

WORCESTER STATE UNIVERSITY
(AN AGENCY OF THE COMMONWEALTH OF
MASSACHUSETTS)
FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH SUPPLEMENTARY INFORMATION AND
OTHER REPORTS
YEARS ENDED JUNE 30, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT

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

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

YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Worcester State University
Worcester, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Worcester State University (an agency of the Commonwealth of Massachusetts) (the "University") and the financial statements of Worcester State Foundation, Inc., its discretely presented component unit, as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Worcester State University and Worcester State Foundation, Inc., its discretely presented component unit, as of June 30, 2016 and 2015, and the changes in its financial position, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27*. 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 on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, on our consideration of Worcester State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Worcester State University's internal control over financial reporting and compliance.

Ballus Lynch, LLP

Worcester, Massachusetts
October 18, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Worcester State University, we offer readers of Worcester State University's financial statements this narrative overview and analysis of the financial activities of Worcester State University for the fiscal year ended June 30, 2016. This discussion is provided by management and should be read in conjunction with the financial statements and notes thereto.

Worcester State University was founded in 1871, and is one of nine comprehensive public colleges/universities in the Commonwealth of Massachusetts. The University affirms the principles of liberal learning as the foundation for all advanced programs of study and offers programs in the traditional liberal arts and science disciplines, while maintaining its historical focus on teacher education. The University offers 62 undergraduate majors and minors, 31 graduate programs, 80 study abroad programs, 18 honor societies and a student-to-faculty ratio of 17:1. The University currently has 5,514 full and part-time undergraduate students and 792 full and part-time graduate students.

Financial Highlights

- The assets of Worcester State University exceeded its liabilities at the close of the most recent fiscal year by \$104,279,193 (net position). Of this amount, \$13,592,318 is classified as unrestricted net position. The figure is down from FY 2016 due to the draw of \$9,500,000 of reserve funds as an equity contribution to the construction of the Wellness Center that occurred in September of 2015, in addition to the required GASB 68 accrual of pension expense of \$2,764,131.
- The University's total unrestricted net position decreased by \$10,511,960, with a total change in net position of \$21,407,611. Operational items that influenced the total change in net position includes income before other revenues, expenses, gains, or losses of (\$1,630,916), in addition to capital appropriations of \$23,038,527 to fund Wellness Center Construction. The net loss prior to capital appropriations is directly attributable to the Commonwealth of Massachusetts pension obligation accrual required by GASB 68 and discussed in footnote 21 of the audited financial statements.

Overview of the Financial Statements

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

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

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

The Statement of Revenues, Expenses and Changes in Net Position 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 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) Statements 34 and 35 require this method to be used.

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

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

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

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

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

Financial Analysis

As noted earlier, net position may serve over time as a useful indication of Worcester State University's financial position. In the case of Worcester State University, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$104,279,193 at the close of fiscal year 2016.

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

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

**Worcester State University's Net Position as of
June 30, 2016, with comparative data as of June 30, 2015**

	2016	2015
Current and other assets	\$ 61,506,343	\$ 66,590,902
Capital assets	104,522,725	77,084,437
Total assets	166,029,068	143,675,339
Deferred outflows of resources	7,637,363	1,250,036
Non-current outstanding liabilities	47,076,397	37,975,821
Other liabilities	15,575,584	15,549,661
Total liabilities	62,651,981	53,525,482
Deferred inflows of resources	6,735,257	8,528,311
Net position		
Invested in capital assets, net of related debt	87,321,688	56,137,097
Restricted	3,365,187	2,630,207
Unrestricted	13,592,318	24,104,278
Total net position	\$ 104,279,193	\$ 82,871,582

A portion of the Worcester State University's net position (3.4 percent) as of June 30, 2016 represent funds that are subject to external restrictions on how they must be used. Unrestricted net position of \$13,592,318 may be used to meet the University's ongoing obligations to its stakeholders. The University's net position increased by \$21,407,611 during the year ended June 30, 2016. At the end of the current fiscal year, Worcester State University reports a positive balance in unrestricted and restricted fund balances.

The University's primary reserve ratio, calculated as expendable net position divided by total expenses, is 17.76% and 29.68%, respectively, for the years ended June 30, 2016 and June 30, 2015. This ratio provides a snapshot of financial strength and flexibility by indicating the percent of operating expenses that could be funded by expendable reserves without relying on additional net position generated by operations.

In prior years reserves were being accumulated in the Capital Improvement Trust Fund for the specific purpose of financing the Wellness Center and other capital improvement projects. The University transferred \$9.5M of reserves to the Department of Capital Asset Management in September of 2015 as part of the financing plan for the Wellness Center. The University has begun updating its Capital Financing Plan and will establish a percentage goal and timeline to improve its primary reserve ratio so that it can be used as financial leverage when planning future capital projects.

The University's return on net position ratio, calculated as the change in total net position divided by total net position – beginning of the year, is 25.83% and 2.38%, respectively, for the years ended June 30, 2016 and June 30, 2015. This ratio measures total economic return including capital investment and positive operating results. An improving trend indicates increasing net position which provides for increased financial flexibility.

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

In FY 2016 construction of the Wellness Center was funded by the Commonwealth of Massachusetts general obligation bonds in the amount of \$22,240,844 in addition to \$5,998,592 of the \$15M bond proceeds the University borrowed for the project in 2012 through the MSCBA and placed on deposit with the Commonwealth Division of Capital Asset Management. An additional \$1,300,891 was incurred to outfit the furniture and equipment needs of the facility. Purchases to fit out the facility continued into the fall of 2016. The General Obligation bonds expended by the Commonwealth to construct the facility add a significant boost to the University net position balances at year end as they are funds for which the University receives without obligation for repayment. The spending of MSCBA bond proceeds had a neutral effect on net position as the funds moved from cash held by the State Treasurer to Construction in Progress. In addition, the University's investment in the contents of the facility also provided a boost to the campuses net position value. In years of significant infrastructure investment, the net position ratio experiences a spike in value which levels out when the campus returns to traditional deferred maintenance and infrastructure investments levels.

The net operating revenue ratio, calculated as operating income plus non-operating revenue divided by operating revenue plus non-operating revenue, is .15% prior to posting the Commonwealth of Massachusetts pension liability adjustment required by GASB 68. Post adjustment, the net operating revenue ratio is (1.74)% and (.75)%, respectively, for the years ended June 30, 2016, and June 30, 2015. The ratio measures whether an institution is living within its available resources. Worcester State University strives to achieve an annual operating surplus as measured by this ratio as part of its long-term plan to improve its primary reserve and viability ratios and maintain a healthy annual return on net position.

In FY 2016 the University closed the year with a slight operating surplus of \$138,474, prior to the GASB 68 pension accrual adjustment as described in footnote 21 of the audited financial statements. The University closed the year, inclusive of the pension adjustment, with an operating loss of \$1,630,916 compared with a loss of \$673,465 at June 30, 2015. Student fee revenue from all categories, (day, evening and graduate) was slightly lower than budget and spending during the year was pressed to the edges of the operating budget and little spending capacity was returned to reserves at year end.

The increase in net capital assets in FY 2016, was \$27,438,288, while depreciation expense on capital assets was \$4,664,588. During the year \$29,997,376 was expended on construction of the Wellness Center and building improvements were completed to the Student Center and the Learning Resource Center. The University received deferred maintenance funding to assist with the LRC and Student Center projects and to pay for several project planning studies.

The University's viability ratio, calculated as expendable net position divided by long term debt, is 1 : .71 and 1 : 1.05 respectively, as of June 30, 2016 and June 30, 2015. The viability ratio measures the availability of expendable net position to cover debt as of the balance sheet date. A ratio of 1:1 or greater indicates an institution has sufficient expendable net position to satisfy its debt obligations as of the balance sheet date.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Worcester State University's Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2016 with comparative data for the year ended June 30, 2015

	2016	2015
Operating Revenues		
Tuition and fees, net of scholarships discounts and allowances	\$ 47,136,403	\$ 45,102,605
Operating grants and contributions	12,070,608	11,634,043
Sales and services of auxiliary enterprises and other sources	236,258	362,335
Total operating revenues	59,443,269	57,098,983
Operating Expenses		
Instruction	34,662,566	33,402,333
Public service	955,701	1,149,664
Academic support	7,768,616	6,607,824
Student service	9,396,733	8,625,036
Institutional support	15,447,340	13,432,296
Operations and maintenance of plant	9,297,557	9,342,808
Scholarships	1,170,665	1,165,796
Depreciation	4,664,588	4,224,797
Debt service	289,560	270,821
Auxiliary enterprises	11,838,607	11,863,590
Total operating expense	95,491,933	90,084,965
Net operating loss	(36,048,664)	(32,985,982)
Non-operating revenues (expenses)		
State appropriation, including fringe benefits provided to employees by the Commonwealth, net of tuition remitted to the Commonwealth	33,605,906	31,840,805
Investment income	801,365	467,982
Other and transfers	10,477	3,730
Total non-operating revenues	34,417,748	32,312,517
Loss before other revenues, expenses, gains or losses	(1,630,916)	(673,465)
Capital appropriations	23,038,527	2,645,362
Increase in net position	21,407,611	1,971,897
Net position - July 1	82,871,582	91,466,817
Adoption of accounting principle	-	(10,567,132)
Net position - June 30	\$ 104,279,193	\$ 82,871,582

State appropriations for operations, including fringe benefits and net of tuition remission, experienced a net increase in FY 2016. The Commonwealth of Massachusetts final budget for FY 2016 did not include any additional dollars for collective bargaining obligations. However, it did include, \$5.5M for the State University system that was distributed in accordance with a funding formula developed by the Massachusetts Department of Higher Education. The formula provided additional resources of \$873,943 to Worcester State University in FY16.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

The following schedule details the Commonwealth appropriations received by the University for the years ending June 30, 2016 and June 30, 2015, respectively.

	<u>2016</u>	<u>2015</u>
State Appropriations	\$ 26,390,124	\$ 25,638,417
Appropriations to cover fringe benefits provided to employees of the Commonwealth	7,821,097	7,102,873
Tuition remitted back to the State	(605,315)	(538,563)
Transfer to cover 9C reductions	<u>-</u>	<u>(361,922)</u>
Net appropriations	33,605,906	31,840,805
Additional State capital appropriations	<u>23,038,527</u>	<u>2,645,362</u>
Total Appropriations	<u>\$ 56,644,433</u>	<u>\$ 34,486,167</u>

Loss from Operations

State appropriations are a significant source of funding for the University. Under GASB 35, appropriations are considered non-operating revenue. As such, the University incurs a loss from operations. The Commonwealth's Board of Higher Education sets tuition for the day division. The University's Board of Trustees sets all fees and tuition of the Division of Graduate and Continuing Education. The University's Board of Trustees approves the annual budget with the intention of mitigating losses after consideration of Commonwealth appropriations while balancing educational and operational needs. The following schedule presents Worcester State University's incurred losses from operations for the fiscal years ended June 30, 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Net Tuition and Fee Revenue	\$ 47,136,403	\$ 45,102,605	\$ 2,033,798
Other Revenue, net of Student Financial Aid	12,306,866	11,996,378	310,488
Operational Expenses	<u>(95,491,933)</u>	<u>(90,084,965)</u>	<u>(5,406,968)</u>
Operating loss	(36,048,664)	(32,985,982)	(3,062,682)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth	33,605,906	31,840,805	1,765,101
Investment and non-operating income	811,842	471,712	340,130
Capital appropriations	<u>23,038,527</u>	<u>2,645,362</u>	<u>20,393,165</u>
Change in net position	<u>\$ 21,407,611</u>	<u>\$ 1,971,897</u>	<u>\$ 19,435,714</u>

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, 2016 amounts to \$104,522,725, net of accumulated depreciation, compared to \$77,084,437 net of accumulated depreciation as of June 30, 2015. The University's investment in capital assets includes, land (including improvements), building (including improvements,) furnishings and equipment, and books. In FY 2016 gross capital assets increased by \$31,609,994. The majority of the increase was for Wellness Center construction. The Wellness Center opened for business in September 2016. Project closeout continues and the University anticipates all open items and fit out of the facility will be complete by the end of the calendar year.

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

Massachusetts Development Financing Agency (MDFA) Clean Renewable Energy Bond: On November 9, 2007, the College entered into a financing agreement with MDFA to receive \$310,000 to facilitate the financing of the installation of a 100 KW Photovoltaic Panel, mounting system and inverter on the roof of the Learning Resource Center. The bond proceeds are non-interest bearing and are to be re-paid in equal annual installments of \$20,666.67 over a fifteen-year period beginning December 31, 2007.

Massachusetts State College Building Authority (MSCBA) WSU Student Life Project: MSCBA issued revenue bonds for various projects on December 20, 2012. Included in the issue was a component to provide \$15,000,000 of debt financing to Worcester State University's Wellness Center in accordance with the Memorandum of Agreement between, the Commonwealth, MSCBA and the University. The proceeds from the bond issue, combined with funds earmarked by the University and General Obligation bond funds earmarked by the Commonwealth, provide the resources for construction of a new Wellness Center at WSU. The Wellness Center will be an asset of the Commonwealth and will be recorded as a fixed asset on the University's financial records. The MSCBA holds Debt Service Reserve funds of \$249,214 on this component of the issue. Annual principal payments ranging from \$135,000 to \$787,950 are scheduled through May, 2042. Campus trust funds provide the revenue source for the annual debt service.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Economic Factors that will affect the Future:

In FY2016 the University announced a campus-based early retirement incentive program. The program offered a bonus payment, scaled to number of years of service, to employees that had at least ten years of service. The plan stipulated that employees commit to retiring by June 30, 2016 in order to receive a bonus. Thirty-six employees chose to participate in the retirement incentive program. Years of service for these employees ranged from ten to fifty-one years. All vacated positions are intended to be filled, though some will be re-distributed across the institution. Projected net salary savings from the program, once vacancies have been filled, is anticipated in the range of \$1M. The savings were allocated in the FY17 budget to support new programming.

The FY 2107 budget process focused heavily on resources necessary to open the new Wellness Center. During the budget process a reconciliation of operating expenses and revenues was finalized. The existing athletic department budget was analyzed and reconciled to ensure there was no duplication and funding matched the new operational plan. New and expanded programming for the center in the areas of recreational sports, fitness and intramural programs were funded with an increase in student fees. The large scale of the new facility and advance operational technology also placed an increased demand on operational resources which were funded by the savings achieved through the early retirement incentive program. Savings from the early retirement incentive program also provided resources to address other institutional priorities linked to the strategic plan.

During the budget process the President and his direct reports discussed and prioritized the top budget requests from each area. Budget requests linked directly to the Strategic Plan or fitting the criteria of a "foundation level investment", were funded from the remaining re-allocation of retirement incentive savings. There was an extensive list of division priorities that deserved funding and attention, and behind that list were many other requests that could have been further prioritized.

The state university campuses continue to advocate for full funding of collective bargaining obligations. Despite that effort, the University was not allocated resources to fund contract obligations in FY 2017, or raises previously implemented in FY 2016. Student fees were increased to fund the FY 2017 obligation and the University does not foresee receiving Commonwealth funding for the contracted raises anytime in the near future.

An analysis of the University's unrestricted reserves was presented to the Board at the March meeting. Unrestricted reserves have been significantly depleted as a result of the \$9.5M equity contribution to the Wellness Center and the Commonwealth's decision to distribute the reporting of pension liability to the higher education campuses in Massachusetts. Analysis indicates that planned contributions should be made to the Capital Improvement Trust Fund, in addition to an increase in the Capital Improvement Fee, to increase the base of unrestricted resources that can be purposefully leveraged for, or invested in, infrastructure improvements on campus. Due to many competing needs demonstrated by numerous funding requests, the alignment of requests to the Strategic Plan, and the goals set by the DHE for future retention and graduation rates, stabilizing the University reserves was not identified as a top priority for the FY 2017 budget. However, future infrastructure improvements to the campus will be dependent on the University's ability to develop a financing model that will provide the capacity to borrow or liquidate reserves to fund infrastructure improvements.

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

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

STATEMENTS OF NET POSITION

JUNE 30, 2016 AND 2015

	Worcester State University		Component Unit Worcester State Foundation	
	2016	2015	2016	2015
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 14,954,373	\$ 23,781,381	\$ 854,102	\$ 800,282
Cash held by State Treasurer	14,603,183	12,455,374	-	-
Cash held by Foundation	139,172	145,680	-	-
Accounts receivable, net	1,810,502	1,161,850	2,750	7,970
Current portion of loans receivable	169,159	153,424	-	-
Current portion of contributions receivable	-	-	546,355	397,770
Inventories	33,889	41,769	58,392	53,566
Prepaid expenses and other current assets	270,789	225,337	13,830	15,097
Total current assets	<u>31,981,067</u>	<u>37,964,815</u>	<u>1,475,429</u>	<u>1,274,685</u>
Non-current Assets:				
Investments	20,444,141	19,239,634	19,672,076	19,503,793
Deposits held with trustee	249,214	254,295	-	-
Loans receivable, less current portion	785,842	850,269	-	-
Contributions receivable, less current portion	-	-	467,175	442,770
Other non-current assets	8,046,079	8,281,889	338,659	348,571
Capital assets, net of accumulated depreciation	104,522,725	77,084,437	4,598,879	4,785,499
Total non-current assets	<u>134,048,001</u>	<u>105,710,524</u>	<u>25,076,789</u>	<u>25,080,633</u>
Total assets	<u>166,029,068</u>	<u>143,675,339</u>	<u>26,552,218</u>	<u>26,355,318</u>
DEFERRED OUTFLOWS OF RESOURCES				
Resources related to pension obligations	7,537,958	1,144,785	-	-
Loss on refunding of long-term debt	99,405	105,251	-	-
Total deferred outflows of resources	<u>7,637,363</u>	<u>1,250,036</u>	<u>-</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Current portion of long-term debt	635,667	615,667	39,225	38,364
Current portion of capital lease obligation	467,514	197,403	-	-
Accounts payable	2,396,043	2,641,613	1,129,327	105,449
Accrued payroll and fringe benefits	6,994,985	6,527,207	-	-
Accrued interest and other liabilities	125,395	127,952	21,623	18,606
Funds held for others	-	-	177,227	180,145
Student deposits and unearned revenue	1,486,828	1,698,266	61,608	50,912
Current portion of split-interest agreements	-	-	49,536	40,048
Current portion of accrued workers' compensation	114,672	172,589	-	-
Current portion of accrued compensated absences	3,354,480	3,568,964	-	-
Total current liabilities	<u>15,575,584</u>	<u>15,549,661</u>	<u>1,478,546</u>	<u>433,524</u>
Non-current liabilities:				
Long-term debt, less current portion	24,145,858	24,817,219	2,683,858	2,724,450
Capital lease obligation, less current portion	451,100	303,600	-	-
Split-interest agreements, less current portion	-	-	122,518	120,234
Advance payable to the University	-	-	-	-
Accrued workers' compensation, less current portion	498,568	560,660	-	-
Accrued compensated absences, less current portion	2,085,323	1,893,542	-	-
Accrued pension obligations	18,901,770	9,357,928	-	-
Refundable grant - federal financial assistance program	993,778	1,042,872	-	-
Total liabilities	<u>62,651,981</u>	<u>53,525,482</u>	<u>4,284,922</u>	<u>3,278,208</u>
DEFERRED INFLOWS OF RESOURCES				
Resources related to pension obligations	610,180	1,991,459	-	-
Deferred service concession arrangements	6,125,077	6,536,852	-	-
Total deferred inflows of resources	<u>6,735,257</u>	<u>8,528,311</u>	<u>-</u>	<u>-</u>
NET POSITION				
Invested in capital assets, net	87,321,688	56,137,097	-	-
Restricted - Non-expendable:				
Other	-	-	13,009,586	12,309,121
Restricted - Expendable for:				
Other	3,241,368	2,503,864	5,478,062	6,092,331
Capital projects	123,819	126,343	395,447	1,163,436
Unrestricted	13,592,318	24,104,278	3,384,201	3,512,222
Total net position	<u>\$ 104,279,193</u>	<u>\$ 82,871,582</u>	<u>\$ 22,267,296</u>	<u>\$ 23,077,110</u>

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2016 AND 2015

	Worcester State University		Component Unit Worcester State Foundation	
	2016	2015	2016	2015
REVENUES				
Operating Revenues:				
Student tuition and fees	\$ 43,982,183	\$ 42,564,442	\$ 331,475	\$ 259,043
Auxiliary enterprises, student housing	11,906,540	10,888,328	-	-
Less: Scholarship discounts and allowance	<u>8,752,320</u>	<u>8,350,165</u>	<u>-</u>	<u>-</u>
Net student tuition and fees	47,136,403	45,102,605	331,475	259,043
Contributions	-	-	2,137,750	1,865,899
Federal grants and contracts	7,172,962	7,511,031	-	-
State and local grants and contracts	1,259,516	1,366,407	-	-
Nongovernmental grants and contracts	2,492,114	1,697,789	-	-
Auxiliary enterprises, other	236,258	362,335	227,567	212,284
Other operating revenues	<u>1,146,016</u>	<u>1,058,816</u>	<u>254,716</u>	<u>255,221</u>
Total operating revenues	<u>59,443,269</u>	<u>57,098,983</u>	<u>2,951,508</u>	<u>2,592,447</u>
EXPENSES				
Operating expenses:				
Instruction	34,662,566	33,402,333	-	-
Public service	955,701	1,149,664	-	-
Academic support	7,768,616	6,607,824	-	-
Student services	9,396,733	8,625,036	-	-
Institutional support	15,447,340	13,432,296	528,435	616,978
Operation and maintenance of plant	9,297,557	9,342,808	171,219	199,203
Scholarship	1,170,665	1,165,796	477,563	326,575
Depreciation	4,664,588	4,224,797	213,749	150,993
Debt service	289,560	270,821	50,865	24,867
Auxiliary enterprises	<u>11,838,607</u>	<u>11,863,590</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>95,491,933</u>	<u>90,084,965</u>	<u>1,441,831</u>	<u>1,318,616</u>
Operating loss	<u>(36,048,664)</u>	<u>(32,985,982)</u>	<u>1,509,677</u>	<u>1,273,831</u>
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	33,605,906	31,840,805	-	-
Interest and investment income	801,365	467,982	(393,759)	(66,973)
Payments to Worcester State University	-	-	(2,671,576)	(1,702,748)
Other non-operating revenues	<u>10,477</u>	<u>3,730</u>	<u>-</u>	<u>-</u>
Net non-operating revenues	<u>34,417,748</u>	<u>32,312,517</u>	<u>(3,065,335)</u>	<u>(1,769,721)</u>
Income (loss) before other revenues, expenses, gains, or losses	(1,630,916)	(673,465)	(1,555,658)	(495,890)
Capital appropriations	23,038,527	2,645,362	-	-
Additions to permanent endowments	<u>-</u>	<u>-</u>	<u>745,844</u>	<u>575,046</u>
Change in net position	21,407,611	1,971,897	(809,814)	79,156
NET POSITION				
Beginning of year	82,871,582	91,466,817	23,077,110	22,997,954
Adoption of accounting principle	<u>-</u>	<u>(10,567,132)</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 104,279,193</u>	<u>\$ 82,871,582</u>	<u>\$ 22,267,296</u>	<u>\$ 23,077,110</u>

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

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	Primary Government	
	2016	2015
Cash flows from operating activities:		
Student tuition, fees and charges	\$ 47,070,118	\$ 45,042,006
Federal grants and contracts	7,172,962	7,511,031
State and local grants and contracts	1,259,516	1,366,407
Nongovernmental grants and contracts	2,492,114	1,697,789
Auxiliary enterprise charges	236,258	362,335
Employee compensation and fringe benefit payments	(58,194,973)	(55,163,191)
Payments to suppliers	(30,250,235)	(30,650,898)
Interest paid	(366,018)	(350,401)
Loans repaid by (issued to) students	48,692	(71,262)
Other receipts	12,276	193,696
	<u>(30,519,290)</u>	<u>(30,062,488)</u>
Cash flows from noncapital financing activities:		
State appropriations	33,605,906	31,840,805
Net deposits	(71,840)	(178,887)
	<u>33,534,066</u>	<u>31,661,918</u>
Cash flows from capital and related financing activities:		
Capital appropriations	23,038,527	2,645,362
Purchases of capital assets	(31,185,547)	(15,316,090)
Principal payments of capital related debt	(651,361)	(651,433)
Principal payments of capital lease obligation	(425,818)	(193,497)
Decrease in cash restricted for capital activities	5,081	-
Decrease in deferred loss on refunding of capital related debt	5,846	5,848
Perkins loan program, net funds paid	(49,094)	(1,782)
Other activities	10,477	3,730
	<u>(9,251,889)</u>	<u>(13,507,862)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	9,403,194
Purchases of investments	(1,022,703)	(5,896,812)
Interest and investment income	574,109	603,919
	<u>(448,594)</u>	<u>4,110,301</u>
Net decrease in cash and cash equivalents	(6,685,707)	(7,798,131)
Cash and cash equivalents, beginning of year	<u>36,382,435</u>	<u>44,180,566</u>
Cash and cash equivalents, end of year	<u>\$ 29,696,728</u>	<u>\$ 36,382,435</u>

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

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

(Continued)

	Primary Government	
	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (36,048,664)	\$ (32,985,982)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,664,588	4,224,797
Amortization of other assets	235,810	235,810
(Increase) decrease in operating assets and deferred outflows:		
Accounts receivable, net	(648,652)	(245,980)
Loans receivable	48,692	(71,262)
Inventories	7,880	5,618
Prepaid expenses and other assets	-	(2,008,914)
Resources related to pension obligations	1,769,390	(362,530)
Increase (decrease) in operating liabilities and deferred inflows:		
Accounts payable	(245,570)	594,988
Accrued payroll and fringe benefits	467,778	733,490
Accrued interest and other liabilities	(76,457)	(79,580)
Accrued workers' compensation	(120,009)	(75,589)
Student deposits and unearned revenue	(139,598)	(59,870)
Accrued compensated absences	(22,703)	652,385
Deferred service concession arrangements	(411,775)	(619,869)
	<u>\$ (30,519,290)</u>	<u>\$ (30,062,488)</u>

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

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

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

Component units

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

During the year ended June 30, 2016 and 2015, the Foundation distributed \$2,671,576 and \$1,702,748, respectively, to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Worcester State University Business Office at 486 Chandler Street, Worcester, MA 01602.

Basis of presentation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

The University's policies for defining operating activities in the Statement of Revenues, Expenses and Changes in Net Position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts ("Commonwealth"), and net investment income.

Net position

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

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 position - 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 resources are those 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 position may be designated for specific purposes by action of the governing Board.

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent events

The University has evaluated the financial statement impact of subsequent events occurring through October 18, 2016, 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.

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.

Allowance for doubtful accounts

Accounts receivable are periodically evaluated for collectability. Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks in the portfolio, and current economic conditions.

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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Student deposits and unearned revenue

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

Bond premiums

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

Funds held for others

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

Pension plan

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

State appropriations

The University's unrestricted State appropriations amounted to \$34,211,221 and \$32,379,368 for the years ended June 30, 2016 and 2015, respectively. State supported tuition, in the amounts of \$605,315 and \$538,563 for the years ended June 30, 2016 and 2015, 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 \$26,081 and \$16,146 as of June 30, 2016 and 2015, respectively.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016. 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. The Foundation is exempt from income taxes under the provisions of section 501(c)(3) of the Internal Revenue Code.

New government accounting pronouncements

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

2 - ADOPTION OF ACCOUNTING PRINCIPLE

In June 2012, the GASB issued GASB Statement No.68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 68 is effective for financial statements for periods beginning after June 15, 2014. The adoption of this statement requires the University, as an Agency of the Commonwealth of Massachusetts, to recognize a proportionate share of the Commonwealth's unfunded pension liabilities from which certain University employees receive benefits, along with related deferred inflows and outflows. The adoption of GASB Statement No. 68 resulted in a restatement of opening net position by (\$10,567,132) for the year ended June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CASH AND TEMPORARY INVESTMENTS

The University's cash and temporary investments are as follows as of June 30, 2016 and 2015:

	2016	2015
Carrying amount	\$ 14,954,373	\$ 23,781,381
Bank balance	\$ 16,360,935	\$ 25,218,478
Less amounts		
Covered by depository insurance	1,523,204	1,509,598
Collateralized repurchase agreements	10,360,119	18,674,905
Remaining bank balance	\$ 4,477,612	\$ 5,033,975

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, 2016 and 2015, the University held \$95,814 and \$596,429 respectively, of the funds in money market mutual funds invested in federal securities.

As of June 30, 2016 and 2015, the University was party to a repurchase agreement with a bank. The value of this agreement was \$10,360,119 and \$18,674,905 as of June 30, 2016 and 2015, respectively.

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

4 - CASH HELD BY STATE TREASURER

The University has recorded cash held for the benefit of the University by the State Treasurer in the amounts of \$7,768,475 and \$4,791,855 as of June 30, 2016 and 2015, respectively. In addition, the State Treasurer held cash for certain University trust funds in the amounts of \$6,834,708 and \$7,663,519 as of June 30, 2016 and 2015, respectively. None of these cash balances are insured or collateralized.

5 - 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, 2016 and 2015 are as follows:

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS (Continued)

<u>June 30, 2015</u>	Investment Maturities (in years)			
	Fair Value	Less Than 1	1 to 5	Greater than 5
Investment type				
U.S. Treasuries	\$ 11,195,109	\$ 706,078	\$ 6,425,325	\$ 4,063,706
U.S. Agencies	8,044,525	2,390,576	4,565,544	1,088,405
Total	<u>\$ 19,239,634</u>	<u>\$ 3,096,654</u>	<u>\$ 10,990,869</u>	<u>\$ 5,152,111</u>

Interest Rate Risk

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The weighted average life of the maturities is evaluated regularly with the weighted average life of the portfolio being limited to five years or less, whenever possible. The weighted average life of the portfolio at June 30, 2016 was 3.9 years.

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

	2016	2015
Interest	\$ 619,561	\$ 569,068
Realized loss on investments	(69,975)	(226,261)
Unrealized gain on investments	251,779	125,175
	<u>\$ 801,365</u>	<u>\$ 467,982</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS (Continued)

Custodial Credit Risk (continued)

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

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Money market funds	\$ 700,578	\$ 700,578	\$ 694,876	\$ 694,876
Equity securities	9,258,622	9,967,260	8,306,197	9,338,907
Bonds and notes	4,073,576	3,879,351	4,062,240	3,960,058
Security based investment fund	5,282,644	4,801,034	5,270,324	5,165,319
Limited partnership interest	250,000	323,853	250,000	344,633
	<u>\$ 19,565,420</u>	<u>\$ 19,672,076</u>	<u>\$ 18,583,637</u>	<u>\$ 19,503,793</u>

6 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2016 and 2015:

	2016	2015
Students	\$ 676,619	\$ 788,906
Other	1,381,589	657,904
	2,058,208	1,446,810
Less: Allowance for uncollectible accounts	247,706	284,960
	<u>\$ 1,810,502</u>	<u>\$ 1,161,850</u>

7 - CONTRIBUTIONS RECEIVABLE – COMPONENT UNIT

Contributions receivable consist of unconditional promises to give from individuals. Management initially records these contributions at their estimated fair value and has set up an allowance for doubtful accounts. A discount rate has been used to reflect the present value of the non-current portion of the unconditional promises to give.

Payments of contributions receivable as of June 30, 2016 are expected to be received as follows:

2017	\$ 602,931
2018	210,735
2019	152,310
2020	33,710
2021	3,972
Thereafter	80,855
	1,084,513
Less: Allowance for uncollectible contributions receivable	(56,576)
Discount on contributions receivable	(14,407)
	<u>\$ 1,013,530</u>

WORCESTER STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - 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 future debt service of \$249,214 and \$254,295 as of June 30, 2016 and 2015, respectively.

9 - LOANS RECEIVABLE

Loans receivable consist of the following Perkins Loans as of June 30, 2016 and 2015:

	2016	2015
Enrolled students	\$ 487,131	\$ 573,076
Repayment on schedule	132,097	103,775
In default	335,773	326,842
	\$ 955,001	\$ 1,003,693

10 - CAPITAL ASSETS

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

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

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NOTES TO FINANCIAL STATEMENTS
(Continued)

10 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 188,650	\$ -	\$ -	\$ 188,650
Construction in process	8,141,599	13,661,967	3,405,330	18,398,236
Capital assets, being depreciated				
Land improvements	5,273,909	-	-	5,273,909
Buildings, including improvements	93,922,282	5,135,554	-	99,057,836
Furnishings and equipment	10,473,461	-	-	10,473,461
Books	1,118,878	-	390,292	728,586
Total capital assets	<u>119,118,779</u>	<u>18,797,521</u>	<u>3,795,622</u>	<u>134,120,678</u>
Less accumulated depreciation for				
Land improvements	3,172,516	242,349	-	3,414,865
Buildings, including improvements	41,149,166	3,168,519	-	44,317,685
Furnishings and equipment	8,880,052	423,639	-	9,303,691
Total accumulated depreciation	<u>53,201,734</u>	<u>3,834,507</u>	<u>-</u>	<u>57,036,241</u>
Capital assets, net	<u>\$ 65,917,045</u>	<u>\$ 14,963,014</u>	<u>\$ 3,795,622</u>	<u>\$ 77,084,437</u>

11 - 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 2016 and 2022. 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, 2016 and 2015, in the amounts of \$8,244,800 and \$8,365,295, respectively, and have been recorded as auxiliary enterprise expenditures.

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

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

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NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - DEFERRED SERVICE CONCESSION ARRANGEMENTS

Deferred service concession arrangements at June 30, 2016 and 2015 in the amounts of \$6,125,077 and \$6,536,852, respectively, consist of the unamortized balances of multiple food service agreements with an outside party. This outside party contributed multiple payments since 2004 totaling \$8,788,017, to upgrade the food service facilities. The contributions are being amortized over various periods ranging from 12 to 18 years. Amortization of these contributions was \$411,775 and \$572,201 as of June 2016 and 2015, respectively.

13 - LONG-TERM DEBT

- (A) On November 9, 2007, the University signed a financing agreement to receive \$310,000 from a Massachusetts Development Financing Agency (MDFA) clean renewable energy bond. These funds have been received and were used for the installation of a 100 KW photovoltaic panel, mounting system and inverter on the roof of the Learning Resource Center. The bond is non-interest bearing with annual principal installments of \$20,667 due through 2022.
- (B) On December 4, 2002, the University signed a financing agreement used for the renovation of the Sullivan and Administration Buildings, which was completed in 2009. A call provision became available on this bond issue in and the issue was refunded on December 18, 2012, with \$10,585,000 of Massachusetts Development Financing Agency (MDFA) Revenue Bonds. The obligation is being repaid solely by the University through revenues. Interest on the MDFA bonds is due in semi-annual installments at varying rates ranging from 2.00% to 4.00%. Annual principal installments ranging from \$255,000 to \$875,000 are due through November 2032. The refunding of the MHEFA bonds resulted in a loss, which is included in deferred outflows of resources and will be amortized over the term of the bond. Amortization of this loss for the year ended June 30, 2016, was 5,846. The remaining loss to be amortized at June 30, 2016 is \$99,405.
- (C) On December 20, 2012, the University signed a financing agreement to receive \$15,000,000 from a Massachusetts State College Building Authority (MSCBA) revenue bond. These funds will be used for the construction of a new Wellness Center. Interest on the bonds is due in semi-annual installments at varying rates ranging from 2.00% to 5.00%. Annual principal installments ranging from \$135,000 to \$765,000 are due through May 2042.

The composition of the University's Bonds payable for the year ended June 30, 2016 is as follows:

	Beginning Balance	Issuances	Retirements and Premium Amortization	Ending Balance	Current Portion of Principal
(A) Bond payable, MDFA 2007 Series	\$ 144,667	\$ -	\$ 20,667	\$ 124,000	\$ 20,667
(B) Bonds payable, MDFA 2012 Series	10,351,211	-	280,623	10,070,588	270,000
(C) Bonds payable, MSCBA	14,937,008	-	350,071	14,586,937	345,000
	<u>\$ 25,432,886</u>	<u>\$ -</u>	<u>\$ 651,361</u>	<u>\$ 24,781,525</u>	<u>\$ 635,667</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

13 - LONG-TERM DEBT (Continued)

Debt service requirements as of June 30, 2016 are as follows:

Year Ended June 30	Principal	Interest
2017	\$ 635,667	\$ 750,113
2018	660,667	729,413
2019	680,667	705,948
2020	705,667	679,088
2021	730,667	654,488
2022 – 2026	5,015,664	2,781,727
2027 – 2031	6,525,000	1,889,057
2032 – 2036	4,750,000	969,750
2037 - 2041	3,505,000	436,500
2042 – 2043	765,000	22,950
	23,973,999	9,619,034
Unamortized premium	807,526	-
	\$ 24,781,525	\$ 9,619,034

14 - LEASE COMMITMENTS

The University leases property, a motor vehicle, modular building, and furniture and equipment under various lease agreements. These leases are classified as either capital or operating in the financial statements. Operating lease expenditures were \$6,727 and \$17,427 for 2016 and 2015, respectively.

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

	2016	2015
Buildings, including improvements	\$ 789,809	\$ 789,809
Furnishings and equipment	843,430	-
Total capital assets	1,633,239	789,809
Less: Accumulated depreciation	645,855	312,633
	\$ 987,384	\$ 477,176

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NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - LEASE COMMITMENTS (Continued)

Future minimum lease payments under leases, together with the present value of future minimum lease payments as of June 30, 2016 are as follows:

Year Ending	Capital Lease	Operating Lease
2017	\$ 482,904	\$ 26,565
2018	380,094	12,080
2019	58,647	5,487
2020	18,425	-
2021	1,535	-
	941,605	\$ 44,132
Total minimum lease payments	941,605	\$ 44,132
Less: Amount representing interest	22,991	
Present value of minimum lease payments	\$ 918,614	

15 - GOVERNMENT ADVANCES REFUNDABLE

The University participates in the Federal Perkins Loan Program. This program is funded through a combination of Federal and institutional resources. The portion of this program that has been funded with Federal funds is ultimately refundable to the U.S. government upon the termination of the University's participation in the program. The loans receivable balance of \$955,001 and \$1,003,693 at June 30, 2016 and 2015, respectively, represents student loans issued through this program.

16 - NET POSITION

Unrestricted net position is not subject to externally imposed stipulations; however, it may be subject to internal restrictions. For example, unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2016 and 2015, unrestricted net position of \$12,660,865 and \$11,688,452, respectively, has been internally designated by the University for future capital investments. Undesignated unrestricted net position was \$931,453 and \$12,415,826 at June 30, 2016 and 2015, respectively.

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

	2016	2015
Restricted - expendable		
Capital projects	\$ 123,819	\$ 126,343
Scholar ships and other grants	3,241,368	2,503,864
	\$ 3,365,187	\$ 2,630,207

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

WORCESTER STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

17 - 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, 2016 and 2015 of \$2,490,975 and \$2,568,440 respectively, has been recorded in the financial statements.

18 - 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, 2016 and 2015. Based upon the Commonwealth's analyses, accrued workers' compensation in the amount of \$613,240 and \$733,249 as of June 30, 2016 and 2015, respectively have been recorded in the unrestricted current fund. Workers' compensation expense charged to operations was \$102,624 and \$157,487 in 2016 and 2015, respectively. The actual workers' compensation paid by the University was \$222,634 and \$233,075 in 2016 and 2015, respectively.

19 - ACCRUED COMPENSATED ABSENCES

Included in accrued compensated absences are \$2,759,023 for accrued vacation time and \$2,680,780 for accrued sick time as of June 30, 2016 and \$2,621,964 for accrued vacation time and \$2,840,542 for accrued sick time as of June 30, 2015. Of these balances, \$300,677 and \$219,048 for June 30, 2016 and 2015, respectively, represent obligations due to employees funded through sources other than State appropriations, and \$5,139,126 and \$5,243,456 as of June 30, 2016 and 2015, 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.

20 - 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 2016, the University reimbursed the State a total of \$3,657,781 (\$1,303,999 for pensions and \$2,353,782 for health care premiums). For 2015, the University reimbursed the State a total of \$4,008,433 (\$1,662,297 for pensions and \$2,346,136 for health care premiums).

21 - RETIREMENT PLAN

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

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NOTES TO FINANCIAL STATEMENTS
(Continued)

21 - RETIREMENT PLAN (Continued)

Plan Description

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

Benefit Provisions

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

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

Contributions

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

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

<u>Hire Date</u>	<u>Percentage of Compensation</u>
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 determined by the State. The rate was 9.45% and 10.39% of annual covered payroll for the fiscal years ended June 30, 2016 and June 30, 2015, respectively. The University contributed \$972,477 and \$1,039,592 for the fiscal years ended June 30, 2016 and June 30, 2015, equal to 100% of the required contributions for the year.

WORCESTER STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

21 - RETIREMENT PLAN (Continued)

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

At June 30, 2016 and 2015, the University reported a net pension liability of \$18,901,770 and \$9,357,928 for its proportionate share of the net pension liability related to its participation in MSERS. The net pension liability was measured as of June 30, 2015, the measurement date, as determined by an actuarial valuation. The University's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed the University for the fiscal years 2015 and 2014. The Commonwealth's proportionate share was based on actual employer contributions to the MSERS for fiscal years 2015 and 2014 relative to total contributions of all participating employers for each respective fiscal year. At June 30, 2015 and 2014, the University's proportion was 0.181% and 0.138% respectively. For the year end June 30, 2016 and 2015, the University recognized pension expense of \$2,764,131 and \$677,063, respectively.

At June 30, 2016 and 2015, the University reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	2016	2015
Deferred outflows of resources		
Change in plan actuarial assumptions	\$ 3,273,399	\$ 105,193
Differences between expected and actual experience	373,624	-
Changes in proportion due to internal allocation	2,918,458	-
Contributions subsequent to the measurement date	972,477	1,039,592
	\$ 7,537,958	\$ 1,144,785
Deferred inflows of resources		
Differences between projected and actual earnings on plan investments	\$ 543,158	\$ 1,920,704
Change in proportion	67,022	70,755
	\$ 610,180	\$ 1,991,459

Contributions of \$972,477 and \$1,039,592, respectively, are reported as deferred outflows of resources related to pensions resulting from the University contributions in fiscal year 2016 and 2015 subsequent to the measurement date, which will be recognized as a reduction of the net pension liability for the year ended June 30, 2017 and 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

2017	\$ 554,463
2018	554,463
2019	929,042
2020	321,985
	\$ 2,359,953

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NOTES TO FINANCIAL STATEMENTS
(Continued)

21 - RETIREMENT PLAN (Continued)

Actuarial Assumptions

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

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

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

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

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target assets allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target allocation</u>	<u>Long-term expected real Rate of return</u>	
		<u>2015</u>	<u>2014</u>
Global equity	40%	6.90%	7.20%
Core fixed income	13%	2.40%	2.50%
Hedge funds	9%	5.80%	5.50%
Private equity	10%	8.50%	8.80%
Real estate	10%	6.50%	6.30%
Value added fixed income	10%	5.80%	6.30%
Portfolio completion strategies	4%	5.50%	-
Timber/natural resources	4%	6.60%	5.00%
Total	<u>100%</u>		

WORCESTER STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

21 - RETIREMENT PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.5% and 8.0% for 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

22 - 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.

23 - 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 2016 were \$2,788,221 and \$5,032,876, respectively. The estimated amounts of funding attributable for the State retirement system contribution and the employer's share of health care premiums for 2015 were \$2,923,020 and \$4,125,497, respectively.

24 - 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.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

24 - MANAGEMENT ACCOUNTING AND REPORTING SYSTEM - (UNAUDITED) (Continued)

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

	2016	2015
Direct unrestricted appropriations	\$ 26,390,124	\$ 25,638,417
Fringe benefits for benefitted employees on state payroll	7,821,097	7,102,873
Tuition remitted	(605,315)	(538,563)
Transfer from trust funds	-	(361,922)
Total appropriations	\$ 33,605,906	\$ 31,840,805

A reconciliation between the University and MMARS fund 901 activity as of June 30, 2016 is as follows:

Revenue per MMARS	\$ 69,899,005
Revenue per University	69,764,548
Net reporting classification and differences	\$ 134,457

25 - RELATED PARTY TRANSACTIONS

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

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

The University and the Foundation have entered into an affiliation agreement with the Worcester Center for Crafts, Inc. to collaboratively offer venues for teaching and learning in the arts, new exhibition space, safe, well-equipped studios for community-based programs as well as undergraduate visual and performing art classes. As part of the agreement, the University provides various forms of support to the Crafts Center including annual fees of \$250,000 for allowing the University to use the facilities. Service agreement fees were \$250,000 for the years ended June 30, 2016 and 2015. In addition, the University provided support including personnel, equipment, repairs and maintenance and other operating expenses. The value of this support is estimated to be \$315,664 and \$294,652 for the years ended June 30, 2016 and 2015 respectively.

The University provides certain operating costs for WSF Real Estate, Inc. in exchange of the use property adjacent to the University campus for various purposes. WSF Real Estate, Inc. is under the control and holds property on behalf of the Foundation. Operating costs provided by the University were \$92,203 during the year ended June 30, 2016. There were no such costs provided during the year ended June 30, 2015.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

26 - 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, 2016 and 2015 are as follows:

	2016		2015	
	Residence Life and Housing	Health Services	Residence Life and Housing	Health Services
Total revenue	\$ 11,698,320	\$ 444,478	\$ 10,807,574	\$ 461,040
Total expenses	11,948,788	442,515	11,835,337	461,040
Increase (decrease) in net position before transfers	\$ (250,468)	\$ 1,963	\$ (1,027,763)	\$ -

27 - 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.

28 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements, with no effect on change in net position, to conform to the 2016 presentation.

SUPPLEMENTAL SHCEDULE
PURSUANT TO THE UNIFORM GUIDANCE

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U. S. Department of Education:				
Student Financial Assistance Cluster				
Federal Direct Student Loans	84.268	N/A	N/A	\$ 22,229,506
Federal Pell Grant Program	84.063	N/A	N/A	7,091,047
Federal Work Study Program	84.033	N/A	N/A	245,907
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	284,639
Federal Perkins Loans	84.038	N/A	N/A	<u>4,899,769</u>
Total Student Financial Assistance Cluster				34,750,868
Passed through Worcester Public Schools				
Higher Education - Institutional Aid	84.031	50S35615	N/A	123,181
Passed through the Massachusetts Department of Higher Education				
Supporting Effective Instruction State Grant	84.367	ISARGT70661574WOR15A	N/A	302,978
Passed through U.S. Department of Education Institute of Education Sciences				
Education Technology	84.305A	IESANGGORO00	N/A	38,396
Total U. S. Department of Education				<u>35,215,423</u>
National Science Foundation				
Geosciences	47.050	N/A	N/A	36,902
Social, Behavioral, and Economic Sciences	47.075	N/A	N/A	22,073
Total National Science Foundation				<u>58,975</u>
National Aeronautics and Space Administration				
Passed through Boston University Interdisciplinary Research in Earth Science	43.001	4500001069	N/A	<u>42,815</u>
U.S. Department of the Treasury				
Passed through Worcester Community Action Council, Inc. VITA Matching Grant Program	21.009	5500	N/A	<u>1,018</u>
				<u>\$ 35,318,231</u>

See accompanying independent auditor's report and notes to schedule.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR YEAR ENDED JUNE 30, 2016

1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Worcester State University (the "University") under programs of the Federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the College and departments of the federal government.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or a limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The College has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Major program determination

The University considers programs with expenditures that exceed \$1,059,547 to be Type A programs. Type A programs with expenditures that, in the aggregate, encompass at least twenty-five percent of total federal awards are designated as major programs. Smaller programs are designated as Type B programs. Type A programs assessed as "low risk" that have been audited as a major program within the last two years with no audit findings are not designated as major programs, provided the University has Type B programs that have federal expenditures exceeding twenty-five percent of total expenditures. Accordingly, certain Type B programs may be identified as major programs.

3 - FEDERAL STUDENT LOAN PROGRAMS

The federal Perkins Loan Program is administered directly by the University, and balances and transactions relating to these programs are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2016 consists of:

	<u>Outstanding Balance as of June 30, 2016</u>	<u>Disbursements for the year ended June 30, 2016</u>
CFDA Number 84.038		
Perkins Loan Program	\$ 5,854,771	\$ 34,500

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR YEAR ENDED JUNE 30, 2016
(Continued)

3 - FEDERAL STUDENT LOAN PROGRAMS (Continued)

Federally guaranteed loans issued to students of the University during the year ended June 30, 2016 are summarized as follows:

	<u>Disbursements for the year ended June 30, 2016</u>
CFDA Number 84.268	
Federal Direct Student Loans	\$ 22,229,506

The University is only responsible for the performance of certain administrative duties with respect to federally-guaranteed student loan programs and, accordingly, balances and transactions relating to these loan programs are not included in the University's general purpose financial statements. It is not practical to determine the balance of loans outstanding to students and former students of the University as of June 30, 2016.

4 - ADMINISTRATIVE COST ALLOWANCES

The Student Financial Aid Administrative Cost Allowances for the year ended June 30, 2016 are as follows:

Pell grant program	\$ 7,875
Perkins loans	28,141

OTHER REPORTS
PURSUANT TO THE UNIFORM GUIDANCE

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

To the Board of Trustees
Worcester State University
Worcester, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Worcester State University, an agency of the Commonwealth of Massachusetts and the financial statements of Worcester State Foundation, Inc., its discretely presented component unit (the "University"), which collectively comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2016.

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*.

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

Purpose of this Report

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

Ballus Lynch, LLP

Worcester, Massachusetts
October 18, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Worcester State University
Worcester, Massachusetts

Report on Compliance for each Major Federal Program

We have audited the financial statements of Worcester State University, an agency of the Commonwealth of Massachusetts and the financial statements of Worcester State Foundation, Inc., its discretely presented component unit (the "University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the Summary of Independent Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(Continued)

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ballus Lynch, LLP

Worcester, Massachusetts
October 18, 2016

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	Yes	X	No
Significant deficiency(ies) identified?	Yes	X	No
Noncompliance material to financial statements noted?	Yes	X	No

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Student Financial Assistance Cluster	
84.268	Federal Direct Student Loans
84.063	Federal Pell Grant Program
84.033	Federal Work Study Program
84.007	Federal Supplemental Educational Opportunity Grant
84.038	Federal Perkins Loans

Dollar threshold used to distinguish between type A and type B programs	\$1,059,547
Auditee qualified as low-risk auditee?	X Yes No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016
(Continued)

II. FINANCIAL STATEMENT FINDINGS

A. Internal Control Findings

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

B. Compliance Findings

As disclosed in Section I, the audit disclosed no instances of noncompliance which are material to the basic financial statements of Worcester State University as of and for the year ended June 30, 2016.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control Over Compliance

No findings noted as of June 30, 2016.

B. Compliance Findings

No findings noted as of June 30, 2016.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs, and no uncorrected or unresolved findings exist from the prior audit's Summary of Prior Audit Findings.