



Framingham State University

To: Framingham State University Board of Trustees

From: Dale Hamel, Executive Vice President

Date: October 12, 2022

Re: FY2022 Financial Statements Transmittal Letter

Please find attached the Framingham State University Fiscal Year 2022 Financial Statements and Independent Auditor's Reports. FSU auditors have noted that Government Accounting Standards Board (GASB) standards limit the Management Discussion and Analysis (MD&A) to the fiscal years of presented data included in the audited financial statements. While FSU's MD&A narratives historically have included multi-year trends and ratio analysis based on financial statements over ten years, this information will no longer be included in the annual financial statements. As an alternative, this transmittal letter includes long-term analysis and discussion as supplemental information to the accompanying financial statements and MD&A.

INTRODUCTION



Framingham State University offers small, personalized classes to approximately 4,000 undergraduate and graduate students on a traditional, New England campus. The University is located in the heart of the Commonwealth's MetroWest area just 20 miles west of Boston. It is the only public four-year University between Route 495 and Route 128, within reach of hundreds of professional companies and businesses. The University has capitalized on its location by partnering with many of these companies to develop unique and rewarding internship opportunities for students as well as job placements upon graduation.

Framingham State is committed to institutional excellence in diversity and inclusion through collaborative and sustainable partnerships with faculty, staff, students and the greater community. The University encourages a supportive, diverse and collaborative environment in which students, faculty and staff learn from each other through informed and open communication, institutional practices and community engagement.



Student success is central to the mission of the University. The institution is accredited by the New England Commission of Higher Education (NECHE).



While Framingham State’s historical focus was teacher education (it was founded in 1839 as the first public normal school in America), the University now offers a wide variety of programs in fields ranging from business to the sciences to fashion with programs at both the baccalaureate and master’s level. In recent years, supported by the institution’s state-of-the-art science facility Hemenway Laboratories, the University has begun positioning itself as a leader in the areas of STEM (Science, Technology, Engineering, & Mathematics) education.

The Commonwealth of Massachusetts, on behalf of Framingham State University, has acquired the Warren Conference Center and Inn in Ashland, Massachusetts. This beautiful conservation property provides FSU students with access to a 65-acre outdoor laboratory, as well as the opportunity for the University to expand student programming and offer a hospitality management major. In addition, the University’s acquisition of the Danforth Art Museum and School provides FSU with a comprehensive permanent art collection and cultural destination that is unique in the State University System.



Framingham State’s more than 40,000 alumni are successfully employed in a wide range of career fields, and significant numbers of them enter graduate and professional schools within a few years of graduation. Approximately 85 percent of Framingham State’s alumni choose to live and work in Massachusetts, contributing to the economy and well-being of the Commonwealth.





FINANCIAL ANALYSIS

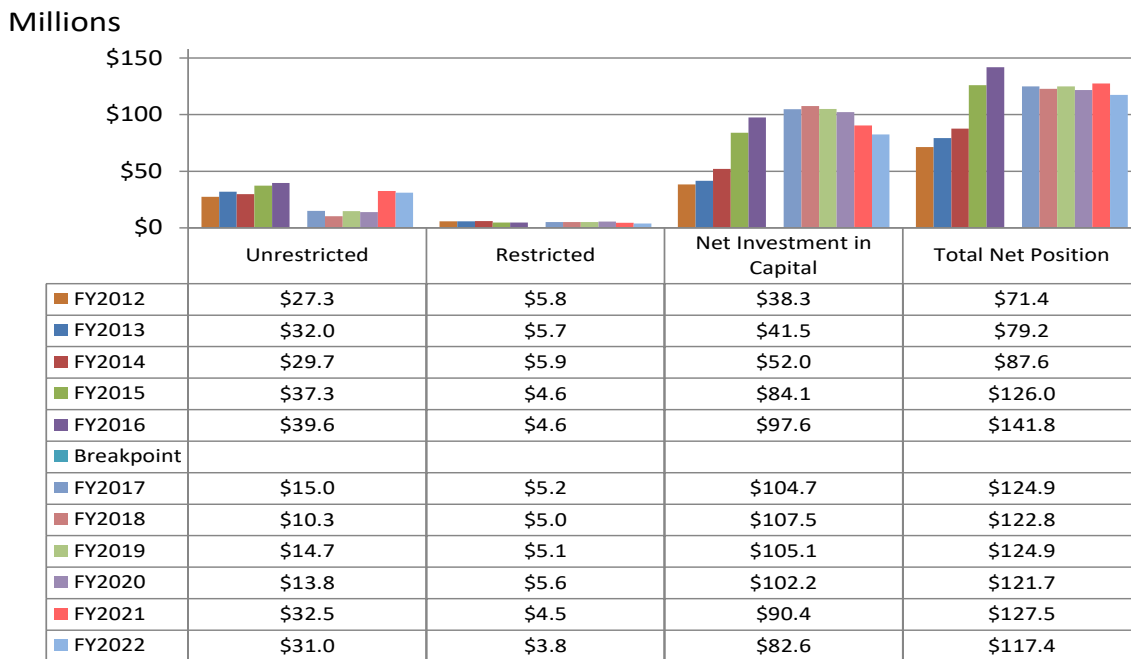
Framingham State University’s Fiscal Year 2022 financial statements continue to be significantly impacted by implementation of Government Accounting Standards Board (GASB) Statement Number 75 (GASB 75) that requires accounting for post-employment benefits liabilities (OPEB) as of FY2017. This is in addition to the impact of GASB 68, first incorporated in FY2015, which requires accounting for pension liabilities on public institutions’ financial statements. While these liabilities are now included in institutions’ financial statements, in Massachusetts, *these liabilities are ultimately paid by the Commonwealth of Massachusetts and not the institutions.* The noted accounting requirements have resulted in the need for accounting of pension and OPEB liabilities beginning in FY2017. As such, some of the long-term trend analysis presented will reflect a “break point” resulting from this noted accounting change.

Further, new this year, these statements also account for a new standard (GASB 87) that requires lessees to recognize lease liabilities on their statements as right of use assets. For FSU, these are largely attributable to the use of the residence halls that are owned by the Massachusetts State College Building Authority. The implementation of this standard has a significant impact (>\$100M) on both lease liabilities and associated capital asset accounting. This change is reflected in both the FY2021 restated financial statements (to reflect this adjustment) and the FY22 financial statements. Implementation of GASB 87 does make trend analysis difficult as prior years’ statements do not account for this significant adjustment that impacts reported Net Investment in Capital.

Net Position

A review of the University’s Net Position (below) shows significant financial position improvement over time. {To account for GASB 68 and GASB 75 accounting changes, a break point is shown after FY2016 in the following charts reflecting accounting changes at that time.}

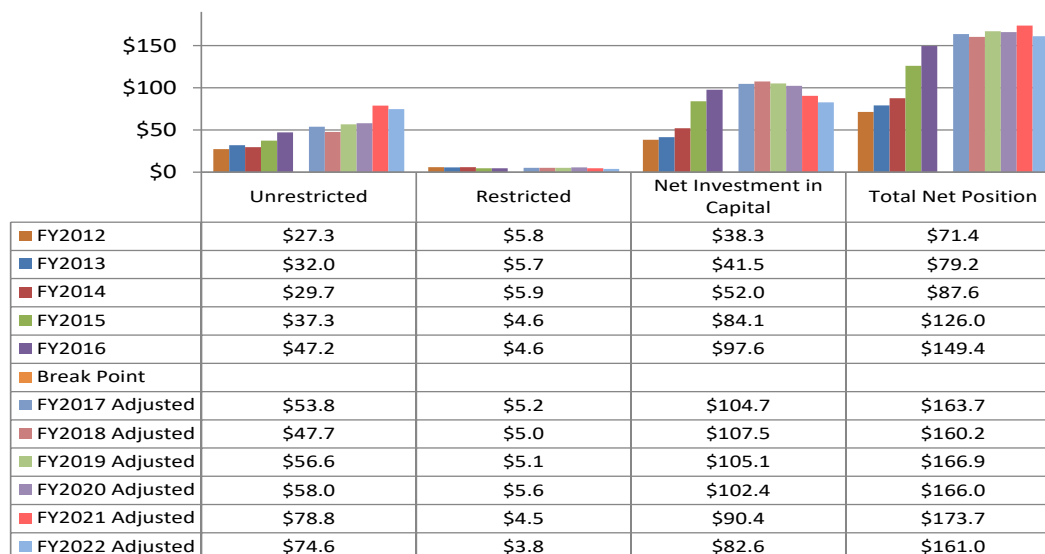
Trend Analysis: Net Position



Depiction of Adjusted (for GASB 68 and GASB 75) Net Position trends – backing out the impact of Pension and OPEB obligations as of FY2017 – is as follows:

**Trend Analysis: Adjusted Net Position
Revised to Net Out impact of Pension (GASB 68) and OPEB (GASB 75) Obligations**

Millions



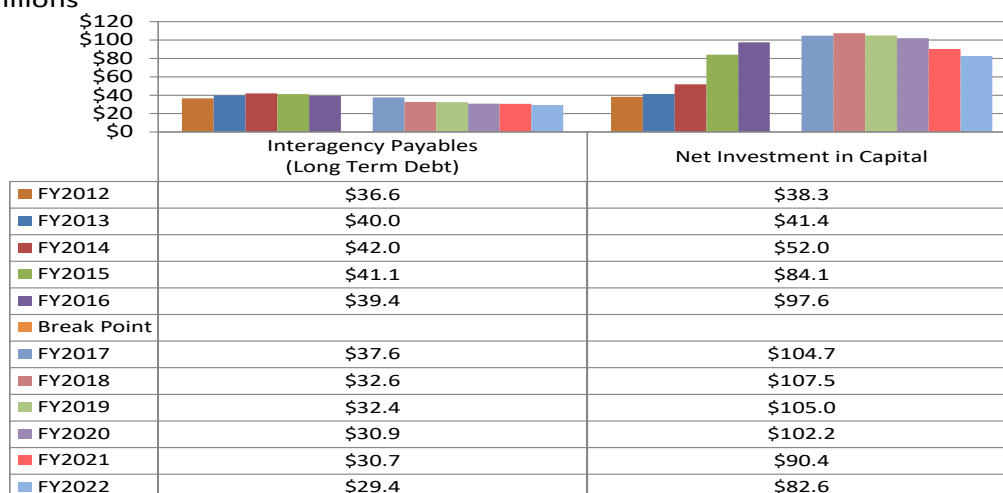
This multi-year (same-basis) reporting depicts significant improvement in financial position during FY2012-FY2017 and stability in financial position during FY2017-FY2022.

Capital Assets and Long-Term Debt

The University has \$29.4 million in aggregate interagency payables (predominantly long-term capital debt) as of the close of FY2022 (a decrease of -\$1.3 million over FY2021). FY2022 Net Investment in Capital Assets (reflecting the impact of GASB 87) was \$82.6 million.

Trend Analysis: Interagency Payables (Long Term Debt); Net Capital Investment

Millions



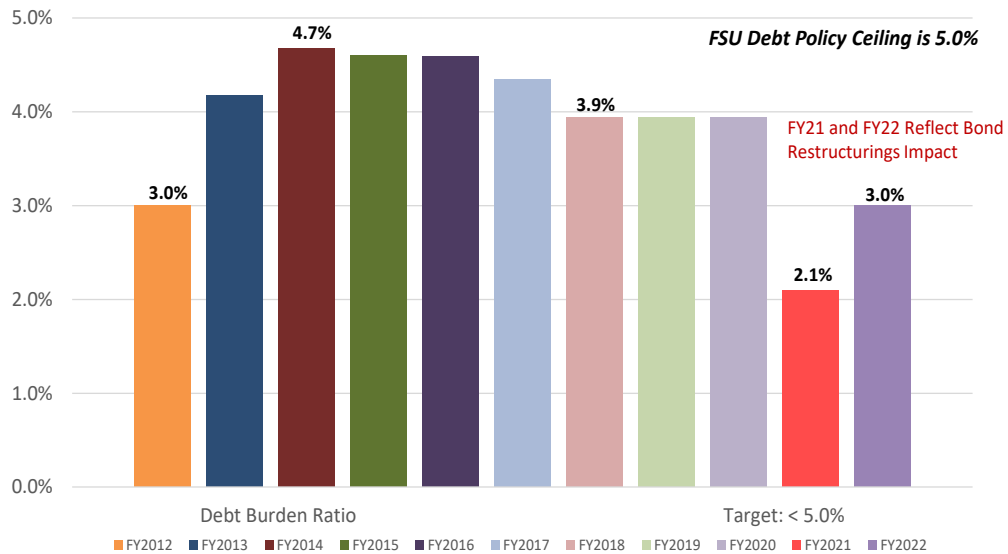
Note: The significant increase in Net Investment in Capital beginning in FY2015 is predominantly due to state general obligation bond funding (with associated debt service the responsibility of the Commonwealth and therefore does not impact FSU Long Term Debt) for the FSU Science Project. A significant portion of the decrease in Net Investment in Capital in FY2021 and FY2022 is attributable to the implementation of GASB 87. Further, it should also be noted that "Net Position: Net Investment in Capital Assets" represents a conservative accounting (cost approach) of the University's capital assets.

Net Investment in Capital has significantly outpaced changes in Long-Term Debt over time. Interagency Payables have been decreasing since FY2014.

Debt Burden Ratio

The University’s Debt Policy identifies the Debt Burden Ratio as a key measure of debt exposure risk. The Debt Burden Ratio (Annual Debt Service – that is, principal and interest – divided by Total Expenditures) is a traditionally utilized measure to determine debt capacity based on a benchmark that if more than a certain percentage of an institution’s budget were devoted to debt service, that institution’s flexibility to devote its resources to other needs could be compromised. FSU’s Debt Policy identifies a 5% debt burden ratio cap; **the University’s Debt Burden Ratio, as of the end of FY2022, was 3.0% reflecting the impact of bond restructuring on FY2022 (and FY2021) expenses.** For context, the debt burden ratio cap that guides borrowing decisions for the Commonwealth of Massachusetts is 8.0% while the University of Massachusetts debt burden cap is 10.0%.

Trend Analysis: Debt Burden Ratio

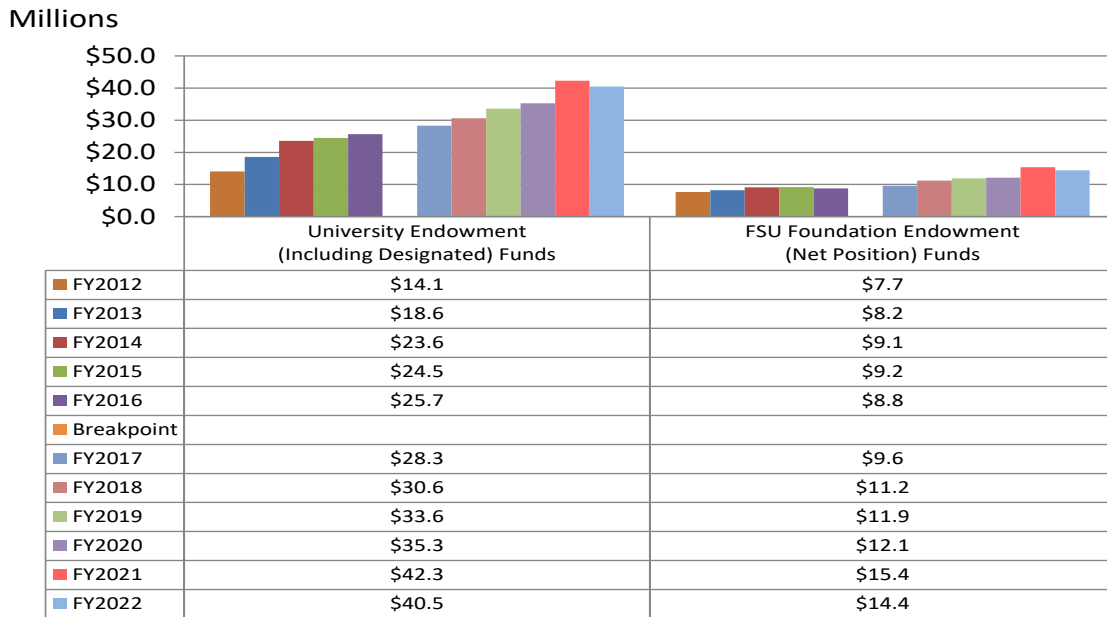


Endowment Funds

A portion of restricted net position includes endowment funds held by the University. The University itself has a very small designated endowment; \$1.3 million of non-expendable restricted funds. An additional \$1.5 million, at June 30, 2022, in restricted scholarship funds (designated as “expendable” but in practice allocations are limited to proceeds) acts as “quasi-endowment” funds. Further, the Board of Trustees has designated unrestricted net position with end-of-FY2021 value of \$37.7 million as quasi-endowment (included in “Core Investment” funds in the University’s annual approval of its Cash Management and Investment Policy). **Aggregate endowment and designated quasi-endowment funds held by the University at the end of FY2022 total \$40.5 million.**

The Framingham State University Foundation, Inc., a separate 501(c) (3) corporation, whose purpose is to support the University, is the primary University-affiliated recipient of endowment funds. **At June 30, 2021, the Foundation had a net position of \$14.4 million.**

Trend Analysis: Endowment (Including Designated) Funds



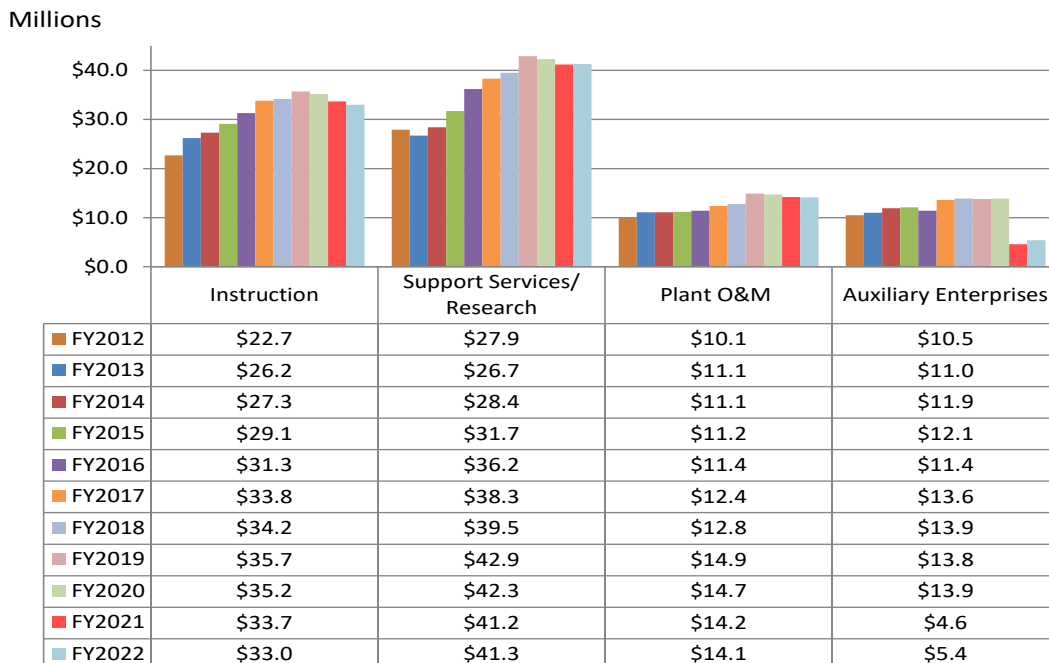
Note: These measures were not impacted by GASB 68 and GASB 75.

Over the past ten years, the University’s endowment funds have increased \$26.4 million or +187% and FSU Foundation Net Position has increased \$6.7 million or +87%.

Expenditures by Function

Instruction, Support Services, and Plant Operations & Maintenance annual expenditures increased relatively consistently from 2012-FY2019. From FY2019 through FY2022, annual expenditures in these categories have fallen while recent (FY21 and FY22) Auxiliary Enterprises annual expenditures have fallen significantly due to the impact of bond restructurings.

Trend Analysis: Instruction, Support Services, Plant O&M, Aux. Enterprises Expenditures



Revenues Trends

Annual Net State Appropriations (including state support for fringe benefits costs that have increased at a significant rate) in FY2022 were greater than FY2012 support by +\$23.3 million for an average annual increase of +8.5%; annual Net Student Revenues (combination of rate and enrollment impact) revenues have decreased -\$2.9 million over that same ten-year period. Other Revenues over the past ten years have been impacted by significant variability in annual state capital support, covid-relief funding, and investment returns over this period.

Trend Analysis: State Appropriations, Student and Other Revenues



Aggregate Annual Revenues and Expenditures have increased around \$23M over this ten-year period representing aggregate increases of approximately 3% annually on average.

REQUEST FOR INFORMATION

This transmittal letter to the audited financial statements is designed to provide a long-term overview of Framingham State University’s finances. Questions concerning any of the information provided in this letter or the accompanying financial statements should be addressed to the Executive Vice President, Framingham State University, 100 State Street, P.O. Box 9101, Framingham, MA 01701-9101.