

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2012

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**Financial Statements and
Management's Discussion and Analysis**

June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Westfield State University
Westfield, Massachusetts

We have audited the accompanying statements of net assets of Westfield State University (the "University") as of June 30, 2012 and June 30, 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Westfield State Foundation, Inc. (the "Foundation") as of June 30, 2012 and 2011 as discussed in Note 1. The financial statements of this component unit were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity not audited by us included in the discretely presented component unit of the University, is based solely upon the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westfield State University as of June 30, 2012 and 2011, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 of the financial statements, the compensated absence liability as previously presented for June 30, 2011 were restated due to a change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012 on our consideration of the 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 controls 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* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Westfield State University's financial statements as a whole. The schedules of net assets – dormitory trust fund report, schedules of revenues, expenses – dormitory trust fund report, and the schedule of changes in net assets – dormitory trust fund report are presented for purpose of additional analysis and are not a required part of the financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Braintree, Massachusetts
Certified Public Accountants

October 11, 2012

WESTFIELD STATE UNIVERSITY
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Management’s Discussion and Analysis (Unaudited)

Introduction

This section of the Westfield State University annual financial report presents management’s discussion and analysis of the financial activities of Westfield State University for the fiscal year ended June 30, 2012, with comparative information for the years ended June 30, 2011 and 2010. For financial reporting purposes, Westfield State University’s reporting entity consists of Westfield State University and its discretely presented component unit, Westfield State Foundation, Inc. Since this analysis is designed to focus on current activities, resulting changes and currently known facts, it should be read in conjunction with the basic financial statements and notes thereto. The financial statements, footnotes and this discussion are the responsibility of management.

Westfield State University is a comprehensive public institution of higher learning with approximately 5,600 full time equivalent combined day and evening students. The campus is located in Westfield, Massachusetts and offers 32 undergraduate majors in both the traditional arts and sciences and in professional fields with over 60 options for discipline-specific or interdisciplinary minors and concentrations. There are also 36 graduate-level degree and certificate programs offered by the Division of Graduate and Continuing Education. This broad range of graduate programs and undergraduate majors, minors, and concentrations reflect the commitment of Westfield State University to providing quality educational programs.

Westfield State Foundation, Inc. is a not-for-profit corporation operated exclusively for charitable, scientific, and educational purposes for the benefit of Westfield State University, including such activities as soliciting or receiving tangible property, rendering financial aid, promoting and supporting educational and other legal activities, and participating in any and all activities designed and carried on by Westfield State University to promote the general education of the people within the constituency served by Westfield State University.

Listed below are the definitions of each entity that may be presented in this discussion and analysis.

Westfield State University	
Overall financial activities of Westfield State University and its component unit, the Foundation	
Primary Institution (the “University”) Financial activities of Westfield State University	Component Unit (the “Foundation”) Financial activities of Westfield State Foundation, Inc.

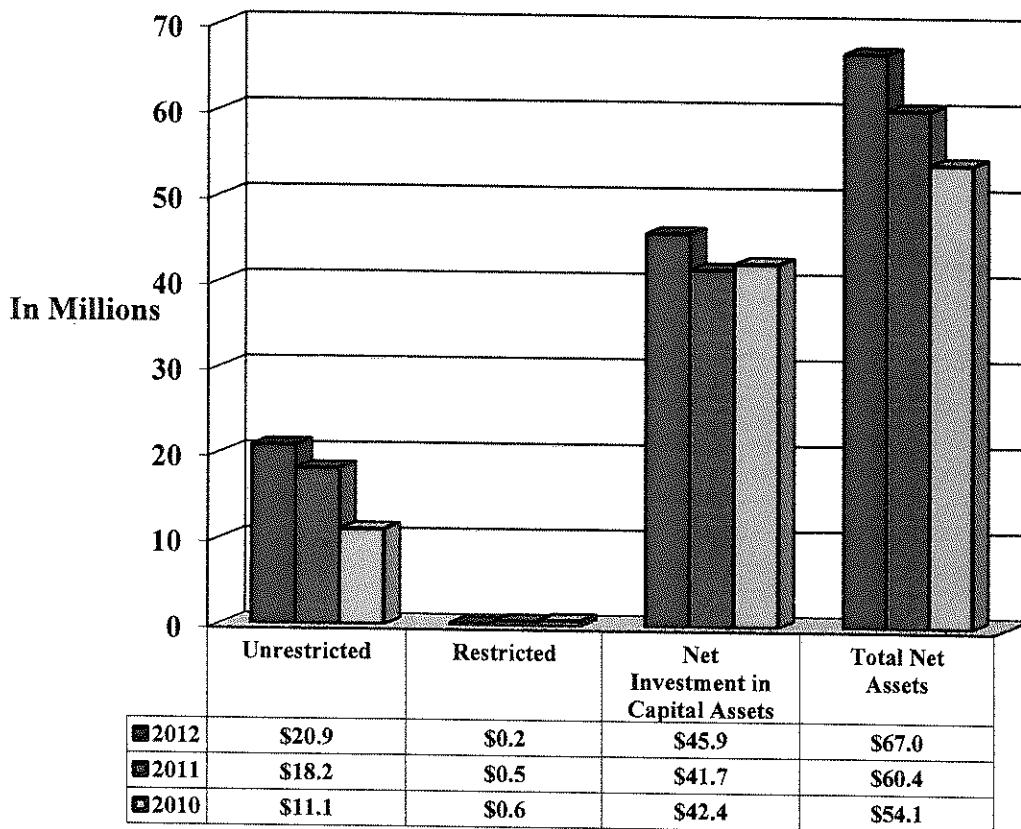
WESTFIELD STATE UNIVERSITY
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Management's Discussion and Analysis (Unaudited) - Continued

Primary Institution Financial Highlights

Graphically displayed, the comparative net asset increases by category for the fiscal years ended June 30, 2012, 2011 and 2010 are shown below:

Comparison of Net Assets-Primary Institution



- The University's financial position continued to improve during the fiscal year ended June 30, 2012, with a \$6.6 million or 10.9% increase in total net assets. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased to \$67.0 million from \$60.4 million in 2011. The University's financial position also improved during the fiscal year ended June 30, 2011, with a \$6.3 million or 11.6% increase in total net assets, (to \$60.4 million from \$54.1 million in 2010).

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Management's Discussion and Analysis (Unaudited) - Continued

Primary Institution Financial Highlights - Continued

- Expenses incurred during fiscal year 2012 totaled \$96.0 million. Revenues from tuition and fees, state capital support and appropriations, grants, and other sources totaled \$102.6 million resulting in an increase in net assets of \$6.6 million. Expenses incurred during fiscal year 2011 totaled \$89.5 million. Revenues from tuition and fees, state capital support and appropriations, grants, and other sources totaled \$95.8 million resulting in an increase in net assets of \$6.3 million as compared to an increase of \$9.8 million for the year ended June 30, 2010.
- The increase in total net assets during the fiscal year ended June 30, 2012 was attributable primarily to the recognition of state capital appropriation revenue in the amount of \$4.4 million for the major building renovations to Ely Campus Center which was in progress at June 30, 2012. The increase in total net assets during the fiscal year ended June 30, 2011 was attributable to the fact that the increase in revenues more than offset the increase in operating expenses. This increase was a result of a plan on the part of the University to have resources available to carry forward into the next fiscal year since State Fiscal Stabilization Funds (ARRA) were not going to be available in fiscal year 2012.

Overview of the Financial Statements

Westfield State University's financial report includes four financial statements: the *Statement of Net Assets*, the *Statement of Revenues and Expenses*, the *Statement of Changes in Net Assets* and the *Statement of Cash Flows*. These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. The statements are designed to present all the activities of Westfield State University and consolidate the activities into one total.

The Financial Statements:

The *Statement of Net Assets* presents the financial position of Westfield State University at the end of the fiscal year and includes all assets and liabilities of Westfield State University. The difference between total assets and total liabilities (net assets) is one indicator of the current financial position of Westfield State University, while the change in net assets serves as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Revenues and Expenses* presents Westfield State University's results of operations and other non-operating revenues.

The *Statement of Changes in Net Assets* presents information that shows how Westfield State University's net assets changed during the most recent fiscal year.

WESTFIELD STATE UNIVERSITY
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Management's Discussion and Analysis (Unaudited) - Continued

Overview of the Financial Statements - Continued

The *Statement of Cash Flows* provides additional information about Westfield State University's financial results by reporting the major sources and uses of cash. Governmental Accounting Standards Board (GASB) Statements 34 and 35 require that the direct method be used to prepare this statement. The direct method of cash flow reporting portrays the net cash flow from operations by major categories of operating receipts and disbursements.

The financial statements can be found on pages 16-20 of this financial report.

Notes to the Financial Statements

The footnotes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 21-44 of this financial report.

Other Information

In addition to the financial statements and accompanying footnotes, this financial report also contains certain required supplementary information concerning the Westfield State University Building Authority trust fund. This supplementary information can be found on pages 45-47 of this financial report.

Financial Analysis of Westfield State University as a Whole

As previously noted, net assets may serve over time as a useful indicator of Westfield State University's financial position. Westfield State University's financial position increased during the year with a combined (University and Foundation) net asset increase of \$6.7 million for the year ended June 30, 2012 as compared to a combined net asset increase of \$7.2 million for the year ended June 30, 2011 and a \$9.8 million increase for the year ended June 30, 2010.

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

Westfield State University's Condensed Statements of Net Assets
As of June 30, 2012, 2011 and 2010

	Primary Institution			Component Unit-Foundation		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current Assets	\$ 41,596,383	\$ 36,164,922	\$ 26,145,662	\$ 619,522	\$ 601,191	\$ 493,066
Non-current Assets						
Capital Assets, net	58,718,100	47,386,394	46,151,877	485,834	838,905	1,116,682
Other	<u>1,290,104</u>	<u>1,245,427</u>	<u>796,892</u>	<u>4,515,961</u>	<u>4,452,276</u>	<u>3,283,592</u>
Total Assets	<u>101,604,587</u>	<u>84,796,743</u>	<u>73,094,431</u>	<u>5,621,317</u>	<u>5,892,372</u>	<u>4,893,340</u>
Current Liabilities	13,765,409	12,755,300	11,441,442	660,828	1,072,497	951,145
Non-current Liabilities	<u>20,862,278</u>	<u>11,659,107</u>	<u>7,616,571</u>	-	-	-
Total Liabilities	<u>34,627,687</u>	<u>24,414,407</u>	<u>19,058,013</u>	<u>660,828</u>	<u>1,072,497</u>	<u>951,145</u>
Net Assets						
Invested in Capital Assets, net of related debt	45,883,403	41,712,298	42,357,477	485,834	838,905	1,116,682
Restricted: Nonexpendable	-	-	-	3,072,929	2,958,716	2,882,165
Restricted: Expendable	238,913	505,307	624,749	1,791,709	1,858,735	1,309,798
Unrestricted	<u>20,854,584</u>	<u>18,164,731</u>	<u>11,054,192</u>	<u>(389,983)</u>	<u>(836,481)</u>	<u>(1,366,450)</u>
Total Net Assets	<u>\$ 66,976,900</u>	<u>\$ 60,382,336</u>	<u>\$ 54,036,418</u>	<u>\$ 4,960,489</u>	<u>\$ 4,819,875</u>	<u>\$ 3,942,195</u>

Net assets invested in capital assets, net of related debt, represents Westfield State University's capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. By far the largest portion of Westfield State University's net assets (69% at June 30, 2012, 69% at June 30, 2011, and 78% at June 30, 2010), are net assets invested in capital assets which are buildings and equipment utilized by students, faculty and administration; consequently, these assets are not available for future spending. The \$4.1 million increase as of June 30, 2012 reflects Westfield State University's continued development and renewal of its capital assets in accordance with its long-range plan. The slight decrease of \$.9 million as of June 30, 2011 was due to depreciation expense outpacing fixed asset additions for fiscal year 2011.

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

An additional portion of Westfield State University's net assets (1% at June 30, 2012, 1% at June 30, 2011 and 1% at June 30, 2010), are restricted expendable which represents scholarships, grants, and donations that are subject to external restrictions on how they must be used. The remaining balance of unrestricted net assets (30% at June 30, 2012, 30% at June 30, 2011 and 21% at June 30, 2010) may be used to meet Westfield State University's ongoing obligations.

A review of Westfield State University's condensed statements of net assets at June 30, 2012, 2011, and 2010 shows that Westfield State University continues to maintain its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, management of its endowment, conservative utilization of its debt, and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

WESTFIELD STATE UNIVERSITY
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Management's Discussion and Analysis (Unaudited) - Continued
Financial Analysis of Westfield State University as a Whole - Continued

*Westfield State University's Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2012, 2011 and 2010*

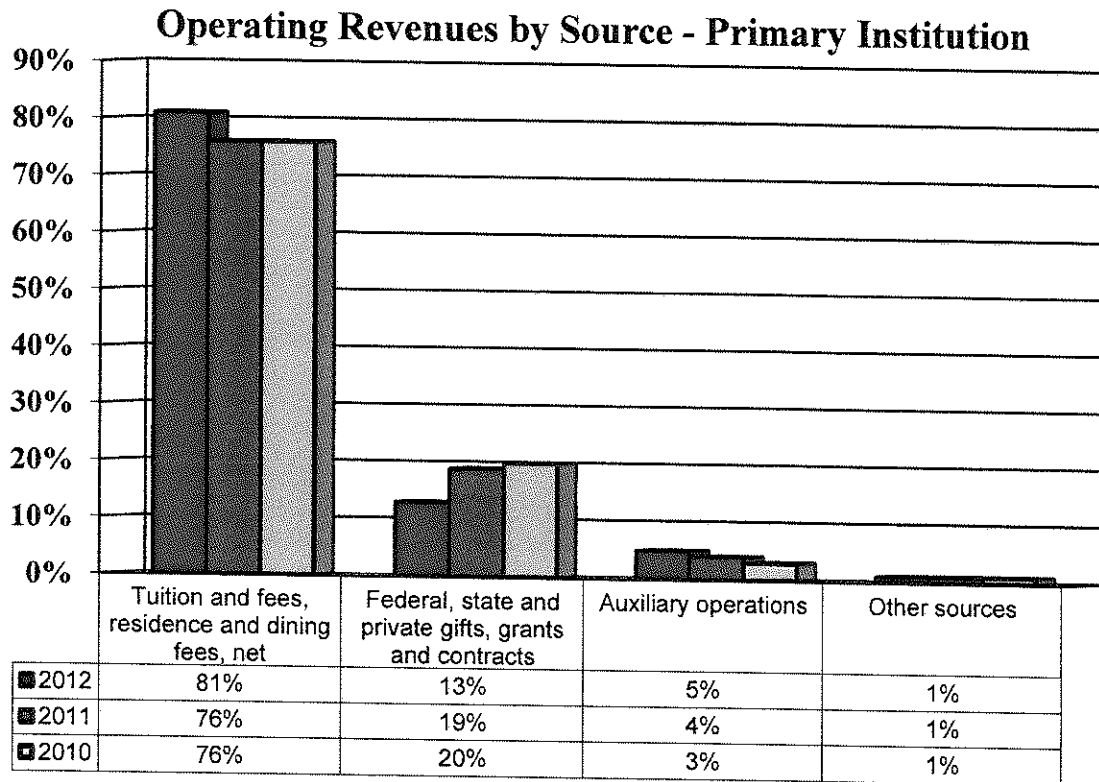
	Primary Institution			Component Unit-Foundation		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:						
Tuition and fees	\$ 44,196,990	\$ 39,818,365	\$ 36,558,739			
Residence and dining fees	22,241,065	20,846,560	19,917,452			
Less: scholarships and fellowships	(7,983,530)	(7,854,008)	(6,519,355)			
Federal, state and private grants and contracts	9,448,951	13,112,352	13,218,709	\$ 538,838	\$ 445,780	\$ 874,491
Auxiliary operations	3,387,225	2,436,694	1,853,797	-	-	-
Other sources	<u>1,011,457</u>	<u>836,244</u>	<u>594,304</u>	<u>124,761</u>	<u>64,550</u>	<u>67,228</u>
Total operating revenues	72,302,158	69,196,207	65,623,646	663,599	510,330	941,719
Less: operating expenses	<u>95,793,160</u>	<u>88,855,189</u>	<u>86,136,963</u>	<u>624,789</u>	<u>843,029</u>	<u>1,406,359</u>
Operating (loss) gain	<u>(23,491,002)</u>	<u>(19,658,982)</u>	<u>(20,513,317)</u>	<u>38,810</u>	<u>(268,346)</u>	<u>(464,640)</u>
Non-operating revenue (expense):						
State appropriation, net	25,494,134	25,389,047	21,305,571			
Net investment income	350,752	343,507	392,042	56,364	745,529	460,374
Gain (loss) on disposal of assets	(36,761)	(31,674)	(8,067)	70,847	(64,353)	-
Other expenses	<u>(157,406)</u>	<u>(67,272)</u>	<u>(10,177)</u>	<u>(15,504)</u>	<u>(16,176)</u>	<u>(11,327)</u>
Total non-operating revenue	<u>25,650,719</u>	<u>25,633,608</u>	<u>21,679,369</u>	<u>111,707</u>	<u>665,000</u>	<u>449,047</u>
Income (loss) before other revenues expenses, gains or losses	2,159,717	5,974,626	1,166,052	150,517	396,654	(15,593)
Related entity transfers	9,903	(481,026)	(10,750)	(9,903)	481,026	10,750
State capital appropriations	<u>4,424,944</u>	<u>852,318</u>	<u>8,688,659</u>	-	-	-
Increase (decrease) in net assets	6,594,564	6,345,918	9,843,961	<u>140,614</u>	877,680	(4,843)
Net assets - beginning of year, as previously reported	60,382,336	54,036,418	45,276,900	4,819,875	3,942,195	3,947,038
Prior period adjustment	-	-	(1,084,443)	-	-	-
Net assets - beginning of year, restated	<u>60,382,336</u>	<u>54,036,418</u>	<u>44,192,457</u>	<u>4,819,875</u>	<u>3,942,195</u>	<u>3,947,038</u>
Net assets - end of year	<u>\$ 66,976,900</u>	<u>\$ 60,382,336</u>	<u>\$ 54,036,418</u>	<u>\$ 4,960,489</u>	<u>\$ 4,819,875</u>	<u>\$ 3,942,195</u>

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

The following is a graphic illustration of operating revenues by source, which were used to fund the University's operating activities for the years ended June 30, 2012, 2011 and 2010.



The University's operating revenues consist primarily of tuition and fee and residence and dining fee revenue. Tuition and fee revenue increased \$4.4 million or 11% during the fiscal year ended June 30, 2012 and \$3.3 million or 9% during the fiscal year ended June 30, 2011. The primary factors relating to the increase during fiscal year 2012 were an increase in the general fee of \$355 per student combined with higher student enrollment (\$2.3 million impact), an increase in fee revenue from the new capital improvement fee (\$.5 million impact) and an increase in the Division of Graduate and Continuing Education tuition and fees of \$1.6 million. For fiscal year ended June 30, 2011, the increase in the general fee of \$415 per student combined with higher student enrollment and an increase in the Division of Graduate and Continuing Education tuition and fees contributed to the increase.

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

Tuition and fees received by the University include the following:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Tuition	\$ 11,427,086	\$ 9,716,318	\$ 9,175,682
Student Fees:			
General fees	23,022,758	21,033,216	18,636,687
Student activity fees	1,105,403	1,079,144	1,054,394
Capital improvement fees	450,321	-	-
Technology fees	7,434,261	7,275,251	7,107,888
Miscellaneous fees	<u>757,161</u>	<u>714,436</u>	<u>584,088</u>
Total	\$ <u>44,196,990</u>	\$ <u>39,818,365</u>	\$ <u>36,558,739</u>

Residence and dining fee revenue generated by the auxiliary operations of the University's food service provider and building authority trust funds was \$22,241,065, \$20,846,560, and \$19,917,452 for the years ended June 30, 2012, 2011 and 2010, respectively. The increase in revenues for the year ended June 30, 2012 in the amount of \$1,394,505 or 6.7% is attributable to the increases in residence fees of approximately \$.6 million and dining fees of approximately \$.8 million.

Major grants and contracts awarded to Westfield State University for the years ended June 30, 2012, 2011 and 2010 included the following:

- U.S. Department of Education - Student Support Services \$264,284 (in 2012) \$272,739 (in 2011) \$286,094 (in 2010)
- U.S. Department of Education - College Work Study \$368,333 (in 2012, 2011 and 2010)
- U.S. Department of Education - SEOG \$295,448 (in 2012, 2011 and 2010)

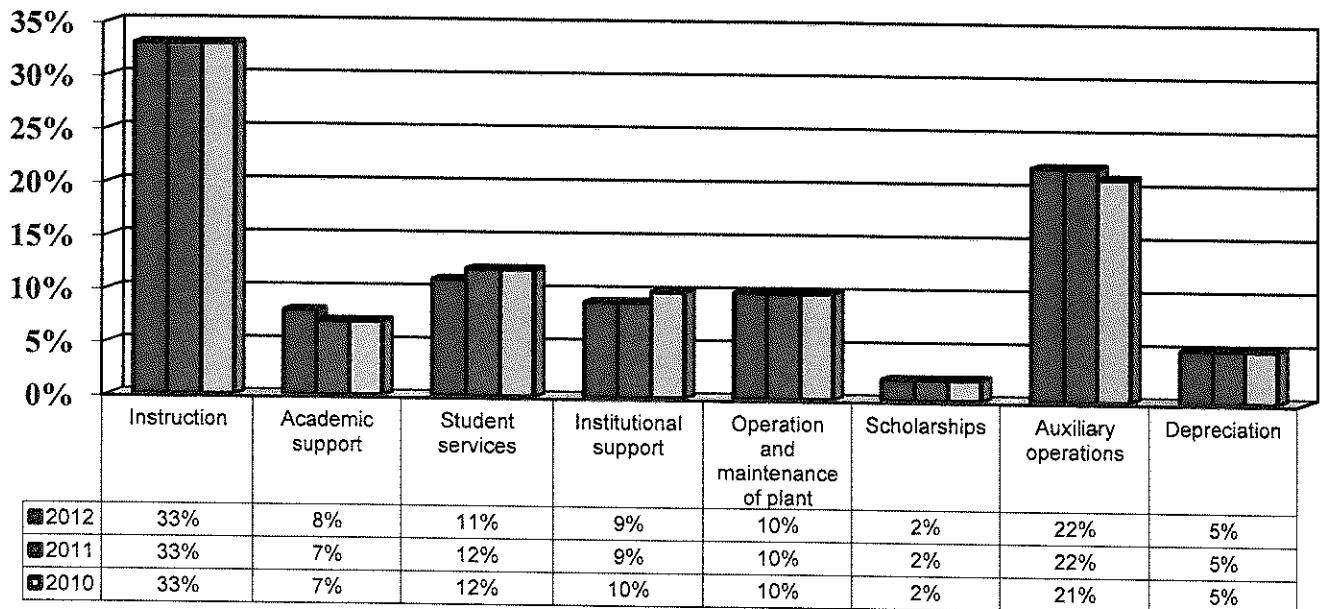
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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

The following is a graphic illustration of operating expenses by function for the years ended June 30, 2012, 2011, and 2010.

Operating Expenses by Function - Primary Institution



A summary of the University's expenses by functional classification for the years ended June 30, 2012, 2011, and 2010 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Instruction	\$ 31,608,287	\$ 29,528,540	\$ 28,349,232
Public service	355,860	384,753	91,102
Academic support	7,550,553	6,412,455	6,180,954
Student services	10,820,387	10,197,395	10,123,349
Institutional support	8,687,090	8,259,786	8,323,181
Operation and maintenance of plant	9,384,651	8,959,572	8,993,950
Scholarships and fellowships	1,960,052	1,628,929	1,679,684
Auxiliary operations	21,083,104	19,374,795	17,861,051
Depreciation	<u>4,343,176</u>	<u>4,108,964</u>	<u>4,534,460</u>
 Total	 \$ <u>95,793,160</u>	 \$ <u>88,855,189</u>	 \$ <u>86,136,963</u>

The University's total operating expenses increased during fiscal year ended June 30, 2012 by \$6,937,971 or 7.8% as compared to a 3.2% increase for the fiscal year ended June 30, 2011.

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

*Westfield State University's Condensed Statements of Cash Flows
For the years ended June 30, 2012, 2011 and 2010*

	Primary Institution			Component Unit-Foundation		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash received from operating activities	\$ 101,148,376	\$ 94,847,203	\$ 86,196,098	\$ 124,761	\$ 64,550	\$ 67,228
Cash expenses for operating activities	<u>(112,518,501)</u>	<u>(103,775,473)</u>	<u>(98,161,156)</u>	<u>(1,015,057)</u>	<u>(624,894)</u>	<u>(1,380,692)</u>
Net cash applied to operating activities	(11,370,125)	(8,928,270)	(11,965,058)	(890,296)	(560,344)	(1,313,464)
Net cash provided by non-capital financing activities	19,161,958	18,713,086	16,692,154	501,411	981,542	806,969
Net cash provided by (applied to) capital financing activities	(2,664,158)	400,181	(2,819,363)	(34,606)	(49,776)	(11,327)
Net cash provided by (applied to) investing activities	<u>349,177</u>	<u>341,402</u>	<u>387,293</u>	<u>419,676</u>	<u>(217,027)</u>	<u>502,313</u>
Net increase (decrease) in cash	5,476,852	10,526,399	2,295,026	(3,815)	154,395	(15,509)
Cash - beginning of year	<u>34,470,697</u>	<u>23,944,298</u>	<u>21,649,272</u>	<u>344,391</u>	<u>189,996</u>	<u>205,505</u>
Cash - end of year	\$ <u>39,947,549</u>	\$ <u>34,470,697</u>	\$ <u>23,944,298</u>	\$ <u>340,576</u>	\$ <u>344,391</u>	\$ <u>189,996</u>

Westfield State University's combined liquidity increased during the year ended June 30, 2012 with a \$5,473,037 increase in cash. The following discussion amplifies the overview of cash flows presented above.

During the year ended June 30, 2012, the University's net cash applied to operating activities increased by approximately \$2.4 million over the prior year. This was due to an increase in cash received of \$6.3 million offset by an increase in amounts paid of \$8.7 million. The increase in cash received and paid was partly due to an increase in direct lending receipts and disbursements of approximately \$3.1 million. Net cash provided by non-capital financing activities increased approximately \$.4 million due to the decrease in related entity transfers. Net cash provided by (applied to) capital financing activities decreased approximately \$3.1 million due to an increase in purchases of capital assets of \$11.3 million offset by proceeds from capital debt of \$4.6 million and an increase in capital appropriation of \$3.6 million. The increase in capital debt was related to the bonds payable for the Ely Campus Center renovations. The slight increase in net cash provided by investing activities was due to an increase in interest received.

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis of Westfield State University as a Whole - Continued

Westfield State University's combined liquidity also increased during the year ended June 30, 2011 with a \$10,680,794 increase in cash. The following discussion amplifies the overview of cash flows presented above.

During the year ended June 30, 2011, the University's net cash applied to operating activities decreased by approximately \$3.0 million over the prior year. This was due to an increase in cash received of \$8.6 million offset by an increase in amounts paid of \$5.6 million. The increase in cash received and paid was partly due to an increase in direct lending receipts and disbursements of approximately \$3.5 million. Net cash provided by non-capital financing activities increased \$2.0 million due to the increase in state appropriation (\$2.5 million) offset by an increase in related entity transfers (\$.5 million). Net cash provided by capital financing activities increased approximately \$3.2 million mostly due to an increase in purchases of capital assets of \$1.4 million and an increase in proceeds from capital debt of \$4.6 million. The increase in capital debt was related to the bonds payable for Tim & Jeanne's Dining Commons renovation. The slight decrease in net cash provided by investing activities was due to a decrease in interest received.

Loss from Operations

The following table presents the University's incurred losses from operations and its non-operating revenues for the fiscal years ended June 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues, net	\$ 72,302,158	\$ 69,196,207	\$ 65,623,646
Operating expenses	<u>95,793,160</u>	<u>88,855,189</u>	<u>86,145,030</u>
Operating loss	<u>(23,491,002)</u>	<u>(19,658,982)</u>	<u>(20,513,317)</u>
Commonwealth direct appropriation, fringe benefits for Commonwealth employees, net of tuition remitted to the Commonwealth	25,494,134	25,389,047	21,305,571
Net investment income	350,752	343,507	392,042
Gain (loss) on disposal of assets	(36,761)	(31,674)	(8,067)
Other expenses	(157,406)	(67,272)	(10,177)
Capital appropriations	4,424,944	852,318	8,688,659
Related entity transfers	9,903	(481,026)	(10,750)
Non-operating revenues	<u>30,085,566</u>	<u>26,004,900</u>	<u>30,357,278</u>
Increase in net assets	\$ <u>6,594,564</u>	\$ <u>6,345,918</u>	\$ <u>9,843,961</u>

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

Loss from Operations - Continued

Due to the nature of accounting for appropriations as non-operating revenues in accordance with GASB principles, the University incurred a loss from operations. The Commonwealth's Department of Higher Education establishes tuition rates while the University sets fees and other charges. The University, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

The \$4.1 million increase in non-operating revenues during fiscal year 2012 is primarily attributable to the increase in state capital appropriation of \$3.6 million. The remaining increase is attributable to a change in related entity transfers of \$.5 million.

The \$4.3 million decrease in non-operating revenues during fiscal year 2011 was primarily attributable to the decrease in state capital appropriation of \$7.8 million. The difference is a net increase of \$3.5 million consisting of increases in both direct state appropriation and fringe benefits recognized of \$4.1 million offset by a combined increase in other expenses and related entity transfers of \$.6 million.

Capital Assets and Debt of Westfield State University

Westfield State University's investment in capital assets, net of accumulated depreciation, as of June 30, 2012, 2011 and 2010 were \$58,718,100, \$47,386,394 and \$46,151,877, respectively. Investment in capital assets includes land, land improvements, buildings and improvements, furnishings and equipment, construction in progress, and library books. Capital assets increased by \$11.0 million or 23% during the fiscal year ended June 30, 2012 and increased \$1.0 million or 2% during the fiscal year ended June 30, 2011. These changes were due to capital additions outpacing depreciation expense. Capital additions during fiscal year ended June 30, 2012 amounted to \$15,711,643 as compared to \$5,375,155 for the year ended June 30, 2011 and \$11,601,166 for the year ended June 30, 2010.

Major additions during 2012 include \$9.4 million construction in progress for the major renovation of the Ely Campus Center to include a new wellness center, food service venue and student programming space, the completion of Tim & Jeanne's Dining Commons expansion (\$3.2 million), improvements to the Ely Library (\$.5 million), construction of new baseball dugouts and baseball field upgrades (\$.5 million), installation of a mass notification alarm system (\$.2 million), improvements to the power plant steam vault (\$.2 million), installation of new telephone and fire alarm systems (\$.4 million).

Major additions during 2011 include the completion of the Banacos Academic Center in Parenzo Hall (\$1.1 million), the installation of solar panels on Wilson and Bates (\$.5 million) and construction in progress (\$2.7 million) for upgrades to Tim & Jeanne's Dining Commons.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Net Assets

June 30, 2012 and 2011

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Net Assets

June 30,

	Assets			
	2012 <u>University</u>	Primary <u>Government</u> (Restated) 2011 <u>University</u>	2012 <u>Foundation</u>	Component <u>Unit</u> 2011 <u>Foundation</u>
Current Assets:				
Cash and equivalents	\$ 33,252,367	\$ 29,186,095	\$ 340,576	\$ 344,391
Cash held by State Treasurer	807,983	1,493,123	-	-
Deposits held by State Treasurer	2,050,283	1,627,172	-	-
Deposits held by MSCBA	3,836,916	2,164,307	-	-
Short-term investments	58,407	56,832	-	7,346
Accounts receivable, net	802,750	577,217	269,694	232,267
Due from Foundation	2,205	130,877	-	-
Due from State for ARRA funding	-	118,724	-	-
Restricted accounts receivable	80,153	161,323	-	-
Loans receivable	182,890	185,638	-	-
Inventories and other assets	<u>522,429</u>	<u>463,614</u>	<u>9,252</u>	<u>17,187</u>
Total Current Assets	<u>41,596,383</u>	<u>36,164,922</u>	<u>619,522</u>	<u>601,191</u>
Noncurrent Assets:				
Debt service reserve	452,313	457,057	-	-
Investments	-	-	4,515,961	4,452,276
Loans receivable, net	735,166	739,008	-	-
Capital assets, net	58,718,100	47,386,394	485,834	838,905
Other assets	<u>102,625</u>	<u>49,362</u>	<u>-</u>	<u>-</u>
Total Noncurrent Assets	<u>60,008,204</u>	<u>48,631,821</u>	<u>5,001,795</u>	<u>5,291,181</u>
 Total Assets	 <u>\$ 101,604,587</u>	 <u>\$ 84,796,743</u>	 <u>\$ 5,621,317</u>	 <u>\$ 5,892,372</u>

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

Liabilities and Net Assets

	Primary Government		Component Unit	
	2012 <u>University</u>	(Restated) 2011 <u>University</u>	2012 <u>Foundation</u>	2011 <u>Foundation</u>
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 1,848,071	\$ 2,189,126	\$ 21,355	\$ 44,940
Accrued salaries, wages and benefits	4,483,634	4,108,923	-	-
Compensated absences	3,775,012	3,580,721	-	-
Accrued workers' compensation	185,308	141,112	-	-
Due to University	-	-	2,205	130,877
Deferred revenues	1,272,425	1,115,346	3,892	-
Deposits held	582,962	594,570	-	-
Line of Credit	-	-	415,200	434,400
Assets held in custody for others	879,177	552,447	218,176	213,710
Current portion of capital lease obligations	46,275	-	-	-
Current portion of bonds payable	667,180	430,622	-	-
Other liabilities	25,365	42,433	-	248,570
Total Current Liabilities	<u>13,765,409</u>	<u>12,755,300</u>	<u>660,828</u>	<u>1,072,497</u>
Noncurrent Liabilities:				
Compensated absences	1,418,028	1,450,877	-	-
Accrued workers' compensation	657,000	656,129	-	-
Deferred revenues	1,382,173	692,657	-	-
Grants refundable	994,606	994,606	-	-
Capital lease obligations	154,125	-	-	-
Bonds payable	16,256,346	7,864,838	-	-
Total Noncurrent Liabilities	<u>20,862,278</u>	<u>11,659,107</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>34,627,687</u>	<u>24,414,407</u>	<u>660,828</u>	<u>1,072,497</u>
Net Assets:				
Invested in capital assets, net of related debt	45,883,403	41,712,298	485,834	838,905
Restricted for:				
Expendable	238,913	505,307	1,791,709	1,858,735
Non-expendable	-	-	3,072,929	2,958,716
Unrestricted	20,854,584	18,164,731	(389,983)	(836,481)
Total Net Assets	<u>66,976,900</u>	<u>60,382,336</u>	<u>4,960,489</u>	<u>4,819,875</u>
Total Liabilities and Net Assets	<u>\$ 101,604,587</u>	<u>\$ 84,796,743</u>	<u>\$ 5,621,317</u>	<u>\$ 5,892,372</u>

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses

For the Years Ended June 30,

	2012 Primary <u>Institution</u>	(Restated) 2011 Primary <u>Institution</u>	2012 Component Unit- <u>Foundation</u>	2011 Component Unit- <u>Foundation</u>
Revenues:				
Operating Revenues:				
Tuition and fees	\$ 44,196,990	\$ 39,818,365	\$ -	\$ -
Residence and dining fees	22,241,065	20,846,560	-	-
Less: scholarships and fellowships	<u>(7,983,530)</u>	<u>(7,854,008)</u>	-	-
Net tuition and fees	58,454,525	52,810,917	-	-
Federal grants and contracts	7,462,443	11,117,101	-	-
State grants and contracts	1,689,738	1,647,318	-	-
Private grants and contracts	296,770	347,933	538,838	445,780
Public service	378,694	358,975	-	-
Auxiliary operations	3,387,225	2,436,694	-	-
Other sources	<u>632,763</u>	<u>477,269</u>	<u>124,761</u>	<u>64,550</u>
Total Operating Revenues	<u>72,302,158</u>	<u>69,196,207</u>	<u>663,599</u>	<u>510,330</u>
Expenses:				
Operating Expenses:				
Instruction	31,608,287	29,528,540	-	-
Public service	355,860	384,753	-	-
Academic support	7,550,553	6,412,455	52,111	44,528
Student services	10,820,387	10,197,395	-	659
Institutional support	8,687,090	8,259,786	443,143	613,222
Operation and maintenance of plant	9,384,651	8,959,572	-	-
Scholarships and fellowships	1,960,052	1,628,929	125,268	114,776
Auxiliary operations	21,083,104	19,374,795	-	-
Depreciation	<u>4,343,176</u>	<u>4,108,964</u>	<u>4,267</u>	<u>5,491</u>
Total Operating Expenses	<u>95,793,160</u>	<u>88,855,189</u>	<u>624,789</u>	<u>778,676</u>
Operating Income (Loss)	<u>(23,491,002)</u>	<u>(19,658,982)</u>	<u>38,810</u>	<u>(268,346)</u>
Non-Operating Revenues (Expenses):				
State appropriation, net	25,494,134	25,389,047	-	-
Gain (loss) on disposal of assets	(36,761)	(31,674)	70,847	(64,353)
Net investment income	350,752	343,507	56,364	745,529
Other	<u>(157,406)</u>	<u>(67,272)</u>	<u>(15,504)</u>	<u>(16,176)</u>
Net Non-Operating Revenues	<u>25,650,719</u>	<u>25,633,608</u>	<u>111,707</u>	<u>665,000</u>
Income Before Other Revenues (Expenses)	2,159,717	5,974,626	150,517	396,654
Capital appropriations	4,424,944	852,318	-	-
Related entity transfers	<u>9,903</u>	<u>(481,026)</u>	<u>(9,903)</u>	<u>481,026</u>
Total Increase in Net Assets	<u>\$ 6,594,564</u>	<u>\$ 6,345,918</u>	<u>\$ 140,614</u>	<u>\$ 877,680</u>

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

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Changes in Net Assets

For the Years Ended June 30, 2012 and 2011

	Invested in Capital Debt, Net of Related Debt	<u>Primary Government</u>			Total
		Restricted Expendable	Restricted Non-expendable	Unrestricted *	
Balance, June 30, 2010 as previously reported	\$ 42,357,477	\$ 624,749	\$ -	\$ 12,138,635	\$ 55,120,861
Change in Accounting Principle (Note 2)	-	-	-	(1,084,443)	(1,084,443)
Balance, June 30, 2010 as restated	42,357,477	624,749	-	11,054,192	54,036,418
Changes in net assets for 2011	(645,179)	(119,442)	-	7,110,539	6,345,918
Balance, June 30, 2011, as restated	41,712,298	505,307	-	18,164,731	60,382,336
Changes in net assets for 2012	4,171,105	(266,394)	-	2,689,853	6,594,564
Balance, June 30, 2012	<u>\$ 45,883,403</u>	<u>\$ 238,913</u>	<u>\$ -</u>	<u>\$ 20,854,584</u>	<u>\$ 66,976,900</u>

	Invested in Capital Debt, Net of Related Debt	<u>Component Unit</u>			Total
		Restricted Expendable	Restricted Non-expendable	Unrestricted	
Balance, June 30, 2010	\$ 1,116,682	\$ 1,309,798	\$ 2,882,165	\$ (1,366,450)	\$ 3,942,195
Changes in net assets for 2011	(277,777)	548,937	76,551	529,969	877,680
Balance, June 30, 2011	838,905	1,858,735	2,958,716	(836,481)	4,819,875
Changes in net assets for 2012	(353,071)	(67,026)	114,213	446,498	140,614
Balance, June 30, 2012	<u>\$ 485,834</u>	<u>\$ 1,791,709</u>	<u>\$ 3,072,929</u>	<u>\$ (389,983)</u>	<u>\$ 4,960,489</u>

* - Asterisk is to note that the change in net assets for 2011 are restated for unrestricted funds only.

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

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30,

	2012	(Restated) 2011
	<u>University</u>	<u>University</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 39,132,754	\$ 35,034,621
Residence and dining fees	19,287,159	17,862,037
Grants and contracts	9,373,841	13,922,487
Payments to suppliers	(30,249,230)	(27,941,741)
Payments to employees	(52,295,538)	(48,960,617)
Payments to students	(1,831,380)	(1,759,806)
Direct lending receipts	27,950,977	24,898,745
Direct lending disbursements	(27,950,977)	(24,898,745)
Loans issued to students	(191,376)	(214,564)
Collections of loans to students	189,123	170,818
Auxiliary operations	3,387,225	2,436,694
Other receipts	<u>1,827,297</u>	<u>521,801</u>
Net Cash Applied to Operating Activities	<u>(11,370,125)</u>	<u>(8,928,270)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriation	20,139,583	20,433,811
Tuition remitted to state	(987,528)	(1,239,699)
Received from Foundation	<u>9,903</u>	<u>(481,026)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>19,161,958</u>	<u>18,713,086</u>
Cash Flows from Capital Financing Activities:		
Capital appropriations	4,424,944	852,318
Proceeds from sale of bonds	9,058,664	4,681,411
Bond issuance costs paid	(58,664)	(50,011)
Purchases of capital assets	(15,490,117)	(4,379,506)
Principal paid on capital leases	(21,126)	-
Interest paid on capital leases	(3,637)	-
Principal paid on bonds payable	(430,598)	(250,171)
Interest paid on bonds payable	(148,368)	(66,623)
Increase in debt service reserve	<u>4,744</u>	<u>(387,237)</u>
Net Cash Provided by (Applied to) Capital Financing Activities	<u>(2,664,158)</u>	<u>400,181</u>
Cash Flows from Investing Activities:		
Interest income	350,752	343,507
Purchases of investments	<u>(1,575)</u>	<u>(2,105)</u>
Net Cash Provided by Investing Activities	<u>349,177</u>	<u>341,402</u>
Net Increase in Cash and Equivalents	5,476,852	10,526,399
Cash and Equivalents, Beginning of Year	<u>34,470,697</u>	<u>23,944,298</u>
Cash and Equivalents, End of Year	<u>\$ 39,947,549</u>	<u>\$ 34,470,697</u>

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>Primary Government</u>	(Restated) 2011 <u>University</u>
	2012	
	<u>University</u>	
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (23,491,002)	\$ (19,658,982)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	4,343,176	4,108,964
Fringe benefits provided by the State	6,342,079	6,194,935
Changes in Assets and Liabilities:		
Accounts receivable, net	(225,533)	102,998
Due from Foundation	128,672	(130,877)
Due from State for ARRA funding	118,724	682,824
Restricted accounts receivable	81,170	(132,254)
Loans receivable, net	6,590	5,093
Inventories and other assets	(58,815)	(30,476)
Accounts payable and accrued liabilities	(341,055)	(770,752)
Accrued salaries, wages and benefits	374,711	249,825
Compensated absences	161,442	225,727
Accrued workers' compensation	45,067	(120,599)
Deferred tuition and other revenue	846,595	(43,459)
Deposits held	(11,608)	12,008
Assets held in custody for others	326,730	374,453
Other liabilities	<u>(17,068)</u>	<u>2,302</u>
Net Cash Used by Operating Activities	<u>\$ (11,370,125)</u>	<u>\$ (8,928,270)</u>
Non-Cash Transactions:		
Fringe benefits paid by State	<u>\$ 6,342,079</u>	<u>\$ 6,194,935</u>
Cash and Equivalents, End of Year:		
Cash and equivalents	\$ 33,252,367	\$ 29,186,095
Cash held by State Treasurer	807,983	1,493,123
Deposits held by State Treasurer	2,050,283	1,627,172
Deposits held by MSCBA	<u>3,836,916</u>	<u>2,164,307</u>
Total	<u>\$ 39,947,549</u>	<u>\$ 34,470,697</u>

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

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2012 and 2011

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

Organization

Westfield State University (the "University") is a public, state-supported university located in Westfield, Massachusetts and governed by a local Board of Trustees under the direction of the Massachusetts Department of Higher Education. The University is empowered to award baccalaureate and masters degrees in education, business and arts and sciences as well as conduct programs of continuing education. The University is accredited by the New England Association of Schools and Colleges.

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 accounting principles generally accepted in the United States of America, as prescribed by the *Governmental Accounting Standards Board* (GASB).

Westfield State Foundation, Inc. (the "Foundation") is a related tax exempt organization founded to foster and promote the growth, progress and general welfare of the University. The Foundation is included in the University's financial statements and is reported in a separate column from the University to emphasize that it is a Massachusetts not-for-profit organization legally separate from the University. Because of the significance of its financial relationship with the University, the Foundation is included in the University's financial statements. Complete financial statements can be obtained from the Foundation's administrative offices in Westfield, Massachusetts.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. 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.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Basis of Presentation - Continued

The University has determined that it functions as a business-type activity, as defined by GASB. The effect of inter-fund 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 and required supplementary information. The University presents statements of net assets, revenues, expenses and changes in net assets and cash flows on a combined University-wide basis.

The University's policy for defining operating activities in the statements of revenues, expenses and changes in net assets 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, *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities*. These non-operating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, and interest expense.

Governments are also required to follow applicable pronouncements of the *Financial Accounting Standards Board (FASB)* issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Although the University has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so.

Net Assets

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

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted - nonexpendable: Net assets subject to externally imposed conditions require the University to maintain them in perpetuity.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Net Assets - Continued

Restricted - expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the University or the passage of time.

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by the actions of the University's Board of Trustees.

The University has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the dates of the financial statements and revenues and expenses recognized during the reporting periods. The University's significant estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the accrual for pollution remediation, the allowance for doubtful accounts, and the useful lives of capital assets. Actual results could differ from those estimates.

Trust Funds

The University's operations are accounted for in several trust funds. All trust funds have been consolidated and are included in the accompanying financial statements.

Cash and Equivalents

The University considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

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 loan portfolio, the estimated value of underlying collateral and current economic conditions.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Inventories

The University's inventories consist of plant operation and maintenance supplies and operating supplies, which are valued at the lower of cost (first-in, first-out and replacement cost methods) or market.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, non-collection items with a unit cost of more than \$50,000 are capitalized. Library materials are generally expensed during the year. University capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Restricted Gifts

The University recognizes restricted gifts as revenues or receivables when all applicable eligibility requirements, including time requirements, are met.

Grants and Contracts

The University receives monies from the Federal and state government and other private agencies under grants and contracts. The costs, both direct and indirect, charged to these grants and contracts are subject to audit by the granting agency. The University administration believes that any audit adjustments would not have a material adverse effect on the University's financial position, its revenue, expenses and changes in net assets, or its cash flows.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2012 and 2011. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of State service at June 30, 2012 and 2011. Upon retirement, these employees are entitled to receive payment for this accrued balance. Funding of these amounts is anticipated to be part of the future annual appropriation process from the Commonwealth of Massachusetts.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Deposits and Deferred Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred. Funds received in advance from various grants and contracts are deferred. Deposits and deferred revenue are recorded as revenue as earned.

Deposits held by MSCBA

Deposits held represent funds held by the Massachusetts State College Building Authority for specific projects.

Deposits held by State Treasurer

Deposits held represent funds accessible by the University held by the Commonwealth of Massachusetts for payments on payroll.

Student Fees

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

Fringe Benefits

The University participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the University. Workers' compensation costs are assessed separately based on the University's actual experience. The Commonwealth requires the University to record, as a liability, its portion of the future estimated workers' compensation benefits to be paid.

Income Tax Status

The University is a component unit of the Commonwealth of Massachusetts and is exempt from Federal income taxes under 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.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

New Governmental Accounting Pronouncements

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. Management does not expect GASB 60 to have any impact on the financial statements.

GASB 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, provides additional criteria for classifying entities as component units to better assess the accountability of officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude. Management of the University does not expect implementation to affect the financial statements.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Management of the University does not expect implementation to affect the financial statements.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

New Governmental Accounting Pronouncements - Continued

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. An item is not considered a deferred outflow of resources or a deferred inflow of resources unless specifically required by a GASB pronouncement. Currently only GASB 53 *Accounting and Financial Reporting for Derivative Instruments* and GASB 60 contain this requirement. Management is in the process of reviewing this statement and its potential effect upon their financial reporting but does not expect any material impact.

GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement 53*, effective for periods beginning after June 15, 2011 provides clarification whether an effective hedging relationship continues after the replacement of the swap counterparty of swap counterparty's credit support provider and establishes criteria in order to continue or discontinue hedge accounting and the resulting effects of recognition of the deferred outflows or inflows of resources as a component of investment income. Management expects this statement had no effect on the financial statements.

GASB 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with GASB 63. Management expects this statement to have no effect on the financial statements.

GASB 66, *Technical Corrections - 2012 - an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012, resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential effect upon their financial reporting, but does not expect any material impact.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

Note 2 - **Prior Period Adjustment**

The University has historically discounted the accrued sick leave liability balance based on actuarial calculations. As of the fiscal year ended June 30, 2012, the University has decided to no longer utilize actuarial calculations and is presenting the accrued sick leave balance based upon the calculated report provided by the Commonwealth of Massachusetts. As a result of this change in accounting principles, a prior period adjustment was required to reflect the change. A summary of the changes made during the fiscal year ended June 30, 2012 are shown in the following table.

	<u>June 30, 2011</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>
Compensated Absences	\$ 3,856,349	\$ 5,031,598
Unrestricted Net Assets	19,339,980	18,164,731
Institutional Support Expense	8,168,980	8,259,786
Operating Loss	(19,599,850)	(19,658,982)
Income Before Other Revenues	6,065,432	5,974,626
Total Increase in Net Assets	6,436,724	6,345,918

Note 3 - **Cash and Equivalents**

Custodial risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the University would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) and other third party insurance. The University's policy is to mitigate as much custodial risk associated with its cash assets as possible. Deposits in the bank in excess of the insured amounts are uninsured and uncollateralized. The University places funds with the Massachusetts Municipal Depository Trust (MMDT).

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 3 - **Cash and Equivalents - Continued**

The MMDT is an instrumentality of the Treasurer of the Commonwealth and therefore not subject to FDIC insurance and its political sub-divisions. It is designed as a legal means to temporarily invest available cash in safe, liquid and high yield investment vehicles by offering participation in a diversified portfolio of high quality money market instruments.

The University entered into a repurchase agreement for \$5,000,000 with one of their financial institutions in March 2009. The University has purchased an interest in specific securities that are issued by the United States Government, which are used as collateral. The fair value of the securities at June 30, 2012 and 2011 was approximately \$5,422,000 and \$5,289,000, respectively. The University will earn interest on their cash investment at prime rate minus 75 basis points.

The carrying amount of the University's bank deposits and deposits in trust depositories are \$33,252,367 and \$29,186,095 as compared to bank balances of \$33,512,814 and \$29,951,424 at June 30, 2012 and 2011, respectively. The differences between the carrying amount and the bank balances were caused by deposits in-transit and outstanding checks. Bank balances as of June 30, 2012 and 2011 in the amount of \$28,032,518 and \$24,605,213, respectively, at Peoples Bank and Berkshire Bank are insured by the Massachusetts Depositors Insurance Fund and are therefore not subject to custodial risk. Amounts remaining that may be exposed to custodial risk at June 30, 2012 and 2011 were \$5,422,475 and \$5,288,549, respectively.

Note 4 - **Cash Held by the State Treasurer**

Accounts payable, accrued salaries, wages and withholdings to be funded from state appropriated funds totaled \$807,983 and \$1,493,123 at June 30, 2012 and 2011, respectively. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which was subsequently used to pay for such liabilities.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 5 - **Investments**

University

Short-term investments are categorized according to the level of risk assumed by the University. At June 30, 2012 and 2011, the entire balance of investments represents mutual funds that are held in safekeeping accounts in trust depositories in the name of the University and are uninsured. At June 30, 2012 and 2011, the investments are stated at fair market value, have a maturity of less than one year, and have an unrated quality. The University currently follows investment policies largely defined by the Commonwealth of Massachusetts, as well as internal University's investment policies.

Foundation

Investments of the Foundation are stated at fair value and consist of the following at June 30:

	<u>2012</u>		<u>2011</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Short-term investments:				
Short-term Fund	\$ -	\$ -	\$ 7,346	\$ 7,347
Investments:				
Stock Market Index Fund	2,582,936	2,533,159	2,477,228	2,477,405
Bond Market Index Fund	1,032,447	961,599	1,152,055	1,111,577
International Stock Market Index Fund	<u>900,578</u>	<u>1,239,705</u>	<u>822,993</u>	<u>1,013,881</u>
	<u>\$ 4,515,961</u>	<u>\$ 4,734,463</u>	<u>\$ 4,459,622</u>	<u>\$ 4,610,210</u>

The following schedule summarizes the investment return and its classification in the statements of revenues, expenses, and changes in net assets for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 112,105	\$ 92,259
Net unrealized (losses) gains	<u>(55,741)</u>	<u>653,270</u>
	<u>\$ 56,364</u>	<u>\$ 745,529</u>

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 6 - **Accounts Receivable**

The composition of the University's accounts receivable at June 30, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 1,048,942	\$ 974,587
Grants receivable	360,903	167,069
Other receivables	<u>209,706</u>	<u>166,200</u>
	1,619,551	1,307,856
Less: allowance for doubtful accounts	<u>(816,801)</u>	<u>(730,639)</u>
	<u>\$ 802,750</u>	<u>\$ 577,217</u>

Note 7 - **Loans Receivable and Payable**

Loans receivable consist of the Federal Perkins Loan Program ("Perkins"). The Federal government provides the majority of the funds to support this program. Loan payments received from students made under this program may be re-loaned after collection. The portion of the Perkins program provided by the Federal government, identified as grants refundable on the Statement of Net Assets, is refundable to the Federal government upon the termination of the University's participation in the program.

Loans receivable include the following at June 30:

	<u>2012</u>	<u>2011</u>
Perkins loans receivable	\$ 1,347,219	\$ 1,351,507
Less: allowance for doubtful accounts	<u>(429,163)</u>	<u>(426,861)</u>
Total loans receivable, net	918,056	924,646
Less: amount due in one year	<u>(182,890)</u>	<u>(185,638)</u>
Long term loans receivable	<u>\$ 735,166</u>	<u>\$ 739,008</u>

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 8 - **Related Party Transactions**

The University provides certain personnel and payroll services to the Foundation at no charge.

A Foundation Board member is a principal in a firm that provided \$9,100 in legal services to the Foundation during the year ended June 30, 2012. No legal services were provided during the year ended June 30, 2011. Another Foundation Board member is an executive of a bank which holds the line of credit and where the Foundation has a savings account. The bank is related to an insurance company that provides property coverage for the Foundation. The premium for this coverage was \$2,068 and \$1,280 for the years ended June 30, 2012 and 2011, respectively.

Note 9 - **Capital Assets**

The University's capital asset activity for the year ended June 30, 2012 is summarized as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, not depreciable:						
Land	-	\$ 1,223,862	\$ -	\$ -	\$ -	\$ 1,223,862
Construction-in-progress	-	3,098,005	9,371,912	-	(2,831,782)	9,638,135
Total		<u>4,321,867</u>	<u>9,371,912</u>	<u>-</u>	<u>(2,831,782)</u>	<u>10,861,997</u>
Depreciable:						
Buildings, including Improvements	20-40	68,308,753	4,684,107	-	2,831,782	75,824,642
Land improvements	20	1,914,655	86,661	-	-	2,001,316
Leasehold improvements	5	271,083	-	-	-	271,083
Equipment and furnishings	3-10	20,940,400	1,342,391	712,611	-	21,570,180
Library books	5	7,026,328	45,860	-	-	7,072,188
Vehicles	5	900,998	180,712	73,748	-	1,007,962
Total		<u>99,362,217</u>	<u>6,339,731</u>	<u>786,359</u>	<u>2,831,782</u>	<u>107,747,371</u>
Less accumulated depreciation:						
Buildings, including improvements		32,657,604	2,403,544	-	-	35,061,148
Land improvements		624,576	101,110	-	-	725,686
Leasehold improvements		108,434	54,216	-	-	162,650
Equipment and furnishings		15,217,024	1,652,300	675,850	-	16,193,474
Library books		6,882,281	66,865	-	-	6,949,146
Vehicles		807,771	65,141	73,748	-	799,164
Total accumulated depreciation		<u>56,297,690</u>	<u>4,343,176</u>	<u>749,598</u>	<u>-</u>	<u>59,891,268</u>
Capital Assets, Net		\$ <u>47,386,394</u>	\$ <u>11,368,467</u>	\$ <u>36,761</u>	\$ <u>-</u>	\$ <u>58,718,100</u>

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - **Capital Assets - Continued**

The University's capital asset activity for the year ended June 30, 2011 is summarized as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, not depreciable:						
Land	-	\$ 1,223,862	\$ -	\$ -	-	\$ 1,223,862
Construction-in-progress	-	<u>867,260</u>	<u>2,831,782</u>	-	<u>(601,037)</u>	<u>3,098,005</u>
Total		<u>2,091,122</u>	<u>2,831,782</u>	-	<u>(601,037)</u>	<u>4,321,867</u>
Depreciable:						
Buildings, including						
Improvements	20-40	65,923,671	1,784,045	-	601,037	68,308,753
Land improvements	20	1,914,655	-	-	-	1,914,655
Leasehold improvements	5	271,083	-	-	-	271,083
Equipment and furnishings	3-10	20,634,611	657,422	351,633	-	20,940,400
Library books	5	6,962,394	63,934	-	-	7,026,328
Vehicles	5	<u>863,026</u>	<u>37,972</u>	-	-	<u>900,998</u>
Total		<u>96,569,440</u>	<u>2,543,373</u>	<u>351,633</u>	<u>601,037</u>	<u>99,362,217</u>
Less accumulated depreciation:						
Buildings, including						
improvements		30,617,173	2,040,431	-	-	32,657,604
Land improvements		527,800	96,776	-	-	624,576
Leasehold improvements		54,217	54,217	-	-	108,434
Equipment and furnishings		13,738,183	1,798,800	319,959	-	15,217,024
Library books		6,809,151	73,130	-	-	6,882,281
Vehicles		<u>762,161</u>	<u>45,610</u>	-	-	<u>807,771</u>
Total accumulated depreciation		<u>52,508,685</u>	<u>4,108,964</u>	<u>319,959</u>	-	<u>56,297,690</u>
Capital Assets, Net		<u>\$ 46,151,877</u>	<u>\$ 1,266,191</u>	<u>\$ 31,674</u>	<u>\$ -</u>	<u>\$ 47,386,394</u>

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 10 - **Deferred Revenues**

Deferred revenues include tuition received in advance from students for summer courses commencing after June 30, the subsequent fall semester, and grant funds received in advance as well as contributions made by certain vendors. The University's food service operations are managed under a service concession arrangement with an outside party. In accordance with certain amendments, in connection with improvements constructed for the University, the vendor has contributed \$3,355,000 since July 1997. Either party may terminate this agreement at any time, without cause, by providing sixty days written notice. In the event of termination, the unamortized portion is to be returned. At June 30, 2012 and 2011, the unamortized portion of these contributions are \$1,643,997 and \$865,821, respectively.

Deferred revenues of the University include the following each year at June 30:

	<u>2012</u>	<u>2011</u>
Tuition and fees	\$ 1,003,692	\$ 933,560
Vendor contributions	1,643,997	865,821
Grants	<u>6,909</u>	<u>8,622</u>
Total deferred revenue	<u>2,654,598</u>	1,808,003
Less: current portion	<u>(1,272,425)</u>	<u>(1,115,346)</u>
Long-term Deferred Revenue	<u>\$ 1,382,173</u>	<u>\$ 692,657</u>

Note 11 - **Line of Credit**

The Foundation has a \$1,000,000 line of credit with a bank, secured by certain investments. The balance outstanding on the line of credit was \$415,200 and \$434,400 at June 30, 2012 and 2011, respectively. At both June 30, 2012 and 2011, the interest rate was 3.50%. The line of credit is subject to an annual review by the bank. The next annual review will occur during November 2012, and the line of credit will expire on that date if not extended or renewed by the bank, at its discretion.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2012 consist of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Leases and bonds payable:					
Lease obligations	\$ -	\$ 221,526	\$ 21,126	\$ 200,400	\$ 46,275
Bonds payable	8,190,051	7,890,000	415,604	15,664,897	590,677
Bonds premium	<u>104,959</u>	<u>1,168,664</u>	<u>14,994</u>	<u>1,258,629</u>	<u>76,503</u>
Total leases and bonds payable	<u>8,295,460</u>	<u>9,280,190</u>	<u>451,724</u>	<u>17,123,926</u>	<u>713,455</u>
Other long-term liabilities:					
Compensated absences	5,031,598	161,442	-	5,193,040	3,775,012
Workers' compensation	797,241	45,067	-	842,308	185,308
Deferred revenues	1,808,003	1,110,132	263,537	2,654,598	1,272,425
Grants refundable	<u>994,606</u>	<u>-</u>	<u>-</u>	<u>994,606</u>	<u>-</u>
Total	<u>\$ 16,926,908</u>	<u>\$ 10,596,831</u>	<u>\$ 715,261</u>	<u>\$ 26,808,478</u>	<u>\$ 5,946,200</u>

Long-term liabilities at June 30, 2011 consist of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Leases and bonds payable:					
Bonds payable	\$ -	\$ 112,456	\$ 7,497	\$ 104,959	\$ 14,994
Bonds premium	<u>3,864,220</u>	<u>4,568,955</u>	<u>242,674</u>	<u>8,190,501</u>	<u>415,628</u>
Total leases and bonds payable	<u>3,864,220</u>	<u>4,681,411</u>	<u>250,171</u>	<u>8,295,460</u>	<u>430,622</u>
Other long-term liabilities:					
Compensated absences	4,805,871	225,727	-	5,031,598	3,580,721
Workers' compensation	917,840	-	120,599	797,241	141,112
Deferred revenues	1,851,462	129,707	173,166	1,808,003	1,115,346
Grants refundable	<u>994,606</u>	<u>-</u>	<u>-</u>	<u>994,606</u>	<u>-</u>
Total	<u>\$ 12,433,999</u>	<u>\$ 5,036,845</u>	<u>\$ 543,936</u>	<u>\$ 16,926,908</u>	<u>\$ 5,267,801</u>

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - **Long-Term Liabilities - Continued**

Bonds Payable

In November 2011, the University entered into a financing agreement with the Massachusetts State College Building Authority (MSCBA) for an expansion of the wellness center, and the relocation of the food services and other student areas in Ely Hall. The source of financing for the project is based on the issuance of Project Revenue Bonds issued by MSCBA on behalf of the University (Series 2012A). Through its agreements with MSCBA, the University has an agreement to repay this debt in semi-annual installments, starting November 1, 2012 and ending May 1, 2031, at an annual variable coupon rate averaging 4.9%. MSCBA requires no debt reserve. At June 30, 2012, the balance on the bond was \$9,058,664.

During fiscal year 2011, the University borrowed \$226,065 in clean renewable energy bonds issue Series 2010A-14 with the Massachusetts Development Finance Agency (MDFA). The Series 2010A-14 bonds are payable in annual principal installments of \$13,298 over the next sixteen years. Interest is payable semiannually at a fixed interest rate of 3.5%. MDFA requires no debt reserve. At June 30, 2012 and 2011, the balance on the bond was \$199,469 and \$212,767, respectively.

In December 2010, the University entered into a financing agreement with the Massachusetts State College Building Authority (MSCBA) for an expansion of a dining facility. The source of financing for the project is based on the issuance of Project Revenue Bonds issued by MSCBA on behalf of the University (Series 2010A and 2010B). Through its agreements with MSCBA, the University has an agreement to repay this debt in semi-annual installments, starting May 1, 2011 and ending May 1, 2030, at an annual variable coupon rate averaging 5.5%. MSCBA requires that the University maintain a debt service reserve. At June 30, 2012 and 2011, the balance on the bond was \$4,273,012 and \$4,447,849, respectively.

In August 2002, the University borrowed \$5,816,000 in tax-exempt revenue bonds issue Series M-2 with the Massachusetts Health and Educational Facilities Authority (MHEFA). The Series M-2 bonds are payable in annual installments over the next eleven years with principal amounts ranging between approximately \$242,000 and \$435,000. Interest is payable monthly at a predetermined varying rate (0.312% as of June 30, 2012). MHEFA requires that the University maintain a debt service reserve. At June 30, 2012 and 2011, the balance on the bond was \$3,392,381 and \$3,634,844, respectively.

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

The University has a \$3,447,474 letter of credit agreement with Bank of America in support of the above MHEFA revenue bonds. Under the terms of the agreement, the University has pledged its right to receive continuing education tuition and fees, general fees, technical fees and miscellaneous fees as collateral to Bank of America. The agreement also places certain limits on the University with regard to incurring additional debt; requires the University to maintain a minimum amount of unrestricted cash and equivalents, and to maintain a debt service ratio and debt service reserve fund. Fees paid under the terms of the agreement were \$43,782 and \$59,262 at June 30, 2012 and 2011, respectively. As of June 30, 2012, there is no outstanding balance on the letter of credit.

Maturities of the bonds payable subsequent to June 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 667,180	\$ 665,939	\$ 1,333,119
2014	812,537	531,489	1,344,026
2015	850,671	509,377	1,360,048
2016	889,360	486,208	1,375,568
2017	930,520	461,932	1,392,452
2018-2022	5,274,472	1,941,515	7,215,987
2023-2027	4,014,986	1,224,477	5,239,463
2028-2031	<u>3,483,800</u>	<u>328,176</u>	<u>3,811,976</u>
	<u>\$ 16,923,526</u>	<u>\$ 6,149,113</u>	<u>\$ 23,072,639</u>

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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - **Long-Term Liabilities - Continued**

Lease Obligations

During fiscal year end 2012, the University entered into a capital lease agreement for machinery and equipment, fixed interest rate of 3.15%, maturing in January 2016. The University also entered into a capital lease agreement for a fleet of vehicles, fixed interest rate of 4.35%, maturing in December 2016.

Future minimum payments related to these leases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 46,275	\$ 7,431	\$ 53,706
2014	48,169	5,537	53,706
2015	50,144	3,562	53,706
2016	41,700	1,556	43,256
2017	<u>14,112</u>	<u>201</u>	<u>14,313</u>
	<u>\$ 200,400</u>	<u>\$ 18,287</u>	<u>\$ 218,687</u>

Note 13 - **Pollution Remediation**

In 2009, the University adopted GASB Statement No. 49 ("GASB 49"), *Accounting and Financial Reporting for Pollution Remediation Obligations*. The University has accrued a liability of approximately \$170,000 and \$190,000 at June 30, 2012 and 2011, respectively, related to an underground oil spill that is currently under remediation. The estimated liability is based on current operating costs associated with the engineering and design of the remediation, installation and removal, and overall monitoring. The University expects the cleanup and remediation to continue for one year and the annual monitoring and evaluation to continue for approximately seven years.

Note 14 - **Operating Leases**

During fiscal year 2011, the University entered into a lease agreement for an apartment building to be used for student housing, expiring in July 2021. The University also leases office equipment under non-cancelable operating leases with various expiration dates through 2016. Total rent expense under these lease agreements is approximately \$1,719,000 and \$1,279,000 for the years ended June 30, 2012 and 2011, respectively.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 14 - **Operating Leases - Continued**

Future minimum payments related to these leases are as follows:

2013	\$ 1,848,604
2014	1,339,476
2015	1,215,077
2016	1,242,144
2017	1,274,638
2018-2022	<u>4,912,325</u>
 Total	 \$ <u>11,832,264</u>

Note 15 - **Restricted Net Assets**

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:

	<u>2012</u>	<u>2011</u>
Restricted - expendable:		
Scholarships and fellowships	\$ 179,908	\$ 200,511
Loans	15,095	246,205
Capital projects	5,504	8,872
Other	<u>38,406</u>	<u>49,719</u>
	 \$ <u>238,913</u>	 \$ <u>505,307</u>

The Foundation's restricted - nonexpendable and expendable net assets consist of investments to be utilized for various scholarships and program support as of June 30, 2012 and 2011.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 16 - **Operating Expenses**

The University's operating expenses, on a natural classification basis, are comprised of the following at June 30:

	<u>2012</u>	<u>2011</u>
Compensation and benefits	\$ 59,258,663	\$ 55,573,764
Supplies and services	30,231,269	27,543,532
Depreciation	4,343,176	4,108,964
Scholarships and fellowships	<u>1,960,052</u>	<u>1,628,929</u>
	<u>\$ 95,793,160</u>	<u>\$ 88,855,189</u>

Note 17 - **Retirement Plan**

The University participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension, and worker's compensation benefits. Health insurance and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the University by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net assets and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of the University's employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth. The retirement portion of employees paid through State Appropriation accounts are met by the Commonwealth. Such pension expense amounted to approximately and \$1,727,000 and \$1,028,000 for the years ended June 30, 2012 and 2011, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 88% of annual total payroll for the University in both 2012 and 2011.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 17 - **Retirement Plan - Continued**

The University also makes direct contributions on behalf of the employees at the same fringe benefit charge assessed by the Commonwealth. Retirement Benefits paid directly to the Commonwealth by the University on behalf of employees amounted to approximately \$1,515,000 and \$755,000 for the years ended June 30, 2012 and 2011, respectively. Employees contribute a percentage of their regular compensation to fund the annuity portion of the Retirement System. The overall 'fringe benefit charge' increased from 31.82% in 2011 to 32.98% in 2012. The retirement portion of the 'fringe rate' increased from 5.28% in 2011 to 8.98% in 2012.

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

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

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

WESTFIELD STATE UNIVERSITY
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 17 - **Retirement Plan - Continued**

The GIC is a quasi-independent state agency governed by an eleven member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2012, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans.

The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 18 - **Commitments and Contingencies**

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Commonwealth is self-insured.

Various lawsuits are pending or threatened against the University which arise in the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened which would materially affect the University's financial position.

The University receives significant financial assistance from Federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditure resulting from such audits become a liability of the University. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the University.

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 18 - **Commitments and Contingencies - Continued**

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

Note 19 - **Massachusetts 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. Management believes the amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Education Audited Financial Statements*.

The University's state appropriation is composed of the following at June 30:

	<u>2012</u>	<u>2011</u>
Direct unrestricted appropriations	\$ 20,139,583	\$ 20,396,814
Add: Fringe benefits for benefited employees on the state payroll	6,342,079	6,194,935
Less: Day school tuition remitted to the state and included in tuition and fee revenue	<u>(987,528)</u>	<u>(1,239,699)</u>
Total unrestricted appropriations	25,494,134	25,352,050
Capital appropriations	4,424,944	852,318
Restricted appropriations	<u>-</u>	<u>36,997</u>
Total appropriations	\$ <u>29,919,078</u>	\$ <u>26,241,365</u>

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 20 - **Pass-Through Grants**

The University distributed \$27,950,977 and \$24,898,745 as of June 30, 2012 and 2011, respectively, for student loans through the U.S. Department of Education Federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

Note 21 - **Massachusetts State College Building Authority (Unaudited)**

The Massachusetts State College Building Authority (MSCBA) was created pursuant to Chapter 703 of the Acts of 1963 by the Commonwealth as a public instrumentality for the general purpose of providing dormitories, dining commons and other facilities primarily for use by students and staff of the nine state colleges of the Commonwealth.

The University is charged a semi-annual revenue assessment that is based on a certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. The Commonwealth guarantees these obligations. The Revenue Assessments for the residence halls for the years ended June 30, 2012 and 2011 were \$6,964,815 and \$6,655,972, respectively. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA.

Dormitory trust fund reports included as supplemental information include revenues and expenses which are included in auxiliary enterprises revenues and expenses.

SUPPLEMENTAL INFORMATION

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedules of Net Assets
Dormitory Trust Fund Report (Unaudited)

June 30,

Assets

	<u>2012</u>	(Restated) <u>2011</u>
Current Assets:		
Cash and equivalents	\$ 5,188,176	\$ 4,457,389
Accounts receivable, net	35,768	11,589
Deposits held by State Treasurer	157,846	349,094
Other current assets	<u>1,530</u>	<u>91</u>
Total Current Assets	<u>5,383,320</u>	<u>4,818,163</u>
Total Assets	<u>\$ 5,383,320</u>	<u>\$ 4,818,163</u>

Liabilities

Current Liabilities:		
Accounts payable and accrued liabilities	\$ 188,336	\$ 174,916
Accrued employee compensation and benefits	346,243	331,361
Deposits held	539,930	570,710
Other liabilities	<u>10,518</u>	<u>1,699</u>
Total Current Liabilities	<u>1,085,027</u>	<u>1,078,686</u>
Noncurrent Liabilities:		
Accrued liability for employee compensation and benefits	<u>47,768</u>	<u>43,046</u>
Total Noncurrent Liabilities	<u>47,768</u>	<u>43,046</u>
Total Liabilities	<u>1,132,795</u>	<u>1,121,732</u>
Net Assets:		
Unrestricted	<u>4,251,125</u>	<u>3,696,431</u>
Total Net Assets	<u>4,251,125</u>	<u>3,696,431</u>
Total Liabilities and Net Assets	<u>\$ 5,383,920</u>	<u>\$ 4,818,163</u>

WESTFIELD STATE UNIVERSITY
 (an agency of the Commonwealth of Massachusetts)

Schedules of Revenues, Expenses and Changes in Net Assets
Dormitory Trust Fund Report (Unaudited)

For the Years Ended June 30,

	<u>2012</u>	(Restated) <u>2011</u>
Revenues:		
Operating Revenues:		
Room rent	\$ 13,667,900	\$ 13,037,225
Infrastructure fees	266,100	262,400
Other sources	76,330	80,368
Deposits forfeited	81,759	64,377
Commissions - laundry	52,517	59,905
Commissions - vending	<u>32,471</u>	<u>33,543</u>
 Total Operating Revenues	 <u>14,177,077</u>	 <u>13,537,818</u>
 Expenses:		
Operating Expenses:		
Employee compensation	2,033,910	2,012,868
Energy costs	1,460,130	1,525,695
Pension and insurance	692,304	672,543
Special employees	576,380	638,996
Operational services	309,421	344,049
Scholarships	336,000	288,000
Repairs and maintenance	724,915	257,589
Facility operations supplies	281,262	238,754
Administrative expenses	64,219	78,653
Equipment purchase	71,450	59,023
Equipment lease, rental and maintenance	34,330	29,496
Consultant services	30,933	25,500
Student travel	27,137	23,231
Employee related expenses	15,177	10,965
Annual payment to the Massachusetts State College Building Authority	<u>6,964,815</u>	<u>6,655,972</u>
 Total Operating Expenses	 <u>13,622,383</u>	 <u>12,861,334</u>
 Increase in Net Assets	 <u>554,694</u>	 <u>676,484</u>

WESTFIELD STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Changes in Net Assets
Dormitory Trust Fund Report (Unaudited)

For the Years Ended June 30, 2012 and 2011

	<u>Total</u>
Balance, June 30, 2010 as previously reported	\$ 3,031,095
Change in Accounting Principle (Note 2)	<u>(11,148)</u>
Balance, June 30, 2010 as restated	3,019,947
Changes in net assets for 2011 (Restated)	<u>676,484</u>
Balance, June 30, 2011, as restated	3,696,431
Changes in net assets for 2012	<u>554,694</u>
Balance, June 30, 2012	<u>\$ 4,251,125</u>

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



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

To the Board of Trustees of
Westfield State University
Westfield, Massachusetts

We have audited the financial statements of Westfield State University (an agency of the Commonwealth of Massachusetts) (the "University") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated October 11, 2012.

This report is intended solely for the information and use of the Board of Trustees and management of the University, the Commonwealth of Massachusetts, and Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

O'Connell & Drew, P.C.

Braintree, Massachusetts
Certified Public Accountants

October 11, 2012