

WORCESTER STATE UNIVERSITY

***FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH SUPPLEMENTAL SCHEDULES, STATISTICAL
INFORMATION AND OTHER REPORTS***

YEARS ENDED JUNE 30, 2011 AND 2010

AND

INDEPENDENT AUDITOR'S REPORT

WORCESTER STATE UNIVERSITY
FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS WITH SUPPLEMENTAL
SCHEDULES, STATISTICAL INFORMATION AND OTHER REPORTS
YEARS ENDED JUNE 30, 2011 AND 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

WORCESTER STATE UNIVERSITY
(A Component Unit of the Commonwealth Of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Worcester State University (the "University", "WSU"), we offer readers of Worcester State University's financial statements this narrative overview and analysis of the financial activities of Worcester State University for the fiscal year ended June 30, 2011. This discussion is provided by management and should be read in conjunction with the financial statements and notes thereto.

Worcester State University was founded in 1871, and is one of nine comprehensive public Universities in the Commonwealth of Massachusetts. The University affirms the principles of liberal learning as the foundation for all advanced programs of study and offers programs in the traditional liberal arts and science disciplines, while maintaining its historical focus on teacher education. In its undergraduate academic programs it offers 24 majors, 27 minors, 4 concentrations; in its Division of Graduate and Continuing Education, the University offers 21 graduate academic programs and 5 certificate programs. Total enrollment during the fall of 2010 was 5,708 students.

Financial Highlights

- The assets of Worcester State University exceeded its liabilities at the close of the most recent fiscal year by \$87,162,957 (net assets). Of this amount, \$27,806,659 is classified as unrestricted net assets. Growth in unrestricted net assets has been strategically planned in accordance with the University's long term Capital Financing Plan. The plan calls for growth in reserves as the means of providing financial leverage for the building of a new Athletic Center and Parking Garage.
- The University's total unrestricted net assets increased by \$5,368,555, with total net assets increasing by \$4,645,535. The majority of the increase in unrestricted is the result of revenues generated during the year in the Capital Improvement Trust Fund and the receipt of unanticipated ARRA funds used for operations, which provided for the establishment of the Strategic Plan Trust Fund with General Fund revenue.

Overview of the Financial Statements

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

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

The Statement of Net Assets presents information on all of the University's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the University is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the University's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the accrual for compensated absences.)

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

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

WORCESTER STATE UNIVERSITY
(A Component Unit of the Commonwealth Of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

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

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

Financial Analysis

As noted earlier, net assets may serve over time as a useful indication of Worcester State University's financial position. In the case of Worcester State University, assets exceeded liabilities by \$87,162,957 at the close of fiscal year 2011.

By far the largest portion of Worcester State University's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt, including capital leases, used to acquire those assets that is still outstanding. Worcester State University uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Worcester State University's investment in its capital assets is reported net of related debt.

WORCESTER STATE UNIVERSITY
(A Component Unit of the Commonwealth Of Massachusetts)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

**Worcester State University's Net Assets as of
June 30, 2011, with comparative data as of June 30, 2010**

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 44,603,919	\$ 39,429,302
Capital assets	<u>68,612,872</u>	<u>69,581,614</u>
Total assets	<u>113,216,791</u>	<u>109,010,916</u>
Non-current outstanding liabilities	14,758,822	14,946,466
Other liabilities	<u>11,295,012</u>	<u>11,547,028</u>
Total liabilities	<u>26,053,834</u>	<u>26,493,494</u>
Net assets:		
Invested in capital assets, net of related debt	56,195,538	56,818,614
Restricted	3,160,760	3,260,704
Unrestricted	<u>27,806,659</u>	<u>22,438,104</u>
Total net assets	<u>\$ 87,162,957</u>	<u>\$ 82,517,422</u>

A portion of the Worcester State University's net assets (3.63 percent) as of June 30, 2011 represent funds that are subject to external restrictions on how they must be used. These funds include HEFA bond proceeds held in a Debt Service Reserve account in addition to restricted net assets of \$2,161,890 that may be expended in accordance with terms placed on the resources by third party funding agencies. Unrestricted net assets of \$27,806,659 may be used to meet the University's ongoing obligations to its stakeholders.

The University's primary reserve ratio, calculated as expendable net assets divided by total expenses, is 41.16% and 37.21%, respectively, for the years ended June 30, 2011 and June 30, 2010. This ratio provides a snapshot of financial strength and flexibility by indicating the percent of operating expenses that could be funded by expendable reserves without relying on additional net assets generated by operations.

The University has achieved the Department of Higher Education benchmark of a 40% primary reserve ratio. The rapid growth in reserves since 2006 has been strategically planned in accordance with the long term capital financing plan of the University. Reserves are being accumulated in the Capital Improvement Trust Fund for the specific purpose of contributing to the financing of a new athletic center and second parking garage.

At the end of the current fiscal year, Worcester State University is able to report positive balances in all three categories of net assets.

The University's net assets increased by \$4,645,535 during the year ended June 30, 2011. \$1,798,488 represents planned growth in the Capital Improvement Trust Fund in accordance with the capital financing plan for the Athletic Center Project. An additional \$1,458,580 represents operating revenue offset in the operating budget by additional ARRA funds that had been unanticipated. This operating revenue was used to establish the Strategic Plan Trust Fund. The trust fund was established to provide funds for the one time initiatives that will progress the institution toward achieving the goals of the five year strategic plan. The remaining increase in net assets is the result of the return on investments and revenue generated in excess of budget projections.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The University's return on net asset ratio, calculated as the change in total net assets divided by total net assets – beginning of the year, is 5.63% and 3.45%, respectively, for the years ended June 30, 2011 and June 30, 2010. This ratio measures total economic return including capital investment and positive operating results. An improving trend indicates increasing net assets which provide for increased financial flexibility. The ratio reflects a higher return for FY 2011 due to the receipt of additional ARRA funds during the year providing for general funds to be set aside to create the Strategic Plan Trust Fund.

The net operating revenue ratio, calculated as operating income plus non-operating revenue divided by operating revenue plus non-operating revenue, is 5.81% and 3.37%, respectively, for the years ended June 30, 2011 and June 30, 2010. The ratio measures whether an institution is living within its available resources. Worcester State University strives to achieve an annual operating surplus as measured by this ratio as part of its long-term plan to improve its primary reserve and viability ratios and maintain a healthy annual return on net assets.

The University net investment in capital assets in FY2011 was \$2,959,640 while depreciation expense on capital assets was \$4,296,608.

The University's viability ratio, calculated as expendable net assets divided by long term debt, is 1 : 2.41 and 1 : 1.89, respectively, as of June 30, 2011 and June 30, 2010. The viability ratio measures the availability of expendable net assets to cover debt as of the balance sheet date. A ratio of 1:1 or greater indicates an institution has sufficient expendable net assets to satisfy its debt obligations as of the balance sheet date. The University continues to improve this ratio in accordance with the long term capital financing plan. Expendable net assets are increasing with the intent of leveraging the funds to finance the new Athletic Center and a second parking garage. The goal is to sustain a 1:1 viability ratio as each project is completed.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Worcester State University's Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2011 with comparative data for the year ended June 30, 2010

	2011	2010
Operating Revenues:		
Tuition and fees, net of scholarships discounts and allowances	\$ 36,667,144	\$ 32,996,010
Operating grants and contributions	13,850,266	11,652,814
Sales and services of auxiliary enterprises and other sources	585,484	510,947
Total operating revenues	51,102,894	45,159,771
Operating Expenses:		
Instruction	28,317,953	26,205,866
Public service	466,426	491,683
Academic support	5,864,229	5,215,746
Student service	6,115,465	5,925,693
Institutional support	9,339,162	8,025,540
Operations and maintenance of plant	8,414,670	7,412,106
Scholarships	1,267,657	1,309,597
Depreciation	4,296,608	3,389,333
Debt service	592,101	601,318
Auxiliary enterprises	8,127,535	6,355,184
Total operating expense	72,801,806	64,932,066
Net operating loss	(21,698,912)	(19,772,295)
Non-operating revenues (expenses):		
State appropriation, including fringe benefits provided to employees by the Commonwealth, net of tuition remitted to the Commonwealth	25,931,430	21,428,433
Investment income	307,776	606,154
Other and transfers	3,241	1,474
Total non-operating revenues	26,242,447	22,036,061
Income before other revenues, expenses, gains or losses	4,543,535	2,263,766
Capital appropriations	102,000	488,046
Increase in net assets	4,645,535	2,751,812
Net assets – July 1	82,517,422	79,765,610
Net assets – June 30	\$ 87,162,957	\$ 82,517,422

State appropriations for operations, including fringe benefits and net of tuition remission, experienced an increase in FY 2011 with a net increase in appropriated funds of \$4,502,997. Approximately \$2,530,760 of this increase, including \$436,724 for FY11 collective bargaining base, reflects a real dollar increase in state funds, with the remainder a reflection of the increased cost of fringe benefits funded by the state. In FY 2011 net investment income was \$307,776 including net unrealized investment losses of \$121,758.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

State appropriations are reported net of the amount of day school tuition collected by the University on behalf of the Commonwealth. The tuition collected is remitted back to the Commonwealth as dictated by Massachusetts General Law. Included in State appropriations are the fringe benefit costs for University employees paid by the Commonwealth. The following schedule details the Commonwealth appropriations received by the University for the years ending June 30, 2011 and June 30, 2010, respectively.

	2011	2010
State Appropriations	\$ 20,756,595	\$ 18,225,835
Appropriations to cover fringe benefits provided to employees of the Commonwealth	6,474,175	4,728,722
Tuition remitted back to the State	(1,299,340)	(1,526,124)
Net appropriations	25,931,430	21,428,433
Additional State capital appropriations	102,000	488,046
Total Appropriations	\$ 26,033,430	\$ 21,916,479

Loss from Operations

State appropriations are the primary source of funding for the University. Under GASB 35, appropriations are considered non-operating revenue. As such, the University incurs a loss from operations. The Commonwealth's Board of Higher Education sets tuition for the day division. The University's Board of Trustees sets all fees and tuition of the Division of Graduate and Continuing Education. The University's Board of Trustees approves the annual budget with the intention of mitigating losses after consideration of Commonwealth appropriations while balancing educational and operational needs. The following schedule presents Worcester State University's incurred losses from operations for the fiscal years ended June 30, 2011 and 2010, respectively.

	2011	2010	Change
Net Tuition and Fee Revenue	\$ 36,667,144	\$ 32,996,010	\$ 3,671,134
Other Revenue, net of Student Financial Aid	14,435,750	12,163,761	2,271,989
Operational Expenses	(72,801,806)	(64,932,066)	(7,869,740)
Operating loss	(21,698,912)	(19,772,295)	(1,926,617)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth	25,931,430	21,428,433	4,502,997
Investment and non-operating income	311,017	607,628	(296,611)
Net income	\$ 4,543,535	\$ 2,263,766	\$ 2,279,769

WORCESTER STATE UNIVERSITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Capital Assets and Debts of the University

Capital Assets. Worcester State University's investment in capital assets as of June 30, 2011 amounts to \$68,612,872, net of accumulated depreciation, compared to \$69,581,614 net of accumulated depreciation as of June 30, 2010. The University's investment in capital assets includes, land (including improvements), building (including improvements,) furnishings and equipment, and books. In FY 2011 gross capital assets increased by \$2,959,640. Capital projects completed during the year include stage improvements and the installation of air conditioning in the Sullivan Auditorium, replacement of the cooling system in the Learning Resource Center, renovations to the Ghosh Art Gallery, additional signage replacement and paving.

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

Long-Term Debt.

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

MHEFA Financing. On December 4, 2002, the University entered in to a financing agreement with MHEFA to receive \$14,000,000 for renovations to the Sullivan and Administration Buildings. As of June 30, 2011, the Trustee bank holds Debt Service Reserve Funds of approximately \$918,305. Annual principal payments ranging from \$280,000 to \$870,000 continue through November 2032. The debt service will be paid with operating revenues of the University. The Loan and Trust agreement restricts future indebtedness to an amount for which the annual debt service will be equal to or less than the excess of revenues over expenses [excluding extraordinary items, depreciation, interest on long term debt and amortization of bond costs] as it appears on the most recent audited financial statements.

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

Economic Factors that will Affect the Future

In the fall of 2010 a final round of unanticipated ARRA funds were allotted to Worcester State University. The Board of Trustees approved the appropriation of the funds in January 2011. Of the \$1,708,580 allocation, \$1,458,580 was used to fund payroll costs. The offsetting operating revenue was then appropriated to a newly established Strategic Plan Trust Fund. The Strategic Plan Trust Fund was established to provide for the set aside of operating budget capacity, when and where it can be derived, to be available to fund one-time initiatives that will progress the institution toward achieving the goals of the five year strategic plan.

The FY 2012 appropriation received from the Commonwealth was flat and did not include collective bargaining increases for FY 2012. Furthermore, the appropriation was reduced by an estimated out-of-state tuition figure, with the intent that the campuses will now retain out-of-state tuition. Remitted out-of-state tuition in FY 2010 was used as the budget estimate. The Commonwealth agreed to hold the campuses harmless for the fringe benefits incurred on the newly retained revenue source. Any out-of-state revenue growth achieved above the estimate used for the FY 12 budget will remain on campus and be recognized as a new campus resource. This has been a positive step towards additional new revenue generation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

All three collective bargaining units represented at the University, [the Massachusetts Teachers Association/NEA Massachusetts State College Association, the Association of Professional Administrators MTA/NEA, and the American Federation of State, County and Municipal Employees] are entering the final year of their collective bargaining agreements. There are current conversations focused on extending the contracts with an annual 3 -3.5% increase for members through FY 2014. Campuses have been funding exiting obligations, with the Commonwealth providing supplemental funds for FY 10 and FY11 obligations. It is uncertain as to when additional supplemental budgets may be approved to fund the Commonwealth's contractual obligations for FY 2012 or commitments made beyond that point.

During the summer of 2010 the University began a study with the Division of Capital Asset Management and Maintenance (DCAM) for a new wellness center to replace the existing 50 year old gymnasium. A Memorandum of Agreement had been executed in a previous year for the University to self-fund the study. The result of the study is to identify the scope and estimated total project cost. Through the first year of the study the University has arrived at a general concept for a 100,000 square foot facility housing athletic and recreational space. The existing gymnasium will be demolished as it has serious structural deficits that cannot be adequately addressed by a renovation process. It is currently anticipated that the total project cost for a new Athletic Center is approximately \$45.5 million. The Commonwealth has funds earmarked for the project on the Higher Education Bond Bill in the amount of \$25.5 million. An initial financing plan was presented to the Board of Trustees in April 2011. The plan calls for the University to leverage reserves, which have been accumulating in accordance with the capital financing plan, to finance an estimated \$20 million for this project. The financing is expected to be a combination of reserve spending and revenue bonds issued by the Mass State College Building Authority. A definitive project schedule is due from the Governor's Office of Administration and Finance in the fall of 2011.

In addition to the Athletic Center the University is working with the MSCBA to add a new 300 bed residence hall on upper campus. The results of a student housing market study commissioned by the MSCBA supports the demand for new beds, in addition to the annual wait list of students that the University has been experiencing.

The 2007 Master plan for the University identified a new athletic center and additional residence hall as priorities, in addition to the greening of the inner campus and a second parking garage on the north side of campus. Since the University has a very small footprint, approximately 54 acres, it is crucial that space is maximized and used to its fullest potential. To aid the University and various project planners in appropriately siting the facilities, we have entered in to an agreement with DCAM to update the master plan. Phase I of the Master Plan Update will identify preferred sites for the Athletic Center, Residence Hall and Parking Garage. Phase two of the Master Plan Update, estimated to begin in early spring, will address other long term spaces needs across campus.

Requests for Information

This financial report is designed to provide a general overview of the Worcester State University's finances for all those with an interest in the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Vice President of Administration and Finance, 486 Chandler Street, Worcester, MA 01602-2597.

FINANCIAL STATEMENTS,
WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Worcester State University

We have audited the accompanying statements of net assets of Worcester State University as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended and the statement of net assets for the discretely presented component unit as of June 30, 2011 and the related statement of revenues, expenses, and changes in net assets for the year, then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Worcester State University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Worcester State University as of June 30, 2011 and 2010, and its revenues and expenses, changes in its net assets and its cash flows for the years then ended, and the statement of net assets for the discretely presented component unit as of June 30, 2010 and the related statement of revenues, expenses, and changes in net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of Worcester State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the University taken as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis on pages 1 through 8 and statistical information on pages 31 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bollus Lynch, LLP

Worcester, Massachusetts
October 17, 2011

WORCESTER STATE UNIVERSITY

STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

	Worcester State University		Component Unit
	2011	2010	Worcester State Foundation 2011
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 14,360,837	\$ 9,054,679	\$ 189,235
Cash held by State Treasurer	3,520,390	6,989,670	-
Cash held by Foundation	172,229	68,000	-
Accounts receivable, net	1,779,852	1,147,622	230
Current portion of loans receivable	194,224	171,100	-
Current portion of contributions receivable	-	-	447,998
Inventories	21,886	17,082	46,711
Prepaid expenses and other current assets	200,191	181,224	3,373
Total current assets	20,249,609	17,629,377	687,547
Non-current Assets:			
Investments	20,932,476	18,234,665	14,110,173
Deposits held with trustee	918,305	1,456,668	-
Long-term portion of loans receivable	669,539	820,631	-
Contributions receivable, less current portion	-	-	331,303
Other non-current assets	1,833,990	1,287,961	299,678
Capital assets, net of accumulated depreciation	68,612,872	69,581,614	1,779,583
Total non-current assets	92,967,182	91,381,539	16,520,737
Total assets	113,216,791	109,010,916	17,208,284
LIABILITIES			
Current Liabilities:			
Current portion of long-term debt	355,667	345,667	41,646
Accounts payable	1,035,430	1,772,023	29,842
Accrued payroll and fringe benefits	4,686,554	3,992,394	-
Accrued interest and other liabilities	88,295	88,295	16,490
Funds held for others	-	-	226,905
Student deposits and unearned revenue	2,434,805	2,835,889	43,375
Current portion of capital lease obligation	-	-	12,841
Current portion of charitable gift annuity	-	-	4,536
Current portion of accrued workers' compensation	96,100	72,639	-
Current portion of accrued compensated absences	2,598,161	2,440,122	-
Total current liabilities	11,295,012	11,547,029	375,635
Non-current liabilities:			
Long-term debt, less current portion	12,061,667	12,417,333	720,475
Capital lease obligations, less current portion	-	-	177,745
Charitable gift annuity, less current portion	-	-	10,247
Advance payable to the University	-	-	412,500
Accrued workers' compensation, less current portion	326,947	314,477	-
Accrued compensated absences, less current portion	1,262,074	1,119,736	-
Refundable grant - federal financial assistance program	1,108,134	1,094,919	-
Total liabilities	26,053,834	26,493,494	1,696,602
NET ASSETS			
Invested in capital assets, net	56,195,538	56,818,614	-
Restricted - Nonexpendable:			
Other	-	-	10,162,832
Restricted - Expendable for:			
Other	2,161,890	1,724,010	3,544,961
Capital projects	998,870	1,536,694	-
Unrestricted	27,806,659	22,438,104	1,803,889
Total net assets	\$ 87,162,957	\$ 82,517,422	\$ 15,511,682

See accompanying notes to financial statements.

WORCESTER STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2011 AND 2010

	Worcester State University		Component Unit
	2011	2010	Worcester State Foundation 2011
REVENUES			
Operating Revenues:			
Student tuition and fees	\$ 36,322,718	\$ 33,228,317	\$ 239,079
Auxiliary enterprises, student housing	7,691,816	6,231,872	-
Less: Scholarship discounts and allowance	7,347,390	6,464,179	-
Net student tuition and fees	36,667,144	32,996,010	239,079
Contributions	-	-	1,232,765
Federal grants and contracts	10,867,450	8,586,193	-
State and local grants and contracts	944,511	1,296,211	-
Nongovernmental grants and contracts	910,612	553,196	-
Auxiliary enterprises, other	585,484	510,947	176,129
Other operating revenues	1,127,693	1,217,214	250,733
Total operating revenues	51,102,894	45,159,771	1,898,706
EXPENSES			
Operating expenses:			
Instruction	28,317,953	26,205,866	-
Public service	466,426	491,683	-
Academic support	5,864,229	5,215,746	-
Student services	6,115,465	5,925,693	-
Institutional support	9,339,162	8,025,540	868,953
Operation and maintenance of plant	8,414,670	7,412,106	70,582
Scholarship	1,267,657	1,309,597	-
Depreciation	4,296,608	3,389,333	127,689
Debt service	592,101	601,318	-
Auxiliary enterprises	8,127,535	6,355,184	-
Total operating expenses	72,801,806	64,932,066	1,067,224
Operating loss	(21,698,912)	(19,772,295)	831,482
NONOPERATING REVENUES (EXPENSES)			
State appropriations	25,931,430	21,428,433	-
Interest and investment income	307,776	606,154	2,279,046
Payments to Worcester State University	-	-	(604,585)
Other nonoperating revenues	3,241	1,474	-
Net nonoperating revenues	26,242,447	22,036,061	1,674,461
Income before other revenues, expenses, gains, or losses	4,543,535	2,263,766	2,505,943
Capital appropriations	102,000	488,046	-
Additions to permanent endowments	-	-	359,752
Increase in net assets	4,645,535	2,751,812	2,865,695
NET ASSETS			
Beginning of year	82,517,422	79,765,610	12,645,987
End of year	\$ 87,162,957	\$ 82,517,422	\$ 15,511,682

See accompanying notes to financial statements.

WORCESTER STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Student tuition, fees and charges	\$ 36,264,202	\$ 32,874,631
Federal grants and contracts	10,867,450	8,586,193
State and local grants and contracts	944,511	1,296,211
Nongovernmental grants and contracts	910,612	553,196
Auxiliary enterprise charges	585,484	510,947
Employee compensation and fringe benefit payments	(43,865,906)	(40,645,874)
Payments to suppliers	(24,314,739)	(20,405,752)
Interest paid	(592,709)	(603,601)
Cash received (paid) for student organizations and others	-	(166,715)
Loans repaid by students	127,968	125,553
Other receipts	464,255	1,165,306
Net cash used in operating activities	<u>(18,608,872)</u>	<u>(16,709,905)</u>
Cash flows from noncapital financing activities:		
State appropriations	25,931,430	21,428,433
Net deposits received	33,066	25,759
Net cash provided by noncapital financing activities	<u>25,964,496</u>	<u>21,454,192</u>
Cash flows from capital and related financing activities:		
Capital appropriations	102,000	488,046
Purchases of capital assets	(3,336,258)	(2,987,232)
Principal payments of capital related debt	(345,666)	(335,667)
Decrease in cash restricted for capital activities	538,363	636,084
Perkins loan program, net funds received	13,215	(23,354)
Other activities	3,241	1,474
Net cash used in capital and related financing activities	<u>(3,025,105)</u>	<u>(2,220,649)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	8,667,523	7,050,000
Purchases of investments	(11,543,199)	(7,592,792)
Interest and investment income	486,264	551,285
Net cash provided by (used in) investing activities	<u>(2,389,412)</u>	<u>8,493</u>
Net increase in cash and cash equivalents	1,941,107	2,532,131
Cash and cash equivalents, beginning of year	<u>16,112,349</u>	<u>13,580,218</u>
Cash and cash equivalents, end of year	<u>\$ 18,053,456</u>	<u>\$ 16,112,349</u>

See accompanying notes to financial statements.

WORCESTER STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

(Continued)

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (21,698,912)	\$ (19,772,295)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,296,608	3,389,333
Amortization of deferred expenses	63,664	18,179
Interest received on cash restricted for capital activities	(608)	(2,283)
(Increase) decrease in operating assets:		
Accounts receivable, net	(632,230)	(423,140)
Loans receivable	127,968	125,553
Inventories	(4,804)	(514)
Prepaid expenses and other assets	(628,676)	(117,175)
Increase (decrease) in operating liabilities:		
Accounts payable	(728,200)	(280,467)
Accrued payroll and fringe benefits	694,160	284,281
Funds held for others	-	(166,715)
Accrued workers' compensation	35,931	(13,725)
Student deposits and unearned revenue	(434,150)	249,853
Accrued compensated absences	300,377	(790)
	<u>\$ (18,608,872)</u>	<u>\$ (16,709,905)</u>
Net cash used in operating activities	<u>\$ (18,608,872)</u>	<u>\$ (16,709,905)</u>

See accompanying notes to financial statements.

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Component units

The University follows the provisions of Government Accounting Standards Board (GASB) Statement No. 39 requiring the inclusion of Worcester State Foundation, Inc. (the "Foundation") as a legally separate, tax exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2011, the Foundation distributed \$604,585 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Business Office at 486 Chandler Street, Worcester, MA 01602.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). As allowed by GASB, the University has elected not to follow the pronouncements issued by the Financial Accounting Standards Board ("FASB") issued after November 30, 1989.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The University has determined that it functions as a Business Type Activity, as defined by GASB. The effect of interfund activity has been eliminated during the preparation of these financial statements.

These statements reflect the University's adoption of GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 38.

GASB Statement No. 33 requires that unconditional promises to give be recorded as receivables and revenues at the time the University has met all eligibility requirements. The adoption of this statement did not have a material impact on the University's financial statements.

GASB Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities. These standards require that, for accounting and reporting purposes, resources be classified into four net asset categories, described as follows:

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

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

Restricted net assets - These resources are further differentiated between those that are Nonexpendable and Expendable.

Nonexpendable resources are those that are subject to externally imposed constraints that they be maintained permanently.

Expendable net assets are resources whose use is subject to externally imposed constraints that can be satisfied by specific actions or by the passage of time.

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

The University's policy for defining operating activities in the statements of revenues, expenses and changes in net assets are those that result from exchange transactions, such as payments received for services and payments made for the purchase of goods and services. All other activity is considered non-operating in nature. This activity includes operating and capital appropriations from the Commonwealth, net investment income, and gifts.

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) on 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.

Accounting estimates

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

Subsequent events

The University has evaluated the financial statement impact of subsequent events occurring through October 17, 2011, the date that the financial statements were available to be issued.

Cash, temporary investments, and investments

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

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, temporary investments, and investments

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

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

Inventories

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

Loans receivable and payable

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

The prescribed practices for the Perkins program do not provide for accrual of interest on student loans receivable or for the provision of an allowance for doubtful loans. Accordingly, interest on loans is recorded as received and loan balances are reduced subsequent to the determination of their uncollectibility and have been accepted (assigned) by the Department of Education.

Capital assets

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

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

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

Deferred tuition and fees

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

WORCESTER STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds held for others

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

State appropriations

The University's unrestricted State appropriations amounted to \$27,230,770 and \$22,954,557 for the years ended June 30, 2011 and 2010, respectively. State supported tuition, in the amounts of \$1,299,340 and \$1,526,124 for the years ended June 30, 2011 and 2010, respectively, were remitted to the State and have been offset against these appropriations. State supported tuition receipts and transfers have been recorded in an agency fund during the year with a net amount due the Commonwealth of \$92,048 and \$67,918 as of June 30, 2011 and 2010, respectively.

Compensated absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Liability for vacation leave is the amount earned by all eligible employees through June 30, 2011. Pursuant to statewide experience on sick pay buy-back agreements applicable to state employees, the University accrues sick leave to a level representing 20 percent of amounts earned by those University employees with ten or more years of State service at the end of the fiscal year. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Fringe benefits

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

Trust funds

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

Tax status

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

2 - CASH AND TEMPORARY INVESTMENTS

The University's cash and temporary investments are as follows as of June 30, 2011 and 2010:

	2011	2010
Carrying amount	\$ 14,360,837	\$ 9,054,679
Bank balance	\$ 15,166,343	\$ 10,144,043
Less amounts		
Covered by depository insurance	250,000	250,000
Collateralized repurchase agreements	13,100,423	7,019,611
Remaining bank balance	\$ 1,815,920	\$ 2,874,432

WORCESTER STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2 - CASH AND TEMPORARY INVESTMENTS (Continued)

The differences between the carrying amounts and the bank balances are attributable to deposits-in-transit and outstanding checks. While the remaining bank balance is uninsured and uncollateralized, the University has lowered its risk of loss by maintaining these funds in high quality financial institutions. Further, as of June 30, 2011 and 2010, the University held \$1,552,733 and \$1,057,892 respectively, of the funds in money market mutual funds invested in federal securities.

As of June 30, 2011 and 2010, the University was party to a repurchase agreement with a bank. The investments underlying these agreements had a cost, which approximates fair value, of \$13,100,423 and \$7,019,611 as of June 30, 2011 and 2010 respectively.

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

3 - CASH HELD BY STATE TREASURER

The University has recorded cash held for the benefit of the University by the State Treasurer in the amounts of \$114,112 and \$199,506 as of June 30, 2011 and 2010, respectively. In addition, the State Treasurer held cash for certain University trust funds in the amounts of \$3,406,278 and \$6,790,164 as of June 30, 2011 and 2010, respectively. None of these cash balances are insured or collateralized.

4 - INVESTMENTS

The University maintains pooled investments in long-term U.S. Treasury and Agency Securities. The fair value of these investments as of June 30, 2011 and 2010 are as follows:

	Investment Maturities (in years)			
	Fair Value	Less Than 1	1 to 5	Greater than 5
<u>June 30, 2011</u>				
Investment Type				
U.S. Treasuries	\$ 11,363,320	\$ 1,523,490	\$ 3,947,016	\$ 5,892,814
U.S. Agencies	<u>9,569,156</u>	<u>7,558,816</u>	<u>2,010,340</u>	<u>-</u>
Total	<u>\$ 20,932,476</u>	<u>\$ 9,082,306</u>	<u>\$ 5,957,356</u>	<u>\$ 5,892,814</u>

	Investment Maturities (in years)			
	Fair Value	Less Than 1	1 to 5	Greater than 5
<u>June 30, 2010</u>				
Investment Type				
U.S. Treasuries	\$ 8,504,810	\$ 1,769,410	\$ 3,597,208	\$ 3,138,192
U.S. Agencies	<u>9,729,855</u>	<u>3,039,375</u>	<u>6,690,480</u>	<u>-</u>
Total	<u>\$ 18,234,665</u>	<u>\$ 4,808,785</u>	<u>\$ 10,287,688</u>	<u>\$ 3,138,192</u>

WORCESTER STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

4 - INVESTMENTS (Continued)

Interest Rate Risk

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, however the University has attempted to mitigate this risk by limiting the maturity dates of investments to five years or less, whenever possible.

Credit Risk

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

Concentration of Credit Risk

The University places no limit on the amount that may be invested in one issuer. The University believes that its investments in U.S. Treasury and U.S. Agency securities do not present a significant concentration of credit risk.

Custodial Credit Risk

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

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

	2011	2010
Interest	\$ 485,641	\$ 548,975
Realized loss on investments	(56,107)	(254,050)
Unrealized gain (loss) on investments	(121,758)	311,229
	\$ 307,776	\$ 606,154

5 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2011 and 2010:

	2011	2010
Students	\$ 929,667	\$ 1,005,952
Other	1,110,951	447,513
	2,040,618	1,453,465
Less: Allowance for uncollectible accounts	260,766	305,843
	\$ 1,779,852	\$ 1,147,622

6 - DEPOSITS HELD WITH TRUSTEE

The University's bond payable indentures require the maintenance of restricted construction and debt service reserve funds on deposit with a bank trustee. Deposits with bank trustee are held in various trust accounts and are available for the following purposes as of June 30, 2011:

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - DEPOSITS HELD WITH TRUSTEE (Continued)

	<u>2011</u>	<u>2010</u>
Property, plant and equipment improvements and acquisition	\$ -	538,390
Future debt service	918,305	918,278
	<u>\$ 918,305</u>	<u>1,456,668</u>

7 - LOANS RECEIVABLE

Loans receivable consist of the following Perkins Loans as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Enrolled students	\$ 286,650	\$ 450,940
Repayment on schedule	231,925	218,515
In default	345,188	322,276
	<u>\$ 863,763</u>	<u>\$ 991,731</u>

8 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 188,650	-	-	\$ 188,650
Construction of process	1,164,708	-	1,128,508	36,200
Capital assets, being depreciated:				
Land	4,755,261	154,287	-	4,909,548
Buildings, including improvements	92,440,261	3,330,098	-	95,770,359
Furnishings and equipment	9,815,677	479,106	19,535	10,275,248
Books	1,876,594	492,883	348,691	2,020,786
Total capital assets	<u>110,241,151</u>	<u>4,456,374</u>	<u>1,496,734</u>	<u>113,200,791</u>
Less accumulated depreciation for:				
Land improvements	2,260,751	221,154	-	2,481,905
Buildings, including improvements	31,989,430	2,999,763	-	34,989,193
Furnishings and equipment	6,409,356	727,000	19,535	7,116,821
Total accumulated depreciation	<u>40,659,537</u>	<u>3,947,917</u>	<u>19,535</u>	<u>44,587,919</u>
Capital assets, net	<u>\$ 69,581,614</u>	<u>\$ 508,457</u>	<u>\$ 1,477,199</u>	<u>\$ 68,612,872</u>

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - CAPTIAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 188,650	-	-	\$ 188,650
Construction of process	18,614,824	1,628,080	19,078,196	1,164,708
Capital assets, being depreciated:				
Land	4,755,261	-	-	4,755,261
Buildings, including improvements	73,162,743	19,277,518	-	92,440,261
Furnishings and equipment	9,254,495	561,182	-	9,815,677
Books	1,793,860	390,292	307,558	1,876,594
Total capital assets	<u>107,769,833</u>	<u>21,857,072</u>	<u>19,385,754</u>	<u>110,241,151</u>
Less accumulated depreciation for:				
Land improvements	2,044,335	216,416	-	2,260,751
Buildings, including improvements	29,851,458	2,137,972	-	31,989,430
Furnishings and equipment	5,681,968	727,388	-	6,409,356
Total accumulated depreciation	<u>37,577,761</u>	<u>3,081,776</u>	<u>-</u>	<u>40,659,537</u>
Capital assets, net	<u>\$ 70,192,072</u>	<u>\$ 18,775,296</u>	<u>\$ 19,385,754</u>	<u>\$ 69,581,614</u>

9 - MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

The land on which the dormitory residence halls are located is leased by the Massachusetts State College Building Authority (MSCBA) from the Commonwealth of Massachusetts at a yearly cost of one dollar. The residence halls have various lease terms which extend to the year 2012 and 2016. The leases can be extended at the end of these terms for additional ten year periods.

The University, under the terms of a management and service agreement between MSCBA and the Commonwealth, is charged a semi-annual revenue assessment which is based on the certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations are guaranteed by the Commonwealth. The assessments charged for the years ended June 30, 2011 and 2010, in the amounts of \$5,776,251 and \$4,522,306 respectively, and have been recorded as auxiliary enterprise expenditures.

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

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

WORCESTER STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

10 - LONG-TERM DEBT

On December 4, 2002, the University signed a financing agreement to receive \$14,000,000 from a Massachusetts Health and Educational Facilities Authority (MHEFA) bond issuance. These funds have been received and were used for the renovation of the Sullivan and Administration Buildings. The obligation is being repaid solely by the University through revenues. Construction was completed in 2009. Interest on the bonds is due in semi-annual installments at varying rates ranging from 3.25% to 5.00%. Annual principal installments ranging from \$280,000 to \$870,000, are due through November 2032.

On November 9, 2007, the University signed a financing agreement to receive \$310,000 from a Massachusetts Development Financing Agency (MDFA) clean renewable energy bond. These funds have been received and are to be used for the installation of a 100 KW photovoltaic panel, mounting system and inverter on the roof of the Learning Resource Center. The bond is non-interest bearing with annual principal installments of \$20,667 due through 2022.

	<u>Beginning Balance</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable, MHEFA	\$ 12,515,000	\$ -	\$ 325,000	\$ 12,190,000	\$ 335,000
Bond payable, MDFA	<u>248,000</u>	<u>-</u>	<u>20,666</u>	<u>227,334</u>	<u>20,667</u>
	<u>\$ 12,763,000</u>	<u>\$ -</u>	<u>\$ 345,666</u>	<u>\$ 12,417,334</u>	<u>\$ 355,667</u>

Debt service requirements as of June 30, 2011 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 355,667	\$ 572,818
2013	370,667	559,620
2014	385,667	545,320
2015	400,667	530,183
2016	415,667	513,951
2017 – 2021	2,353,335	2,284,652
2022 – 2026	2,840,664	1,686,850
2027 – 2031	3,595,000	891,875
2032 – 2033	<u>1,700,000</u>	<u>86,000</u>
	<u>\$ 12,417,334</u>	<u>\$ 7,671,269</u>

11 - UNRESTRICTED NET ASSETS

Unrestricted net assets are not subject to externally imposed stipulations; however, they may be subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2011, unrestricted net assets of \$6,510,490 have been internally designated by the University for future capital investments. Undesignated unrestricted net assets were \$27,806,659 and \$22,438,104 at June 30, 2011 and 2010, respectively.

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FACULTY COMPENSATION

Contracts for full-time faculty begin on September 1, and end May 31 of any given academic year. The Commonwealth of Massachusetts and the University pay all faculty members over the twelve-month period of September 1 through August 31. Consequently, on June 30 of each year there is a balance due on each faculty contract which is to be paid from the subsequent year's appropriation. The balance due as of June 30, 2011 and 2010 of \$2,036,592 and \$1,893,700 respectively, has been recorded in the financial statements.

13 - ACCRUED WORKERS' COMPENSATION

Independent actuarial reviews of the outstanding loss reserve requirements for the Commonwealth of Massachusetts' self-insured Workers' Compensation program were conducted as of June 30, 2011 and 2010. Based upon the Commonwealth's analyses, accrued workers' compensation in the amount of \$423,047 and \$387,116 as of June 30, 2011 and 2010, respectively have been recorded in the unrestricted current fund. Workers' compensation expense charged to operations was \$138,226 and \$42,447 in 2011 and 2010, respectively. The actual workers' compensation paid by the University was \$102,295 and \$56,172 in 2011 and 2010, respectively.

14 - ACCRUED COMPENSATED ABSENCES

Included in accrued compensated absences are \$1,787,295 for accrued vacation time and \$2,072,940 for accrued sick time as of June 30, 2011 and \$1,766,876 for accrued vacation time and \$1,792,982 for accrued sick time as of June 30, 2010. Of these balances, \$172,782 and \$247,466 for June 30, 2011 and 2010, respectively, represent obligations due to employees funded through sources other than State appropriations, and \$3,687,453 and \$3,312,392 as of June 30, 2011 and 2010, respectively, represent obligations to employees funded through State appropriations. The University anticipates that the obligations due to employees funded by State appropriations will be discharged through future State appropriations.

15 - RETIREMENT PLAN

Substantially all of the University's full-time employees are covered by the Massachusetts State Employee's Retirement System (SERS). The University is not required to contribute from its appropriation or other University funds to the SERS for employees compensated from State appropriations. For University employees not covered by SERS, but compensated from a trust fund or other source, the University is required to contribute a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of funding by the State related to the University's employees was \$1,991,197 and \$2,036,164 in 2011 and 2010, respectively.

Based on State statute, covered employees of the University contribute an amount ranging from 5% to 8% of their eligible compensation to SERS, depending on date of employment. Employees hired after January 1, 1979 are required to contribute an additional 2% for eligible compensation in excess of \$30,000 per year. The State is required to make actuarially determined contributions that maintain the financial integrity of the retirement system. Retirement benefits fully vest after 10 years of full-time employment. An employee may receive retirement benefits after 20 years of service, or after 10 years of service and having attained the age of 55.

WORCESTER STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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

17 - STATE CONTROLLED ACCOUNTS

Certain significant costs and benefits associated with the operations of the University are appropriated, expended, controlled and reported by the State through non-University line items in the State's budget. Under accounting principles generally accepted in the United States of America such transactions must be recorded in the financial statements of the University. These transactions include payments by the State for the employer's share of funding the Massachusetts State Employee's Retirement System and for the employer's share of health care premiums. The estimated amounts of funding attributable for the State retirement system contribution and the employer's share of health care premiums for 2011 were \$1,307,114 and \$5,131,871 respectively. The estimated amounts of funding attributable for the State retirement system contribution and the employer's share of health care premiums for 2010 were \$1,256,420 and \$3,451,507, respectively.

18 - MANAGEMENT ACCOUNTING AND REPORTING SYSTEM - (UNAUDITED)

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

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

	2011	2010
Direct unrestricted appropriations	\$ 20,756,595	\$ 18,225,835
Fringe benefits for benefitted employees on state payroll	6,474,175	4,728,722
Tuition remitted	(1,299,340)	(1,526,124)
Total appropriations	\$ 25,931,430	\$ 21,428,433

A reconciliation between the University and MMARS fund 901 activity as of June 30, 2011 is as follows:

Revenue per MMARS	\$ 52,894,620
Revenue per University	57,806,390
	(4,911,770)
Reporting classification differences	4,810,713
Other timing differences	101,057
	\$ -

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

19 - FRINGE BENEFIT CHARGES

Certain fringe benefit costs associated with University staff, compensated through State appropriations, are paid out of non-University State budget line items. The University is required to reimburse the State for such costs for employees funded from other than State appropriations, based on a percentage of payroll. For 2011, the University reimbursed the State a total of \$3,369,868 (\$684,083 for pensions and \$2,685,785 for health care premiums). For 2010, the University reimbursed the State a total of \$2,921,776 (\$779,744 for pensions and \$2,142,032 for health care premiums).

20 - LEASE COMMITMENTS

The University leases property, a motor vehicle, modular building and furniture and equipment under long-term lease agreements. The lease expenditure was \$11,019 and \$131,262 for 2011 and 2010, respectively.

Future minimum payments under these operating leases are as follows:

2012		\$	30,512
2013			27,472
2014			<u>4,287</u>
		\$	<u><u>62,271</u></u>

21 - RELATED PARTY TRANSACTIONS

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

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

22 - AUXILIARY ENTERPRISES

The University's auxiliary enterprises consist of residence life and housing and health services. The related revenues and expenses for the years ended June 30, 2011 and 2010 are as follows:

	2011		2010	
	Residence Life and Housing	Health Services	Residence Life and Housing	Health Services
Total revenue	\$ 7,969,721	\$ 400,182	\$ 6,417,264	\$ 325,555
Total expenses	<u>7,727,353</u>	<u>400,182</u>	<u>6,060,835</u>	<u>293,345</u>
Increase in net assets before transfers	<u><u>\$ 242,368</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 356,429</u></u>	<u><u>\$ 32,210</u></u>

WORCESTER STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

23 - COMMITMENTS AND CONTINGENCIES

Litigation

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

Grants and entitlements

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

24 - RECLASSIFICATIONS

Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation. Such reclassifications had no effect on the change in net assets as previously reported.

SUPPLEMENTAL SCHEDULES

WORCESTER STATE UNIVERSITY

FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011
(With Comparative Totals for 2010)

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Scholarship	Totals	
								2011	2010
Regular employee compensation	\$ 14,613,618	\$ 183,352	\$ 2,646,998	\$ 3,166,122	\$ 5,029,380	\$ 2,370,124	\$ -	\$ 28,009,594	\$ 26,657,940
Special employee contracted services	6,132,426	162,501	627,744	364,362	258,866	20,667	-	7,566,566	6,892,463
Pension and insurance	5,203,428	56,470	820,468	982,801	1,541,533	715,514	-	9,320,214	7,365,238
Total payroll and benefits	25,949,472	402,323	4,095,210	4,513,285	6,829,779	3,106,305	-	44,896,374	40,915,641
Regular employee related expenses	179,916	4,173	106,748	85,835	139,482	25,974	-	542,128	527,807
Administrative	876,566	14,513	668,862	450,492	1,020,089	154,932	-	3,185,454	3,005,150
Facility operations support and related expenses	244,263	23,805	148,298	457,090	311,377	152,058	-	1,336,891	1,215,221
Energy and space rental	-	-	-	18,359	13,651	2,460,455	-	2,492,465	2,453,090
Professional services	150,134	6,786	106,080	143,502	336,938	548,727	-	1,292,167	808,680
Operational services	105,041	266	305,786	160,242	294,740	648,521	-	1,514,596	960,061
Equipment purchases	545,227	860	254,605	41,564	129,868	189,222	-	1,161,346	1,209,508
Equipment lease and maintenance	267,334	13,700	178,640	245,096	263,238	321,271	-	1,289,279	1,291,752
Construction and building improvements	-	-	-	-	-	807,205	-	807,205	889,724
Benefits programs	-	-	-	-	-	-	1,267,657	1,267,657	1,309,597
Total operating expenses	2,368,481	64,103	1,769,019	1,602,180	2,509,383	5,308,365	1,267,657	14,889,188	13,670,590
Total educational and general expenses	\$ 28,317,953	\$ 466,426	\$ 5,864,229	\$ 6,115,465	\$ 9,339,162	\$ 8,414,670	\$ 1,267,657	\$ 59,785,562	\$ 54,586,231

See accompanying independent auditor's report.

WORCESTER STATE UNIVERSITY

RESIDENCE LIFE AND HOUSING

STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 1,597,993	\$ 1,297,727
Accounts receivable, net	<u>82,786</u>	<u>81,076</u>
Total assets	<u>1,680,779</u>	<u>1,378,803</u>
LIABILITIES		
Deferred rental income	228,108	198,427
Accrued and other liabilities	183,289	142,060
Student deposits	<u>25,457</u>	<u>36,757</u>
Total liabilities	<u>436,854</u>	<u>377,244</u>
NET ASSETS		
Unrestricted	<u>\$ 1,243,925</u>	<u>\$ 1,001,559</u>

See accompanying independent auditor's report.

WORCESTER STATE UNIVERSITY

RESIDENCE LIFE AND HOUSING

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Fees	\$ 7,691,816	\$ 6,313,419
Other income	<u>277,905</u>	<u>103,845</u>
Total revenues	<u>7,969,721</u>	<u>6,417,264</u>
EXPENSES		
Regular employee compensation	782,724	687,268
Special employee contracted services	50,764	44,289
Pension and insurance	258,293	196,147
Regular employee related expenses	9,861	10,740
Administrative	20,786	61,474
Debt payment	5,086,924	3,829,710
Facility operations support and related expenses	170,416	121,398
Energy and space rental	632,596	577,582
Professional services	200	1,600
Operational services	231,904	146,361
Equipment purchases	28,278	-
Equipment lease and maintenance	106,625	96,985
Depreciation	-	1,302
Benefits programs	<u>347,984</u>	<u>285,979</u>
Total expenses	<u>7,727,355</u>	<u>6,060,835</u>
Increase in net assets before transfers	242,366	356,429
NET ASSETS		
Beginning of year	<u>1,001,559</u>	<u>645,130</u>
End of year	<u>\$ 1,243,925</u>	<u>\$ 1,001,559</u>

See accompanying independent auditor's report.

WORCESTER STATE UNIVERSITY

HEALTH SERVICES

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Fees	\$ 302,459	\$ 320,429
Other income	5,121	5,126
Transfer from reserves	<u>92,602</u>	<u>-</u>
Total revenues	<u>400,182</u>	<u>325,555</u>
EXPENSES		
Regular employee compensation	93,528	56,890
Special employee contracted services	4,845	3,720
Pension and insurance	32,263	15,155
Regular employee related expenses	3,542	607
Administrative	7,242	6,117
Facility operations support and related expenses	11,807	9,338
Professional services	246,685	201,118
Benefits programs	<u>270</u>	<u>400</u>
Total expenses	<u>400,182</u>	<u>293,345</u>
Increase in net assets	<u>\$ -</u>	<u>\$ 32,210</u>

See accompanying independent auditor's report.

STATISTICAL INFORMATION
(UNAUDITED)

Worcester State University
Schedule of Net Assets by Component
June 30, 2006 through 2011

Exhibit E-1

	2006	2007	2008	2009	2010	2011
Invested in capital assets, net of related debt	\$ 38,055,081	\$ 38,927,170	\$ 42,303,445	\$ 57,093,405	\$ 56,818,614	\$ 56,195,538
Restricted-expendable	6,802,730	6,054,126	5,863,105	5,529,827	3,260,704	3,160,760
Restricted-nonexpendable	-	-	-	-	-	-
Unrestricted	10,313,135	12,689,821	14,338,882	17,142,378	22,438,104	27,806,659
Total primary government net assets	\$ 55,170,946	\$ 57,671,117	\$ 62,505,432	\$ 79,765,610	\$ 82,517,422	\$ 87,162,957

**Worcester State University
Tuition & Mandatory Fees**

Exhibit E-2

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>Resident Undergraduate</i>										
Tuition	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970
Mandatory Fees	1,603	2,303	3,153	3,609	4,109	4,569	4,894	5,200	5,636	6,186
<i>Total Annual</i>	\$ 2,573	\$ 3,273	\$ 4,123	\$ 4,579	\$ 5,079	\$ 5,539	\$ 5,864	\$ 6,170	\$ 6,606	\$ 7,156
<i>Non Resident Undergraduate</i>										
Tuition	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050
Mandatory Fees	1,603	2,303	3,153	3,609	4,109	4,569	4,894	5,200	5,636	6,186
<i>Total Annual</i>	\$ 8,653	\$ 9,353	\$ 10,203	\$ 10,659	\$ 11,159	\$ 11,619	\$ 11,944	\$ 12,250	\$ 12,686	\$ 13,236
<i>Resident Graduate</i>										
Tuition	\$ 120	\$ 130	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Mandatory Fees	22	40	65	79	95	95	95	95	95	95
<i>Total per Credit Hours</i>	\$ 142	\$ 170	\$ 215	\$ 229	\$ 245	\$ 245	\$ 245	\$ 245	\$ 245	\$ 245

**Worcester State University
Schedule of Employment
2006-2010**

Exhibit E-3

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Faculty - Primary Instruction ^{/1}	385	413	381	378	412
Part-time	212	231	201	199	231
Full-time	173	182	180	179	181
Staff and Administrators	291	299	309	864	869
Part-time	19	18	12	569	575
Full-time	272	281	297	295	294
Total Employees	676	712	690	1,242	1,281
Part-time	231	249	213	768	806
Full-time	445	463	477	474	475

/1 Includes Instruction, Research & Public Service

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

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

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

Exhibit E-4

	Fall Term				
	2006	2007	2008	2009	2010
Admissions-Freshman /1					
Applications	4,695	5,125	5,112	4,593	4,896
Applications accepted	2,643	2,816	2,759	2,924	3,346
Accepted as a percentage of applications	56.29%	54.95%	53.97%	63.66%	68.34%
Students enrolled /2	1,184	1,234	1,142	1,234	1,340
Enrolled as a percentage of accepted	44.80%	43.82%	41.39%	42.20%	40.05%

/1 Includes all undergraduate admissions including transfer students.

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

	Annual				
	FY07	FY08	FY09	FY10	FY11
Enrollment					
Full-time equivalent	4,573.0	4,597.0	4,723.4	4,859.7	5,062.0
Unduplicated credit headcount	8,930	9,222	9,343	9,360	9,251
Percent undergraduate /3	85.04%	85.89%	86.33%	85.93%	84.62%
Percent graduate	14.96%	14.11%	13.67%	14.07%	15.38%

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

	Fall Term				
	2006	2007	2008	2009	2010
Student Population Demographics /4					
Percentage of men	37.02%	38.67%	38.01%	38.32%	37.84%
Percentage of women	62.13%	60.77%	61.18%	61.68%	62.16%
Percentage of African-American	4.12%	4.12%	4.87%	5.43%	4.78%
Percentage of White	79.12%	79.77%	78.49%	78.70%	76.09%
Percentage of Latino	3.79%	4.61%	4.96%	5.32%	5.87%
Percentage of Other*	3.42%	3.53%	4.11%	3.52%	4.31%
< 20	23.69%	25.32%	25.64%	25.13%	25.91%
20 to 30	55.66%	56.25%	57.90%	58.39%	57.17%
31 to 40	9.36%	8.50%	6.97%	7.47%	7.75%
41 & Over	11.29%	9.93%	9.49%	9.01%	9.17%

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

*Other includes Asian or Pacific Islander, American Indian, Alaskan Native, and Cape Verdean.

	FY07	FY08	FY09	FY10	FY11
Degrees Granted					
Bachelor's	758	762	810	768	809
Master's	144	183	184	186	179

**Worcester State University
Schedule of Capital Asset Information**

Exhibit E-5

	Academic Year	
	<u>2010</u>	<u>2011</u>
Land (acreage)	57	57
Buildings (square feet)		
100 Instruction /classroom	54,110	54,350
200 Labs	55,415	51,945
300 Administrative	106,479	107,475
400 Study facilities	20,660	20,660
52x Athletic	24,420	22,740
5xx Other Special Use	7,699	7,309
600 General Use	64,258	68,388
700 Support facilities	174,947	174,897
000 Unclassified	-	-
Unassigned/ unassignable	344,864	341,973
Total Sq Ft	852,852	849,737
Residence Halls	251,650	302,135
Rental space	-	-
Dormitories - # of residents	1,197	1,236

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

Worcester State University
Sources and Uses of Funds

Exhibit E-6

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Source of Revenue					
Student charges (net of scholarships)	\$ 23,534,934	\$ 24,322,946	\$ 31,085,439	\$ 32,996,009	\$ 36,667,144
Grants & contracts	4,827,056	5,406,788	6,128,495	10,435,601	12,722,573
Auxiliary enterprises	5,658,282	5,843,101	557,966	510,947	585,484
Other operating revenue	962,260	1,102,785	1,217,067	1,217,214	1,127,693
Total operating revenue	34,982,532	36,675,620	38,988,967	45,159,771	51,102,894
State support	27,465,561	29,809,731	25,909,130	21,428,433	25,931,430
Other non-operating revenue	1,401,199	1,065,537	719,069	607,628	311,017
Total non-operating revenue	28,866,760	30,875,268	26,628,199	22,036,061	26,242,447
Total revenue	\$ 63,849,292	\$ 67,550,888	\$ 65,617,166	\$ 67,195,832	\$ 77,345,341
Functional Expense					
Instruction	\$ 24,371,832	\$ 27,257,287	\$ 25,228,770	\$ 26,205,866	\$ 28,317,953
Academic support	4,491,059	5,227,239	4,493,708	5,215,746	5,864,229
Student services	5,950,965	6,088,357	5,938,335	5,925,693	6,115,465
Institutional support	7,618,222	8,094,428	7,722,064	8,025,540	9,339,162
Plant operations & maintenance	7,394,699	7,905,309	6,932,732	7,412,106	8,414,670
Research	-	-	-	-	-
Public service	732,330	469,185	450,862	491,683	466,426
Scholarships	2,030,857	1,706,639	1,073,892	1,309,597	1,267,657
Sub-total	52,589,964	56,748,444	51,840,363	54,586,231	59,785,562
Auxiliary enterprises	5,981,812	5,833,429	5,878,959	6,355,184	8,127,535
Independent operations	-	-	-	-	-
All other	575,806	405,786	514,534	601,318	592,101
Total operating expense	\$ 59,147,582	\$ 62,987,659	\$ 58,233,856	\$ 61,542,733	\$ 68,505,198
Memo: Depreciation	\$ 3,160,270	\$ 3,173,045	\$ 3,149,953	\$ 3,389,333	\$ 4,296,608

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

OTHER REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Trustees
Worcester State University

We have audited the financial statements of Worcester State University (the "University") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining an effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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*.

This report is intended solely for the information and use of the University's Board of Trustees, management, and applicable federal and state agencies and is not intended to be and should not be used by anyone other than those specified parties

Bollus Lynch, LLP

Worcester, Massachusetts
October 17, 2011



486 Chandler Street • Worcester, MA 01602-2597

Vice President, Division of Administration and Finance • 508-929-8087 • Fax: 508-929-8167

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

There are no prior year audit findings for which the University has not implemented the corrective action recommended to correct the cause of the finding.

Kathleen M.S. Eichelroth
Worcester State University
Kathleen M.S. Eichelroth, CPA
V.P. of Administration and Finance

October 11, 2011
Date