

WESTFIELD STATE COLLEGE



ANNUAL REPORT

June 30, 2003

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(As of June 30, 2003)

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**WESTFIELD
STATE
COLLEGE**

**ANNUAL
REPORT**
as of June 30, 2003
(Audited)

Fiscal Year 2003
(July 1, 2002 - June 30, 2003)

FINANCIAL ADMINISTRATION

Nick A. Wojtowicz, B.S.
Vice President for Finance

Lisa M. Freeman, B.S.B.A.
Financial Accounting Manager

Transmittal Letter

The annual report for fiscal year ended June 30, 2003 is presented to President Woodward 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. A significant change to this year's format from the past is the reporting of fiscal year 2003 and 2002 comparison data for both the College (Primary Institution) and the Westfield State College Foundation (Component Unit).

The annual state appropriation to the College continues to decline. From fiscal year 2001 to fiscal year 2002, the College's appropriation was reduced by \$1.2 million. From fiscal year 2002 to fiscal year 2003, the final appropriation was reduced by another \$1.1 million. Included in the fiscal year 2003 reductions were Governor mandated reversions of \$150,294 and \$308,124. To help offset these state reductions and enable the College to fulfill its mission and provide required services to the community, the College has taken the following actions: (1) Raised local fees by \$100 in fiscal year 2002 and by \$799 in fiscal year 2003, (2) continued to increase day enrollment from an all time high of 3,638 FTE in fiscal year 2002 to 3,784 FTE in fiscal year 2003, (3) reduced most departmental budgets by 10% in each year, (4) implemented a hiring freeze on certain positions and (5) received authorization from the Board of Trustees to allocate reserve funds totaling \$2.6 million. These proactive management decisions contributed to the increase in net assets of \$2.1 million for fiscal year 2002 to \$4.5 million for fiscal year 2003.

The College completed a Risk Assessment during the fiscal year. PricewaterhouseCoopers LLP was contracted to provide management with this comprehensive assessment of the entire campus. Key personnel were interviewed and were also asked to complete a questionnaire. General industry risk factors were initially identified ranging from size and complexity of operations, college culture, changing technology to economic conditions. On a range of 1 (low) to 5 (high), the highest risk factor identified was 2.70. The College is in the process of evaluating these scores and will continue this analysis until each risk area is addressed. The effects of the College's internal controls are evident in the results of this risk study.

The completion of the academic/athletic facility is on schedule to be ready for operation during fiscal year 2004. This \$15.4 million project was funded with local and state appropriated funds. The College secured a 20-year variable interest loan with MHEFA (Massachusetts Health & Educational Facility Authority) in the amount of \$5.8 million. The average monthly interest rate paid during fiscal year 2003 was 1.31%. All but \$2,725 of this amount was disbursed during fiscal year 2003. The Commonwealth's share of \$9.6 million will be disbursed during fiscal year 2004.

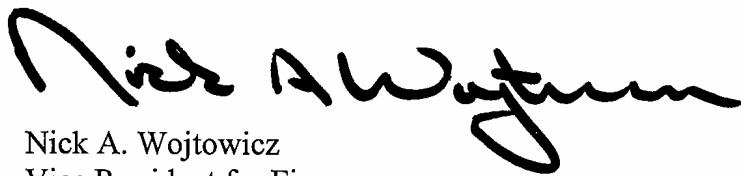
Even with this newly acquired debt, the semi-annual financial covenants required by Fleet Bank indicate the College has ample room for future debt to finance capital projects. The minimum debt service coverage ratio must be greater than 1.25 times, the cash and unrestricted liquidity to funded debt must be greater than .50 and the maximum loan to value can not be greater than 80%. As of June 30, 2003, these covenants totaled 6.40, 1.8 and 40.11%, respectively.

During fiscal year 2003, the College completed capital and deferred maintenance projects totaling approximately \$3.7 million. Some of the major projects included a new roof at 333 Western Avenue; \$429,000, telephone system upgrade; \$607,000, P/C's in laboratories and offices that are part of the annual replacement program; \$336,000, conversion to a new e-mail system; \$201,000, and replacement of several kitchen appliances in the main dining area; \$125,000. All of these projects were funded with local College trust funds.

The College signed a 10-year contract with the Pepsi Bottling Group. Over the ten year period, the College is expected to earn approximately \$811,341 in partnership support, commissions and equipment. The College is also in the process of implementing a new administrative software system from SCT called Banner. Most of the applications including admissions, billing and finance are expected to go live July 1, 2004. The funding for this \$2.5 million project was split between \$500,000 of College reserves and a \$2 million, 5-year, 3.2955 interest rate, loan from Woronoco Savings Bank of Westfield, Massachusetts.

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 and staff of PricewaterhouseCoopers LLP.

Respectfully submitted,



Nick A. Wojtowicz
Vice President for Finance



PricewaterhouseCoopers LLP
100 Pearl Street
Hartford CT 06103
Telephone (860) 241 7000
Facsimile (860) 241 7590

Report of Independent Accountants

To the Trustees of Westfield State College

In our opinion, based on our audit and the report 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") at June 30, 2003 and 2002, 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 assets of \$4,518,918 and \$3,989,868 as of June 30, 2003 and 2002, respectively, and increase in net assets of \$566,384 and \$247,010 for the years then ended, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Westfield State College Foundation, Inc., is based solely on the report 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 of America. 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, 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.

Management's Discussion and Analysis on pages 1 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1 to the financial statements, as of July 1, 2001, the College adopted Governmental Accounting Standards Board Statement (GASB) No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities" which amended GASB No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" to apply to public colleges and universities, GASB No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus", and GASB No. 38, "Certain Financial Statement Note Disclosures".

PricewaterhouseCoopers LLP

August 22, 2003

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, 2003, with selected comparative information for the year ended June 30, 2002. 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 financial statements, footnotes and this discussion are the responsibility of management.

Westfield State College is a comprehensive public institution of higher learning with approximately 4,300 FTE day and evening students combined. The College offers 25 academic undergraduate majors in both the traditional arts and sciences and in professional fields. 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.

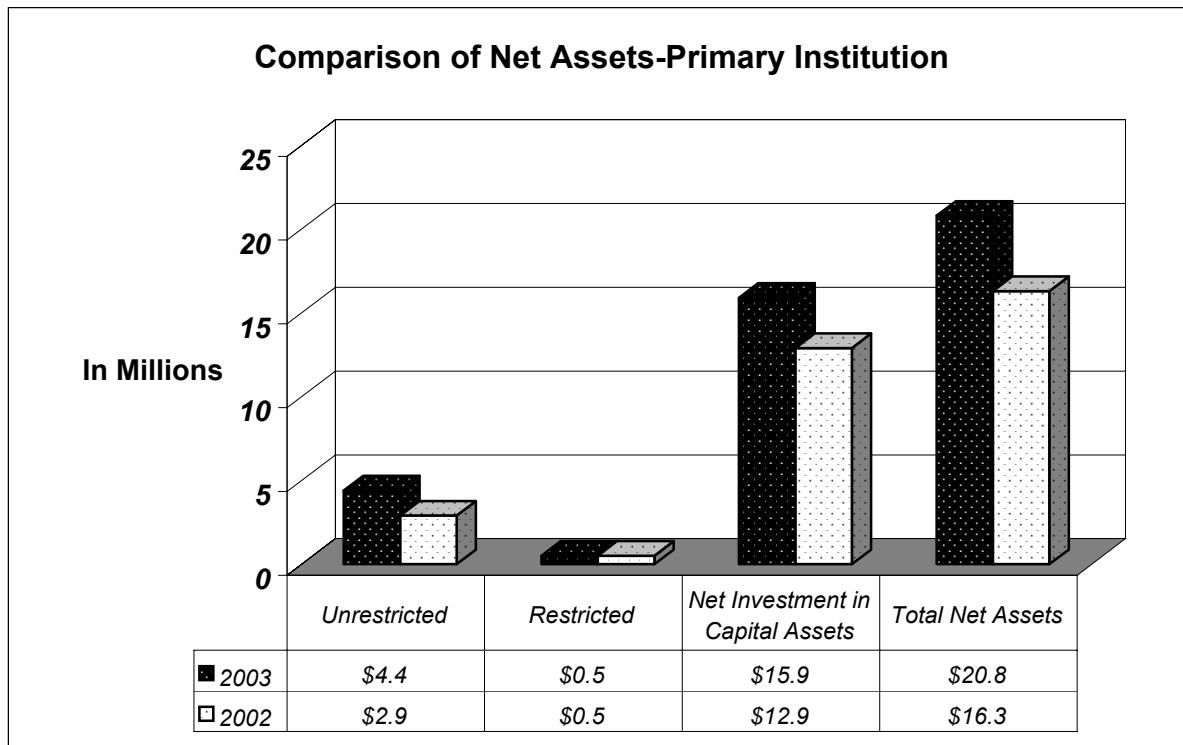
Westfield State College Foundation, Inc. is a not-for-profit corporation operated exclusively for charitable, scientific, and educational purposes related to Westfield State College, including such activities as soliciting or receiving tangible property, rendering financial aid, promoting and supporting 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 represented 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, 2003 and 2002 are shown below:



- The College's financial position improved significantly during the fiscal year ended June 30, 2003, with a \$4.5 million or 27.3% increase in total net assets. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, increased to \$20.8 million from \$16.3 million in 2002.
- Expenses incurred during fiscal year 2003 totaled \$48 million. Revenues from tuition and fees, state capital support and appropriations, grants, and other sources totaled \$52.5 million resulting in an increase in net assets of \$4.5 million as compared to an increase of \$2.1 million for the year ended June 30, 2002.
- The increase in net assets is attributable to many factors including the acquisition of capital assets associated with the new academic/athletic facility, various building improvement projects, a new telephone system and administrative system software and installation, a combined increase in general and technology fees of \$799 per student coupled with budget imposed decreases in departmental spending and salary and related benefits reductions as a result of the early retirement incentive.

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 condition 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. The 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 10-13 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 14-27 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. For the year ended June 30, 2003, Westfield State College's financial position remained strong with a combined (College and Foundation) net asset increase of \$5.0 million as compared to a combined net asset increase of \$2.4 million as of June 30, 2002.

Westfield State College's Condensed Statement of Net Assets As of June 30, 2003 and 2002

	Primary Institution	Primary Institution	Component Unit- Foundation	Component Unit- Foundation
	2003	2002	2003	2002
Current Assets	\$15,478,999	\$11,970,352	\$894,927	\$ 458,671
Non-current Assets				
Capital Assets, net of depreciation	20,979,572	14,957,929	451,251	455,402
Other	<u>2,575,580</u>	<u>606,302</u>	<u>3,172,740</u>	<u>3,075,795</u>
Total Assets	<u>39,034,151</u>	<u>27,534,583</u>	<u>4,518,918</u>	<u>3,989,868</u>
Current Liabilities	9,278,388	7,278,765	267,238	256,372
Non-current Liabilities	<u>8,955,044</u>	<u>3,918,783</u>	<u>154,000</u>	<u>202,200</u>
Total Liabilities	<u>18,233,432</u>	<u>11,197,548</u>	<u>421,238</u>	<u>458,572</u>
Net Assets				
Invested in Capital Assets, net of				
Related debt	15,930,016	12,909,179	235,651	178,202
Restricted for: Nonexpendable	-	2,471	1,672,364	1,493,818
Restricted for: Expendable	465,913	540,915	1,102,065	766,854
Unrestricted	<u>4,404,790</u>	<u>2,884,470</u>	<u>1,087,600</u>	<u>1,092,422</u>
Total Net Assets	<u>\$20,800,719</u>	<u>\$16,337,035</u>	<u>\$4,097,680</u>	<u>\$3,531,296</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 (65%), these capital assets are used to provide services to students, faculty and administration; consequently, these assets are not available for future spending. The \$3.1 million increase in net assets invested in capital assets 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 (6%) represents scholarships, grants, and donations that are subject to external restrictions on how they must be used. Restricted nonexpendable net assets (7%) primarily include Westfield State College's endowment funds. The remaining balance of unrestricted net assets (22%) 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, 2003 and 2002 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, 2003 and 2002, 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
As of June 30, 2003 and 2002**

	Primary Institution 2003	Primary Institution 2002	Component Unit- Foundation 2003	Component Unit- Foundation 2002
Operating Revenue				
Tuition and fees	\$18,357,166	\$15,055,185	-	-
Less: Student Financial Aid	(2,408,609)	(2,103,692)	-	-
Federal, state and private grants and contracts	4,712,596	4,525,555	-	-
Auxiliary operations	9,584,199	9,007,814	-	-
Other sources	<u>429,884</u>	<u>372,152</u>	<u>\$ 52,054</u>	<u>\$ 36,729</u>
Total Operating revenue	30,675,236	26,857,014	52,054	36,729
Less: Operating expenses	<u>47,957,114</u>	<u>48,202,017</u>	<u>391,175</u>	<u>546,424</u>
Net operating loss	(17,281,878)	(21,345,003)	(339,121)	(509,695)
Non-operating Revenue				
State appropriation, net	21,287,448	23,023,781	-	-
Private gifts and grants	-	-	573,094	793,896
Net investment income (loss)	443,376	329,481	128,508	(141,052)
Interest on capital asset-related debt	<u>(83,566)</u>	<u>(112,332)</u>	<u>(12,504)</u>	<u>(7,403)</u>
Total non-operating revenue	<u>21,647,258</u>	<u>23,240,930</u>	<u>689,098</u>	<u>645,441</u>
Income before other revenues, expenses, gains or losses	4,365,380	1,895,927	349,977	135,746
Related entity transfers	(37,861)	(25,000)	37,861	25,000
Additions to permanent endowment	-	-	178,546	86,264
State capital appropriations	<u>136,165</u>	<u>276,213</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	4,463,684	2,147,140	566,384	247,010
Net Assets-beginning of year	<u>16,337,035</u>	<u>14,189,895</u>	<u>3,531,296</u>	<u>3,284,286</u>
Net Assets-end of year	<u>\$20,800,719</u>	<u>\$16,337,035</u>	<u>\$4,097,680</u>	<u>\$3,531,296</u>

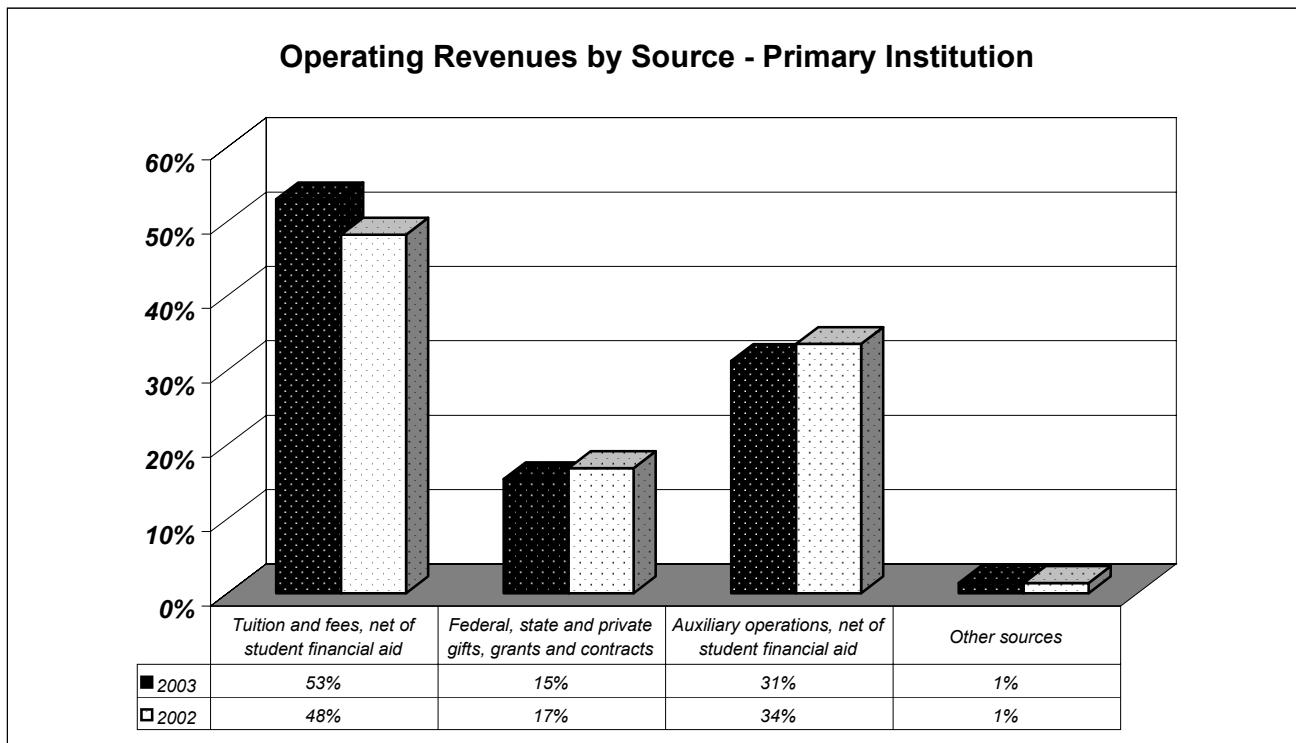
**Westfield State College's Condensed Statement of Cash Flows
As of June 30, 2003 and 2002**

	Primary Institution 2003	Primary Institution 2002	Component Unit- Foundation 2003	Component Unit- Foundation 2002
Cash received from operating activities	\$37,951,340	\$33,855,800	\$ 52,054	\$ 63,186
Cash expended for operating activities	<u>(47,708,806)</u>	<u>(48,650,699)</u>	<u>(350,653)</u>	<u>(546,700)</u>
Net cash used by operating activities	(9,757,466)	(14,794,899)	(298,599)	(483,514)
Net cash provided by noncapital financing activities	17,520,162	19,248,548	688,517	257,879
Net cash used by capital and related financing activities	(3,047,890)	(2,392,052)	(74,104)	(120,214)
Net cash provided by investing activities	<u>123,044</u>	<u>73,465</u>	<u>117,085</u>	<u>19,397</u>
Net increase (decrease) in cash	4,837,850	2,135,062	432,899	(326,452)
Cash – beginning of year	<u>5,635,222</u>	<u>3,500,160</u>	<u>295,995</u>	<u>622,447</u>
Cash – end of year	<u>\$10,473,072</u>	<u>\$ 5,635,222</u>	<u>\$728,894</u>	<u>\$295,995</u>

Westfield State College's combined liquidity improved during the year with a \$5.3 million increase in cash. The following discussion amplifies the overview of cash flows presented above.

For the year ended June 30, 2003, the College's cash used by operating activities decreased approximately \$5.0 million over the prior year. This was due in part to an increase in cash received for tuition and fees of \$2.6 million combined with a decrease in amounts paid to employees of \$1.8 million. State appropriations decreased by \$1.4 million during the current year, which resulted in the decrease in net cash provided by noncapital financing activities. Cash used by capital and related financing activities increased approximately \$656,000 due to various factors including higher principal debt and interest payments, a decrease in state capital appropriations and an increase in purchases of capital assets. More favorable market conditions during the fiscal year ended June 30, 2003 resulted in a slight increase in cash provided by investing activities of approximately \$50,000.

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, 2003 and 2002.



The College's operating revenues consist primarily of tuition and fee revenue and auxiliary operations. Tuition and fee revenue increased \$3.3 million or 22% during the fiscal year ended June 30, 2003. Major factors impacting the increase include higher than previous year enrollment, an increase in general student fees of \$659 per student (\$.5million) and an increase in technology fees of \$140 per student (\$.5million).

Tuition and fees received by the College include the following:

	June 30, 2003	June 30, 2002
Tuition	\$7,589,997	\$7,354,748
Student Activity Fees:		
General fees	8,581,854	6,044,845
Student fees	719,317	702,002
Technology fees	1,226,653	729,326
Miscellaneous fees	<u>239,345</u>	<u>224,264</u>
Total	<u>\$18,357,166</u>	<u>\$15,055,185</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 \$9,584,199 and \$9,007,814 (which is net of scholarship allowances of \$1,476,244 and \$1,461,887) for the years ended June 30, 2003 and 2002, respectively. The increase in revenues of \$576,000 or 6.4% is attributable to the increase in room and board charges for the year ended June 30, 2003.

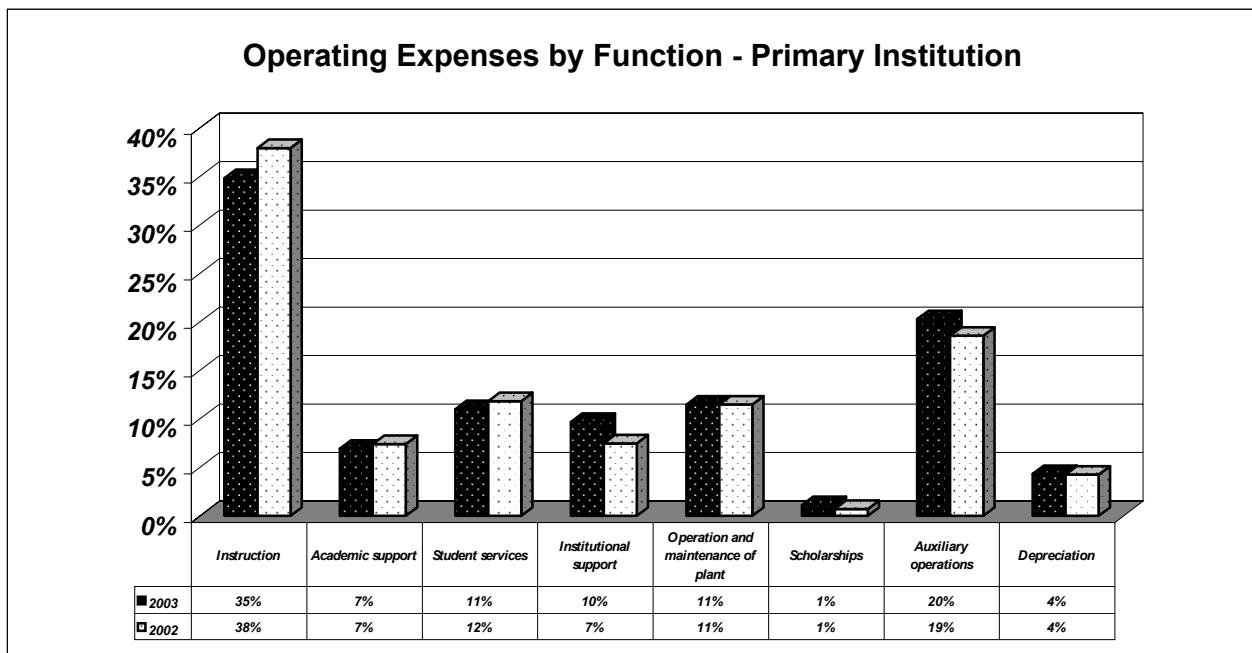
Major grants and contracts received by Westfield State College for the years ended June 30, 2003 and 2002 included the following:

U.S. Department of Education - Student Support Services \$245,057 (2003) \$256,995 (2002)

U.S. Department of Education - College Work Study \$368,333 (2003 and 2002)

U.S. Department of Education - SEOG \$295,448 (2003 and 2002)

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2003 and 2002.



A summary of the College's expenses by functional classification for the years ended June 30, 2003 and 2002 is as follows:

	June 30, 2003	June 30, 2002
Instruction	\$16,708,934	\$18,281,858
Public service	151,467	159,775
Academic support	3,325,757	3,569,216
Student services	5,279,716	5,700,858
Institutional support	4,649,315	3,599,873
Operation and maintenance of plant	5,496,590	5,534,576
Scholarships and fellowships	531,306	340,775
Auxiliary operations	9,736,618	8,958,755
Loss on disposal of assets	8,676	21,164
Depreciation	<u>2,068,735</u>	<u>2,035,167</u>
Total	<u>\$47,957,114</u>	<u>\$48,202,017</u>

The College's total operating expenses decreased during fiscal year ended June 30, 2003 by \$244,903 or .5% due to various factors including a reduction in salaries and associated fringe benefits as a result of the early retirement incentive program effective June 30, 2002 and budget mandated departmental spending decreases. These decreases were offset by expense increases related to higher utility costs, increases in scholarship expense, and increases in auxiliary operations expense.

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, 2003 and 2002.

	June 30, 2003	June 30, 2002
Tuition and fees	\$18,357,166	\$15,055,185
Other revenue, net of Student Financial Aid	12,318,070	11,801,829
Operating expenses	<u>47,957,114</u>	<u>48,202,017</u>
Operating loss	<u>(17,281,878)</u>	<u>(21,345,003)</u>
Commonwealth direct appropriation, fringe benefits for Commonwealth employees, net of tuition remitted to the Commonwealth	21,287,448	23,023,781
Investment Income	443,376	329,481
Interest on capital asset-related debt	(83,566)	(112,332)
Related entity transfers	(37,861)	(25,000)
State capital appropriation	<u>136,165</u>	<u>276,213</u>
Non-operating revenues	<u>21,745,562</u>	<u>23,492,143</u>
Increase in net assets	<u>\$ 4,463,684</u>	<u>\$ 2,147,140</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.

Capital Assets and Debts of Westfield State College

Westfield State College's investment in capital assets, net of accumulated depreciation, as of June 30, 2003 and 2002 was \$21,430,823 and \$15,413,331, respectively. This investment in capital assets includes land, buildings and improvements, furnishings and equipment, construction in progress, and library books. The capital asset increase of \$6.0 million or 39% during the fiscal year ended June 30, 2003 was due to purchases outpacing depreciation expense. Purchases during the fiscal year ended June 30, 2003 amounted to \$8,099,054 as compared to \$2,367,635 as of June 30, 2002. Major purchases during 2003 include construction expenses related to the academic/athletic facility in progress at June 30, 2003 (\$5,200,000), the roof replacement to the administration building at 333 Western Avenue (\$429,000), the installation of a new e-mail system including hardware and software (\$199,000), the installation of a new telephone system (\$534,000), the installation of the new administrative computing system called Banner, including hardware, software and installation costs (\$604,000), and the purchase of many computers for faculty and staff (\$232,000).

The construction of the new academic/athletic facility began in August 2002. The completion of this 80,000 square foot two-story building is expected to take place in early 2004. This facility will be shared by the Athletic Department and the Movement Science Department. The surrounding community will also have access to the facility. The Commonwealth of Massachusetts and the College will share 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, 2003 the outstanding debt on the MHEFA borrowing amounted to \$5,658,206.

Economic Factors That Will Affect the Future

Approximately 41% of the College's operational budget depends on revenue from the state (i.e. the state's allocation to its agencies, of which the college is but one of numerous major state agencies funded). When the state's revenue declines, legislative action has been to reduce the state's allocation to the college. Given the current downturn in state revenues and a state tax rollback voted by the electorate in the last general election, the College will receive \$2.9 million dollars (14%) less from the state in fiscal year 2004 than it received in fiscal year 2003. As a result, campus-wide action was taken reducing departmental budgets, restricting travel and equipment purchases except for technology and classroom equipment, and maintaining some open positions until this fiscal crisis is over. The College increased its annual local fees by \$800 per student. These actions will enable the college to fulfill its overall mission, provide needed scholarship support, maintain deferred maintenance projects, and remain competitive among the public institutions. The academic role of the campus will not be impacted.

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Net Assets
June 30, 2003 and June 30, 2002

	2003		2002	
	Primary Institution	Component Unit-Foundation	Primary Institution	Component Unit-Foundation
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 7,758,285	\$ 728,894	\$ 4,746,386	\$ 295,995
Restricted cash and cash equivalents			12,153	
Cash held by State Treasurer	717,028		874,212	
Short-term investments	5,709,613		5,389,281	
Accounts receivable, net	290,611	164,813	171,882	129,514
Due from related entity			19,837	
Restricted accounts receivable	50,935		36,634	
Loans receivable	207,965		195,660	
Inventories	372,171		316,905	12,000
Deposits held by State Treasurer	365,315		223,573	
Prepaid expenses	7,076	1,220	3,666	1,325
Total current assets	<u>15,478,999</u>	<u>894,927</u>	<u>11,970,352</u>	<u>458,671</u>
Noncurrent Assets				
Cash held by Trustees	1,997,759			
Restricted cash and cash equivalents			2,471	
Investments		2,736,562		2,725,139
Accounts receivable, net		436,178		350,656
Loans receivable, net	577,821		603,831	
Capital assets, net	20,979,572	451,251	14,957,929	455,402
Total noncurrent assets	<u>23,555,152</u>	<u>3,623,991</u>	<u>15,564,231</u>	<u>3,531,197</u>
Total assets	<u>\$ 39,034,151</u>	<u>\$ 4,518,918</u>	<u>\$ 27,534,583</u>	<u>\$ 3,989,868</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 2,941,226	\$ 21,448	\$ 1,050,345	\$ 5,507
Accrued liability for employee compensation and benefits	3,861,749		3,576,594	
Accrued employee retirement liability	124,439		124,439	
Deferred tuition and other revenue	1,405,645		1,466,063	
Due to related entity			19,837	
Deposits held	307,260		301,453	
Assets held in custody for others	40,000	184,190	48,787	175,865
Current portion of capital lease obligations	190,606		181,897	
Current portion of bonds payable	167,101			
Current portion of notes payable	221,354	61,600	477,743	75,000
Other liabilities	19,008		31,607	
Total current liabilities	<u>9,278,388</u>	<u>267,238</u>	<u>7,278,765</u>	<u>256,372</u>
Noncurrent Liabilities				
Accrued liability for employee compensation and benefits	1,367,745		1,286,189	
Accrued employee retirement liability	124,439		248,878	
Grants refundable	994,606		994,606	
Capital lease obligations	977,149		1,167,756	
Bonds payable	5,491,105			
Notes payable		154,000	221,354	202,200
Total noncurrent liabilities	<u>8,955,044</u>	<u>154,000</u>	<u>3,918,783</u>	<u>202,200</u>
Total liabilities	<u>18,233,432</u>	<u>421,238</u>	<u>11,197,548</u>	<u>458,572</u>
NET ASSETS				
Invested in capital assets, net of related debt	15,930,016	235,651	12,909,179	178,202
Restricted for:				
Expendable	465,913	1,102,065	540,915	766,854
Non-expendable		1,672,364	2,471	1,493,818
Unrestricted	4,404,790	1,087,600	2,884,470	1,092,422
Total net assets	<u>\$ 20,800,719</u>	<u>\$ 4,097,680</u>	<u>\$ 16,337,035</u>	<u>\$ 3,531,296</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, 2003 and June 30, 2002

	2003		2002	
	Primary <u>Institution</u>	Component <u>Unit-Foundation</u>	Primary <u>Institution</u>	Component <u>Unit-Foundation</u>
Revenues				
Operating Revenues				
Tuition and fees	\$ 18,357,166		\$ 15,055,185	
Less: Student Financial Aid	(2,408,609)		(2,103,692)	
Federal grants and contracts	2,568,889		2,362,575	
State grants and contracts	1,485,369		1,499,665	
Private grants and contracts	658,338		663,315	
Public service	81,098		55,761	
Interest earned on loans to students	22,526		26,350	
Auxiliary operations, net of scholarship allowances of \$1,476,244, in 2003 and \$1,461,887, in 2002	9,584,199		9,007,814	
Other sources	326,260	\$ 52,054	290,041	\$ 36,729
Total operating revenues	<u>30,675,236</u>	<u>52,054</u>	<u>26,857,014</u>	<u>36,729</u>
Expenses				
Operating Expenses				
Instruction	16,708,934		18,281,858	
Public service	151,467		159,775	
Academic support	3,325,757	67,373	3,569,216	74,166
Student services	5,279,716	1,025	5,700,858	1,369
Institutional support	4,649,315	267,826	3,599,873	402,958
Operation and maintenance of plant	5,496,590		5,534,576	
Scholarships and fellowships	531,306	50,800	340,775	63,875
Auxiliary operations	9,736,618		8,958,755	
Loss on disposal of assets	8,676		21,164	
Depreciation	2,068,735	4,151	2,035,167	4,056
Total operating expenses	<u>47,957,114</u>	<u>391,175</u>	<u>48,202,017</u>	<u>546,424</u>
Operating loss	<u>(17,281,878)</u>	<u>(339,121)</u>	<u>(21,345,003)</u>	<u>(509,695)</u>
Nonoperating Revenues (Expenses)				
State appropriation, net	21,287,448		23,023,781	
Private gifts and grants		573,094		793,896
Net investment income (loss)	443,376	128,508	329,481	(141,052)
Interest on capital asset - related debt	(83,566)	(12,504)	(112,332)	(7,403)
Net nonoperating revenues	<u>21,647,258</u>	<u>689,098</u>	<u>23,240,930</u>	<u>645,441</u>
Income before other revenues, expenses, gains, losses, and transfers	4,365,380	349,977	1,895,927	135,746
Related entity transfers	(37,861)	37,861	(25,000)	25,000
State capital appropriation	136,165		276,213	
Additions to permanent endowment		178,546		86,264
Increase in net assets	4,463,684	566,384	2,147,140	247,010
Net Assets - beginning of year, as reported	16,337,035	3,531,296	42,431,842	3,284,286
Cumulative effect of adoption of accounting principles			(28,241,947)	
Net Assets - beginning of year, as adjusted	16,337,035	3,531,296	14,189,895	3,284,286
Net Assets - end of year	<u>\$ 20,800,719</u>	<u>\$ 4,097,680</u>	<u>\$ 16,337,035</u>	<u>\$ 3,531,296</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, 2003 and June 30, 2002

	2003		2002	
	<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	\$ 15,853,843		\$ 13,298,196	
Grants and contracts	4,711,117		4,514,477	
Payments to suppliers	(13,235,522)	\$ (299,853)	(13,401,994)	\$ (482,825)
Payments to employees	(26,478,785)		(28,318,883)	
Payments to students	(531,306)	(50,800)	(340,775)	(63,875)
Direct lending receipts	7,220,757		6,429,200	
Direct lending disbursements	(7,220,757)		(6,429,200)	
Loans issued to students	(242,436)		(159,847)	
Collections of loans to students	257,184		207,146	
Other receipts	9,908,439	52,054	9,406,781	63,186
Net cash used by operating activities	<u>(9,757,466)</u>	<u>(298,599)</u>	<u>(14,794,899)</u>	<u>(483,514)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriation	17,577,860		18,945,393	
Private gifts and grants		630,819	3,161	557,873
Related entity transfers	<u>(57,698)</u>	<u>57,698</u>	<u>299,994</u>	<u>(299,994)</u>
Net cash provided by noncapital financing activities	<u>17,520,162</u>	<u>688,517</u>	<u>19,248,548</u>	<u>257,879</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	136,165		276,213	
Proceeds from capital debt	5,816,000			
Purchases of capital assets	(8,099,054)		(1,977,624)	(81,906)
Principal paid on capital leases	(181,898)		(173,586)	
Interest paid on capital leases	(60,309)		(68,619)	
Principal paid on bonds payable	(157,794)			
Principal paid on notes payable	(477,743)	(61,600)	(404,723)	(30,905)
Interest paid on bonds payable	(755)			
Interest paid on notes payable	<u>(22,502)</u>	<u>(12,504)</u>	<u>(43,713)</u>	<u>(7,403)</u>
Net cash used by capital and related financing activities	<u>(3,047,890)</u>	<u>(74,104)</u>	<u>(2,392,052)</u>	<u>(120,214)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	332,981	72,883	367,065	79,791
Purchase of investments	<u>(209,937)</u>	<u>44,202</u>	<u>(293,600)</u>	<u>(60,394)</u>
Net cash provided by investing activities	<u>123,044</u>	<u>117,085</u>	<u>73,465</u>	<u>19,397</u>
NET INCREASE (DECREASE) IN CASH				
Cash - beginning of year	4,837,850	432,899	2,135,062	(326,452)
Cash - end of year	<u>5,635,222</u>	<u>295,995</u>	<u>3,500,160</u>	<u>622,447</u>
	<u>\$ 10,473,072</u>	<u>\$ 728,894</u>	<u>\$ 5,635,222</u>	<u>\$ 295,995</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, 2003 and June 30, 2002

	2003		2002	
	<u>Primary Institution</u>	<u>Component Unit-Foundation</u>	<u>Primary Institution</u>	<u>Component Unit-Foundation</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating loss	\$ (17,281,878)	\$ (339,121)	\$ 21,345	\$ 509,695
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense	2,068,735	4,151	2,035,167	4,056
Loss on disposal of assets	8,676		21,164	
Fringe benefits provided by the State	3,709,588		4,078,388	
Changes in assets and liabilities:				
Accounts receivable, net	(118,729)		8,819	
Inventories	(55,266)	12,000	(23,009)	28,000
Deposits held by State Treasurer	(141,742)		27,218	
Prepaid expense	(3,410)	105	9,072	(655)
Restricted accounts receivable	(14,301)		2,358	
Loans receivable, net	13,705		102,082	
Deposit			474,329	
Accounts payable and accrued liabilities	1,890,881	15,941	(323,813)	(39,915)
Accrued liability for employee compensation and benefits	366,711		(565,906)	
Accrued employee retirement liability	(124,439)		373,317	
Deferred tuition and other revenue	(60,418)		307,715	
Deposits held	5,807		6,549	
Assets held for others	(8,787)	8,325	(2,565)	34,695
Other liabilities	(12,599)		19,219	
Net cash used by operating activities	<u>\$ (9,757,466)</u>	<u>\$ (298,599)</u>	<u>\$ 6,571,449</u>	<u>\$ 535,876</u>
Non-cash transactions:				
Fringe benefits provided by the State	3,709,588		4,078,388	
Acquisition of land financed with note payable				308,105
Acquisition of construction in progress financed with bond payable	3,794,481			

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, 2003

1. Summary of Significant Accounting Policies:

Organization

The financial statements present the financial position, results of operations, and changes in net assets of 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 Westfield State College (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. The effect of inter-fund activity has been eliminated from these financial statements. The significant GASB accounting principles followed by the College are described in the following section titled "New Accounting Standards".

New Accounting Standards

Effective July 1, 2001, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, an amendment to Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments*, as well as Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38 *Certain Financial Statement Note Disclosures*. These standards are collectively referred to hereafter as "GASB 35". The following elements are included with these financial statements, as required by GASB 35:

- Management's discussion and analysis (as required supplemental information)
- Basic financial statements which include a statement of net assets; statement of revenues, expenses and changes in net assets; and statement of cash flows
- Notes to the financial statements

WESTFIELD STATE COLLEGE

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2003

New Accounting Standards, continued

The College reports its financial statements as a “business-type activity” under GASB 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 the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth, net investment income, and interest expense.

The cumulative effect of adopting these accounting principles in 2002 was a reduction in net assets of \$28.2 million. This effect consists of approximately \$27.1 million of accumulated depreciation, and approximately \$1 million to recognize the liability for refundable advances under the federal Perkins loan program.

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.

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

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. Major estimates made include the accrual for employee compensated absences, the accrual for workers’ compensation liability, and the allowance for doubtful accounts. 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 cost which approximates 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

WESTFIELD STATE COLLEGE

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2003

Cash and Short-Term Investments, continued

fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of 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.

Cash Held by Trustees

Cash held by trustees consists of unspent bond proceeds of \$1,431,938 from the MHEFA (Massachusetts Health and Educational Facilities Authority) tax-exempt revenue bonds and \$565,821 in the debt service reserve fund (see Note 11).

Tuition

Recorded in the College's financial statements for the years ended June 30, 2003 and 2002 is tuition revenue of \$3,861,789 and \$3,759,497, 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.

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2003

State Appropriations

The College's unrestricted state appropriation is composed of the following at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Direct appropriations	\$21,439,649	\$22,704,890
Add: Fringe benefits for employees on the Commonwealth payroll	3,709,588	4,078,388
Less: Tuition remitted to the Commonwealth	<u>(3,861,789)</u>	<u>(3,759,497)</u>
Total	<u>\$21,287,448</u>	<u>\$23,023,781</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.

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.

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2003

Net Assets, continued

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

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*.

WESTFIELD STATE COLLEGE
 (A Component Unit of the Commonwealth of Massachusetts)
 Notes to Financial Statements
 June 30, 2003

3. Cash and Short-Term Investments:

The College's cash management investment policy authorizes the College to invest in the Massachusetts Municipal Depository Trust, the Common Fund and Woronoco Savings Bank's overnight sweep investment account.

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, 2003.

The carrying amount of the College's bank deposits and deposits in trust depositories was \$15,465,657 and \$10,150,291 as compared to bank balances of \$15,973,503 and \$10,466,262 at June 30, 2003 and 2002, respectively. The differences between the carrying amount and the bank balances were caused by deposits in-transit and outstanding checks. Of such bank balances, \$100,000 is covered by federal deposit insurance and the remaining \$15,873,503 and \$10,366,262 at June 30, 2003 and 2002, respectively, is uninsured and uncollateralized, and is therefore subject to custodial risk.

The cost and fair value of cash and short-term investments at June 30 is:

COLLEGE				
	<u>2003</u>	<u>Cost</u>	<u>Fair Value</u>	<u>2002</u>
Cash and cash equivalents:				
MMDT deposits	4,793,301	4,793,301	4,729,889	4,729,889
Bank accounts	4,962,743	4,962,743	31,121	31,121
Short-term investments:				
Common Fund	<u>5,747,752</u>	<u>5,709,613</u>	<u>5,537,816</u>	<u>5,389,281</u>
	<u>\$15,503,796</u>	<u>\$15,465,657</u>	<u>\$10,298,826</u>	<u>\$10,150,291</u>

FOUNDATION				
	<u>2003</u>	<u>Cost</u>	<u>Fair Value</u>	<u>2002</u>
Cash and cash equivalents:				
Bank accounts	728,894	728,894	295,995	295,995
Short-term investments:				
Woronoco Fund			111,566	95,968
Multi-Strategy Equity Fund	1,575,645	1,658,444	1,543,540	1,645,199
Multi-Strategy Bond Fund	772,296	811,531	756,561	603,496
Real Estate Security Fund	<u>312,005</u>	<u>266,587</u>	<u>306,866</u>	<u>380,476</u>
	<u>\$3,388,840</u>	<u>\$3,465,456</u>	<u>\$3,014,528</u>	<u>\$3,021,134</u>

The carrying amount of the College's deposits held by The State Treasurer is \$365,315 at June 30, 2003 and \$223,573 at June 30, 2002. These deposits are uninsured and are not collateralized.

WESTFIELD STATE COLLEGE
 (A Component Unit of the Commonwealth of Massachusetts)
 Notes to Financial Statements
 June 30, 2003

3. Cash and Short-Term Investments (continued):

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.

4. Cash Held By The State Treasurer:

Accounts payable, accrued salaries, wages and withholdings to be funded from state appropriated funds totaled \$717,028 at June 30, 2003 and \$874,212 at June 30, 2002. 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, 2003 and 2002 is summarized as follows:

	<u>2003</u>	<u>2002</u>
Student accounts receivable	567,594	540,090
Grants receivable	33,641	32,162
Other receivables	<u>100,041</u>	<u>8,698</u>
Total	<u>701,276</u>	<u>580,950</u>
Less allowance	<u>(410,665)</u>	<u>(409,068)</u>
Total accounts receivable, net	<u>290,611</u>	<u>171,882</u>

Loans receivable of \$785,786 at June 30, 2003 and \$799,491 at June 30, 2002 consist primarily of Federal Perkins Loan Program funds:

	<u>2003</u>	<u>2002</u>
Perkins loans receivable - current	207,965	195,660
Perkins loans receivable - noncurrent	912,005	955,813
Other noncurrent student loan	<u>200</u>	<u>200</u>
Total	<u>1,120,170</u>	<u>1,151,673</u>
Less allowance for doubtful accounts	<u>(334,384)</u>	<u>(352,182)</u>
Total loans receivable, net	<u>785,786</u>	<u>799,491</u>

The composition of the Foundation's accounts receivable at June 30, 2003 and 2002 is summarized as follows:

	<u>2003</u>	<u>2002</u>
Contributions receivable - current	164,813	129,514
Contributions receivable - noncurrent	531,044	431,763
Less discount	<u>(94,866)</u>	<u>(81,107)</u>
Total accounts receivable, net	<u>600,991</u>	<u>480,170</u>

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2003

6. Related Party Transactions:

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

The Foundation's Treasurer is also a member of the Board of Directors of Woronoco Savings Bank, which holds the Foundation's mortgage note payable.

The College's Chairman of the Board of Trustees is also the President and a member of the Board of Directors of Woronoco Savings Bank, which holds the College's equipment note payable.

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, furnishings and equipment. The assets attributable to the College amount to \$17,981,401 (unaudited) at June 30, 2003 and \$17,153,595 (unaudited) at June 30, 2002. Liabilities of the Building Authority consist principally of long-term debt obligations scheduled to mature through 2028 amounting to approximately \$106,148,000 (unaudited) at June 30, 2003 and \$109,507,000 (unaudited) at June 30, 2002 guaranteed by the Commonwealth. Because all facilities of the Building Authority are included collectively in its long-term debt obligation, it is not practicable to determine the specific liability attributable to the College.

The College is obligated, under its contracts for financial assistance, management and services with the Building Authority, to collect rates, 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, 2003 amounted to \$2,447,706 (\$1,219,260, Fall Semester, 2002 and \$1,228,446, Spring Semester 2003). For the year ended June 30, 2002, the College's proportionate share of principal and interest on the debt obligations amounted to \$2,299,794.

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
Equipment and furnishings	3-10 years
Library books	5 years
Vehicles	5 years

WESTFIELD STATE COLLEGE
 (A Component Unit of the Commonwealth of Massachusetts)
 Notes to Financial Statements
 June 30, 2003

8. Capital Assets (continued):

Capital asset activity for the year ended June 30, 2003 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	680,381	5,757,293	-	(630,569)	5,807,105
Total not being depreciated	1,904,243	5,757,293	-	(630,569)	7,030,967
Capital assets being depreciated:					
Buildings and building improvements	29,915,025	752,283	-	493,376	31,160,684
Equipment and furnishings	10,317,871	1,367,705	(347,009)	137,193	11,475,760
Library books	6,307,751	138,758	-	-	6,446,509
Vehicles	402,356	83,015	-	-	485,371
Total being depreciated	46,943,003	2,341,761	(347,009)	630,569	49,568,324
Less accumulated depreciation:					
Buildings and building improvements	(20,578,909)	(699,938)	-	-	(21,278,847)
Equipment and furnishings	(7,251,074)	(1,048,164)	338,333	-	(7,960,905)
Library books	(5,769,141)	(256,428)	-	-	(6,025,569)
Vehicles	(290,193)	(64,205)	-	-	(354,398)
Total accumulated depreciation	(33,889,317)	(2,068,735)	338,333	-	(35,619,719)
Capital assets, net	14,957,929	6,030,319	(8,676)	-	20,979,572

WESTFIELD STATE COLLEGE
 (A Component Unit of the Commonwealth of Massachusetts)
 Notes to Financial Statements
 June 30, 2003

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	<u>360,877</u>	-	-	-	<u>360,877</u>
Capital assets being depreciated:					
Land and buildings	131,144	-	-	-	131,144
Furniture and fixtures	34,617	-	-	-	34,617
Office equipment	1,892	-	-	-	1,892
Total being depreciated	<u>167,653</u>	-	-	-	<u>167,653</u>
Less accumulated depreciation:					
Land and Buildings	(36,619)	(4,151)	-	-	(40,770)
Furniture and fixtures	(34,617)	-	-	-	(34,617)
Office equipment	(1,892)	-	-	-	(1,892)
Total accumulated depreciation	<u>(73,128)</u>	<u>(4,151)</u>	-	-	<u>(77,279)</u>
Capital assets, net	<u>455,402</u>	<u>(4,151)</u>	-	-	<u>451,251</u>

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, 2003 and 2002:

	<u>Capital Leases</u>					
	<u>2003</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>2002</u>	<u>Principal</u>
2003					181,897	60,309
2004	190,605	51,601	242,206	190,605	51,601	242,206
2005	199,731	42,475	242,206	199,731	42,475	242,206
2006	209,293	32,913	242,206	209,293	32,913	242,206
2007	219,313	22,893	242,206	219,313	22,893	242,206
2008	229,813	12,393	242,206	229,813	12,393	242,206
2009	119,000	2,103	121,103	119,001	2,103	121,104
Total	<u>1,167,755</u>	<u>164,378</u>	<u>1,332,133</u>	<u>1,349,653</u>	<u>224,687</u>	<u>1,574,340</u>

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2003

9. Leases (continued):

Total rent expense under cancelable operating lease agreements was approximately \$145,000 and \$167,000 for the years ended June 30, 2003 and 2002, respectively.

10. Notes Payable:

The College has a note payable resulting from the purchase of the Stanhome facility. The note consists of a 4.8% mortgage, collateralized by all moneys paid or due to the College as and from the Capital Plan Fee, payable in 60 monthly installments of \$28,170, including interest commencing March 1999 through March 2004. The outstanding balance on this note was \$221,354 at June 30, 2003 and \$566,313 at June 30, 2002. Total interest expense was \$18,981 in 2003 and \$33,905 in 2002.

The College has a note payable for the telecommunications system, consisting of a 4.86% note, collateralized by equipment, payable in 48 monthly installments of \$11,359, including interest commencing August 1999 through July 2003. The outstanding balance on this note at June 30, 2002 was \$132,784. Total interest expense was \$3,521 in 2003 and \$9,808 in 2002. This note matured during the year ended June 30, 2003.

In May 2003, the College entered into a five-year, 3.25% loan agreement for \$2,000,000 with Woronoco Savings Bank to be used for the purchase of an administrative computer system. As of June 30, 2003 there was no balance outstanding on this loan.

The Foundation has a 5% note payable to a bank, due in 2006, that is payable in semi-annual payments of interest on the unpaid balance plus level principal payments of \$37,500. 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 \$215,600 at June 30, 2003 and \$277,200 at June 30, 2002.

Future principal and interest payments are as follows:

Notes Payable-College

	2003			2002		
	Principal	Interest	Total	Principal	Interest	Total
2003				477,743	22,502	500,245
2004	221,354	4,003	225,357	221,354	4,003	225,357
Total	221,354	4,003	225,357	699,097	26,505	725,602

WESTFIELD STATE COLLEGE
 (A Component Unit of the Commonwealth of Massachusetts)
 Notes to Financial Statements
 June 30, 2003

10. Notes Payable (continued):

<u>Notes Payable-Foundation</u>						
	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003				61,600	12,504	74,104
2004	61,600	10,147	71,747	61,600	10,147	71,747
2005	61,600	7,011	68,611	61,600	7,011	68,611
2006	61,600	3,897	65,497	61,600	3,897	65,497
2007	30,800	783	31,583	30,800	783	31,583
Total	215,600	21,838	237,438	277,200	34,342	311,542

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 1.31% and interest expense was \$67,458 for the year ended June 30, 2003. Interest income earned on unspent bond proceeds was \$66,708. At June 30, 2003, \$5,658,206 was outstanding on the bonds.

The College has a \$5,887,704 letter of credit agreement with Fleet Bank. 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 Fleet Bank. 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 \$33,345 at June 30, 2003.

Future principal payments and estimated interest payments on outstanding bonds as of June 30, 2003 are as follows:

<u>Bonds Payable – College</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	167,101	86,812	253,913
2005	178,031	84,511	262,542
2006	188,689	82,060	270,749
2007	199,985	79,461	279,446
2008	211,148	76,707	287,855
2009 and thereafter	4,713,252	671,997	5,385,249
	5,658,206	1,081,548	6,739,754

WESTFIELD STATE COLLEGE
 (A Component Unit of the Commonwealth of Massachusetts)
 Notes to Financial Statements
 June 30, 2003

12. Leases and Long-term Liabilities:

Long-term liabilities at June 30, 2003 consist of:

FOUNDATION					
	Beginning <u>Balance</u>	Additions	Reductions	Ending <u>Balance</u>	Current <u>Portion</u>
Leases and notes payable:					
Notes payable	277,200	-	(61,600)	215,600	61,600
COLLEGE					
	Beginning <u>Balance</u>	Additions	Reductions	Ending <u>Balance</u>	Current <u>Portion</u>
Leases, notes, and bonds payable:					
Lease obligations	1,349,653	-	(181,898)	1,167,755	190,606
Notes payable	699,097	-	(477,743)	221,354	221,354
Bonds payable	-	5,816,000	(157,794)	5,658,206	167,101
Total leases, notes and bonds payable	2,048,750	5,816,000	(817,435)	7,047,315	579,061
Other long-term liabilities:					
Compensated absences	2,331,522	137,282	-	2,468,804	1,539,690
Employee retirement liability	373,317	-	(124,439)	248,878	124,439
Workers' compensation	547,780	-	(21,487)	526,293	87,662
Grants refundable	994,606	-	-	994,606	-
	4,247,225	137,282	(145,926)	4,238,581	1,751,791
Total long-term liabilities	6,295,975	5,953,282	(963,361)	11,285,896	2,330,852

13. Fringe Benefits:

The College's portion of fringe benefit costs for trust and grant funded employees (health insurance, pension benefits and administrative costs) were approximately \$671,000 and \$691,000 for the years ended June 30, 2003 and 2002, respectively. Worker's compensation costs assessed by the Commonwealth were approximately \$94,000 and \$80,000 for the years ended June 30, 2003 and 2002, respectively. The

WESTFIELD STATE COLLEGE
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
June 30, 2003

13. Fringe Benefits (continued):

Commonwealth's portion of fringe benefits paid by the Commonwealth on behalf of certain state funded employees of the College was approximately \$3,710,000 and \$4,078,000 for the years ended June 30, 2003 and 2002, respectively and have 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 \$526,293 and \$547,780 as of June 30, 2003 and 2002, 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.

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 \$76,000 for the year ended June 30, 2003 and \$151,000 for year ended June 30, 2002. The annuity portion of the SERS is funded by employees who contribute a percentage of their regular compensation. Annual covered payroll approximated 90.6% and 93.5% of annual total payroll for the College for 2003 and 2002, respectively.

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.

As of June 30, 2003, the College has outstanding contractual commitments of \$935,000 related to the implementation of a new administrative computing system.



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Report of Independent Accountants on Accompanying Information

To the Trustees of
Westfield State College

The report on our audits of the financial statements of Westfield State College as of June 30, 2003 and 2002 and for the years then ended, which references the work of other auditors, appears on page iv. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on pages 29 through 30) is presented for purposes of additional analysis only, 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 22, 2003

Westfield State College
(A Component Unit of the Commonwealth of Massachusetts)
Supplementary Information
Building Authority Trust Fund
Statement of Net Assets
June 30, 2003 and June 30, 2002

ASSETS	2003	2002
Current Assets		
Cash and cash equivalents	\$ 775,090	\$ 842,549
Accounts receivable, net	19,314	11,034
Deposits held by State Treasurer	80,998	72,870
Commission receivable	655	1,092
Total current assets	<u>876,058</u>	<u>927,545</u>
Total assets	<u>876,058</u>	<u>927,545</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	76,585	70,077
Accrued employee compensation and benefits	213,182	203,959
Deposits held	268,422	267,813
Total current liabilities	<u>558,189</u>	<u>541,849</u>
Noncurrent Liabilities		
Accrued liability for employee compensation and benefits	13,361	18,684
Total noncurrent liabilities	<u>13,361</u>	<u>18,684</u>
Total liabilities	<u>571,550</u>	<u>560,533</u>
NET ASSETS		
Unrestricted	304,508	367,012
Total net assets	<u>\$ 304,508</u>	<u>\$ 367,012</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, 2003 and June 30, 2002

	2003	2002
Revenues		
Operating Revenues		
Room rent	\$ 6,012,790	\$ 5,543,840
Commissions-vending	25,492	28,565
Commissions-laundry	37,084	41,713
Deposits forfeited	49,454	92,648
Other sources	<u>60,075</u>	<u>49,831</u>
Total operating revenues	<u>6,184,895</u>	<u>5,756,597</u>
Expenses		
Operating Expenses		
Employee compensation	1,380,722	1,423,019
Employee related expenses	9,203	7,517
Special employees	216,098	215,816
Pension and insurance	323,861	324,350
Administrative expenses	51,114	46,287
Facility operational supplies	130,962	128,748
Energy costs	889,681	769,827
Consultant services	53,805	22,608
Operational services	96,452	133,028
Equipment purchase	60,044	86,373
Equipment lease, rental and maintenance	20,329	37,329
Student travel	2,741	1,890
Construction	564,681	171,887
Annual payment of the Mass State Building Authority	<u>2,447,706</u>	<u>2,299,794</u>
Total operating expenses	<u>6,247,399</u>	<u>5,668,473</u>
(Decrease) increase in net assets	(62,504)	88,124
Net Assets - beginning of year	<u>367,012</u>	<u>278,888</u>
Net Assets - end of year	<u>\$ 304,508</u>	<u>\$ 367,012</u>