an average credit quality rating of AA- and AA as of June 30, 2017 and June 30, 2016, respectively.

The Multi-Strategy Bond Fund invests in debt securities across strategies in proportions that are considered to be optimal for a fully diversified fixed income portfolio. The majority of the fund's assets are invested in traditional core strategies with diversification achieved through exposures to global bonds, inflation-indexed bonds, high yield bonds, private debt and other credit-oriented strategies and relative value/absolute return strategies. The fund's objective is to exceed the return of the broad U.S. bond market as measured by the Barclays Capital U.S. Aggregate Bond Index. At June 30, 2017 and 2016, the fund's investment securities had a weighted average life of 7.2 and 7.5 years, respectively, and an effective duration of 4.7 and 4.6 years, respectively. The fund had an average credit quality rating of AA- and A+ as of June 30, 2017 and June 30, 2016, respectively.

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The Equity Index Fund invests in equity securities across strategies in proportions that are considered to be optimal for a fully diversified equity portfolio. The fund's objective is to replicate the returns of the S&P 500 Index.

The University incurred investment advisory fees of \$109,492 and \$101,886 for the years ended June 30, 2017 and 2016, respectively, which have been netted against investment income in the statements of revenues, expenses and changes in net position.

FSU Foundation's investment policy is to hold its investments to obtain a ratio of approximately 50-80% equity securities, 20-60% fixed income securities, and 0% to 20% cash and cash equivalents based on market value. The Foundation strives to make appropriations annually out of the various funds to the University in the form of scholarships and work studies at a 5% spending rate based upon the previous year's net asset balances that have funds available for expenditure.

FSU Foundation's investments are included at their fair values and consist of the following at June 30:

	2017	2016
Equity Securities	\$ 4,391,295	\$ 4,081,245
U.S. Treasury Notes and Government Securities	1,044,049	1,122,564
Equity Funds	1,704,927	1,172,321
Corporate Bonds	633,437	765,886
Bond Funds	823,514	1,204,110
Cash and cash equivalents	258,898	145,076
	\$ 8,856,120	\$ 8,491,202

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and that such changes could materially affect the University's and FSU Foundations' investment account balances.

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

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

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

Level 3 - Unobservable inputs for an asset or liability.

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
U.S. Treasury Notes and Government Securities	\$ 3,383,555	\$ 3,383,555	\$ -	\$ -
Corporate Debt Securities	1,179,101	1,179,101	-	-
Equity Securities	11,679,292	11,679,292	-	-
Money Market Funds	5,525,798	5,525,798	-	-
Mutual Funds	5,820,414	5,820,414	-	-
	<u>27,588,160</u>	<u>\$ 27,588,160</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at the net asset value ("NAV")				
Commonfund (pooled investment funds)				
Multi-Strategy Bond Fund	1,076,740			
Intermediate Term Fund	1,915,628			
Equity Index Fund	8,891,942			
	<u>11,884,310</u>			
Total investments measured at the NAV	<u>11,884,310</u>			
Total investments measured at fair value	<u>\$ 39,472,470</u>			

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
U.S. Treasury Notes and Government Securities	\$ 5,031,840	\$ 5,031,840	\$ -	\$ -
Corporate Debt Securities	1,431,370	1,431,370	-	-
Equity Securities	13,166,018	13,166,018	-	-
Money Market Funds	409,958	409,958	-	-
Mutual Funds	5,009,108	5,009,108	-	-
	<u>25,048,294</u>	<u>\$ 25,048,294</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at the net asset value ("NAV")				
Commonfund (pooled investment funds)				
Multi-Strategy Bond Fund	1,059,722			
Intermediate Term Fund	1,913,453			
Equity Index Fund	7,559,463			
	<u>10,532,638</u>			
Total investments measured at the NAV	<u>10,532,638</u>			
Total investments measured at fair value	<u>\$ 35,580,932</u>			

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The University's investments measured at the net asset value ("NAV") are as follows at June 30, 2017:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Commonfund (pooled investment funds)				
Multi-Strategy Bond Fund	\$ 1,076,740	-	Monthly	5 days
Intermediate Term Fund	1,915,628	-	N/A	N/A
Equity Index Fund	<u>8,891,942</u>	-	N/A	N/A
Total investments measured at the NAV	<u>\$ 11,884,310</u>			

The University's investments measured at the net asset value ("NAV") are as follows at June 30, 2016:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Commonfund (pooled investment funds)				
Multi-Strategy Bond Fund	\$ 1,059,722	-	Monthly	5 days
Intermediate Term Fund	1,913,453	-	N/A	N/A
Equity Index Fund	<u>7,559,463</u>	-	N/A	N/A
Total investments measured at the NAV	<u>\$ 10,532,638</u>			

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity Securities	\$ 4,391,295	\$ 4,391,295	\$ -	\$ -
U.S. Treasury Notes and Government Securities	1,044,049	1,044,049	-	-
Equity Funds	1,704,927	1,704,927	-	-
Corporate Bonds	633,437	633,437	-	-
Bond Funds	823,514	823,514	-	-
Cash and cash equivalents	<u>258,898</u>	<u>258,898</u>	-	-
	<u>\$ 8,856,120</u>	<u>\$ 8,856,120</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity Securities	\$ 4,081,245	\$ 4,081,245	\$ -	\$ -
U.S. Treasury Notes and Government Securities	1,122,564	1,122,564	-	-
Equity Funds	1,172,321	1,172,321	-	-
Corporate Bonds	765,886	765,886	-	-
Bond Funds	1,204,110	1,204,110	-	-
Cash and cash equivalents	145,076	145,076	-	-
	<u>\$ 8,491,202</u>	<u>\$ 8,491,202</u>	<u>\$ -</u>	<u>\$ -</u>

Endowment funds

The Foundation maintains donor-restricted permanent endowment funds, in addition to unrestricted and temporarily restricted funds in its investment portfolio. Effective July 1, 2009, the Commonwealth of Massachusetts implemented the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. The Foundation also recognizes that the unpredictable nature of fluctuations in the market value of its investments can result in restricted endowment funds dropping below its original gift value.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Foundation and the donor-restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation and deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Foundation, and (vii) the investment policies of the Foundation.

The Foundation has adopted investment spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index and the Barclays Government/Credit Bond Index while assuming a moderate level of investment risk.

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To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Changes in donor-restricted endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted (restricted expendable)</u>	<u>Permanently restricted (restricted non- expendable)</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 5,164,645	\$ 2,550,355	\$ 1,451,628	\$ 9,166,628
Investment return				
Interest and dividends	117,006	33,647	231	150,884
Realized and unrealized gains, net	109,218	-	-	109,218
Contributions and royalties	203,275	55,377	136,131	394,783
Released from restrictions	591,533	(591,533)	-	-
Appropriations for expenditure	<u>(1,003,138)</u>	<u>-</u>	<u>-</u>	<u>(1,003,138)</u>
Endowment net assets, June 30, 2016	5,182,539	2,047,846	1,587,990	8,818,375
Investment return				
Interest and dividends	122,027	41,061	163	163,251
Realized and unrealized gains, net	579,950	166,213	-	746,163
Contributions and royalties	378,951	90,805	186,649	656,405
Released from restrictions	277,429	(275,079)	(2,350)	-
Appropriations for expenditure	<u>(782,732)</u>	<u>-</u>	<u>-</u>	<u>(782,732)</u>
Endowment net assets, June 30, 2017	<u>\$ 5,758,164</u>	<u>\$ 2,070,846</u>	<u>\$ 1,772,452</u>	<u>\$ 9,601,462</u>

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Note 3 - Accounts receivable

The University's accounts receivable include the following at June 30:

	2017	2016
Student accounts receivable	\$ 2,753,250	\$ 2,081,439
Grants receivable	562,478	507,491
Parking fines receivable	308,871	307,956
Tuition receivable	3,380	18,400
Commissions receivable	44,067	31,610
Due from Warren Center	318,551	-
Due from the Foundation	86,140	291,674
Due from Bay State Reading	41,765	-
Miscellaneous other receivables	3,840	1,288
	4,122,342	3,239,858
Less allowance for doubtful accounts	(1,329,058)	(1,335,433)
Total	\$ 2,793,284	\$ 1,904,425

Note 4 - Loans receivable and payable

Loans receivable include the following at June 30:

	2017	2016
Perkins loans receivable	\$ 2,210,548	\$ 2,308,430
Emergency student loans receivable	2,778	3,462
Total	\$ 2,213,326	\$ 2,311,892

The amounts due to the federal government upon liquidation by the University are \$1,894,862 and \$1,881,685 at June 30, 2017 and 2016, respectively. These amounts are included as a noncurrent liability in the accompanying statements of net position.

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Note 5 - Capital assets

Capital assets activity of the University for the year ended June 30, 2017 is as follows:

	Totals June 30, 2016	Additions	Reclassification* and reductions	Totals June 30, 2017
Capital assets				
<u>Non-depreciable capital assets</u>				
Land	\$ 3,201,215	\$ -	\$ -	\$ 3,201,215
Construction in progress	69,267,891	9,321,481	(72,568,448)	6,020,924
Total non-depreciable assets	<u>72,469,106</u>	<u>9,321,481</u>	<u>(72,568,448)</u>	<u>9,222,139</u>
<u>Depreciable capital assets</u>				
Land improvements	9,602,736	-	-	9,602,736
Buildings	40,851,685	-	71,154,763	112,006,448
Building improvements	66,089,872	35,889	1,413,685	67,539,446
Equipment	5,504,649	1,530,624	-	7,035,273
Library materials	1,944,709	381,900	(360,666)	1,965,943
Total depreciable assets	<u>123,993,651</u>	<u>1,948,413</u>	<u>72,207,782</u>	<u>198,149,846</u>
Total capital assets	<u>196,462,757</u>	<u>11,269,894</u>	<u>(360,666)</u>	<u>207,371,985</u>
Less: accumulated depreciation				
Land improvements	3,186,828	479,308	-	3,666,136
Buildings	29,655,167	1,293,544	-	30,948,711
Building improvements	25,038,212	3,306,285	-	28,344,497
Equipment	4,375,784	452,259	-	4,828,043
Library materials	-	360,666	(360,666)	-
Total accumulated depreciation	<u>62,255,991</u>	<u>5,892,062</u>	<u>(360,666)</u>	<u>67,787,387</u>
Capital assets, net	<u>\$ 134,206,766</u>	<u>\$ 5,377,832</u>	<u>\$ -</u>	<u>\$ 139,584,598</u>

* Construction costs incurred for the University's Hemenway Hall Project and other facility improvements were included in construction in progress and subsequently transferred to capital asset additions upon completion during the year ended June 30, 2017.

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

	Totals June 30, 2015	Additions	Reclassification* and reductions	Totals June 30, 2016
Capital assets				
<u>Non-depreciable capital assets</u>				
Land	\$ 3,201,215	\$ -	\$ -	\$ 3,201,215
Construction in progress	59,517,045	15,800,386	(6,049,540)	69,267,891
Total non-depreciable assets	62,718,260	15,800,386	(6,049,540)	72,469,106
<u>Depreciable capital assets</u>				
Land improvements	9,439,196	-	163,540	9,602,736
Buildings	40,691,685	-	160,000	40,851,685
Building improvements	60,363,872	-	5,726,000	66,089,872
Equipment	4,428,761	1,075,888	-	5,504,649
Library materials	1,861,363	418,445	(335,099)	1,944,709
Total depreciable assets	116,784,877	1,494,333	5,714,441	123,993,651
Total capital assets	179,503,137	17,294,719	(335,099)	196,462,757
Less: accumulated depreciation				
Land improvements	2,710,828	476,000	-	3,186,828
Buildings	29,118,265	536,902	-	29,655,167
Building improvements	21,890,838	3,147,374	-	25,038,212
Equipment	4,135,868	239,916	-	4,375,784
Library materials	-	335,099	(335,099)	-
Total accumulated depreciation	57,855,799	4,735,291	(335,099)	62,255,991
Capital assets, net	<u>\$ 121,647,338</u>	<u>\$ 12,559,428</u>	<u>\$ -</u>	<u>\$ 134,206,766</u>

* Construction costs incurred for the University's McCarthy Center Dining Expansion Project and other facility improvements were included in construction in progress and subsequently transferred to capital asset additions upon completion during the year ended June 30, 2016.

During 2017, the University transferred \$200,000 to fund University equity contributions related to other facility improvements, which were funded from a transfer from DCAM.

During fiscal 2016, the MSCBA used bond proceeds of \$1,500,000 to repay a loan receivable to the University in the amount of \$1,152,765. The excess bond proceeds of \$347,235 have been accounted for as a transfer to the University (see Note 12).

During 2016, the University transferred \$10,890,000 to fund University equity contributions related to costs associated with the Warren Conference Center acquisition (\$6,500,000), costs related to the 89 Mount Wayte Avenue acquisition (\$90,000), costs related to the O'Connor Hall Renovation project (\$1,300,000), and costs related to the construction of the Hemenway Hall Science Center (\$3,000,000), all of which were funded from University operations.

Additionally, \$256,000 was transferred to the MSCBA from available bond funds related to the Warren Conference Center acquisition (\$40,000) and funds related to the bond refunding (\$216,000) (see Note 11).

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The net transfers to/from state agencies amounted to a net transfer in of \$200,000 in 2017 and a net transfer out of \$10,798,765 in 2016.

During fiscal 2015, the University was awarded a grant in the total amount of \$3,000,000 from the Massachusetts Life Sciences Center ("MLSC") to be used toward the construction of the Hemenway Hall Science Center. During 2016, the University received grant proceeds of \$3,000,000 from the MLSC. The grant proceeds of \$3,000,000 were transferred to DCAM to be used toward the construction of the Hemenway Hall Science Center during 2016. During fiscal 2017, the University was awarded a grant in the total amount of \$454,000 from the Massachusetts Life Sciences Center ("MLSC") to be used toward the construction of the Hemenway Hall Science Center. The University received grant proceeds of \$454,000 from the MLSC in August, 2017. The grant proceeds of \$454,000 were used to reimburse the University for expenditures funded by University operations during 2017 on the construction of the Hemenway Hall Science Center. The University recognized grant revenue of \$454,000 in 2017, which is included in state and local grants and contracts in the accompanying 2017 statement of revenues, expenses and changes in net position. As of June 30, 2017, the University has a receivable for this grant in the amount of \$454,000, which is included in accounts receivable, net in the accompanying 2017 statement of net position.

The University has considered the requirements of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and has noted no implications of this standard to the University's financial statements for the years ended June 30, 2017 and 2016.

Note 6 - Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following at June 30:

	2017	2016
Due to the Commonwealth	\$ -	\$ 2,500,000
Accounts payable - trade	1,244,945	123,083
Salaries and fringe benefits payable	1,402,921	933,529
 Total	 \$ 2,647,866	 \$ 3,556,612

During fiscal 2016, the University received State appropriations in the amount of \$2,500,000 to contribute to the acquisition of the Warren Conference Center by the MSCBA. The contribution was ultimately made with bond funding provided by DCAM in the amount of \$2,500,000. The University reverted the \$2,500,000 of State appropriations back to the Commonwealth during fiscal 2017.

Note 7 - Accrued workers' compensation

Independent actuarial reviews of the outstanding loss reserve requirements for the Commonwealth's self-insured workers' compensation program were conducted as of June 30, 2017 and 2016. Based upon the Commonwealth's analyses, \$612,124 and \$518,848 of accrued workers' compensation has been recorded as a liability at June 30, 2017 and 2016, respectively.

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Note 8 - Accrued compensated absences

Accrued compensated absences are comprised of the following at June 30:

	2017	2016
Vacation time payable	\$ 3,109,013	\$ 2,932,837
Sick time payable	2,503,363	2,457,991
Total	\$ 5,612,376	\$ 5,390,828
Amount representing obligations due to employees funded through sources other than State appropriations	\$ 1,196,519	619,997
Amount representing obligations for employees funded through State appropriations	4,415,857	4,770,831
Total	\$ 5,612,376	\$ 5,390,828

It is anticipated that the obligation due to employees funded through State appropriations will be discharged through future State appropriations and the balance is expected to be liquidated through trust funds. Had these amounts not been reflected as obligations of the University, the University's unrestricted net position balances would be \$49,168,417 and \$45,299,482 at June 30, 2017 and 2016, respectively (see Note 1, Compensated absences).

Note 9 - Faculty payroll accrual

The contract for full-time faculty begins on September 1 and ends on May 31, of any given academic year. The Commonwealth of Massachusetts and Framingham State University pay all faculty over the 12-month period from September through August. 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 State appropriation. The total amount due at June 30, 2017 of \$3,209,692 will be paid from the University's fiscal 2018 State appropriations. The total amount due at June 30, 2016 of \$2,722,997 was paid from the University's fiscal 2017 State appropriations.

Note 10 - Revenue received in advance

Revenue received in advance includes tuition received in advance from students for summer courses commencing after June 30, and grant funds received in advance. Revenue received in advance includes the following at June 30:

	2017	2016
Summer tuition	\$ 1,627,358	\$ 1,841,445
Grants	240,061	309,000
Total	\$ 1,867,419	\$ 2,150,445

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Note 11 - Interagency payables

The University, in association with the Massachusetts State College Building Authority ("MSCBA"), the Massachusetts Development Finance Agency ("MDFA"), and the Commonwealth of Massachusetts Division of Capital Asset Management ("DCAM"), has entered into financing and construction agreements for various campus projects.

The following table summarizes the University's Interagency payables as of June 30, 2017:

	Issue date	Original amount	Interest rates (%)	Due date	Effective interest rates (%)*	Interagency payable balance	Unamortized bond premiums	Total interagency payable
MDFA Series J-4	10/16/1998	\$ 6,265,000	Floating	6/15/2023	1.14	\$ 3,350,727	\$ -	\$ 3,350,727
MSCBA Series 2003A	03/01/2003	2,275,000	2.00-5.25	5/1/2033	4.02	1,695,000	-	1,695,000
MSCBA Series 2005A	03/01/2005	7,835,000	3.50-5.00	5/1/2026	3.27	4,285,000	-	4,285,000
MSCBA Series 2006A	03/01/2006	1,545,000	3.50-5.00	5/1/2026	4.37	865,000	57,824	922,824
MSCBA Series 2008A	03/01/2008	870,000	3.00-5.00	5/1/2028	4.69	570,000	19,380	589,380
MSCBA Series 2009A	01/01/2009	5,899,009	3.00-5.30	5/1/2029	4.78	4,139,161	68,297	4,207,458
MSCBA Series 2009 Land	10/01/2009	685,000	3.00-5.30	5/1/2029	5.04	485,000	12,336	497,336
MDFA Series 2010A-5	06/01/2010	177,705	3.50	5/1/2027	3.60	104,532	-	104,532
MSCBA Series 2010B	12/01/2010	11,095,000	5.79-6.54	5/1/2035	3.64	11,095,000	-	11,095,000
DCAM CEIP Funds - Phase I	07/01/2011	373,537	4.50	1/1/2032	4.53	308,398	-	308,398
DCAM CEIP Funds - Phase II	07/01/2011	3,711,166	4.00	1/1/2032	3.94	2,707,309	-	2,707,309
MSCBA Series 2012C	12/01/2012	4,155,000	2.00-5.00	5/1/2032	3.30	3,555,000	281,810	3,836,810
MSCBA Series 2014A	01/01/2014	3,185,000	2.00-5.00	5/1/2033	4.93	2,890,000	337,567	3,227,567
MSCBA Series 2014C	12/01/2014	680,000	3.00-5.00	5/1/2034	4.83	645,000	120,771	765,771
Total		<u>\$ 48,751,417</u>				<u>\$ 36,695,127</u>	<u>\$ 897,985</u>	<u>\$ 37,593,112</u>

*Effective Interest Rates are calculated by dividing total interest paid during the year by the average outstanding balance of bonds payable.

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The following table summarizes the University's Interagency payables as of June 30, 2016:

	Issue date	Original amount	Interest rates (%)	Due date	Effective interest rates (%)*	Interagency payable balance	Unamortized bond premiums	Total interagency payable
MDFA Series J-4	10/16/1998	\$ 6,265,000	Floating	6/15/2023	0.81	\$ 3,714,063	\$ -	\$ 3,714,063
MSCBA Series 2003A	03/01/2003	2,275,000	2.00-5.25	5/1/2033	4.05	1,755,000	-	1,755,000
MSCBA Series 2005A	03/01/2005	7,835,000	3.50-5.00	5/1/2026	1.75	4,670,000	-	4,670,000
MSCBA Series 2006A	03/01/2006	1,545,000	3.50-5.00	5/1/2026	4.32	940,000	60,259	1,000,259
MSCBA Series 2008A	03/01/2008	870,000	3.00-5.00	5/1/2028	4.27	610,000	21,169	631,169
MSCBA Series 2009A	01/01/2009	5,899,009	3.00-5.30	5/1/2029	4.49	4,396,099	70,443	4,466,542
MSCBA Series 2009 Land	10/01/2009	685,000	3.00-5.30	5/1/2029	4.78	515,000	13,362	528,362
MDFA Series 2010A-5	06/01/2010	177,705	3.50	5/1/2027	3.61	114,986	-	114,986
MSCBA Series 2010B	12/01/2010	11,095,000	5.79-6.54	5/1/2035	3.64	11,095,000	-	11,095,000
DCAM CEIP Funds - Phase I	07/01/2011	373,537	4.50	1/1/2032	4.53	322,597	-	322,597
DCAM CEIP Funds - Phase II	07/01/2011	3,711,166	4.00	1/1/2032	3.95	2,924,129	-	2,924,129
MSCBA Series 2012C	12/01/2012	4,155,000	2.00-5.00	5/1/2032	3.33	3,730,000	300,762	4,030,762
MSCBA Series 2014A	01/01/2014	3,185,000	2.00-5.00	5/1/2033	4.90	3,010,000	348,509	3,358,509
MSCBA Series 2014C	12/01/2014	<u>680,000</u>	3.00-5.00	5/1/2034	4.91	<u>670,000</u>	<u>120,771</u>	<u>790,771</u>
Total		<u>\$ 48,751,417</u>				<u>\$ 38,466,874</u>	<u>\$ 935,275</u>	<u>\$ 39,402,149</u>

*Effective Interest Rates are calculated by dividing total interest paid during the year by the average outstanding balance of bonds payable.

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MDFA Series J-4 bond issuance

On October 16, 1998, the University signed a financing agreement to receive \$6,265,000 from a MDFA (formerly Massachusetts Health and Educational Authority ("MHEFA")) bond issuance to be used for the construction of the University's athletic facility. This obligation will be repaid solely by the University. Construction of the athletic facility was completed in November 2001. MDFA retained \$480,073 of the bond proceeds for a debt service retirement fund.

The University is required to make annual funding payments of principal on this debt each June 15. These payments are made to a restricted cash account held in escrow in the University's name and recorded on the books of the University. These amounts, along with the remaining balance of the debt service retirement fund, are held in an escrow account by MDFA. The annual funding payments are held in this escrow account and made available to reborrow subject to specific conditions of the financing agreement or used to pay down the outstanding debt. Earnings on this total balance were used to offset costs related to the construction of the athletic facility and to defray debt service costs. These debt payments are to be repaid by the University solely from student fees.

Interest on the debt is paid every 35 days at a floating rate of interest subject to market conditions. The interest rate is determined by MDFA conducting a true auction of their debt issuance every 35 days, in which the University's obligation is pooled with other higher education institutions within the Commonwealth who have debt funded through MDFA. The most recent auctioned interest rates in effect at June 30, 2017 and 2016 were 1.936% and 0.991%, respectively. The University is also responsible to pay for program expenses at an annual rate of 1.172% (2017) and 1.154% (2016) of the outstanding principal balance, calculated and payable every 35 days when the rate is auctioned. Under the terms of the debt financing agreement, interest can be converted to a fixed rate with the consent of the Bond Insurer.

Under the terms of the debt financing agreement, the University is able to again borrow funding payments made by the University through July 1, 2008 and during any subsequent period with the consent of the Bond Insurer. Any amounts reborrowed must be repaid within a 10-year period or by the debt due date, whichever is earlier. However, any additional borrowings are subject to specific conditions of the financing agreement. At various times, the University has utilized this reborrowing option to fund various projects on campus.

MDFA is responsible to determine, subject to certain criteria, if income earned on unexpended debt proceeds exceeds the interest cost to the bondholders. Any excess income earned is held by an appointed trustee in a rebate fund. Such amounts are held until every fifth year, whereby payment is to be made as indicated by the bond indenture agreement.

MSCBA Series 2003A bond issuance

On March 1, 2003, the University signed a financing agreement in an original amount of \$2,275,000 from a MSCBA bond issuance. These funds, net of bond issue costs and debt service reserve funds, were used during fiscal year 2004 for improvements to athletic fields and a new parking lot. This obligation will be repaid solely by the University.

As of June 30, 2017 and 2016, the MSCBA held debt service funds in the amount of \$160,187, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents. As the result of a bond refunding transaction in 2016, the University expects to have a net interest credit in fiscal year 2033 as a result of interest savings. The bond refunding by the MSCBA had no other impact on the debt of the University.

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The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2033. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using rates ranging from 2.00% to 5.25% over the term of the debt to maturity.

MSCBA Series 2005A bond issuance

During March 2005, the University signed a financing agreement to receive \$7,835,000 from a MSCBA bond issuance. These funds, net of bond issue costs, reoffering premiums and debt service reserve funds were used in prior fiscal years for the renovation of the McCarthy Center (the "Project") at the University. This obligation will be repaid solely by the University through University operations.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2026. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.50% to 5.00% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. The effective interest rate at June 30, 2017 and 2016, respectively, reflects interest savings as a result of the bond refundings.

MSCBA Series 2006A bond issuance

During March, 2006, the University signed a financing agreement to receive \$1,545,000 from a MSCBA bond issuance. These funds were used for the renovation of the McCarthy Center (the "Project") at the University. This obligation will be repaid solely by the University through University operations.

As of June 30, 2017 and 2016, the MSCBA held debt service reserve funds in the amount of \$108,631 each year, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2026. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.50% to 5.00% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs.

MSCBA Series 2008A bond issuance

During March, 2008, the University signed a financing agreement to receive \$870,000 from a MSCBA bond issuance. These funds were used for the renovation of the McCarthy Center (the "Project") at the University. This obligation will be repaid solely by the University through University operations.

As of June 30, 2017 and 2016, the MSCBA held debt service reserve funds in the amount of \$89,285 each year, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

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The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2028. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.00% to 5.00% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs.

MSCBA Series 2009A bond issuance

During January 2009, the University signed a financing agreement to receive \$5,899,009 from a MSCBA bond issuance. These funds have been used for a parking facility (the "Project") at the University and for a new roof on O'Connor Hall. This obligation will be repaid solely by the University through University operations.

During fiscal 2016, \$180,000 of debt service reserve funds was transferred to the MSCBA as part of a bond refunding transaction. Other than the transfer of those funds to the MSCBA, the bond refundings by the MSCBA had no impact on the debt of the University. The University expects to benefit from interest savings on the bond refundings.

As of June 30, 2017 and 2016, the MSCBA held debt service reserve funds in the amounts of \$212,056 each year, which are included in the accompanying statements of net position at June 30, 2017 and 2016, as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2029. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.00% to 5.30% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. The effective interest rate at June 30, 2017 and 2016, respectively, reflects interest savings as a result of the bond refundings.

MSCBA Series 2009A bond issuance

During October 2009, the MSCBA transferred land (the "Project") acquired with bond proceeds and the associated debt in the amount of \$685,000 to the University pursuant to a financing agreement. This obligation will be repaid solely by the University through University operations.

During fiscal 2016, \$36,000 of debt service reserve funds were transferred to the MSCBA as part of bond refunding transactions. Other than the transfer of those funds to the MSCBA, the bond refundings by the MSCBA had no impact on the debt of the University. The University expects to benefit from interest savings on the bond refundings.

As of June 30, 2017 and 2016, the MSCBA held debt service reserve funds in the amounts of \$9,526 each year, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2029. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.00% to 5.30% over the term of the debt to

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maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. The effective interest rate at June 30, 2017 and 2016, respectively, reflects interest savings as a result of the bond refundings.

MDFA CREBS bond issuance

During June, 2010, the University signed a financing agreement to receive \$177,705 from a MDFA New Clean Renewable Energy Bonds ("CREBS") issuance. These funds are being used for the installation of solar photovoltaic panels on the Student Center and Athletic Center. This obligation will be repaid solely by the University through University operations.

As of June 30, 2017 and 2016, unexpended debt proceeds held by Century Bancorp, Inc. related to the debt issue and the Project are \$18,208 and \$18,171, respectively, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on the CREBS debt each May 1. The final principal payment is due on May 1, 2027. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule using a 3.50% interest rate over the term of the debt to maturity.

MSCBA Series 2010B bond issuance

During December, 2010, the University signed a financing agreement to receive \$11,095,000 from a MSBCA bond issuance. These funds, net of bond issue costs and a debt service reserve fund, are being used for the renovation of Hemenway Science Center, including the relocation of the Planetarium to O'Connor Hall. This obligation will be repaid solely by the University through University operations.

As of June 30, 2017 and 2016, amounts held by MSCBA related to the debt issue and the Project are as follows:

	2017	2016
Unexpended debt proceeds	\$ 175,273	\$ 175,273
Debt service reserve fund	965,564	965,564
	\$ 1,140,837	\$ 1,140,837

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1, commencing on May 1, 2023. The final principal payment is due on May 1, 2035. Interest on the debt is payable on May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 5.788% to 6.540% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. The MSCBA is receiving a federal interest subsidy associated with this bond issue and is billing the University for interest net of the subsidy.

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DCAM Clean Energy Investment Program

In July 2011, the University entered into a Memorandum of Agreement with the Commonwealth of Massachusetts' Division of Capital Asset Management ("DCAM") to undertake a Comprehensive Energy Performance Contracting Project - Phase 1 (the "project"). Further, in March 2012, the University entered into a second Memorandum of Agreement with DCAM related to the same project but known as Phase 2. The second agreement provided for, among other items, an increase in the total project cost and a change in the performance term from 20 years to 5 years. The Project's goal is to upgrade boilers, replace the chiller, lighting, EMS improvements, VAV boxes, and various energy conservation measures.

The total project cost for Phase 1 is \$451,537, including capitalized interest of \$12,551. Phase 1 has been funded with Clean Energy Investment Program Funds ("CEIP Funds") in the amount of \$373,537, which are to be repaid over 20 years at 4.5% interest and \$78,000 of University operating funds. Annual payments of principal and interest for Phase 1 in the amount of \$28,716 commenced on January 1, 2013. The Agreement for Phase 2 provides for a total cost of approximately \$6,650,000. The cost of the Project is expected to be funded from Clean Energy Investment Program Funds ("CEIP Funds") in the amount of \$3,711,166, capital grants of \$2,700,000, energy incentives from the contractor in the amount of \$45,600 and University operating funds of approximately \$193,000. CEIP Funds for Phase 2 are to be repaid over 15 years at 4.0% interest. Annual payments of principal and interest for Phase 2 in the amount of \$333,786 commenced in 2013. Additionally, both agreements provide for the University to fund annual maintenance costs to be paid over the first five years of the Project totaling approximately \$100,800 of which approximately \$6,900 relates to Phase 1 and \$93,900 relates to Phase 2. These maintenance costs are expected to be offset by energy savings as a result of the Project.

MSCBA 2012C bond issuance

During December 2012, the University signed financing agreements to receive an aggregate amount of \$4,155,000 from a MSCBA bond issuance (in the separate amounts of \$1,890,000 and \$2,265,000). The \$1,890,000 bond, net of a bond issue premium, bond issue costs, and a debt service reserve fund, is being used for the renovation of the Hemenway Science Center, including the relocation of the Planetarium to O'Connor Hall. The \$2,265,000 bond, net of a bond issue premium, bond issue costs, and a debt service reserve fund, is being used for the expansion of the McCarthy Center. These obligations will be repaid solely by the University through University operations. The University also executed a management agreement with MSCBA, whereby MSCBA provided management services to the University for the Projects.

As of June 30, 2017 and 2016, the MSCBA held debt service reserve funds related to the 2012C bond in the amount of \$69,848 each year, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

In accordance with an amended funding agreement among MSCBA, DCAM and the University, MSCBA transferred \$2,000,000, during fiscal year 2013, of project funds to DCAM in association with the Hemenway Science Center project. The \$2,000,000 transfer, along with an additional \$250,000 from University operating funds represents the University's additional equity contribution for the Project. In July 2013, the University transferred \$270,000 to DCAM. As of June 30, 2017 and 2016, DCAM held unexpended funds in the amounts of \$100,000 and \$100,000 each year, all of which is included in noncurrent restricted cash and cash equivalents in the accompanying 2017 and 2016 statements of net position.

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The University is required to make annual principal payments on the debt each May 1, commencing on May 1, 2014. The final principal payments are due on May 1, 2032. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 2.00% to 5.00% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs.

MSCBA 2014A bond issuance

During January 2014, the University signed a financing agreement to receive \$3,185,000. These bonds net of a bond issue premium, bond issue costs, and a debt service reserve fund, are being used for the renovation of the University's Maple Street athletic fields and the Salem End Road parking project. This obligation will be repaid solely by the University through University operations. The University also executed a management agreement with MSCBA, whereby MSCBA provided management services to the University for the Project.

As of June 30, 2017 and 2016, amounts held by MSCBA related to the debt issuance and the Project are as follows:

	2017	2016
Unexpended debt proceeds	\$ 1,944	\$ 1,944
Debt service reserve fund	194,330	194,330
	\$ 196,274	\$ 196,274

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on the debt each May 1, commencing on May 1, 2015. The final principal payment is due on May 1, 2033. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 2.00% to 5.00% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs.

MSCBA 2014C bond issuance

During December 2014, the University signed a financing agreement to receive \$680,000. These bonds net of a bond issue premium, bond issue costs, and a debt service reserve fund, are being used for the renovation of the University's Maple Street athletic fields. This obligation will be repaid solely by the University through University operations. The University also executed a management agreement with MSCBA, whereby MSCBA will provide management services to the University for the Project.

As of June 30, 2017 and 2016, the MSCBA held debt service reserve funds in the amount of \$44,781 each year, which are included in the accompanying statements of net position at June 30, 2017 and 2016 as noncurrent restricted cash and cash equivalents.

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The University is required to make annual principal payments on the debt each May 1, commencing on May 1, 2016. The final principal payment is due on May 1, 2034. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.00% to 5.00% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs.

Aggregate principal and interest payments due to maturity consist of the following:

Year ending June 30:	Principal	Amortization of bond premium	Total principal	Estimated interest (1)	Total
2018	\$ 1,852,186	\$ 61,872	\$ 1,914,058	\$ 1,416,152	\$ 3,330,210
2019	1,936,791	61,872	1,998,663	1,371,367	3,370,030
2020	2,031,383	61,872	2,093,255	1,318,314	3,411,569
2021	2,114,579	61,872	2,176,451	1,250,542	3,426,993
2022	2,228,241	61,872	2,290,113	1,171,195	3,461,308
2023 - 2027	14,406,798	302,934	14,709,732	4,099,743	18,809,475
2028 - 2032	9,620,148	247,188	9,867,336	1,559,682	11,427,018
2033 - 2037	2,505,000	38,503	2,543,503	150,160	2,693,663
Total	<u>\$ 36,695,127</u>	<u>\$ 897,985</u>	<u>\$ 37,593,112</u>	<u>\$ 12,337,154</u>	<u>\$ 49,930,266</u>

(1) The interest rate in effect at June 30, 2017 of 1.936% was used to calculate the estimated interest on the MDFA Series J-4 bond included above.

Other Interagency activity

The oversight of various capital projects on campus is provided by MSCBA. To fund these projects, the University provides equity contributions, by advancing funds to the MSCBA, which are then held by MSCBA until used for the payment of the capital project costs. As of June 30, 2017 and 2016, amounts held by MSCBA representing the unexpended portion of the University's contributions totaled \$205,796 and \$52,745 respectively, all of which is included in noncurrent restricted cash and cash equivalents in the accompanying 2017 and 2016 statements of net position.

As of June 30, 2017 and 2016, construction costs funded during the year by the University's equity contributions and bond issuance funds amounted to \$46,949 and \$77,654, respectively.

Note 12 - Line of credit

During fiscal 2015, the University entered into a demand non-revolving line of credit agreement with MutualOne which permitted the University to borrow up to \$1,500,000. For the year ended June 30, 2016, interest expense incurred on borrowings under this line of credit amounted to \$26,081. On January 4, 2016, the University repaid the outstanding balance of \$1,152,765 under the line of credit agreement. The line of credit provided for interest at the Wall Street Journal Prime Rate plus 0.50%, but in no event less than 3.25% per annum.

During fiscal 2015, the University advanced \$1,152,765 of funds under the line of credit to MSCBA. The loan receivable had no stated repayment terms. The MSCBA issued a bond in fiscal 2016 and used bond proceeds of \$1,500,000 to repay the University. The excess bond proceeds of \$347,235 has been recognized in transfers to/from state agencies in the accompanying 2016 statement of revenues, expenses and changes in net position.

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Note 13 - Long-term liabilities

Long-term liabilities activity for the year ended June 30, 2017 included the following:

	Totals June 30, 2016	Additions	Reductions	Totals June 30, 2017	
				Ending balance	Current portion
Interagency payables	\$ 39,402,149	\$ -	\$ 1,809,037	\$ 37,593,112	\$ 1,914,058 [A]
Other liabilities					
Compensated absences	5,390,828	3,631,993	3,410,445	5,612,376	3,399,346
Workers' compensation	518,848	202,753	109,477	612,124	110,794
Loan payable - federal financial assistance	1,881,685	224,400	211,223	1,894,862	-
Net pension liability	12,702,384	1,817,603	-	14,519,987	-
Total other liabilities	20,493,745	5,876,749	3,731,145	22,639,349	3,510,140
Long-term obligations	<u>\$ 59,895,894</u>	<u>\$ 5,876,749</u>	<u>\$ 5,540,182</u>	<u>\$ 60,232,461</u>	<u>\$ 5,424,198</u>

Long-term liabilities activity for the year ended June 30, 2016 included the following:

	Totals June 30, 2015	Additions	Reductions	Totals June 30, 2016	
				Ending balance	Current portion
Interagency payables	\$ 41,141,859	\$ -	\$ 1,739,710	\$ 39,402,149	\$ 1,818,555 [A]
Other liabilities					
Compensated absences	5,032,908	3,589,360	3,231,440	5,390,828	3,410,445
Workers' compensation	460,497	158,739	100,388	518,848	109,477
Loan payable - federal financial assistance	1,930,383	235,660	284,358	1,881,685	-
Net pension liability	6,196,704	6,505,680	-	12,702,384	-
Total other liabilities	13,620,492	10,489,439	3,616,186	20,493,745	3,519,922
Long-term obligations	<u>\$ 54,762,351</u>	<u>\$ 10,489,439</u>	<u>\$ 5,355,896</u>	<u>\$ 59,895,894</u>	<u>\$ 5,338,477</u>

[A] - The MDFA debt issuance totaling \$3,350,727 and \$3,714,063 at June 30, 2017 and 2016, respectively, is due in 2023. Required annual funding payments are due each June 15 and are held in escrow by the University's trustee and made available to reborrow subject to specific conditions of the financing agreement or used to pay down the outstanding debt (see Note 11). Funding payments held by the trustee at June 30, 2017 and 2016 are included in restricted cash and cash equivalents - current.

The MSCBA debt issuances, including unamortized premiums, totaling \$31,122,146 and \$32,326,374 at June 30, 2017 and 2016, respectively, are due in various years (see Note 11). Required annual principal payments are due each May 1.

The MDFA debt issuance in the amount of \$104,532 and \$114,986 at June 30, 2017 and 2016, respectively, is due in 2027. Required annual principal payments are due each May 1.

The DCAM CEIP debt issuances in the total amount of \$3,015,707 and \$3,246,726 at June 30, 2017 and 2016, respectively, are due in 2032 (see Note 11). Required annual principal payments are expected to be paid each January 1.

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Note 14 - Operating lease commitments

Pursuant to a management and service agreement (the "Agreement") between the University and MSCBA, the University is leasing a parcel of land from MSCBA for student parking and is obligated to make payments for the portion of a debt issuance attributable to the cost of the land. Lease payments are payable May 1 and November 1 each year and continue through May 1, 2019. Rent expense during 2017 and 2016, related to this lease amounted to \$243,975 and \$245,221, respectively. The University received \$154,295 and \$229,096 in parking fees from students during 2017 and 2016, respectively, to offset these lease payments.

According to the terms of the Agreement, the University is required to pay annually their portion of fees and expenses attributable to the management and administration of the bond issuance as well as applicable insurance and maintenance costs of the land. The University designated approximately \$63,000 as a pledge for payment under this financial arrangement. A portion of the fees earned by the University from student parking charges is designated for the sole purpose of being applied to the lease payments as they become due. In addition, annual State appropriations or other spending authorizations in the Commonwealth's annual operating budget available on behalf of the University are additionally pledged to secure payment.

Following is a schedule of estimated future lease payments:

	<u>For the year ending June 30,</u>	
2018		\$ 230,000
2019		<u>240,000</u>
		<u>\$ 470,000</u>

On July 2, 2012, the Commonwealth of Massachusetts, acting by and through its Division of Capital Asset Management and Maintenance ("DCAM") on behalf of the University, entered into a lease agreement with the Town of Framingham for new office space located in Framingham, Massachusetts. The leased space is approximately 6,600 square feet. The lease provides for a one-time payment of \$200,000 for the initial three-year term of the lease agreement. The \$200,000 payment was paid in October 2012 and the University occupied the building on August 30, 2012. The lease was for an initial term of three years and expired on the third anniversary of the Date of Occupancy. The original lease allowed for an extension for a term not to exceed five years in the aggregate pursuant to mutually agreed upon provisions by the landlord and the University. The Town of Framingham sold the property to the Danforth Museum. On September 1, 2015, the lease was extended with the Danforth Museum effective September 15, 2015 for a term of three years, expiring in September 2018, pursuant to mutually agreed upon provisions by the landlord and the University. The lease provides for a minimum annual base rent of \$72,000 for the initial year of the lease agreement and increases to \$74,520 for year two and \$77,128 for year three of the lease agreement.

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Future minimum rental payments under this operating lease agreement are as follows:

Year ending June 30,	
2018	\$ 76,585
2019	16,068
	\$ 92,653

Note 15 - Net position

Unrestricted net position is comprised of net assets that are not subject to externally imposed stipulations; however, they 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. Certain unrestricted net position are internally designated for academic and research programs and initiatives, and graduate and continuing education programs. Net position designated as unrestricted were \$39,405,830 and \$35,774,969 at June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, of the total designated unrestricted net position, \$24,374,633 and \$21,950,722, respectively, were designated by a vote of the Board of Trustees during fiscal 2006 as a quasi-endowment and the remainder have been designated by action of management for the purposes described above. Undesignated unrestricted net position (deficiency) were \$5,346,730 and \$3,873,519 at June 30, 2017 and 2016, respectively.

The University's net investment in capital assets consists of the following at June 30:

	2017	2016
Non-depreciable capital assets	\$ 9,222,139	\$ 72,469,106
Depreciable capital assets	130,362,459	61,737,660
Total capital assets, net	139,584,598	134,206,766
Long-term debt related to capital assets		
Interagency payables	(35,679,054)	(37,583,594)
Current debt related to capital assets		
Interagency payables	(1,914,058)	(1,818,555)
Other		
Unspent proceeds on debt related to capital assets	195,425	195,388
Debt service reserve	2,079,710	2,127,999
Debt used to pay bond issuance costs	427,168	449,706
Accounts payable on capital assets	-	(10,353)
Total investment in capital assets	\$ 104,693,789	\$ 97,567,357

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Note 16 - Net position restricted by enabling legislation

Framingham State University Foundation, Inc.'s statements of net position as of June 30, 2017 and 2016 reflect a restricted net position of \$3,843,298 and \$3,635,836, respectively. Of these amounts, \$870,233 and \$974,233 in fiscal 2017 and 2016, respectively, are restricted by enabling legislation for the State Matching Funds Program.

Note 17 - Operating expenses

The University's operating expenses for the years ended June 30, 2017 and 2016, on a natural classification basis, are comprised of the following:

	2017	2016
Salaries		
Faculty	\$ 23,338,782	\$ 22,364,107
Exempt wages	9,922,558	7,907,247
Non-exempt wages	17,379,191	15,434,502
Benefits	15,312,031	10,433,732
Scholarships	416,964	392,989
Utilities	3,883,505	3,660,203
Supplies and other services	28,209,013	29,295,151
Depreciation	5,892,062	4,735,291
Total operating expenses	\$ 104,354,106	\$ 94,223,222

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The University's operating expenses for the years ended June 30, 2017 and 2016, presented in accordance with the Commonwealth's expenditure classification plan, are comprised of the following:

	2017	2016
Education and general		
Regular employee compensation	\$ 38,433,337	\$ 36,339,485
Regular employee related expenses	436,783	529,709
Special employee/contract services	9,799,874	9,892,826
Pension and insurance	14,863,719	12,427,790
Administrative expenses	3,930,187	4,051,381
Facility operating supplies and related expenses	2,388,079	2,265,177
Energy and space rental	3,883,505	3,761,885
Consultant services	1,382,528	1,174,583
Operational services	1,135,741	833,781
Equipment purchases	438,961	556,966
Equipment lease and maintenance	633,691	585,666
Purchased client services and programs	465,859	325,488
Building improvements	1,176,769	656,324
Grants and subsidies	-	79,652
Benefit programs	70,861	104,989
Debt payment	182,866	177,961
Loans and special payments	2,038,828	1,502,786
Information technology	3,311,099	3,825,841
Depreciation	5,892,062	4,735,291
	\$ 90,464,749	\$ 83,827,581
Total educational and general expenses		

Note 18 - State controlled accounts

Certain significant costs and benefits associated with the operations of the University are appropriated, expended, controlled, and reported by the Commonwealth through non-University line items in the Commonwealth's budget. Under generally accepted accounting principles, such transactions must be recorded in the financial statements of the University. These transactions include payments by the Commonwealth for the employer's share of funding the Massachusetts State Employees' Retirement System (see Note 19) and for the employer's share of health care premiums.

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The estimated amounts of funding attributable for the Commonwealth's retirement system contribution and the employer's share of health care premiums for the years ended June 30, 2017, 2016 and 2015 were as follows (see State appropriations under Note 21):

	2017	2016	2015
Commonwealth's retirement system contribution	\$ 3,042,698	\$ 2,867,370	\$ 3,011,514
Employer's share of health care premiums	6,404,048	5,175,052	4,249,669

Note 19 - Retirement plan

Substantially all of the University's full-time employees are covered by the Massachusetts State Employees' Retirement System ("MSERS"). MSERS, a public employee retirement system ("PERS"), is a cost-sharing multi-employer defined benefit plan that is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. The Commonwealth does not issue separately audited financial statements for the plan. The financial position and results of operations of the plan are incorporated into the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws ("MGL") establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For 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, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

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

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

Hire date	% 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

The University is not required to contribute from its appropriation allocation or other University funds to MSERS for employees compensated from State appropriations. For University employees covered by MSERS but compensated from a trust fund or other source, the University is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of current funding by the State related to the University's employees during 2017, 2016 and 2015 was \$3,042,698, \$2,867,370, and \$3,011,514, respectively. The total amount of current funding by the University related to the University's employees compensated by a trust fund or other source during 2017, 2016 and 2015 was \$912,072, \$756,143, and \$698,628, respectively. Annual covered payroll was approximately 74%, 78% and 77% of annual total payroll for the University in 2017, 2016 and 2015, respectively.

At June 30, 2017 and 2016, the University reported a liability of \$14,519,987 and \$12,702,384, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and January 1, 2015, respectively, and the State's total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on an effective contribution methodology which allocates total contributions amongst the employers in a consistent manner based on an employer's share of total covered payroll. At June 30, 2017, the University's proportion was 0.1053% which was a decrease of 0.0063% from its proportion measured as of June 30, 2016. At June 30, 2016, the University's proportion was 0.1116%, which was an increase of 0.0281% from its proportion measured as of June 30, 2015.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$3,709,510 and \$3,719,946, respectively.

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

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$ 1,610,170	\$ -
Net difference between projected and actual earnings on pension plan investments	974,700	-
Differences between expected and actual experience	689,661	-
Changes in proportion due to internal allocation	1,742,160	520,426
Changes in proportion from Commonwealth	32,348	6,995
University contributions subsequent to the measurement date	912,072	-
Total	\$ 5,961,111	\$ 527,421

\$912,072 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 1,001,394
2019	1,001,394
2020	1,392,759
2021	918,890
2022	207,181
Total	\$ 4,521,618

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

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$ 2,199,793	\$ -
Net difference between projected and actual earnings on pension plan investments	-	365,014
Differences between expected and actual experience	251,083	-
Changes in proportion due to internal allocation	2,255,561	-
Changes in proportion from Commonwealth University contributions subsequent to the measurement date	-	9,752
	756,954	-
Total	\$ 5,463,391	\$ 374,766

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% (3.5% to 9.0% for the year ended June 30, 2015) depending on group and length of service.
3. Chapter 176 of the Acts of 2011 created a one time election for eligible members of the Optional Retirement Plan ("ORP") to transfer to MSERS and purchase service for the period while members of the ORP. As a result, the total pension liability of MSERS has increased by approximately \$400 million as of June 30, 2016.
4. Mortality rates were as follows:
 - (i) Pre-retirement - reflects RP-2000 Employees Table projected generationally with Scale BB and a base year of 2009 (gender distinct).
 - (ii) Post-retirement - reflects RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2009 (gender distinct).
 - (iii) Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct).
5. Experience studies were performed as follows:
 - (i) Dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>	
		<u>2016</u>	<u>2015</u>
Global equity	40.00%	6.90%	6.90%
Core fixed income	13.00%	1.60%	2.40%
Private equity	10.00%	8.70%	8.50%
Real estate	10.00%	4.60%	6.50%
Value added fixed income	10.00%	4.80%	5.80%
Hedge funds	9.00%	4.00%	5.80%
Portfolio completion strategies	4.00%	3.60%	5.50%
Timber/natural resources	4.00%	5.40%	6.60%
Total	<u>100.00%</u>		

The discount rate used to measure the total pension liability for the measurement years ended June 30, 2016 and 2015 was 7.5% for both years. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the University's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.5%, for both the measurement years ended June 30, 2016 and 2015, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

<u>Measurement year ended</u>	<u>1% decrease</u>	<u>Discount rate</u>	<u>1% increase</u>
June 30, 2015	\$ 17,267,321	\$ 12,702,384	\$ 8,765,902
June 30, 2016	18,920,999	14,519,987	10,788,834

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

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Note 20 - Fringe benefits for current employees and post-employment obligations - pension and non-pension

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

On-behalf payments of fringe benefits for benefited employees on the Commonwealth's payroll are recognized as revenues and expenses in the University's financial statements in each of the fiscal years presented.

Post-employment other than pensions

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Commonwealth's Group Insurance Commission ("GIC") was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns and a small amount of municipalities as an agent multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the University.

The GIC administers a plan included within the State Retiree Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution ratios.

The GIC does not issue separately audited financial statements. The financial position and results of operations of the plan are incorporated in the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

The GIC is a quasi-independent state agency governed by an 11-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2017 and 2016, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees

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only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2017, 2016 and 2015 were \$9,078,022, \$7,241,406 and \$6,879,631, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

Note 21 - Management Accounting and Reporting System

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting 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*.

State appropriations

The University's State appropriations are comprised of the following for the years ended June 30:

	2017	2016
Gross State appropriations	\$ 32,439,185	\$ 35,206,251
Add: Fringe benefits for benefited employees on the Commonwealth payroll	9,446,746	8,042,422
Less: Day school tuition remitted to the Commonwealth and included in tuition and fee revenue	(341,127)	(312,014)
Net State appropriations	\$ 41,544,804	\$ 42,936,659

\$37,022,123 and \$35,477,537 represent appropriations for maintenance and payroll during 2017 and 2016, respectively. \$4,522,681 and \$7,459,122 represent appropriations for capital improvements during 2017 and 2016, respectively. This amount is presented separately in the accompanying statements of revenues, expenses and changes in net position.

Day school tuition receipts and transfers have been recorded in an agency fund and had no material balance outstanding at June 30, 2017 and 2016.

Note 22 - Risk management, commitments and contingencies

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Commonwealth is self-insured. In addition, the University maintains commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. The separate insurance policies maintained by the University consist of Educator's Legal Liability, commercial crime, general liability, automobile liability, excess liability,

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and a foreign package policy. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims have not exceeded policy coverages in any of the past three years.

The University also participates in the Commonwealth's self-insured programs for employees workers' compensation, health care and other insurance. The Commonwealth assesses the costs of workers' compensation and unemployment insurance to the University based on the University's actual experience (see Note 7). The Commonwealth manages workers' compensation as part of its general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. The Commonwealth assesses the costs of health care insurance to the University through a fringe benefit rate and the liability for such coverage is borne by the Commonwealth. The Commonwealth's Group Insurance Commission manages health insurance and other benefits for the Commonwealth's active and retired employees (see Note 20).

Massachusetts General Laws limit the risk assumed by the Commonwealth for claims of personal injury or property damages to \$100,000 per occurrence, in most circumstances.

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 legal actions at this date will not result in a material loss to the University since most of any obligation is expected to be paid from State appropriated funds.

The University receives significant financial assistance from federal and state agencies in the form of grants. Expenditure of funds under these programs requires compliance with the grant agreements and are subject to audit by representatives of these federal and state agencies. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of management, such liabilities, if any, are not expected to materially affect the financial condition of the University.

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

The University has various capital projects that are currently in progress as of the date of the financial statements. These projects will be paid from funds appropriated and under the control of the DCAM. The projects consist of renovations and improvements and have been recorded in the respective accounts.

As of June 30, 2017, the collective bargaining agreements between the Board of Higher Education and two Employee Unions which impact the University have expired. New agreements have not yet been negotiated by the parties. Once the parties reach new agreements, the agreements are subject to approval by the Massachusetts Legislature and ratification by the Governor of the Commonwealth of Massachusetts. Accordingly, management cannot determine at this time, the impact, if any, that the results of the negotiations will have on the University's financial statements.

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Note 23 - Pledge agreement

In fiscal 2012, the Independent Association of Framingham State Alumni ("Alumni Association") made a conditional promise to give (pledge) a total amount of \$500,000 to either the Foundation and/or the University over a seven-year period beginning July 1, 2011 through June 30, 2018. The condition to be met, amounts, and timing of annual gifts pursuant to the pledge agreement are more fully described in a Memorandum of Understanding ("MOU") among the Alumni Association, Foundation and University. The gifts shall be restricted-use gifts with the restricted use specified by the Alumni Association in writing at the time each gift payment is made pursuant to the MOU. During the years ended June 30, 2017 and June 30, 2016, the University received \$93,739 and \$85,089, respectively, in accordance with this agreement.

Note 24 - Service concession arrangement

In fiscal 2011, the University entered into a service concession arrangement with Sodexo Operations, LLC ("Sodexo") to manage and operate the University's food services operation at the University's dining services locations as more fully described in the arrangement. The service concession arrangement commenced on July 1, 2010 for a term of five years through June 30, 2015, and was amended twice thereafter to extend the term of the arrangement until June 30, 2017. The deferred inflow of resources in the amount of \$2,342,943 was amortized to revenue on a straight-line basis over the term of the original arrangement through June 30, 2015, at which time it was fully amortized. Sodexo provided a previous investment of \$2,500,000 to the University for improvements to the dining services facility, including the purchase of equipment, during the original arrangement. As of June 30, 2017, the total unamortized amount of the previous investment was \$170,589, which is a liability of the University to Sodexo, and is included in accounts payable and accrued liabilities in the accompanying 2017 statement of net position.

In September, 2017, the University entered into a new service concession arrangement with Sodexo, effective July 1, 2017 for a term of five years through June 30, 2022 with an option to extend the arrangement for five additional one year periods upon mutual agreement of the parties. The new arrangement supersedes the previous arrangement. Commencing on June 30, 2019, provided that the agreement remains in effect, the arrangement provides for payments to the University totaling \$4,400,000. These payments shall be made to the University by Sodexo in nine installments as follows: \$200,000 in each of fiscal 2019 through fiscal 2022; \$700,000 in fiscal 2023; and \$725,000 in each of fiscal 2024 through 2027. In addition, Sodexo has agreed to pay the University a Partnership bonus of \$300,000 within 30 days after execution of the agreement to be used at the discretion of the University. Sodexo has also agreed to pay the University specified percentages of 2.75% to 10% of specified sales receipts from the food services operation and various other contributions totaling \$41,500 per year as more fully described in the arrangement.

As a part of the new arrangement, Sodexo will provide an investment in two installments in a total amount of \$2,880,000 for improvements to the dining services facility, including the purchase of equipment. Sodexo paid the first installment of \$500,000 to the University in October, 2017. The University expects to receive the second installment of \$2,380,000 in November, 2017, net of the cost of any equipment purchased directly by Sodexo. Sodexo will amortize the investment over a period defined in the arrangement. All improvements and equipment purchased with the payments received from Sodexo shall remain the property of the University. The arrangement may be terminated by either party at any time, without cause, in accordance with the terms of the arrangement and per the Commonwealth of Massachusetts Standard Terms and Conditions. The arrangement contains provisions, whereby, in the event of termination of the arrangement, the

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University shall be required to repay a portion of any payments made to the University by Sodexo. The portion required to be repaid shall be determined in accordance with amortization schedules prepared by Sodexo. The amortization schedules assume that all funds will be received from Sodexo. The University does not anticipate that the arrangement will be terminated prior to its expiration date.

Supplementary Information

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Schedule of the University's Proportionate Share of the Net Pension Liability
and Schedule of University Contributions
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
University's proportion of the net pension liability (asset)	0.1053%	0.1116%	0.0835%	0.0800%
University's proportionate share of the net pension liability (asset)	\$ 14,519,987	\$ 12,702,384	\$ 6,196,704	\$ 7,112,594
University's covered payroll	\$ 37,366,419	\$ 35,597,813	\$ 33,398,731	\$ 31,176,819
University's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	38.86%	35.68%	18.55%	22.81%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%	70.31%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 3,954,770	\$ 3,623,513	\$ 3,710,142	\$ 2,679,992
Contributions in relation to the contractually required contribution	<u>(3,954,770)</u>	<u>(3,623,513)</u>	<u>(3,710,142)</u>	<u>(2,679,992)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 37,366,419	\$ 35,597,813	\$ 33,398,731	\$ 31,176,819
Contributions as a percentage of covered payroll	10.58%	10.18%	11.11%	8.60%

Notes: (1) This schedule is intended to present 10 years of data. Additional years will be presented when available.

(2) Beginning in 2017, the University began reporting covered payroll and the ratios that use that measure instead of covered-employee payroll and the ratios that used that measure in conformity with GASB Statement No. 82. All years presented prior to 2017 have been restated to reflect the implementation of GASB Statement No. 82.

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Notes to Required Supplementary Information
June 30, 2017

Note 1 - Changes in benefit terms and assumptions

FY 2016 Changes in Actuarial Assumptions

Changes in benefit terms

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

FY 2015 Changes in Actuarial Assumptions

Changes in benefit terms

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive ("ERI") for certain members of 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.

Changes in assumptions

The investment rate of return changed to 7.5% from 8.0%.

The mortality assumptions changed as follows:

- Pre-retirement - was changed to reflect the RP - 2000 Employees Table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP - 2000 Employees Table projected 20 years with Scale AA (gender distinct).
- Post-retirement - was changed to reflect the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2009 (gender distinct) from Healthy Annuitant Table projected 15 years with Scale AA (gender distinct).
- Disability - was changed to the mortality rate assumed to be accordance with the RP - 2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct) from the mortality rate assumed to be in accordance with the RP - 2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

The discount rate used to measure the total pension liability changed to 7.5% from 8.0%.

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Residence Hall Fund and Residence Hall Damage Fund Activity
June 30, 2017

The University's Residence Hall Fund and Residence Hall Damage Fund non-classified Statements of Net Position at June 30, 2017 are as follows:

Statements of Net Position

	Residence Hall Fund	Residence Hall Damage Fund
Assets		
Cash	\$ 4,147,689	\$ 377,123
Accounts receivable	173,518	33,773
	<u>4,321,207</u>	<u>410,896</u>
Total assets		
Liabilities		
Accounts payable	30,079	-
Salaries and fringe benefits	74,725	-
Compensated absences	297,730	-
Revenue received in advance	1,855	-
Deposits	310,498	-
	<u>714,887</u>	<u>-</u>
Total liabilities		
Net position	<u>\$ 3,606,320</u>	<u>\$ 410,896</u>

See Independent Auditor's Report on Page 3.

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Residence Hall Fund and Residence Hall Damage Fund Activity
June 30, 2017

The University's Residence Hall Fund and Residence Hall Damage Fund Statements of Revenues, Expenses and Changes in Net Position (presented in accordance with the Commonwealth of Massachusetts' Expenditure Classification plan) for the year ended June 30, 2017 are as follows:

	Residence Hall Fund	Residence Hall Damage Fund
Revenue		
Student tuition and fees	\$ 15,257,569	\$ 91,262
Interest	11,845	-
Commissions	58,588	-
Rentals	94,770	-
Auxiliary services fees and other revenue	116,089	-
	<u>15,538,861</u>	<u>91,262</u>
Total revenues		
Transfer in (external)	<u>78,580</u>	<u>-</u>
Expenses		
Regular employee compensation	1,380,963	-
Regular employee related expenses	6,048	-
Special employee/contract services	1,122,524	-
Pension and insurance	447,904	-
Administrative expenses	330,861	-
Facility operating supplies and related expenses	162,576	-
Consultant services	1,415	-
Operational services	19,882	-
Equipment purchases	11,994	-
Equipment lease - purchase, lease, rent, repair	209,571	-
Purchased client service and programs	5,542	-
Buildings improvements	159,149	5,022
Benefit programs	288,000	-
Information technology	56,203	-
Loans and special payments	9,681,703	-
	<u>13,884,335</u>	<u>5,022</u>
Total expenses		

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Residence Hall Fund and Residence Hall Damage Fund Activity
June 30, 2017

	Residence Hall Fund	Residence Hall Damage Fund
Transfer out (external)		
Transfers to/(from) state agencies	319	-
Electricity	1,508,000	-
Laundry and cleaning	70,000	-
Health services reimbursement	50,000	-
Total transfer out (external)	1,628,319	-
Increase (decrease) in net position	104,787	86,239
Net position - beginning of year	3,501,533	324,657
Net position - end of year	\$ 3,606,320	\$ 410,896

The above Statements of Revenues, Expenses and Changes in Net Position do not include an allocation of the current year charge for workers' compensation as estimated by the Commonwealth's actuarial review. It is not practical to allocate any such amount to any specific trust fund.

See Independent Auditor's Report on Page 3.

Framingham State University
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Net Position by Category

	2008	2009	2010	2011 ^a	2012	2013	2014	2015	2016	2017
Net investment in capital assets	\$ 38,339,612	\$ 46,599,851	\$ 40,387,949	\$ 37,988,052	\$ 38,286,821	\$ 41,448,701	\$ 52,034,054	\$ 84,138,157	\$ 97,567,357	\$ 104,693,789
Restricted-expendable	3,892,404	3,525,890	4,423,654	4,225,527	3,926,198	3,805,464	3,905,599	2,516,075	2,562,269	3,118,277
Restricted-nonexpendable	1,719,826	1,719,826	1,770,386	1,833,122	1,867,226	1,925,721	1,970,057	1,996,750	2,045,582	2,088,572
Unrestricted	13,336,609	14,303,979	16,927,583	22,978,623	27,289,909	31,978,129	36,838,098	37,341,806	39,648,488	44,752,560
Total net position	\$ 57,288,451	\$ 66,149,546	\$ 63,509,572	\$ 67,025,324	\$ 71,370,154	\$ 79,158,015	\$ 94,747,808	\$ 125,992,788	\$ 141,823,696	\$ 154,653,198

Note: This schedule does not include the component unit, Framingham State University Foundation Inc.

Sources and Uses of Funds

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Source of Revenue										
Student charges (net of scholarships)	\$ 22,351,999	\$ 23,583,384	\$ 24,576,837	\$ 26,007,531	\$ 31,147,293	\$ 33,455,320	\$ 33,641,345	\$ 33,785,799	\$ 34,420,617	\$ 35,753,779
Grants and contracts	2,671,878	3,069,398	4,050,321	4,967,041	5,344,608	6,706,251	7,480,144	9,933,830	12,284,096	9,882,318
Stimulus grants	-	-	3,482,805	830,709	424	-	-	-	-	-
Auxiliary enterprises	7,101,203	7,712,138	8,456,561	9,354,988	12,394,711	13,106,652	13,739,521	14,208,692	14,706,516	15,630,123
Other operating revenue	2,826,358	1,975,343	1,975,870	1,496,656	1,754,261	2,224,319	2,087,533	1,689,136	2,038,867	3,116,759
Total operating revenue	34,951,438	36,340,263	42,542,394	42,656,925	50,641,297	55,492,542	56,948,543	59,617,457	63,450,096	\$64,382,979
State support	31,484,538	28,427,909	22,390,029	27,509,637	30,014,259	27,584,390	30,676,068	32,664,050	35,477,537	37,022,123
Stimulus grants	-	-	1,649,328	782,970	2,586,100	-	-	-	-	-
Other non-operating revenue	3,061,205	6,344,482	287,029	2,392,533	25,513	4,296,226	12,202,066	36,483,195	21,925,262	15,778,506
Total non-operating revenue	34,545,743	34,772,391	24,326,386	30,685,140	32,625,872	31,880,616	42,878,134	69,147,245	57,402,799	52,800,629
Total revenue	\$ 69,497,181	\$ 71,112,654	\$ 66,868,780	\$ 73,342,065	\$ 83,267,169	\$ 87,373,158	\$ 99,826,677	\$ 128,764,702	\$ 120,852,895	\$ 117,183,608
Functional Expense										
Instruction	\$ 23,832,939	\$ 20,408,847	\$ 20,491,371	\$ 21,453,520	\$ 22,735,216	\$ 26,225,721	\$ 27,347,169	\$ 29,049,792	\$ 31,336,705	\$ 33,165,584
Research	-	-	-	-	-	18,537	90,386	1,508,571	1,630,714	1,723,725
Academic support	7,991,707	7,169,261	7,255,860	8,899,811	9,011,501	9,343,322	9,974,585	9,998,548	11,852,251	12,630,319
Student services	7,659,953	6,551,763	6,607,464	7,495,741	8,543,923	9,516,596	10,513,003	11,158,061	11,911,904	13,014,536
Institutional support	9,099,526	8,456,589	8,526,921	8,971,673	10,311,003	7,828,181	7,858,572	9,009,850	10,815,126	11,774,164
Operations and maintenance of plant	10,657,583	9,743,916	8,578,382	8,457,584	10,122,757	11,149,462	11,087,924	11,167,239	11,440,601	12,193,498
Scholarships	128,973	182,264	156,617	230,346	185,858	172,280	155,336	141,076	104,989	70,861
Sub-total	59,370,681	52,512,640	51,616,615	55,508,675	60,910,258	64,254,099	67,026,975	72,033,137	79,092,290	84,572,687
Auxiliary enterprises	6,082,569	6,702,220	7,267,640	8,329,122	10,465,629	10,982,802	11,907,599	12,099,652	10,395,641	13,889,357
Total operating expense	65,453,250	59,214,860	58,884,255	63,837,797	71,375,887	75,236,901	78,934,574	84,132,789	89,487,931	98,462,044
Other non-operating expense	-	-	6,881,873	1,925,000	3,327,353	778,700	1,315,343	2,072,255	10,798,765	6,995,870
Total non-operating expense	-	-	6,881,873	1,925,000	3,327,353	778,700	1,315,343	2,072,255	10,798,765	6,995,870
Total expense	\$ 65,453,250	\$ 59,214,860	\$ 65,766,128	\$ 65,762,797	\$ 74,703,240	\$ 76,015,601	\$ 80,249,917	\$ 86,205,044	\$ 100,286,696	\$ 105,457,914

Note: This schedule does not include the component unit, Framingham State University Foundation, Inc.; total operating expense does not include depreciation.

^a Beginning in 2011, the University began reporting net position rather than net assets, in conformity with GASB Statement 60. Prior to that time, net investment in capital assets was labeled "invested in capital assets, net of related debt."

See Independent Auditor's Report on Page 3.

Framingham State University
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Supplemental Statistical Information - Unaudited

During fiscal 2015, FSU changed the methodology used to allocate certain types of university-wide operating expenses. In the past, the allocation was based upon the proportional share of overall operating expenses borne by the following educational and general operating expense categories: Instruction, Academic Support, Student Services, Institutional Support and Operations and Maintenance of Plant.

The revised allocation methodology distributes these expenses based upon the proportional number of FTE faculty and staff members associated with each category. The operating expenses allocated include Information Technology and Campus Police expenses, fiscal 2015 costs for which are approximately \$6.6M. Management believes that the FTE allocation basis more accurately reflects the proportional benefit received by the various university functional areas.

Utilizing the new allocation basis FSU has reclassified the operating expenses by educational and general operating expense categories for fiscal 2013 and fiscal 2014. Operating Expenses for periods prior to fiscal 2013 have not been reclassified as information was unavailable.

Framingham State University
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Supplemental Statistical Information - Unaudited

Schedule of Capital Asset Information

	Academic Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Land (acreage)	50.35	50.93	51.28	51.28	51.28	51.28	53.00	54.00	143.18	143.18
Buildings (square feet)										
100 Instruction/classroom	49,482	49,482	49,482	49,482	49,482	49,482	49,482	49,482	49,482	53,467
200 Labs	69,875	69,875	69,875	69,875	69,875	69,875	69,875	69,875	124,875	124,875
300 Administrative	83,857	83,857	83,857	83,857	83,857	83,857	83,857	94,325	94,325	119,262
400 Study facilities	54,565	54,565	54,565	54,565	54,565	54,565	54,565	54,565	54,565	58,862
52x Athletic	49,709	49,709	49,709	49,709	49,709	49,709	49,709	53,449	53,449	53,449
5xx Other special use	8,852	8,852	8,852	8,852	8,852	8,852	31,706	31,706	114,106	122,506
600 General use	56,311	56,311	56,311	56,311	56,311	56,311	56,311	56,311	56,311	76,023
700 Support facilities	133,565	138,165	138,165	138,165	138,165	138,165	138,165	138,165	154,425	156,785
000 Unclassified	-	-	-	-	-	-	-	-	-	-
Unassigned/unassignable	154,688	154,688	154,688	154,688	154,688	154,688	154,688	154,688	154,688	164,397
Total Square Feet	660,904	665,504	665,504	665,504	665,504	665,504	688,358	702,566	856,226	929,626
Residence Halls	341,900	341,900	341,900	341,900	469,645	469,645	539,045	539,045	545,795	562,728
Rental space	-	-	-	-	-	6,613	6,613	6,613	6,613	-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Dormitories - # of residents (1)	1,534	1,583	1,552	1,966	1,946	1,946	1,940	1,890	1,876	1,875

Note: Classification of facilities space is consistent with Facilities Inventory & Classification Code guide. This was implemented in 2005.

* Corrected amount from Master Plan; prior years have been adjusted accordingly.

(1) FY16 Added the Warren Conference Center

(2) FY16 Added 2 Perini Buildings

(3) Residence Hall # of residents is based upon the average of the Spring and Fall occupancy the calendar year, e.g. 2017 = Spring 2017 + Fall 2017.

(4) FY16 Added Hemenway Labs

(5) FY17 Add West Hall/move

(6) FY17 Add O'Connor

See Independent Auditor's Report on Page 3.

Framingham State University
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Supplemental Statistical Information - Unaudited

Schedule of Tuition and Mandatory Fees

	Academic Year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Resident Undergraduate											
Tuition	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970
Mandatory Fees	4,829	5,171	5,570	6,095	6,610	7,110	7,110	7,350	7,730	8,370	
Total	\$ 5,799	\$ 6,141	\$ 6,540	\$ 7,065	\$ 7,580	\$ 8,080	\$ 8,080	\$ 8,320	\$ 8,700	\$ 9,340	
Non Resident Undergraduate											
Tuition	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	
Mandatory Fees	4,829	5,171	5,570	6,095	6,610	7,110	7,110	7,350	7,730	8,370	
Total	\$ 11,879	\$ 12,221	\$ 12,620	\$ 13,145	\$ 13,660	\$ 14,160	\$ 14,160	\$ 14,400	\$ 14,780	\$ 15,420	
Resident Graduate											
Tuition	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	\$ 1,675	
Mandatory Fees	4,829	5,171	5,570	6,095	6,610	7,110	7,110	7,350	7,730	8,370	
Total	\$ 6,504	\$ 6,846	\$ 7,245	\$ 7,770	\$ 8,285	\$ 8,785	\$ 8,785	\$ 9,025	\$ 9,405	\$ 10,045	

Note: Tuition and fee amounts are for a full-time student per academic year. These amounts exclude residence hall room and board.

Framingham State University
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Supplemental Statistical Information - Unaudited

Admissions, Enrollment, and Degree Statistics

Admissions-Freshman (1)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Applications	4,837	4,620	4,108	4,542	6,254	6,985	6,902	6,665	6,189	7,525
Applications accepted	2,814	2,999	2,744	3,016	3,668	3,733	3,903	4,110	4,239	4,866
Accepted as a percentage of applications	58%	65%	67%	66%	59%	53%	57%	62%	68%	65%
Students enrolled (2)	1,062	991	1,147	1,237	1,442	1,407	1,341	1,338	1,358	1,242
Enrolled as a percentage of accepted	38%	33%	42%	41%	39%	38%	34%	33%	32%	26%

(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.

Enrollment	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Full-time equivalent	4,189	4,237	4,213	4,288	4,710	4,909	4,942	4,996	4,881	4,732
Unduplicated credit headcount	5,903	6,086	5,989	5,953	6,415	6,506	6,429	6,499	6,398	5,977
Percent undergraduate (3)	65%	65%	64%	65%	67%	69%	71%	71%	70%	73%
Percent graduate	35%	35%	36%	35%	33%	31%	29%	29%	30%	27%

(3) Percent undergraduate/graduate based on Fall semester registration, unduplicated headcount

Student Population Demographics (4)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Percentage of men	30%	30%	28%	30%	31%	32%	32%	32%	33%	35%
Percentage of women	70%	70%	72%	70%	69%	68%	68%	68%	67%	65%
Percentage of African-American	3%	4%	4%	5%	6%	6%	6%	6%	7%	8%
Percentage of White	89%	88%	89%	86%	84%	82%	83%	82%	77%	74%
Percentage of Latino	4%	4%	4%	5%	6%	8%	8%	9%	10%	10%
Percentage of Other (5)	4%	4%	3%	4%	4%	4%	3%	3%	7%	8%
< 20	19%	18%	19%	20%	22%	21%	21%	20%	24%	25%
20 to 30	53%	51%	51%	51%	50%	53%	54%	55%	51%	52%
31 to 40	12%	13%	12%	13%	12%	12%	11%	12%	12%	11%
41 & Over	16%	18%	18%	16%	16%	14%	14%	14%	13%	12%

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

(5) Other includes Asian or Pacific Islander, American Indian, Alaskan Native, and Cape Verdean.

Degrees Granted	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Bachelor's	631	662	722	728	703	735	795	908	968	1,012
Master's	464	410	545	430	546	426	538	414	496	453

See Independent Auditor's Report on Page 3.

Framingham State University
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Supplemental Statistical Information - Unaudited

Schedule of Employment

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Faculty - Primary Instruction ^{/1 /2}	250	264	250	257	261	312	318	366	529	530
Part-time	81	99	81	96	97	136	136	174	143	140
Part-time CE Instructors									182	185
Full-time	169	165	169	161	164	176	182	192	204	205
Staff and Administrators	287	296	287	276	293	310	315	314	322	334
Part-time	5	6	5	7	7	9	9	10	8	8
Full-time	282	290	282	269	286	301	306	304	314	326
Total Employees	537	560	537	533	554	622	633	680	669	864
Part-time	86	105	86	103	104	145	145	184	151	333
Full-time	451	455	451	430	450	477	488	496	518	531

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

^{/2} As of 2015 Part time Faculty also include all Continuing Education part time instructors

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

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
Framingham State University

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 the business-type activities and discretely presented component unit of Framingham State University (the "University") (a department 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 the University's basic financial statements, and have issued our report thereon dated October 25, 2017, which included emphasis of matter paragraphs as indicated on page 4. Our report includes a reference to other auditors who audited the financial statements of Framingham State University Foundation, Inc., as described in our report on Framingham State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Boston, Massachusetts
October 25, 2017

Framingham State University
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Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

There were no findings noted in the audit report on the financial statements of Framingham State University for the year ended June 30, 2017, made in accordance with auditing standards general 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.

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