

Westfield State College

ANNUAL REPORT

Fiscal Year Ended: June 30, 2006



Westfield State College

Annual Report (audited)

Fiscal Year 2006
(July 1, 2005 – June 30, 2006)

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Transmittal Letter

I am pleased to provide the Westfield State College annual report for fiscal year ended June 30, 2006. This report is presented to Interim President Barry Maloney and the College Board of Trustees. The College has prepared the Statement of Net Assets, the Statement of Revenues, Expenditures and Changes in Net Assets and the Statement of Cash Flows in accordance with Governmental Accounting Standards Board (GASB) principles. The annual report also includes the financial activity of the Westfield State College Foundation as well as supplemental schedules for the State Building Authority Trust Fund.

Unrestricted net assets increased from \$7.6 million dollars in fiscal year 2005, to \$10.2 million dollars in fiscal year 2006. Much of this increase was attributable to the planned enrollment increase needed to fill the new residential building. Accrued liability for employee compensation and benefits totaling \$2.7 million dollars are required to be listed as a liability on the College's Statement of Net Assets but will be funded by the Commonwealth in future years. As a result, the 'net' unrestricted assets for the College as of June 30, 2006 is approximately \$12.9 million dollars. However, \$6.5 million dollars of this reserve has already been pledged to the Department of Capital Asset Management (DCAM) for the Ely Campus Center project. Fee increases and reductions to departmental budgets will be considered to replenish these reserves over the next fiscal years.


During fiscal year 2006, the College moved all its operating and reserve funds from long term to short term investments. These actions resulted in an immediate increase of the interest rates from the 2% range to almost 6%. The net affect to the College resulted in an increase of investment earnings of approximately \$400,000. These short term investments are also 100% guaranteed by FDIC and DIF insurance. Economic forecasters predict that the short term investments will continue to out perform the long term investments for at least a decade. The College will continue to monitor this trend and take the appropriate actions.

Residential enrollment continues to be strong. Even with the opening of a 400 bed dorm in fiscal year 2006, occupancy has and is projected by the enrollment management committee to exceed 100% during the up-coming years. The demand for housing reached an all time high during the fall 2006 semester forcing the college to house 45 students in off campus housing. The total fiscal year 2007 residential population is projected to be 2,565 students.

The first phase of the strategic plan was implemented and fully funded during fiscal year 2006. The first three goals were (1) create a welcoming and inclusive environment, (2) provide alternative educational instruction and (3) increase fundraising initiatives including grants and contracts. Together, the budgets for these goals were approximately \$700,000. During fiscal year 2007, the projected outcomes of each goal will be measured and evaluated for continued funding. Also, the committee will make recommendations for the second phase of this plan.

The timely preparation of this comprehensive annual report was made possible by the dedicated and proficient services of my assistant, Lisa Freeman. I would also like to acknowledge the professionalism and leadership provided by the firm of PricewaterhouseCoopers LLP.

Respectfully submitted,

A handwritten signature in black ink that reads "Nick A. Wojtowicz". The signature is written in a cursive style with a large, prominent initial "N".

Nick A. Wojtowicz
Vice President
Administration and Finance

Report of Independent Auditors

To the Trustees of Westfield State College:

In our opinion, based on our audits and the reports of other auditors, the accompanying statement of net assets and the related statements of revenues, expenditures and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Westfield State College (the "College") and Westfield State College Foundation, Inc. (the "Foundation"), its discretely presented component unit, at June 30, 2006 and 2005, and its revenues, expenditures and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College'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 College Foundation, Inc., a related tax-exempt organization, which statements reflect total net assets of \$5,093,322 and \$4,798,790 as of June 30, 2006 and 2005, respectively, and increase in net assets of \$294,532 and \$396,120 for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Westfield State College Foundation, Inc., is based on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 1 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

August 18, 2006

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Management’s Discussion and Analysis

Introduction

This section of the Westfield State College annual financial report presents management’s discussion and analysis of the financial activities of Westfield State College for the fiscal year ended June 30, 2006, with comparative information for the years ended June 30, 2005 and 2004. For financial reporting purposes, Westfield State College’s reporting entity consists of Westfield State College (the College) and its component unit, Westfield State College Foundation, Inc. (the Foundation). Since this analysis is designed to focus on current activities, resulting changes and currently known facts, it should be read in conjunction with the transmittal letter, the basic financial statements, and the footnotes to the basic financial statements. The transmittal letter, the financial statements, footnotes and this discussion are the responsibility of management.

Westfield State College is a comprehensive public institution of higher learning with approximately 5,500 FTE combined day and evening students. The College offers 22 academic undergraduate majors in both the traditional arts and sciences and in professional fields, including nearly 60 concentrations of study and four additional academic minors. There are also 23 distinct graduate degree 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 College to providing quality educational programs.

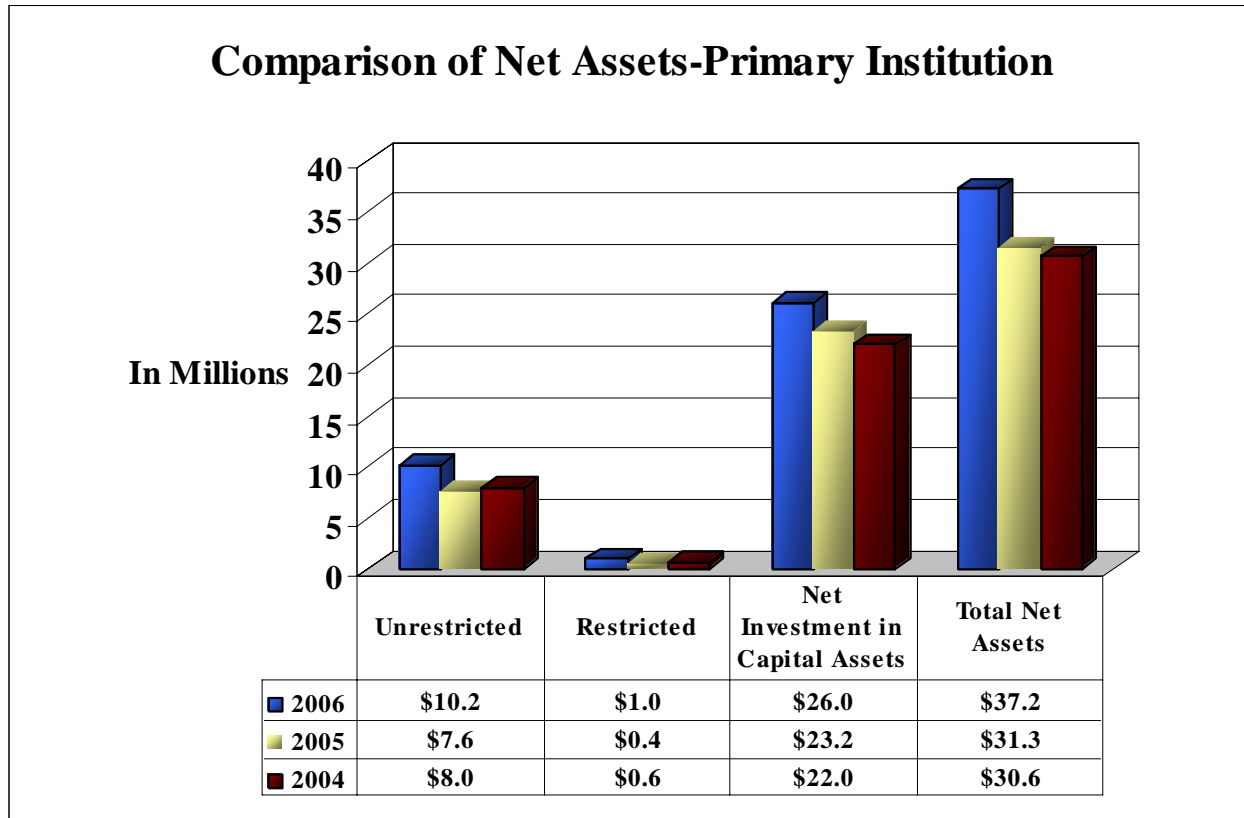
Westfield State College Foundation, Inc. is a not-for-profit corporation operated exclusively for charitable, scientific, and educational purposes for the benefit of Westfield State College, including such activities as soliciting or receiving tangible property, rendering financial aid, promoting and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

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

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

Primary Institution Financial Highlights

Graphically displayed, the comparative net asset increases by category for the fiscal years ended June 30, 2006, 2005 and 2004 are shown below:



- The College's financial position improved significantly during the fiscal year ended June 30, 2006, with a \$5.9 million or 18.9% increase in total net assets. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, increased to \$37.2 million from \$31.3 million in 2005. The College's financial position also improved slightly during the fiscal year ended June 30, 2005, with a \$.7 million or 2.3% increase in total net assets, which increased to \$31.3 million from \$30.6 million in 2004.
- Expenses incurred during fiscal year 2006 totaled \$64.7 million. Revenues from tuition and fees, state capital support and appropriations, grants, and other sources totaled \$70.6 million resulting in an increase in net assets of \$5.9 million. Expenses incurred during fiscal year 2005 totaled \$57.7 million. Revenues from tuition and fees, state capital support and appropriations, grants, and other sources totaled \$58.4 million resulting in an increase in net assets of \$.7 million as compared to an increase of \$9.8 million for the year ended June 30, 2004.
- The increase in net assets during the fiscal year ended June 30, 2006 is attributable to factors such as the acquisition of capital assets including the Synthetic field replacement project in the amount of \$2.5 million (in progress at June 30, 2006) and significant increases in revenue favorably offsetting the increase in expense. The increase in net assets during the fiscal year ended June 30, 2005 is attributable to factors such as the acquisition of capital assets including the Woodward Center storage facility building in the amount of \$.6 million and increases in revenue favorably offsetting the increase in expense.

Overview of the Financial Statements

Westfield State College's financial report includes three financial statements: the *Statement of Net Assets*, the *Statement of Revenues, Expenditures and 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 College and consolidate the activities into one total.

The Financial Statements:

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

The *Statement of Revenues, Expenditures, and Changes in Net Assets* presents Westfield State College's results of operations and other non-operating revenues. This statement presents information that shows how Westfield State College's net assets changed during the most recent fiscal year.

The *Statement of Cash Flows* provides additional information about Westfield State College'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 classes of operating receipts and disbursements.

The financial statements can be found on pages 11-14 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 15-27 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 College Building Authority trust fund. This supplementary information can be found on pages 29-30 of this financial report.

Financial Analysis of Westfield State College as a Whole

As previously noted, net assets may serve over time as a useful indicator of Westfield State College's financial position. Westfield State College's financial position remained strong with a combined (College and Foundation) net asset increase of \$6.2 million for the year ended June 30, 2006 as compared to a combined net asset increase of \$1.1 million as of June 30, 2005 and \$10.2 million as of June 30, 2004.

Westfield State College's Condensed Statement of Net Assets As of June 30, 2006, 2005 and 2004

	Primary Institution 2006	Primary Institution 2005	Primary Institution 2004	Component Unit- Foundation 2006	Component Unit- Foundation 2005	Component Unit- Foundation 2004 (Restated)
Current Assets	\$19,852,406	\$16,859,684	\$17,347,799	\$ 882,754	\$ 898,733	\$ 771,893
Non-current Assets						
Capital Assets, net of depreciation	32,428,857	30,416,080	29,101,234	439,935	443,707	447,479
Other	<u>672,990</u>	<u>1,294,752</u>	<u>1,293,884</u>	<u>4,057,699</u>	<u>3,764,890</u>	<u>3,533,424</u>
Total Assets	<u>52,954,253</u>	<u>48,570,516</u>	<u>47,742,917</u>	<u>5,380,388</u>	<u>5,107,330</u>	<u>4,752,796</u>
Current Liabilities	7,777,268	7,909,034	7,749,686	287,066	277,740	257,726
Non-current Liabilities	<u>8,017,610</u>	<u>9,371,319</u>	<u>9,361,747</u>	-	<u>30,800</u>	<u>92,400</u>
Total Liabilities	<u>15,794,878</u>	<u>17,280,353</u>	<u>17,111,433</u>	<u>287,066</u>	<u>308,540</u>	<u>350,126</u>
Net Assets						
Invested in Capital Assets, net of Related debt	26,021,258	23,227,302	21,959,659	409,135	351,307	293,479
Restricted for: Nonexpendable				2,474,076	2,236,085	1,945,238
Restricted for: Expendable	955,141	436,322	597,875	924,375	991,540	993,496
Unrestricted	<u>10,182,976</u>	<u>7,626,539</u>	<u>8,073,950</u>	<u>1,285,736</u>	<u>1,219,858</u>	<u>1,170,457</u>
Total Net Assets	<u>\$37,159,375</u>	<u>\$31,290,163</u>	<u>\$30,631,484</u>	<u>\$5,093,322</u>	<u>\$4,798,790</u>	<u>\$4,402,670</u>

Net assets invested in capital assets, net of related debt, represents Westfield State College'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 College's net assets (63% at June 30, 2006 and 65% at June 30, 2005), these capital assets are used to provide services to students, faculty and administration; consequently, these assets are not available for future spending. The \$2.9 million increase in net assets invested in capital assets as of June 30, 2006 and \$1.3 million increase as of June 30, 2005 reflects Westfield State College's continued development and renewal of its capital assets in accordance with its long-range plan.

An additional portion of Westfield State College's net assets, restricted expendable (4% at June 30, 2006 and 2005) represents scholarships, grants, and donations that are subject to external restrictions on how they must be used. Restricted nonexpendable net assets (6% at June 30, 2006 and 2005) primarily include Westfield State College's endowment funds. The remaining balance of unrestricted net assets (27% at June 30, 2006 and 25% at June 30, 2005) may be used to meet Westfield State College's ongoing obligations.

A review of Westfield State College's statement of net assets at June 30, 2006, 2005 and 2004 shows that Westfield State College continues to build upon its strong financial foundation. This financial health reflects the prudent utilization of its financial resources, including careful cost controls, management of its endowment, conservative utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

As of June 30, 2006, 2005 and 2004 all of Westfield State College's net asset categories have positive balances.

Westfield State College's Condensed Statement of Revenues, Expenditures
And Changes in Net Assets
For the years ended June 30, 2006, 2005 and 2004

	Primary Institution 2006	Primary Institution 2005	Primary Institution 2004	Component Unit- Foundation 2006	Component Unit- Foundation 2005	Component Unit- Foundation 2004 (Restated)
Operating Revenue						
Tuition and fees	\$27,478,005	\$22,150,697	\$21,071,559			
Less: Student Financial Aid	(2,365,666)	(2,230,657)	(2,349,644)			
Federal, state and private grants and contracts	4,630,713	4,324,638	4,460,013			
Auxiliary operations	14,374,644	11,228,199	10,323,956			
Other sources	<u>505,606</u>	<u>429,632</u>	<u>511,061</u>	\$ 37,984	\$ 41,468	\$ 119,394
Total Operating revenue	44,623,302	35,902,509	34,016,945	37,984	41,468	119,394
Less: Operating expenses	<u>64,749,051</u>	<u>57,689,512</u>	<u>53,211,861</u>	<u>412,721</u>	<u>321,164</u>	<u>344,043</u>
Operating loss	<u>(20,125,749)</u>	<u>(21,787,003)</u>	<u>(19,194,916)</u>	<u>(374,737)</u>	<u>(279,696)</u>	<u>(224,649)</u>
Non-operating Revenue						
State appropriation, net	24,284,645	21,889,792	19,921,340			
Private gifts and grants				248,064	125,135	167,231
Net investment income	886,116	457,741	232,500	387,331	402,290	499,500
Interest on capital asset-related debt	<u>(171,264)</u>	<u>(174,765)</u>	<u>(88,400)</u>	<u>(8,653)</u>	<u>(5,629)</u>	<u>(9,703)</u>
Total non-operating revenue	<u>24,999,497</u>	<u>22,172,768</u>	<u>20,065,440</u>	<u>626,742</u>	<u>521,796</u>	<u>657,028</u>
Income before other revenues, expenses, gains or losses	4,873,748	385,765	870,524	252,005	242,100	432,379
Related entity transfers	195,464	136,827	296,865	(195,464)	(136,827)	(296,865)
Additions to permanent endowment				237,991	290,847	169,476
State capital appropriations	<u>800,000</u>	<u>136,087</u>	<u>8,663,376</u>	-	-	-
Increase in net assets	5,869,212	658,679	9,830,765	294,532	396,120	304,990
Net Assets-beginning of year	<u>31,290,163</u>	<u>30,631,484</u>	<u>20,800,719</u>	<u>4,798,790</u>	<u>4,402,670</u>	<u>4,097,680</u>
Net Assets-end of year	<u>\$37,159,375</u>	<u>\$31,290,163</u>	<u>\$30,631,484</u>	<u>\$5,093,322</u>	<u>\$4,798,790</u>	<u>\$4,402,670</u>

Westfield State College's Condensed Statement of Cash Flows
For the years ended June 30, 2006, 2005 and 2004

	Primary Institution 2006	Primary Institution 2005	Primary Institution 2004	Component Unit- Foundation 2006	Component Unit- Foundation 2005	Component Unit- Foundation 2004
Cash received from operating activities	\$56,214,873	\$45,818,517	\$41,726,418	\$37,984	\$41,468	\$119,394
Cash expended for operating activities	<u>(68,411,394)</u>	<u>(59,523,522)</u>	<u>(56,555,990)</u>	<u>(364,951)</u>	<u>(302,823)</u>	<u>(349,783)</u>
Net cash used by operating activities	(12,196,521)	(13,705,005)	(14,829,572)	(326,967)	(261,355)	(230,389)
Net cash provided by non-capital financing activities	19,007,340	17,114,304	16,101,575	144,749	579,027	118,893
Net cash used by capital and related financing activities	(5,415,729)	(4,183,694)	(1,460,999)	(70,253)	(67,229)	(71,303)
Net cash provided (used) by investing activities	<u>6,796,550</u>	<u>283,073</u>	<u>155,528</u>	<u>123,699</u>	<u>(67,918)</u>	<u>(53,750)</u>
Net increase (decrease) in cash	8,191,640	(491,322)	(33,468)	(128,772)	182,525	(236,549)
Cash – beginning of year	<u>9,948,282</u>	<u>10,439,604</u>	<u>10,473,072</u>	<u>275,478</u>	<u>92,953</u>	<u>329,502</u>
Cash – end of year	<u>\$18,139,922</u>	<u>\$9,948,282</u>	<u>\$10,439,604</u>	<u>\$146,706</u>	<u>\$275,478</u>	<u>\$92,953</u>

Westfield State College's combined liquidity increased during the year ended June 30, 2006 with an \$8,062,868 increase in cash. The following discussion amplifies the overview of cash flows presented above.

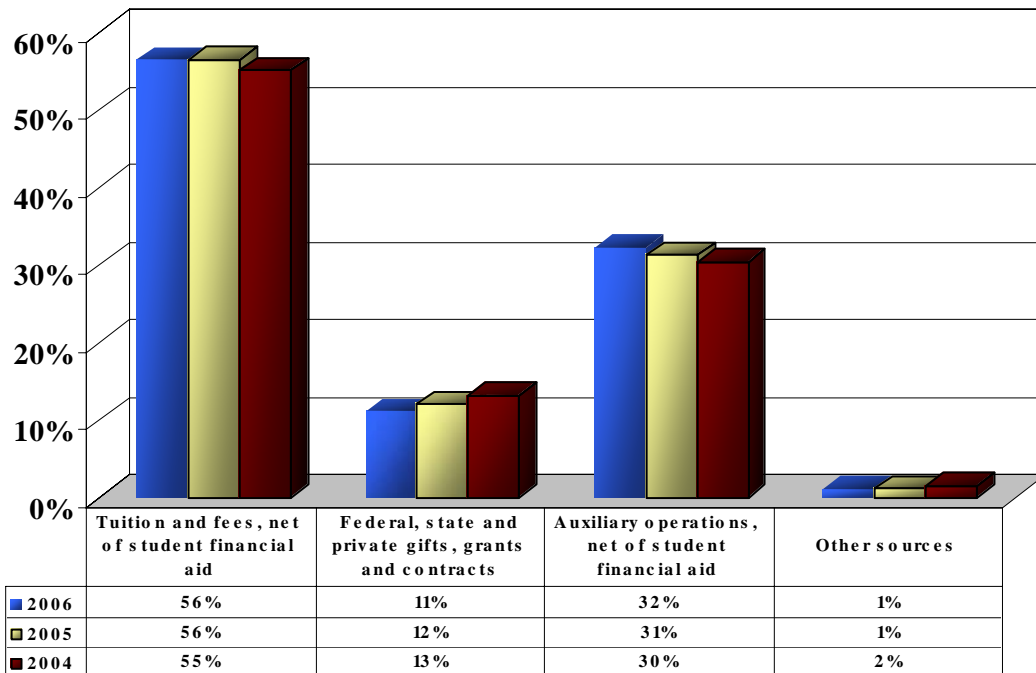
For the year ended June 30, 2006, the College's cash used by operating activities decreased approximately \$1.5 million over the prior year. This was due to an increase in cash received of \$10.4 million offset by increases in amounts paid of \$8.9 million. State appropriations increased by \$1.8 million during the current year, which resulted in the increase in net cash provided by non-capital financing activities. Cash used by capital and related financing activities increased approximately \$1.2 million due to various factors including an increase in purchases of capital assets, an increase in principal paid on bonds payable, an increase in state capital appropriations and a decrease in proceeds from capital debt. A significant increase in cash provided by investing activities of \$6.5 million was recognized during the fiscal year ended June 30, 2006 due to an increase in interest received and an increase in proceeds from sales of investments due to the redemption of money from the Common Fund.

Westfield State College's combined liquidity decreased slightly during the year ended June 30, 2005 with a \$308,797 decrease in cash. The following discussion amplifies the overview of cash flows presented above.

For the year ended June 30, 2005, the College's cash used by operating activities decreased approximately \$1.1 million over the prior year. This was due to an increase in cash received of \$4.0 million offset by increases in amounts paid of \$2.9 million. State appropriations increased by \$1.0 million, which resulted in the increase in net cash provided by non-capital financing activities. Cash used by capital and related financing activities increased approximately \$2.7 million due to various factors including an increase in purchases of capital assets, a decrease in state capital appropriations and a decrease in proceeds from capital debt. A slight increase in cash provided by investing activities of \$113,377 was also recognized during the fiscal year ended June 30, 2005.

The following is a graphic illustration of operating revenues by source, which were used to fund the College's operating activities for the years ended June 30, 2006, 2005 and 2004.

Operating Revenues by Source - Primary Institution



The College's operating revenues consist primarily of tuition and fee revenue and auxiliary operations. Tuition and fee revenue increased \$5.3 million or 24% during the fiscal year ended June 30, 2006 and increased \$1.1 million or 5% during the fiscal year ended June 30, 2005. The primary factor relating to the change during fiscal year 2006 was an increase in general fees of \$800 per student combined with higher enrollment, while the change during fiscal year 2005 was due to an increase in technology fees of \$300 per student.

Tuition and fees received by the College include the following:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Tuition	\$8,080,058	\$7,231,560	\$7,378,225
Student Activity Fees:			
General fees	12,678,151	8,787,345	8,722,486
Student fees	774,322	669,460	702,303
Technology fees	5,621,054	5,171,597	4,049,425
Miscellaneous fees	<u>324,420</u>	<u>290,735</u>	<u>219,120</u>
Total	<u>\$27,478,005</u>	<u>\$22,150,697</u>	<u>\$21,071,559</u>

Auxiliary operations include the operation of the College's Building Authority trust fund and its food service. The revenue generated from these operations was \$14,374,644, \$11,228,199, and \$10,323,956 (which is net of scholarship allowances of \$1,330,687, \$1,254,745, and \$1,265,193) for the years ended June 30, 2006, 2005 and 2004, respectively. The increase in revenues for the year ended June 30, 2006 in the amount of \$3,146,445 or 28% is attributable to the increase in room and board charges combined with the increase in revenues generated by the new residence hall in the amount of \$2.1 million. The increase in revenues of \$904,243 or 8.8% is attributable to the increase in room and board charges for the year ended June 30, 2005.

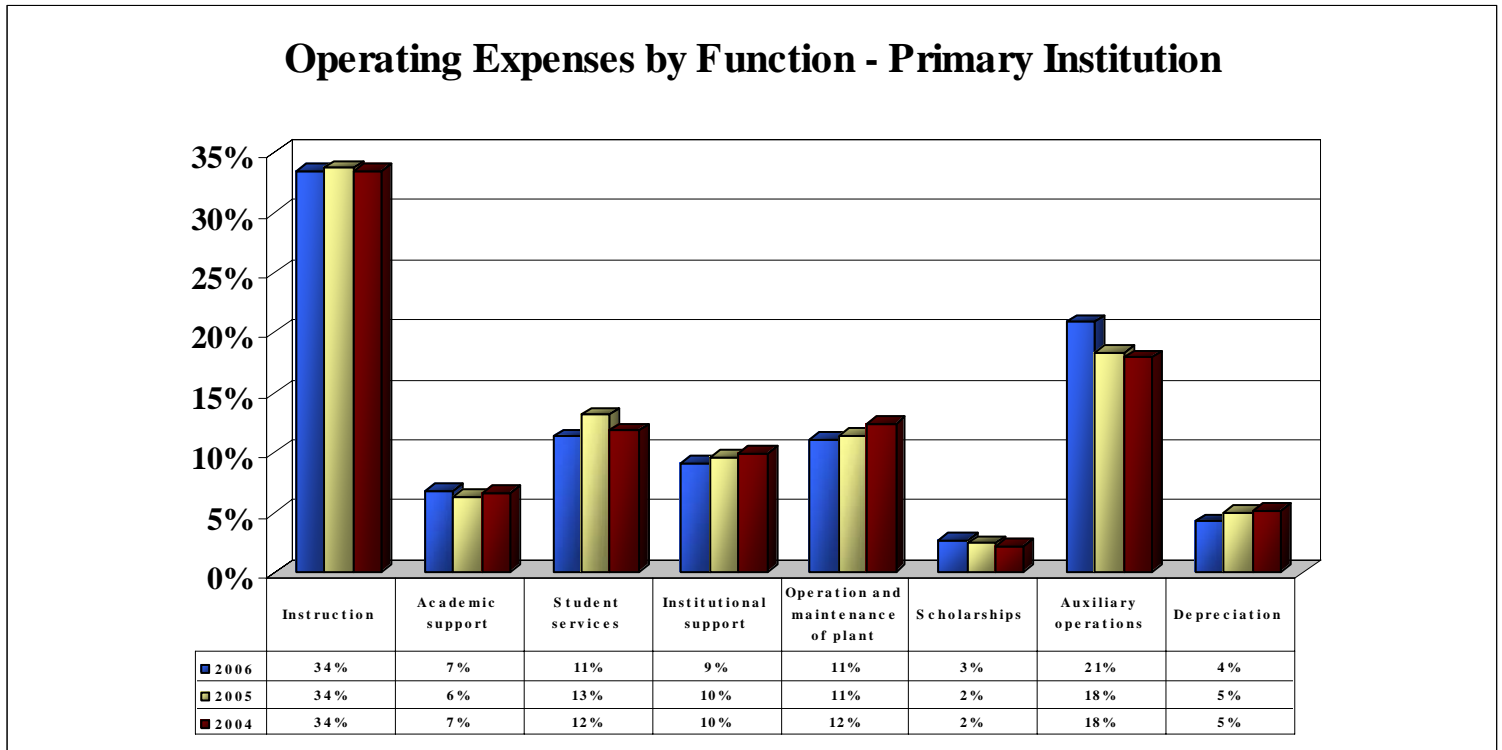
Major grants and contracts received by Westfield State College for the years ended June 30, 2006, 2005 and 2004 included the following:

U.S. Department of Education – Student Support Services \$252,203 (2006) \$244,858 (2005 and 2004)

U.S. Department of Education – College Work Study \$368,333 (2006, 2005 and 2004)

U.S. Department of Education – SEOG \$295,448 (2006, 2005 and 2004)

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2006, 2005 and 2004.



A summary of the College's expenses by functional classification for the years ended June 30, 2006, 2005 and 2004 is as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Instruction	\$21,725,867	\$19,435,548	\$17,833,735
Public service	179,404	108,968	155,053
Academic support	4,403,833	3,611,210	3,559,357
Student services	7,359,495	7,578,934	6,292,287
Institutional support	5,819,213	5,513,539	5,280,039
Operation and maintenance of plant	7,221,295	6,596,400	6,625,410
Scholarships and fellowships	1,748,327	1,410,766	1,174,172
Auxiliary operations	13,544,795	10,537,406	9,537,402
Loss on disposal of assets	18,921	9,497	59,280
Depreciation	<u>2,727,901</u>	<u>2,887,244</u>	<u>2,695,126</u>
Total	<u>\$64,749,051</u>	<u>\$57,689,512</u>	<u>\$53,211,861</u>

The College's total operating expenses increased significantly during fiscal year ended June 30, 2006 by \$7,059,539 or 12.2% due to various factors including an increase in salaries resulting from the payment of retroactive salary and wage increases from a prior fiscal year combined with

collective bargaining pay increases paid during the fiscal year. Other factors impacting the increase are increases in student scholarships, an increase in energy costs and an increase in the annual payment to the Massachusetts State College Building Authority for the debt on the new residence hall.

During fiscal year ended June 30, 2005, the College's total operating expenses increased by \$4,477,651 or 8.4% due to various factors including an increase in salaries resulting from the payment of retroactive salary and wage increases for 6 months of the previous fiscal year. The increase in the fringe benefit rate charged by the Commonwealth increased from 23% of payroll during fiscal year 2004 to 27% of payroll during fiscal year 2005. This change had a significant impact on the increase in operating expenses. Other factors impacting the increase are increases in student scholarships, an increase in energy costs and increased spending related to maintaining and improving campus facilities.

Loss from Operations

The following table presents the College's incurred losses from operations and its non-operating revenues for the fiscal years ended June 30, 2006, 2005 and 2004

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Tuition and fees	\$27,478,005	\$22,150,697	\$21,071,559
Other revenue, net of Student Financial Aid	17,145,297	13,751,812	12,945,386
Operating expenses	<u>64,749,051</u>	<u>57,689,512</u>	<u>53,211,861</u>
Operating loss	<u>(20,125,749)</u>	<u>(21,787,003)</u>	<u>(19,194,916)</u>
Commonwealth direct appropriation, fringe benefits for Commonwealth employees, net of tuition remitted to the Commonwealth	24,284,645	21,889,792	19,921,340
Investment Income	886,116	457,741	232,500
Interest on capital asset-related debt	(171,264)	(174,765)	(88,400)
Related entity transfers	195,464	136,827	296,865
State capital appropriation	<u>800,000</u>	<u>136,087</u>	<u>8,663,376</u>
Non-operating revenues	<u>25,994,961</u>	<u>22,445,682</u>	<u>29,025,681</u>
Increase in net assets	<u>\$ 5,869,212</u>	<u>\$ 658,679</u>	<u>\$ 9,830,765</u>

Due to the nature of public higher education, institutions incur a loss from operations. The Commonwealth's Board of Higher Education determines tuition while the College sets fees and other charges. The College, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

The \$3.5 million increase in non-operating revenues during fiscal year 2006 is mostly attributable to the increase in the Commonwealth's direct appropriation of \$2.0 million, an increase of \$.6 million for fringe benefits recognized, and increases of \$.7 million in state capital appropriation and \$.5 million in investment income.

The \$6.6 million decrease in non-operating revenues during fiscal year 2005 is attributable to the decrease in state capital appropriations of \$8.5 million due to the completion of the Woodward Center construction and the recognition of the revenue during fiscal year 2004. The \$8.5 million decrease was offset by an increase in the Commonwealth's appropriation of \$2.0 million due to the increase in The Commonwealth's direct appropriation of \$1.0 million for contract pay increases and \$1.0 million for fringe benefits recognized the percentage of which increased to 27% in fiscal year 2005 from 23% in fiscal year 2004.

Capital Assets and Debts of Westfield State College

Westfield State College's investment in capital assets, net of accumulated depreciation, as of June 30, 2006, 2005 and 2004 was \$32,868,792, \$30,859,787 and \$29,548,713 respectively. This investment in capital assets includes land, land improvements, buildings and improvements, furnishings and equipment, construction in progress, and library books. The capital asset increase of \$2.0 million or 7% during the fiscal year ended June 30, 2006, and increase of \$1.3 million or 4% during the fiscal year ended June 30, 2005 was due to capital additions outpacing depreciation expense. Capital additions during fiscal year ended June 30, 2006 amounted to \$4,759,599 as compared to \$4,211,587 as of June 30, 2005, and \$10,827,767 as of June 30, 2004. Major additions during 2006 include the replacement of the synthetic athletic field (in progress at June 30th) (\$2,500,000), the construction of the elevator in Bates Hall (in progress at June 30th) (\$368,000), various building improvement projects (\$294,000) and the purchase of computers for faculty and staff (\$235,000).

Major additions during 2005 include the construction of Jazzman's Café (\$285,000), construction of the Woodward Storage Facility Building (\$598,000), the construction and relocation of four administrative offices and construction of a new conference room and related equipment (\$470,000), Ely Campus Center electrical upgrades (\$532,000), equipment and furnishings for the Woodward Center (\$240,000) and the purchase of computers for faculty and staff (\$224,000).

The completion of the Woodward Center, Westfield State College's new academic/athletic facility took place during fiscal year ended June 30, 2004. This facility is shared by the Athletic Department and the Movement Science Department. The surrounding community also has access to the facility. The Commonwealth of Massachusetts and the College shared funding for this project. The Commonwealth appropriated \$9.6 million and the college borrowed \$5.8 million from the Massachusetts Health and Educational Facilities Authority (MHEFA) to partially fund the project. The College's portion will be repaid over a twenty-year period from an existing student fee, which has been budgeted for this project. The receipts from Westfield State College's first fund raising capital campaign may help to reduce this debt. As of June 30, 2006 and 2005 the outstanding debt on the MHEFA borrowing amounted to \$4,658,533 and \$5,313,074 respectively.

Economic Factors That Will Affect the Future

With the continuing decline of state support, 41% of the College's total budget in fiscal year 2003, declining to approximately 32% in fiscal year 2006, the College increased its annual fees by \$293 for fiscal year 2007. This increase will generate an additional \$1.2 million which will be allocated to departmental budgets and capital projects. Discussions have already started with members of the Board of Trustees for an annual fee increase for fiscal year 2008 of between \$600 and \$800. With a projected enrollment of 4,000 students, an additional \$2.4 million will be generated.

The collective bargaining contracts for American Federation of State, County and Municipal Employees (AFSCME) and the Association of Professional Administrators (APA) were fully funded by the Commonwealth including retroactive funds. The MSCA contract was also approved for fiscal years 2005, 2006 and 2007. However, annually the College will be responsible for approximately \$700,000 of the overall full-time College faculty payroll of approximately \$10 million. The College is concerned that the annual cost of living adjustments to the MSCA contract will continue to increase this newly mandated financial liability.

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Net Assets
June 30, 2006 and June 30, 2005

	2006		2005	
	Primary <u>Institution</u>	Component <u>Unit-Foundation</u>	Primary <u>Institution</u>	Component <u>Unit-Foundation</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 17,137,768	\$ 146,706	\$ 8,153,756	\$ 275,478
Cash held by State Treasurer	916,619		1,205,304	
Short-term investments	50,819	400,503	5,961,253	470,925
Accounts receivable, net	546,111	332,752	486,089	145,665
Restricted accounts receivable	29,312		23,693	
Loans receivable	209,329		211,379	
Inventories	533,723		386,464	
Deposits held by State Treasurer	396,658		420,603	
Prepaid expenses	32,067	2,793	11,143	6,665
Total current assets	<u>19,852,406</u>	<u>882,754</u>	<u>16,859,684</u>	<u>898,733</u>
Noncurrent Assets				
Cash held by Trustees	85,535		589,222	
Investments		4,022,541		3,688,487
Accounts receivable, net		35,158		76,403
Loans receivable, net	587,455		705,530	
Capital assets, net	32,428,857	439,935	30,416,080	443,707
Total noncurrent assets	<u>33,101,847</u>	<u>4,497,634</u>	<u>31,710,832</u>	<u>4,208,597</u>
Total assets	<u>\$ 52,954,253</u>	<u>\$ 5,380,388</u>	<u>\$ 48,570,516</u>	<u>\$ 5,107,330</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 1,308,046	\$ 7,038	\$ 1,288,554	\$ 7,750
Accrued liability for employee compensation and benefits	4,097,901		4,436,474	
Accrued employee retirement liability	58,232		58,232	
Deferred tuition and other revenue	904,212		900,015	
Deposits held	385,914		332,744	
Assets held in custody for others	161,180	249,228	46,926	208,390
Current portion of capital lease obligations	284,029		270,863	
Current portion of bonds payable	181,804		188,689	
Current portion of notes payable	371,321	30,800	359,463	61,600
Other liabilities	24,629		27,074	
Total current liabilities	<u>7,777,268</u>	<u>287,066</u>	<u>7,909,034</u>	<u>277,740</u>
Noncurrent Liabilities				
Accrued liability for employee compensation and benefits	1,367,024		1,359,496	
Accrued employee retirement liability			58,232	
Grants refundable	994,606		994,606	
Capital lease obligations	432,970		716,999	
Bonds payable	4,476,729		5,124,385	
Notes payable	746,281		1,117,601	30,800
Total noncurrent liabilities	<u>8,017,610</u>		<u>9,371,319</u>	<u>30,800</u>
Total liabilities	<u>15,794,878</u>	<u>287,066</u>	<u>17,280,353</u>	<u>308,540</u>
NET ASSETS				
Invested in capital assets, net of related debt	26,021,258	409,135	23,227,302	351,307
Restricted for:				
Expendable	955,141	924,375	436,322	991,540
Non-expendable		2,474,076		2,236,085
Unrestricted	10,182,976	1,285,736	7,626,539	1,219,858
Total net assets	<u>\$ 37,159,375</u>	<u>\$ 5,093,322</u>	<u>\$ 31,290,163</u>	<u>\$ 4,798,790</u>

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

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Revenues, Expenditures and Changes in Net Assets
For the Years Ended June 30, 2006 and June 30, 2005

	2006		2005	
	<u>Primary</u> <u>Institution</u>	<u>Component</u> <u>Unit-Foundation</u>	<u>Primary</u> <u>Institution</u>	<u>Component</u> <u>Unit-Foundation</u>
Revenues				
Operating Revenues				
Tuition and fees	\$ 27,478,005		\$ 22,150,697	
Less: Student Financial Aid	(2,365,666)		(2,230,657)	
Federal grants and contracts	2,799,144		2,671,804	
State grants and contracts	1,531,171		1,436,777	
Private grants and contracts	300,398		216,057	
Public service	116,456		56,752	
Interest earned on loans to students	11,533		17,668	
Auxiliary operations, net of scholarship allowances of \$1,330,687 in 2006 and \$1,254,745 in 2005	14,374,644		11,228,199	
Other sources	377,617	\$ 37,984	355,212	\$ 41,468
Total operating revenues	<u>44,623,302</u>	<u>37,984</u>	<u>35,902,509</u>	<u>41,468</u>
Expenses				
Operating Expenses				
Instruction	21,725,867		19,435,548	
Public service	179,404		108,968	
Academic support	4,403,833	66,035	3,611,210	29,094
Student services	7,359,495	1,281	7,578,934	773
Institutional support	5,819,213	213,633	5,513,539	190,557
Operation and maintenance of plant	7,221,295		6,596,400	
Scholarships and fellowships	1,748,327	128,000	1,410,766	96,968
Auxiliary operations	13,544,795		10,537,406	
Loss on disposal of assets	18,921		9,497	
Depreciation	2,727,901	3,772	2,887,244	3,772
Total operating expenses	<u>64,749,051</u>	<u>412,721</u>	<u>57,689,512</u>	<u>321,164</u>
Operating loss	<u>(20,125,749)</u>	<u>(374,737)</u>	<u>(21,787,003)</u>	<u>(279,696)</u>
Nonoperating Revenues (Expenses)				
State appropriation, net	24,284,645		21,889,792	
Private gifts and grants		248,064		125,135
Net investment income	886,116	387,331	457,741	402,290
Interest on capital asset - related debt	(171,264)	(8,653)	(174,765)	(5,629)
Net nonoperating revenues	<u>24,999,497</u>	<u>626,742</u>	<u>22,172,768</u>	<u>521,796</u>
Income before other revenues, expenses, gains, losses, and transfers	4,873,748	252,005	385,765	242,100
Related entity transfers	195,464	(195,464)	136,827	(136,827)
State capital appropriation	800,000		136,087	
Additions to permanent endowment		237,991		290,847
Increase in net assets	<u>5,869,212</u>	<u>294,532</u>	<u>658,679</u>	<u>396,120</u>
Net Assets - beginning of year	31,290,163	4,798,790	30,631,484	4,402,670
Net Assets - end of year	<u>\$ 37,159,375</u>	<u>\$ 5,093,322</u>	<u>\$ 31,290,163</u>	<u>\$ 4,798,790</u>

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

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Cash Flows
For the Years Ended June 30, 2006 and June 30, 2005

	2006		2005	
	<u>Primary Institution</u>	<u>Component Unit-Foundation</u>	<u>Primary Institution</u>	<u>Component Unit-Foundation</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 24,982,061		\$ 19,916,681	
Grants and contracts	4,609,531		4,308,609	
Payments to suppliers	(19,898,394)	\$ (236,951)	(17,448,452)	\$ (205,855)
Payments to employees	(35,084,783)		(30,746,940)	
Payments to students	(1,748,327)	(128,000)	(1,410,766)	(96,968)
Direct lending receipts	11,509,755		9,730,999	
Direct lending disbursements	(11,509,755)		(9,730,999)	
Loans issued to students	(170,135)		(186,365)	
Collections of loans to students	194,981		201,485	
Other receipts	14,918,545	37,984	11,660,743	41,468
Net cash used by operating activities	<u>(12,196,521)</u>	<u>(326,967)</u>	<u>(13,705,005)</u>	<u>(261,355)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	18,811,876		16,977,477	
Private gifts and grants		340,213		715,854
Related entity transfers	195,464	(195,464)	136,827	(136,827)
Net cash provided by noncapital financing activities	<u>19,007,340</u>	<u>144,749</u>	<u>17,114,304</u>	<u>579,027</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	800,000		136,087	
Proceeds from capital debt			649,441	
Purchases of capital assets	(4,759,599)		(4,031,701)	
Principal paid on capital leases	(270,863)		(255,157)	
Interest paid on capital leases	(42,972)		(50,794)	
Principal paid on bonds payable	(654,541)		(178,031)	
Principal paid on notes payable	(359,462)	(61,600)	(329,568)	(61,600)
Interest paid on bonds payable	(85,610)		(83,284)	
Interest paid on notes payable	(42,682)	(8,653)	(40,687)	(5,629)
Net cash used by capital and related financing activities	<u>(5,415,729)</u>	<u>(70,253)</u>	<u>(4,183,694)</u>	<u>(67,229)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	886,116	93,822	468,976	86,103
Proceeds from sales of investments	6,029,295	134,973		
Purchase of investments	(118,861)	(105,096)	(185,903)	(154,021)
Net cash provided (used) by investing activities	<u>6,796,550</u>	<u>123,699</u>	<u>283,073</u>	<u>(67,918)</u>
NET INCREASE (DECREASE) IN CASH	8,191,640	(128,772)	(491,322)	182,525
Cash - beginning of year	<u>9,948,282</u>	<u>275,478</u>	<u>10,439,604</u>	<u>92,953</u>
Cash - end of year	<u>\$ 18,139,922</u>	<u>\$ 146,706</u>	<u>\$ 9,948,282</u>	<u>\$ 275,478</u>

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

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Cash Flows, continued
For the Years Ended June 30, 2006 and June 30, 2005

	2006		2005	
	Primary <u>Institution</u>	Component <u>Unit-Foundation</u>	Primary <u>Institution</u>	Component <u>Unit-Foundation</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	\$ (20,125,749)	\$ (374,737)	\$ (21,787,003)	\$ (279,696)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense	2,727,901	3,772	2,887,244	3,772
Loss on disposal of assets	18,921		9,497	
Fringe benefits provided by the State	5,472,769		4,912,315	
Changes in assets and liabilities:				
Accounts receivable, net	(60,022)		(62,167)	
Inventories	(147,259)		(20,151)	
Deposits held by State Treasurer	23,945		204,479	
Prepaid expense	(20,924)	3,872	(2,821)	(5,445)
Restricted accounts receivable	(5,619)		31,104	
Loans receivable, net	120,125		20,149	
Accounts payable and accrued liabilities	19,492	(712)	(79,029)	285
Accrued liability for employee compensation and benefits	(331,045)		310,693	
Accrued employee retirement liability	(58,232)		(182,671)	
Deferred tuition and other revenue	4,197		(4,229)	
Deposits held	53,170		47,890	
Assets held for others	114,254	40,838	(4,300)	19,729
Other liabilities	(2,445)		13,995	
Net cash used by operating activities	\$ (12,196,521)	\$ (326,967)	\$ (13,705,005)	\$ (261,355)
Non-cash transactions:				
Acquisition of equipment financed with lease payable			\$ 179,886	

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

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

1. Summary of Significant Accounting Policies:

Organization

The financial statements present the financial position, results of operations, and changes in net assets of Westfield State College (the "College"), a component unit of The Commonwealth of Massachusetts (the "Commonwealth").

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

As described further in Note 7, the accompanying financial statements do not include the College's proportionate share of the assets and liabilities of Massachusetts State College Building Authority (the "Building Authority"), an agency of the Commonwealth, but do reflect the Building Authority Trust Fund activity of the College.

Basis of Presentation

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The College reports its financial statements as a Business Type Activity, as defined by GASB Statement No. 35. Business-type activities are defined as those that are financed in whole or part by fees charged to external parties for goods or services. The College's operating activities in the statement of revenues, expenditures and changes in net assets are those that generally result from exchange transactions such as payments received for education services and payments made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the College's operating and capital appropriations from the Commonwealth, net investment income, and interest expense. The effect of inter-fund activity has been eliminated from these financial statements.

The College has elected to adopt the applicable pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

Effective July 1, 2003, the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*. This statement requires that all entities associated with a primary government be evaluated against specific criteria for inclusion in the financial reporting entity. Also effective July 1, 2003, the College adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement updates the custodial risk disclosure requirements of GASB Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of deposits and investments, including concentrations of credit risk and interest rate risk.

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

Use of Estimates

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

Cash and Short-Term Investments

Cash and cash equivalents consist of petty cash and demand deposit accounts.

Short-term investments consist of deposits with The Common Fund and are recorded at fair value.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets and revenues, expenditures, and changes in net assets.

Investment income is recognized on an accrual basis; interest and dividends are recorded when earned.

Restricted Gifts

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

Grants and Contracts

The College receives monies from federal and state governments 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 College administration believes that any audit adjustments would not have a material adverse effect on the College's financial position, its revenue, expenditures and changes in net assets, or its cash flows.

Inventories

The College'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.

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. A portion of such unused sick leave is payable in cash upon retirement. The accompanying statement of net assets reflects an accrual for the amount earned and ultimately payable for such benefits.

Funding of these amounts is anticipated to be part of the future annual appropriation process from the Commonwealth of Massachusetts.

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

Cash Held by Trustees

Cash held by trustees as of June 30, 2006 and 2005 consists of unspent bond proceeds of \$38,949 and \$57,914, respectively, from the MHEFA (Massachusetts Health and Educational Facilities Authority) tax-exempt revenue bonds and \$46,586 and \$531,308, respectively, in the debt service reserve fund (see Note 11).

Tuition

Recorded in the College's financial statements for the years ended June 30, 2006 and 2005 is tuition revenue of \$3,077,309 and \$2,947,761, respectively, received by the College and transmitted to the State Treasurer's Office for deposit to the general fund of the Commonwealth of Massachusetts. The amount of State Appropriations received by the College has been reduced by the corresponding amount.

State Appropriations

The College's unrestricted state appropriation is composed of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Direct appropriations	\$21,889,185	\$19,925,238
Add: Fringe benefits for employees on the Commonwealth payroll	5,472,769	4,912,315
Less: Tuition remitted to the Commonwealth	<u>(3,077,309)</u>	<u>(2,947,761)</u>
Total	<u>\$24,284,645</u>	<u>\$21,889,792</u>

Deferred Tuition and Fees

Tuition and fee revenue for summer programs, which overlap fiscal years, is deferred and recognized in the fiscal year in which the programs are conducted.

Fringe Benefits

The College 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 College. Workers' compensation costs are assessed separately based on the College's actual experience. The Commonwealth requires the College to record as a liability its portion of the future estimated workers' compensation benefits to be paid.

Student Fees

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

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

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

Restricted-nonexpendable: Net assets subject to externally imposed conditions that the College must maintain them in perpetuity.

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

The College has adopted a policy of generally first applying restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Foundation Investments and Endowment

Investments in marketable securities are stated at fair value.

Dividends, interest and net gains or losses on investments of endowments and similar funds are reported in the statement of revenues, expenditures and changes in net assets. Any net earnings not expended are included in the net asset categories as follows:

- (i) As increases in restricted-nonexpendable net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- (ii) As increases in restricted-expendable net assets if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the current use of the income or net gains; and
- (iii) As increases in unrestricted net assets in all other cases.

The Foundation employs a total return endowment utilization policy that establishes the amount of investment return made available for spending each year. This amount is independent of the actual return for the year, but cannot exceed the total income and accumulated net appreciation of the fund.

The Foundation has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as restricted-expendable.

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

Income Tax Status

The College 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.

2. Management Accounting and Reporting System:

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

3. Cash and Investments:

The College's cash management investment policy authorizes the College to invest in the Massachusetts Municipal Depository Trust ("MMDT") and the Common Fund.

GASB Statement No. 40 requires government entities to classify cash and investments and indicate the levels of credit risk, custodial risk, foreign currency risk, and interest rate risk assumed by the entity at year end. The College had no foreign currency investments or investments subject to interest rate risk at June 30, 2006.

The carrying amount of the College's bank deposits and deposits in trust depositories was \$17,274,122 and \$14,704,231 as compared to bank balances of \$17,920,026 and \$15,382,417 at June 30, 2006 and 2005, respectively. The differences between the carrying amount and the bank balances were caused by deposits in-transit and outstanding checks. Bank balances in the amount of \$17,730,058 at Peoples Bank and Berkshire Bank are insured by the Depositors Insurance Fund and are therefore not subject to custodial risk. Of such bank balances at June 30, 2005, \$100,000 was covered by federal deposit insurance and the remaining \$15,282,417 was uninsured and uncollateralized, and was subject to custodial risk.

The cost and fair value of cash and investments, excluding cash held by State Treasurer, at June 30 is:

	-----COLLEGE-----			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents:				
MMDT deposits	\$ 50,919	\$ 50,919	\$ 4,378,405	\$ 4,378,405
Bank accounts	17,172,384	17,172,384	4,364,573	4,364,573
Short-term investments:				
Common Fund	52,114	50,819	6,109,135	5,961,253
	\$17,275,417	\$17,274,122	\$14,852,113	\$14,704,231

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

3. Cash and Investments (continued):

	-----FOUNDATION-----			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents:				
Bank accounts	\$ 146,706	\$ 146,706	\$ 275,478	\$ 275,478
Short-term investments:				
Short-term Fund	400,503	400,503	470,925	470,925
Investments:				
Multi-Strategy Equity Fund	1,593,946	2,430,536	1,596,090	2,209,194
Multi-Strategy Bond Fund	1,095,677	1,159,754	902,251	993,348
Real Estate Security Fund	208,842	432,251	359,575	485,945
	\$3,445,674	\$4,569,750	\$3,604,319	\$4,434,890

The carrying amount of the College's deposits held by the State Treasurer is \$396,658 at June 30, 2006 and \$420,603 at June 30, 2005. These deposits are uninsured and are not collateralized.

The funds invested in MMDT and the Common Fund are held in safekeeping accounts in trust depositories in the name of the College and are uninsured. Common Fund short-term investments are not subject to interest rate risk. Investments in MMDT have a weighted average maturity of approximately 31 days, and therefore are not subject to significant interest rate risk.

4. Cash Held By The State Treasurer:

Accounts payable, accrued salaries, wages and withholdings to be funded from state appropriated funds totaled \$916,619 at June 30, 2006 and \$1,205,304 at June 30, 2005. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

5. Accounts Receivable:

The composition of the College's accounts receivable at June 30, 2006 and 2005 is summarized as follows:

	2006	2005
Student accounts receivable	\$ 889,591	\$ 704,391
Grants receivable	67,584	46,402
Other receivables	180,993	224,907
Total	1,138,168	975,700
Less allowance	(592,057)	(489,611)
Total accounts receivable, net	\$ 546,111	\$ 486,089

Loans receivable, net of \$796,784 at June 30, 2006 and \$916,909 at June 30, 2005 consist of Federal Perkins Loan Program funds:

WESTFIELD STATE COLLEGE
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Notes to Financial Statements
June 30, 2006

5. Accounts Receivable (continued):

	<u>2006</u>	<u>2005</u>
Perkins loans receivable – current	\$ 209,329	\$ 211,379
Perkins loans receivable - noncurrent	<u>980,558</u>	<u>1,014,571</u>
Total	1,189,887	1,225,950
Less allowance for doubtful accounts	<u>(393,103)</u>	<u>(309,041)</u>
Total loans receivable, net	<u>\$ 796,784</u>	<u>\$ 916,909</u>

The composition of the Foundation's accounts receivable at June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Grants and accounts receivable	\$ 273,922	
Contributions receivable – current	58,830	\$ 145,665
Contributions receivable - noncurrent	46,827	98,251
Less discount	<u>(11,669)</u>	<u>(21,848)</u>
Total accounts receivable, net	<u>\$ 367,910</u>	<u>\$ 222,068</u>

6. Related Party Transactions:

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

Certain Foundation Board members are also members of the Board of Directors and executives of Berkshire Bank, which holds the Foundation's mortgage note payable described in Note 10, and Westfield Bank, where the Foundation has its checking account.

7. Massachusetts State College Building Authority:

The Building Authority 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.

Assets of the Building Authority consist principally of land, buildings, construction in progress, furnishings and equipment. The assets attributable to the College amount to \$49,581,271 (unaudited) at June 30, 2006 and \$43,744,309 (unaudited) at June 30, 2005. Liabilities of the Building Authority consist principally of long-term debt obligations scheduled to mature through 2043 amounting to approximately \$144,932,000 (unaudited) at June 30, 2006 and \$148,901,000 (unaudited) at June 30, 2005 guaranteed by the Commonwealth which includes \$35,635,000 for a new dorm located at Westfield State College and \$3,824,000 for deferred maintenance projects. Because the facilities of the Building Authority are funded collectively from its long-term debt obligations, it is not practicable to determine the specific liability attributable to the College except where the Building Authority has separately identified the amount.

The College is obligated, under its contracts for financial assistance, management and services with the Building Authority, to collect rents, fees and other charges with respect to such facilities sufficient to pay principal and interest on the Building Authority's debt obligations based on occupancy rates of the dormitories.

The College's proportionate share of principal and interest on the debt obligations for the year ended June 30, 2006 amounted to \$4,563,833 (\$2,363,583, Fall Semester 2005 and \$2,200,250, Spring Semester 2006). For the year ended June 30, 2005, the College's proportionate share of principal and interest on the debt obligations amounted to \$2,744,803.

WESTFIELD STATE COLLEGE
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Notes to Financial Statements
June 30, 2006

8. Capital Assets:

Capital assets are stated at cost. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets. The College records a full year of depreciation in the year of acquisition. Land is not depreciated. The following table illustrates the range of useful lives for the College's depreciable assets:

Buildings and building improvements	20-40 years
Land improvements	20 years
Equipment and furnishings	3-10 years
Library books	5 years
Vehicles	5 years

Capital asset activity for the year ended June 30, 2006 is summarized as follows:

	-----COLLEGE-----				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 1,223,862	\$ -	\$ -	\$ -	\$ 1,223,862
Construction in progress	-	3,121,687	-	-	3,121,687
Total not being depreciated	<u>1,223,862</u>	<u>3,121,687</u>	<u>-</u>	<u>-</u>	<u>4,345,549</u>
Capital assets being depreciated:					
Buildings and building improvements	46,700,076	294,393	-	-	46,994,469
Land improvements	1,199,750	26,508	-	-	1,226,258
Equipment and furnishings	13,337,721	1,165,884	(541,225)	-	13,962,380
Library books	6,587,763	72,913	-	-	6,660,676
Vehicles	701,151	78,214	(15,597)	-	763,768
Total being depreciated	<u>68,526,461</u>	<u>1,637,912</u>	<u>(556,822)</u>	<u>-</u>	<u>69,607,551</u>
Less accumulated depreciation:					
Buildings and building improvements	(23,437,885)	(1,141,962)	-	-	(24,579,847)
Land improvements	(117,560)	(61,313)	-	-	(178,873)
Equipment and furnishings	(8,904,125)	(1,325,336)	522,304	-	(9,707,157)
Library books	(6,389,959)	(108,923)	-	-	(6,498,882)
Vehicles	(484,714)	(90,367)	15,597	-	(559,484)
Total accumulated depreciation	<u>(39,334,243)</u>	<u>(2,727,901)</u>	<u>537,901</u>	<u>-</u>	<u>(41,524,243)</u>
Capital assets, net	<u>\$30,416,080</u>	<u>\$2,031,698</u>	<u>\$ (18,921)</u>	<u>\$ -</u>	<u>\$32,428,857</u>

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

8. Capital Assets (continued):

	-----FOUNDATION-----				
	Beginning				Ending
	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>Balance</u>
Capital assets not being depreciated:					
Property held for future development	\$360,877	\$ -	\$ -	\$ -	\$360,877
Capital assets being depreciated:					
Land and buildings	131,144	-	-	-	131,144
Furniture and fixtures	34,617	-	-	-	34,617
Total being depreciated	165,761	-	-	-	165,761
Less accumulated depreciation:					
Land and Buildings	(48,314)	(3,772)	-	-	(52,086)
Furniture and fixtures	(34,617)	-	-	-	(34,617)
Total accumulated depreciation	(82,931)	(3,772)	-	-	(86,703)
		-			
Capital assets, net	\$443,707	\$(3,772)	\$ -	\$ -	\$439,935

9. Leases:

The College leases certain office equipment under cancelable operating leases and other equipment under capital leases. The following schedule summarizes future minimum payments under non-cancelable leases at June 30, 2006 and 2005:

	<u>Capital Leases</u>					
	<u>2006</u>			<u>2005</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006				\$270,863	\$42,972	\$ 313,835
2007	\$284,029	\$29,806	\$313,835	284,029	29,806	313,835
2008	266,875	16,590	283,465	266,875	16,590	283,465
2009	158,325	4,037	162,362	158,325	4,037	162,362
2010	7,770	114	7,884	7,770	114	7,884
Total	\$716,999	\$50,547	\$767,546	\$987,862	\$93,519	\$1,081,381

WESTFIELD STATE COLLEGE
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Notes to Financial Statements
June 30, 2006

9. Leases (continued):

Total rent expense under cancelable operating lease agreements was approximately \$143,000 and \$135,000 for the years ended June 30, 2006 and 2005, respectively.

10. Notes Payable:

In May 2003, the College entered into a five-year, 3.25% loan agreement for \$2,000,000 with Berkshire Bank to be used for the purchase of an administrative computer system. During 2005 this note was extended to a six-year loan. The outstanding balance on this note was \$1,117,602 and \$1,477,064 at June 30, 2006 and 2005, respectively.

The Foundation has a 5% note payable to a bank, due in 2007, that is payable in semi-annual payments of interest on the unpaid balance plus level principal payments of \$30,800. The note is collateralized by a power-of-sale first mortgage on the land located at 880 Russell Road Westfield, Massachusetts. The outstanding balance on this note was \$30,800 at June 30, 2006 and \$92,400 at June 30, 2005.

Future principal and interest payments are as follows:

Notes Payable – College

	<u>2006</u>			<u>2005</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006				\$ 359,463	\$42,681	\$ 402,144
2007	\$ 371,321	\$30,823	\$ 402,144	371,321	30,823	402,144
2008	383,570	18,574	402,144	383,570	18,574	402,144
2009	362,711	5,922	368,633	362,710	5,922	368,632
Total	\$1,117,602	\$55,319	\$1,172,921	\$1,477,064	\$98,000	\$1,575,064

Notes Payable –Foundation

	<u>2006</u>			<u>2005</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006				\$61,600	\$3,897	\$65,497
2007	\$30,800	\$783	\$31,583	30,800	783	31,583
Total	\$30,800	\$783	\$31,583	\$92,400	\$4,680	\$97,080

WESTFIELD STATE COLLEGE
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Notes to Financial Statements
June 30, 2006

11. Bonds Payable:

In August 2002, the College, through MHEFA (Massachusetts Health and Educational Facilities Authority), issued \$5,816,000 of MHEFA's tax-exempt revenue bonds. The bond principal is repayable in varying annual installments with the last installment due and payable on June 15, 2022. The bonds incur variable interest, payable monthly, at a rate determined by Flagship Bank and Trust Company. The interest rate on the bonds averaged 2.96% and 1.63% and interest expense was \$139,761 and \$93,457 for the years ended June 30, 2006 and 2005, respectively. Interest income earned on unspent bond proceeds was \$6,574 and \$10,173 for the years ended June 30, 2006 and 2005, respectively. At June 30, 2006, \$4,658,533 was outstanding on the bonds and at June 30, 2005, \$5,313,074 was outstanding on the bonds.

The College has a \$5,887,704 letter of credit agreement with Bank of America. The agreement is to be used to support the above-mentioned MHEFA revenue bonds. Under the terms of the agreement, the College 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 College with regard to incurring additional debt and requires the College to maintain a minimum amount of unrestricted cash and cash equivalents, and to maintain a debt service ratio and debt service reserve fund. Fees paid under the terms of the agreement were \$62,002 and \$10,925 at June 30, 2006 and 2005, respectively.

Future principal payments and estimated interest payments on outstanding bonds as of June 30, 2006 and 2005 are as follows:

	<u>2006</u>			<u>2005</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006				\$ 188,689	\$ 82,060	\$ 270,749
2007	\$ 181,804	\$ 137,660	\$ 319,464	199,985	79,461	279,446
2008	191,953	132,287	324,240	211,148	76,707	287,855
2009	204,178	126,615	330,793	224,596	73,800	298,396
2010	216,400	120,582	336,982	238,041	70,707	308,748
2011	229,355	114,187	343,542	252,290	67,429	319,719
2012 and thereafter	3,634,843	706,564	4,341,407	3,998,325	460,061	4,458,386
Total	\$4,658,533	\$1,337,895	\$5,996,428	\$5,313,074	\$910,225	\$6,223,299

12. Leases and Long-term Liabilities:

Long-term liabilities at June 30, 2006 consist of:

	-----FOUNDATION-----				
	<u>Beginning</u>			<u>Ending</u>	<u>Current</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Leases and notes payable:					
Notes payable	\$92,400	\$ -	\$(61,600)	\$30,800	\$30,800

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2006

12. Leases and Long-term Liabilities (continued):

	-----COLLEGE-----				
	Beginning			Ending	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Leases, notes, and bonds payable:					
Lease obligations	\$ 987,862	\$ -	\$ (270,863)	\$ 716,999	\$ 284,029
Notes payable	1,477,064	-	(359,462)	1,117,602	371,321
Bonds payable	5,313,074	-	(654,541)	4,658,533	181,804
Total leases, notes and bonds payable	7,778,000	-	(1,284,866)	6,493,134	837,154
Other long-term liabilities:					
Compensated absences	2,682,323	166,050	-	2,848,373	1,919,944
Employee retirement liability	116,464	-	(58,232)	58,232	58,232
Workers' compensation	527,938	18,258	-	546,196	107,601
Grants refundable	994,606	-	-	994,606	-
	4,321,331	184,308	(58,232)	4,447,407	2,085,777
Total long-term liabilities	\$12,099,331	\$184,308	\$(1,343,098)	\$10,940,541	\$2,922,931

13. Fringe Benefits:

The College's portion of fringe benefit costs for trust and grant funded employees (health insurance, pension benefits and administrative costs) was approximately \$1,299,000 and \$1,260,000 for the years ended June 30, 2006 and 2005, respectively. The Commonwealth's portion of fringe benefits paid by the Commonwealth on behalf of certain state funded employees of the College was approximately \$5,473,000 and \$4,912,000 for the years ended June 30, 2006 and 2005, respectively and has been reflected in the accompanying financial statements.

Under a directive from the Commonwealth, the College has recorded a liability for workers' compensation claims outstanding of \$546,196 and \$527,938 as of June 30, 2006 and 2005, respectively. Such amount has been included under the caption "Accrued liability for employee compensation and benefits, and accounts payable and accrued liabilities" in the accompanying statement of net assets. The undiscounted amount represents the College's estimate of the ultimate liability for medical and indemnity costs on outstanding claims. Worker's compensation costs assessed by the Commonwealth were approximately \$121,000 and \$145,000 for the years ended June 30, 2006 and 2005, respectively.

WESTFIELD STATE COLLEGE
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Notes to Financial Statements
June 30, 2006

14. Retirement Plan:

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of employees who participate in the State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all non-student employees. The College makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to approximately \$323,000 for the year ended June 30, 2006 and \$428,000 for year ended June 30, 2005. The annuity portion of the SERS is funded by employees who contribute a percentage of their regular compensation. Annual covered payroll approximated 89.6% of annual total payroll for the College for 2006 and 2005.

15. Commitments and Contingencies:

Litigation

The College is a defendant in several lawsuits; however, College management is of the opinion that the ultimate outcome of all litigation will not have a material adverse effect on its statement of net assets, statement of revenues, expenditures and changes in net assets, or its cash flows.

Report of Independent Auditors on Accompanying Information

To the Trustees of Westfield State College:

The report on our audits of the basic financial statements of Westfield State College as of June 30, 2006 and 2005 and for the years then ended, which references the work of other auditors, appears on page iv of this document. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on pages 29 through 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

August 18, 2006

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Supplementary Information
Building Authority Trust Fund
Statement of Net Assets
June 30, 2006 and June 30, 2005

ASSETS	2006	2005
Current Assets		
Cash and cash equivalents	\$ 1,160,904	\$ 929,213
Accounts receivable, net	13,099	11,842
Deposits held by State Treasurer	124,529	167,280
Commission receivable	2,877	790
Prepaid expenses	-	425
Total current assets	<u>1,301,409</u>	<u>1,109,550</u>
Total assets	<u><u>1,301,409</u></u>	<u><u>1,109,550</u></u>
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	194,785	58,543
Accrued employee compensation and benefits	251,034	266,161
Deposits held	354,425	308,897
Other liabilities	440	185
Total current liabilities	<u>800,684</u>	<u>633,786</u>
Noncurrent Liabilities		
Accrued liability for employee compensation and benefits	<u>29,810</u>	<u>29,980</u>
Total noncurrent liabilities	<u>29,810</u>	<u>29,980</u>
Total liabilities	<u>830,494</u>	<u>663,766</u>
 NET ASSETS		
Unrestricted	<u>470,915</u>	<u>445,784</u>
Total net assets	<u><u>\$ 470,915</u></u>	<u><u>\$ 445,784</u></u>

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Supplementary Information
Building Authority Trust Fund
Statement of Revenues, Expenditures and Changes in Net Assets
For the Years Ended June 30, 2006 and June 30, 2005

Revenues	<u>2006</u>	<u>2005</u>
Operating Revenues		
Room rent	\$ 9,415,228	\$ 6,725,923
Commissions-vending	27,554	31,526
Commissions-laundry	46,491	39,632
Deposits forfeited	42,032	46,146
Other sources	83,773	68,068
	<u>9,615,078</u>	<u>6,911,295</u>
Total operating revenues		
 Expenses		
Operating Expenses		
Employee compensation	1,895,487	1,697,297
Employee related expenses	9,843	6,307
Special employees	400,557	347,101
Pension and insurance	540,380	482,178
Administrative expenses	61,647	50,242
Facility operations supplies	164,595	160,992
Energy costs	1,236,013	840,000
Consultant services	13,740	20,469
Operational services	181,531	163,394
Equipment purchase	53,486	48,896
Equipment lease, rental and maintenance	16,082	6,589
Student travel	426	2,441
Scholarships	125,000	59,000
Repairs and maintenance	327,327	185,209
Annual payment to the Massachusetts State College Building Authority	4,563,833	2,744,803
	<u>9,589,947</u>	<u>6,814,918</u>
Total operating expenses		
 Increase in net assets	25,131	96,377
Net Assets - beginning of year	<u>445,784</u>	<u>349,407</u>
Net Assets - end of year	<u>\$ 470,915</u>	<u>\$ 445,784</u>