

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)



FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Mount Wachusett Community College
Gardner, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of Mount Wachusett Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues and expense and changes in net position and cash flows and the related notes to the financial statements. We have also audited the financial statements of Mount Wachusett Community College Foundation, Inc. as of June 30, 2017 and 2016, and the related statements of revenues and expenses and changes in net position and cash flows for the years then ended. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College as of June 30, 2017 and 2016, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-20, the schedule of the proportionate share of the net pension liability on page 58 and the schedule of the contributions on page 59 and the notes to the required supplementary information on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 12, 2017

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

The following discussion and analysis provides an overview of the financial position and activities of Mount Wachusett Community College (the "College") for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and notes that follow this section of the report.

Mount Wachusett Community College is an accredited, public two-year institution serving 29 cities and towns in North Central Massachusetts. The 269-acre main campus is located in Gardner, Massachusetts; satellite sites are located in Leominster, Fitchburg, and Devens.

The College offers over 45 associate degree and certificate programs, as well as adult basic education/GED programs, education and training for business and industry and noncredit community service programs. The College's corporate training programs are offered through the Division of Workforce Training which operates at the Devens Campus.

The College's students enjoy many support services and resources including the Fitness and Wellness Center, the Academic Support Center, and the 555-seat Theater at the Mount. Courses are offered in the day, evening, on weekends, and via the Internet.

Financial Highlights

As of June 30, 2017 the College's net position is \$43,742,580. The amount represents \$77,463,325 in total assets and deferred outflows of resources while liabilities and deferred inflows of resources equal \$33,720,745. Operating expenses for the fiscal year ended June 30, 2017 total \$53,343,677 while operating revenues were \$31,729,991.

The College's non-operating revenues/expenses for the fiscal year ended June 30, 2017 netted to \$19,250,525. This includes \$19,521,630 of state appropriations. The College also received \$8,496,197 in capital appropriations, \$162,978 in capital grants and \$1,612 in gifts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Mount Wachusett Community College's basic financial statements. The College's basic *financial statements* are comprised of two components: 1) the *financial statements* and 2) the *notes* to the financial statements. This report also contains other *required supplementary information* in addition to the basic financial statement.

MOUNT WACHUSETT COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

The Financial Statements: The financial statements (pages 21-23) are designed to provide readers with a broad overview of the College's finances in a manner similar to a private sector College.

The *Statements of Net Position* (p. 21) present information on the College's assets, liabilities and deferred outflows and inflows of resources, with the difference being reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the College's financial position is improving or weakening.

The *Statements of Revenues and Expenses and Changes in Net Position* (p. 22) present information showing how the College's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. expenses are recorded upon receipt of an invoice, regardless of when payment is made).

The *Statements of Cash Flows* (p. 23) is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services). The Government Accounting Standards Board ("GASB") Statements 34 and 35 require this method to be used.

MOUNT WACHUSETT COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 24-57 of this report. Mount Wachusett Community College reports its activity as a business-type activity using the full accrual measurement focus and basis of accounting. Mount Wachusett Community College is an agency of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position, and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

Included in the Comparative Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position is a separate column representing the activity of the Mount Wachusett Community College Foundation, Inc. (the "Foundation"). According to GASB 39, the Foundation is classified as a component unit of the College.

Financial Analysis of the College as a Whole

Schedules of Net Position

Net position over time serves as a useful indicator of Mount Wachusett Community College's financial position. For the year ended June 30, 2017, assets exceeded liabilities and deferred inflows of resources by \$43.7 million.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Schedules of Net Position - continued

The following schedules are prepared from the College's Statement of Net Position (page 21):

| Schedules of Net Position | | | |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| June 30, | | | |
| <u>(in millions)</u> | | | |
| | <u>FY 2017</u> | <u>FY 2016</u> | <u>FY 2015</u> |
| Current assets | \$ 15.03 | \$ 13.15 | \$ 12.09 |
| Non-current assets: | | | |
| Capital assets, net of depreciation | 57.34 | 49.94 | 24.94 |
| Other | 0.38 | 0.36 | 0.35 |
| Deferred outflows of resources | <u>4.71</u> | <u>5.14</u> | <u>1.59</u> |
| Total Assets | <u>\$ 77.46</u> | <u>\$ 68.59</u> | <u>\$ 38.97</u> |
| Current liabilities | \$ 7.40 | \$ 7.66 | \$ 6.99 |
| Noncurrent liabilities | <u>23.47</u> | <u>23.21</u> | <u>17.36</u> |
| Total Liabilities | <u>30.87</u> | <u>30.87</u> | <u>24.35</u> |
| Deferred inflows of resources | <u>2.85</u> | <u>0.55</u> | <u>1.73</u> |
| Net Position: | | | |
| Investment in capital assets | 49.78 | 41.72 | 16.17 |
| Restricted | 0.39 | 0.36 | 0.35 |
| Unrestricted | <u>(6.43)</u> | <u>(4.91)</u> | <u>(3.63)</u> |
| Total Net Position | <u>\$ 43.74</u> | <u>\$ 37.17</u> | <u>\$ 12.89</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

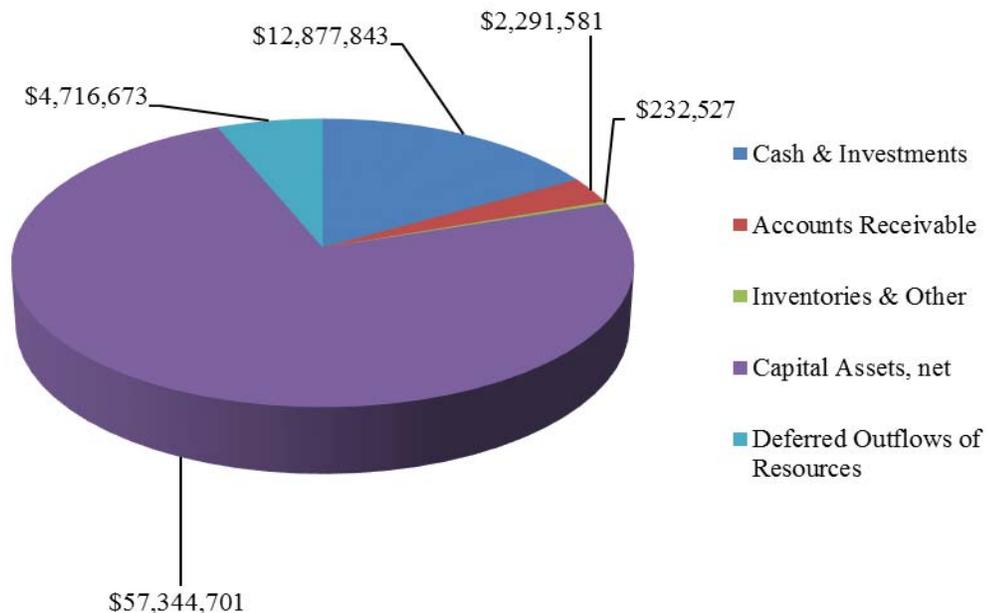
Financial Analysis of the College as a Whole - Continued

Schedules of Net Position - continued

Current assets increased by approximately \$1.9 million from 2016 to 2017 due primarily to an increase in cash from bond proceeds. Current assets of Cash and investments increased from \$10.8 million in 2016 to \$12.3 million in 2017. Capital assets, net of depreciation increased by approximately \$7.4 million, the majority of which is the completion of the new science wing.

The largest portion of the College's net position reflects its investment in capital assets (e.g. land, buildings, machinery & equipment) less any related debt, including capital leases, used to acquire those assets. Unrestricted Net Position reflects assets that are available to meet the day-to-day operations of the College.

The College's assets and deferred outflows of resources include the following breakdown:



Current liabilities decreased from 2016 to 2017 by approximately \$382,000. The major components of this decrease include deposits, unearned revenue and accrued payroll.

MOUNT WACHUSETT COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

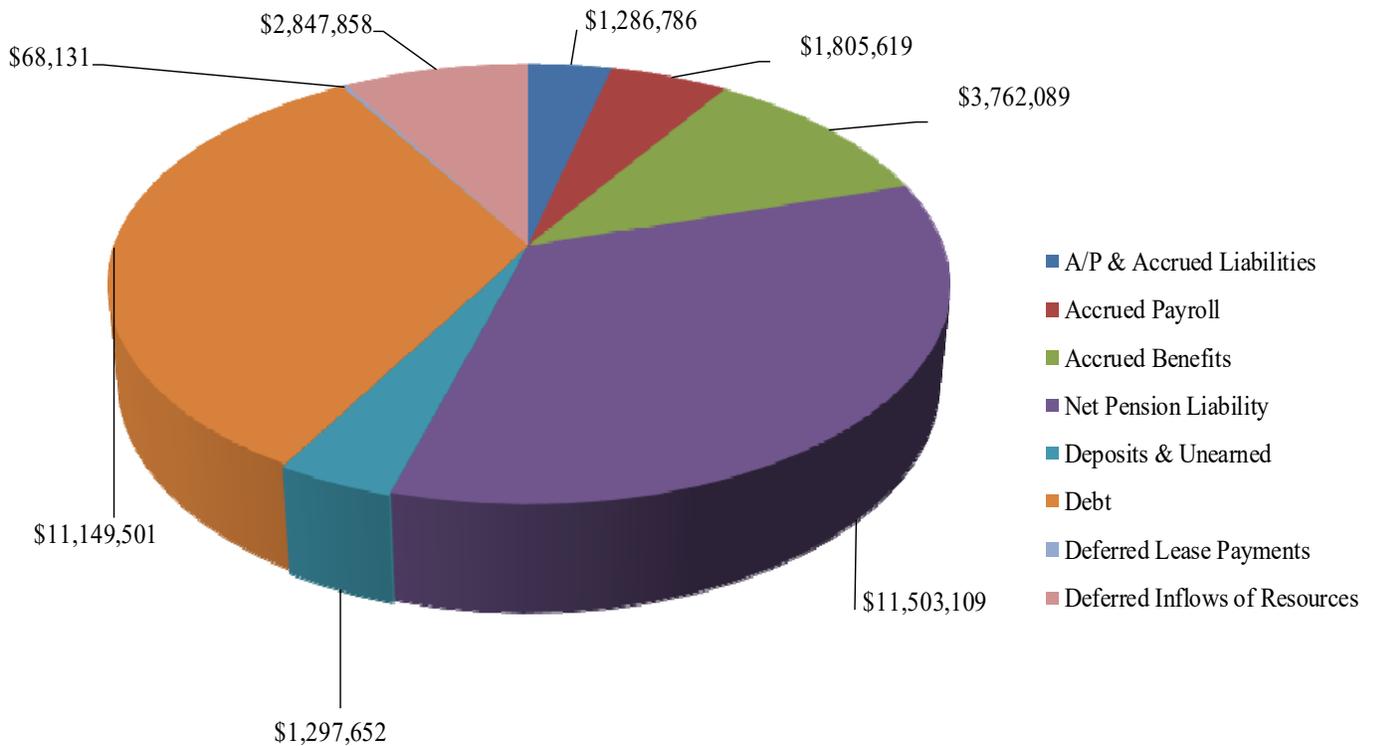
June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Schedules of Net Position - continued

Non-current liabilities increased from 2016 to 2017 by approximately \$386,000 due to a slight increase in the long term portion of the accrued compensated absences and accrued worker's compensation liability.

The College's liabilities and deferred inflows of resources include the following breakdown:



Accrued Benefits is made up of an accrual for compensated absences (\$3.47 million) and the College's Workers' Compensation liability (approximately \$294,000).

Deposits and Unearned consists of student deposits and advance tuition payments (approximately \$372,000), advance grant payments (approximately \$685,000), funds held for others (approximately \$20,000) and deferred revenue for the theater and fitness and wellness center (approximately \$220,000).

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Schedules of Net Position - continued

Debt is comprised of the following:

- A twenty year bond (\$3,000,000) from the Mass State College Building Authority to support the construction of a new science & technology center.
- A twenty year loan with Massachusetts Health and Educational Facilities Authority (\$1,200,000) to add a 12,000 sq. ft. technology center to the main building.
- A fifteen year Clean Renewable Energy Bond ("CREB") (\$310,000), the proceeds of which have been used to install photovoltaic cells on the College's rooftop.
- An eighteen year Clean Renewable Energy Bond (CREB) (\$2,145,000), and a CEIP Bond (Clean Energy Investment Program) \$4,400,000, which were used for the construction of two wind turbines.
- A \$500,000 loan from the Mount Wachusett Community College Foundation.
- A twenty year bond (\$3,055,000) from the Mass State College Building Authority to support construction of a new student center.

During FY 2017, the College repaid \$627,614 of the principal on its capital asset related debt.

Schedules of Revenues, Expenses and Changes in Net Position

The following schedules are prepared from the College's Schedules of Revenues, Expenses, and Changes in Net Position (page 22), which is presented on an accrual basis. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These schedules represent the results of the College's operations.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Schedules of Revenues, Expenses and Changes in Net Position

| Operating Results | | | |
|---|------------------------|--------------------|--------------------|
| Years Ended June 30, | | | |
| <u>(in millions)</u> | | | |
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Operating Revenue: | | | |
| Tuition and fees | \$ 11.27 | \$ 11.51 | \$ 11.59 |
| Grants and contracts | 17.21 | 17.26 | 17.46 |
| Auxiliary | 1.14 | 1.10 | 1.18 |
| Other | <u>2.10</u> | <u>2.09</u> | <u>2.01</u> |
| Total | 31.72 | 31.96 | 32.24 |
| | | | |
| Less: operating expenses | <u>53.34</u> | <u>51.59</u> | <u>49.66</u> |
| | | | |
| Net operating loss | <u>(21.62)</u> | <u>(19.63)</u> | <u>(17.42)</u> |
| | | | |
| Non-operating Revenue: | | | |
| State appropriations | 19.52 | 18.41 | 17.52 |
| Net interest & other non-operating | - | (0.33) | (0.33) |
| Capital appropriations, grants, and gifts | <u>8.66</u> | <u>25.84</u> | <u>2.52</u> |
| Total | <u>28.18</u> | <u>43.92</u> | <u>19.71</u> |
| | | | |
| Increase in net position | 6.56 | 24.29 | 2.29 |
| Net Position, Beginning of Year | <u>37.18</u> | <u>12.89</u> | <u>10.60</u> |
| | | | |
| Net Position, End of Year | <u>\$ 43.74</u> | <u>\$ 37.18</u> | <u>\$ 12.89</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Schedules of Revenues, Expenses and Changes in Net Position - continued

A number of revenue streams supplement student tuition and fees and currently include: federal and state grants and contracts, nongovernmental grants and contracts, contracted services of the cafeteria and bookstore, and operation of the fitness and wellness center. The College will continue to aggressively seek additional funding to support its operation consistent with its mission, as well as to continue to make prudent use of its financial resources for funding its operating activities.

Revenues

Revenues consisted of the following (in thousands) for the fiscal years ended June 30,:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|------------------------|------------------|------------------|------------------|
| Tuition & Fees | \$ 11,270 | \$ 11,506 | \$11,586 |
| Grants | 16,184 | 16,120 | 16,526 |
| Contracts | 1,024 | 1,138 | 925 |
| Auxiliary | 1,137 | 1,102 | 1,178 |
| State Appropriation | 19,521 | 18,407 | 17,523 |
| Capital Appropriation | 8,496 | 25,545 | 1,978 |
| Capital Grants & Gifts | 166 | 292 | 545 |
| Other | <u>2,112</u> | <u>2,095</u> | <u>2,015</u> |
| | <u>\$ 59,910</u> | <u>\$ 76,205</u> | <u>\$ 52,276</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE

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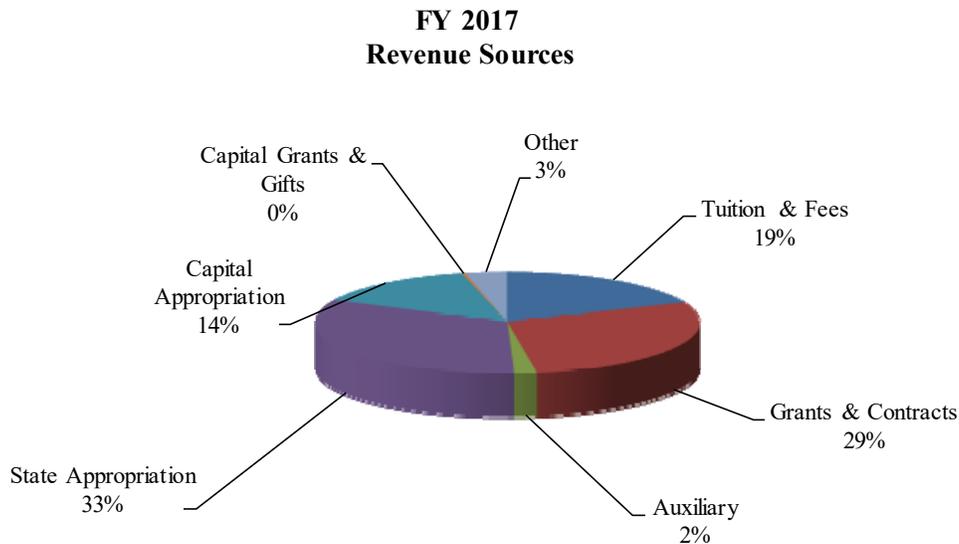
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Revenues - continued

The following is a graphic illustration of the College's revenues by source:



Major components of the operating revenue for the year include tuition and fees, federal and state grants and contracts. Federal and state grants and contracts include Adult Basic Education funded through the Massachusetts Department of Education, as well as GEAR-Up, Educational Opportunity Center, Visions and Project GO funded by the United States Department of Education And Trade Adjustment Assistance Community College & Career Training (TACCCT) grants from the U.S. Department of Labor. Grants also include federal financial aid such as PELL grants.

MOUNT WACHUSETT COMMUNITY COLLEGE

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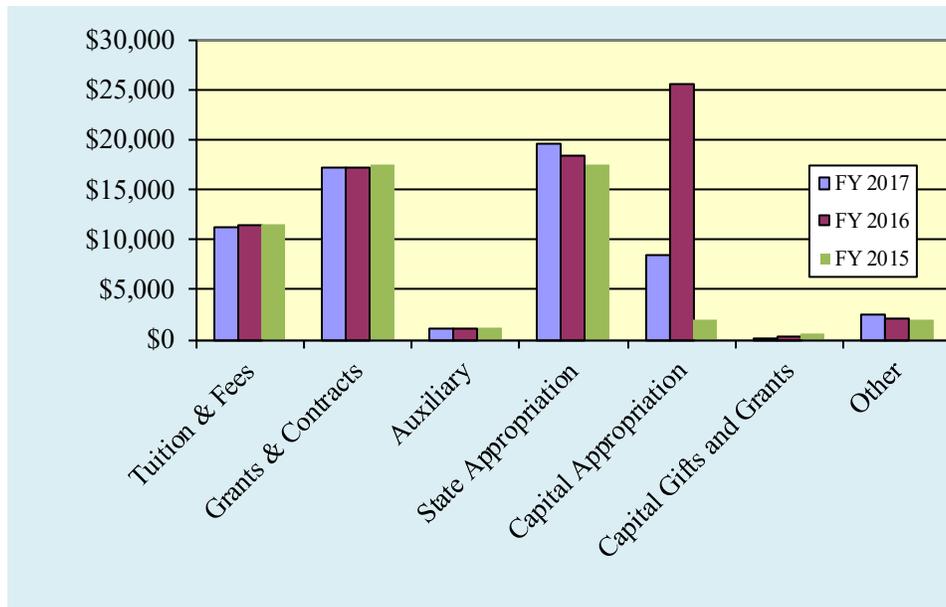
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Revenues - continued

The chart below shows a year-to-year comparison of the College's revenue sources:



Tuition and fees decreased by \$236,000 over FY 2016 due to declining enrollment. Grant and contract revenue decreased approximately \$48,000 due primarily to decreases in various Federal grants including Pell and Federal Work Study. The state appropriation increased by approximately \$1.1 million. There was a capital appropriation of approximately \$8,496,000 for the completion of the Haley Academic Building and construction of the new Student Center.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Operating Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are included on the next two pages. The following is a summary of the College's expenses using the *Natural Classification Format*:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-----------------------------|----------------------|----------------------|----------------------|
| Salaries & wages | \$ 28,857,683 | \$ 28,516,238 | \$ 28,663,286 |
| Employee related expenses | 313,055 | 312,493 | 338,780 |
| Fringe benefits | 7,572,324 | 6,618,929 | 6,099,873 |
| Administrative | 3,850,232 | 4,481,133 | 2,641,039 |
| Supplies | 1,591,415 | 1,586,511 | 1,462,334 |
| Utilities/space rental | 1,809,699 | 1,987,269 | 2,023,749 |
| Consultants | 1,214,347 | 931,140 | 941,273 |
| Facility operations | 427,453 | 369,985 | 388,311 |
| Equipment purchase | 1,755,419 | 1,253,919 | 1,207,404 |
| Equipment lease | 813,202 | 666,078 | 640,459 |
| Client purchased service | 291,245 | 510,561 | 576,304 |
| Building & land maintenance | 344,094 | 38,686 | 130,773 |
| Scholarship | 2,707,166 | 3,105,858 | 3,112,679 |
| Depreciation | 1,961,129 | 1,261,108 | 1,204,242 |
| Compensated absences | <u>(164,786)</u> | <u>(46,354)</u> | <u>229,395</u> |
| | <u>\$ 53,343,677</u> | <u>\$ 51,593,554</u> | <u>\$ 49,659,901</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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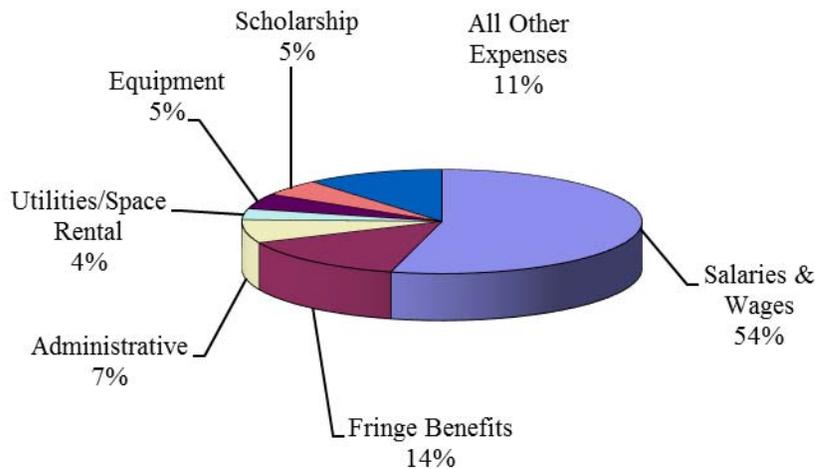
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Operating Expenses - continued

The following chart graphically illustrates the College's major expenses under the natural classification format:



Salaries and wages make up the majority of expenditures for the College. Coupled with the resulting fringe benefits, they make up 68% of the cost of operations in FY 2017 and 2016.

Natural classifications of expenditures are useful for budgetary and analytical purposes; however, functional classification can give more insight when attempting to compare institutions of higher education. Functional classifications show the expenditures grouped by programmatic areas.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Operating Expenses - continued

The following is a summary of the College's expenses using the functional classification format:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------------|----------------------|----------------------|----------------------|
| Instruction | \$ 14,166,518 | \$ 14,251,884 | \$ 13,704,213 |
| Public service | 1,174,319 | 1,057,252 | 1,062,761 |
| Academic support | 5,390,134 | 5,225,996 | 5,154,641 |
| Student services | 13,187,637 | 12,498,969 | 12,276,595 |
| Institutional support | 6,693,728 | 6,301,104 | 6,638,799 |
| Operation & maintenance of plant | 6,586,568 | 6,430,694 | 5,241,098 |
| Depreciation | 1,961,129 | 1,261,108 | 1,204,241 |
| Student aid | 2,707,165 | 3,105,857 | 3,112,678 |
| Auxiliary enterprise - fitness center | <u>1,476,479</u> | <u>1,460,690</u> | <u>1,264,875</u> |
| | <u>\$ 53,343,677</u> | <u>\$ 51,593,554</u> | <u>\$ 49,659,901</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE

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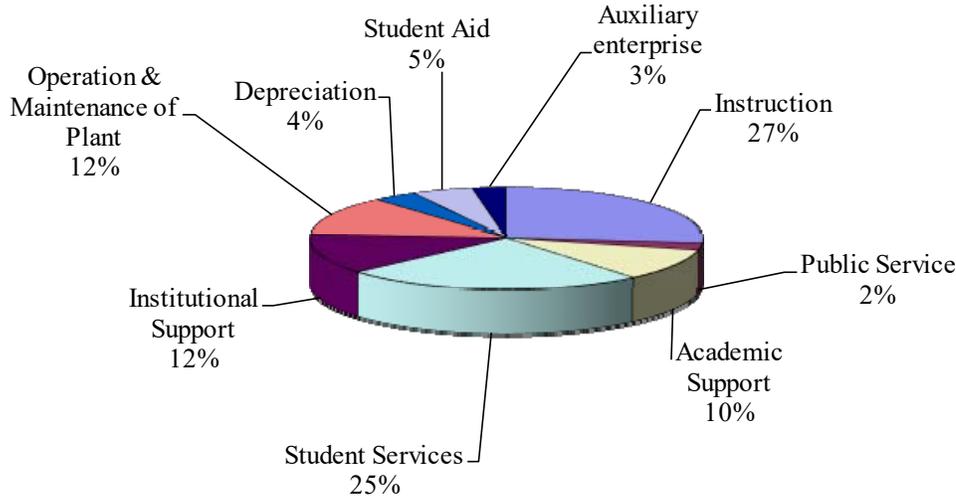
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Analysis of the College as a Whole - Continued

Operating Expenses - continued

The following is a graphic representation of the operating expenses under the functional classification format:



Expenses for instruction, academic support, student services and student aid make up the bulk of the College's operational expense with a combined total of 66% in FY 2017. Another 25% of the College's resources went to institutional support and the maintenance of the College's facilities in FY 2017 while 5% is spent on public service and the operation of the College's fitness center and cafeteria.

Capital Asset and Debt Administration

As of June 30, 2017 the College had \$57,344,701 invested in capital assets, net of accumulated depreciation of \$23,201,200. This investment in capital assets includes land, buildings (including improvements) furnishings and equipment, and books. Depreciation charges for FY 2017 and 2016 were \$1,961,129 and \$1,261,108 respectively. Additions totaled \$9,368,991 primarily for the new student center and parking lots.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Capital Asset and Debt Administration - Continued

The College records capital assets under General Accepted Accounting Principles, whereby assets are recorded at their historical cost and depreciated over a period of 3 - 40 years. In the case of land and buildings, these historical costs may vary significantly from their current fair market value where they would typically appreciate in value rather than depreciate.

The following table is a summary of the College's capital assets at June 30,:

| Capital Assets | | | |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| <u>(in thousands)</u> | | | |
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Land | \$ 41 | \$ 41 | \$ 41 |
| Construction in progress | 1,538 | 30,517 | 6,346 |
| Buildings & improvements | 73,990 | 35,805 | 34,434 |
| Furnishing & equipments | 4,568 | 4,405 | 3,695 |
| Library books | <u>408</u> | <u>408</u> | <u>408</u> |
| Total | 80,545 | 71,176 | 44,924 |
| Less: accumulated depreciation | <u>23,201</u> | <u>21,240</u> | <u>19,978</u> |
| Net capital assets | <u>\$ 57,344</u> | <u>\$ 49,936</u> | <u>\$ 24,946</u> |

Additions to capital assets for the year ended June 30, 2017 include:

- \$9,368,991 – New Student Center and Parking Lots

In Fiscal year 2008, the Commonwealth of Massachusetts passed a bond bill which authorizes the issuance of \$2 billion in capital bonds. Of this \$2 billion authorization, \$1 billion is dedicated to capital investments at the state and community colleges, and \$1 billion is dedicated to capital investments at the University of Massachusetts. The monies are to be released to various State departments in \$100 million increments over a ten year period.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Capital Asset and Debt Administration - Continued

Mount Wachusett Community College is slated to receive \$5.4 million to be dedicated to parking lot improvements at the College. To date, the College has utilized \$115,000 of the funds. The remainder will be used when the construction begins in the Spring of 2018. During FY 2017, the College worked with the Massachusetts State College Building Authority ("MSCBA") to construct a student center. This project commenced in May, 2017 with a slated completion date of late August, 2017. The project was financed with a \$3,055,000 bond issued through the MSCBA and a \$713,000 allocation from the Department of Capital Asset Management and Maintenance ("DCAMM").

All capital asset purchases are pre-approved by the Board of Trustees and are included in the College's capital spending plan submitted to the Board of Higher Education and the Commonwealth's Fiscal Affairs Division. Additional information about Mount Wachusett Community College's capital assets can be found in Note 7 of this report.

Long-Term Liabilities

The College's outstanding long-term liabilities consist of the following at June 30,:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Bonds payable | \$ 10,738,199 | \$ 8,222,115 | \$ 8,678,779 |
| Deferred lease payments | 68,131 | 190,161 | 283,725 |
| Compensated absences | 3,467,269 | 3,632,054 | 3,678,409 |
| Net pension liability | 11,503,109 | 13,481,424 | 7,434,353 |
| Notes payable – Foundation | 411,302 | 500,000 | - |
| Obligations under capital lease | - | - | 95,751 |
| Workers' compensation | <u>294,820</u> | <u>209,970</u> | <u>306,833</u> |
| | 26,482,830 | 26,235,724 | 20,477,850 |
| Less: current portion | <u>3,012,593</u> | <u>3,152,016</u> | <u>3,114,238</u> |
| Long-term liabilities | <u>\$ 23,470,237</u> | <u>\$ 23,083,708</u> | <u>\$ 17,363,612</u> |

Statewide Concerns

The level of state support that the College receives is dependent on the State's economic and political landscape. The College's annual maintenance appropriation was level funded during FY's 2011, 2012 and 2013 due to statewide budgetary concerns. In FY 14, the Board of Higher Education developed and implemented a performance based funding formula for the community

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Economic Factors that Will Affect the Future - Continued

Statewide Concerns - Continued

college segment. The State also infused additional monies into the community college system to be allocated per the new performance formula. In FY 14, an additional \$20 million was allocated to the community colleges through the formula. MWCC's share of which amounted to \$1,077,000. In FY 15, the State increased community college funding by \$13.2 million of which MWCC received \$814,000 and in FY 16, the State increased community college funding by \$9.1 million, of which MWCC received \$441,000.

National Concerns

Nationwide, enrollments, which peaked in 2011, have been on a steady four year decline. Shifts in demographics leading to fewer high school graduates has been one of the major factors here. During economic downturns, displaced workers will return to college to seek new skills. These older non-traditional students make up a large portion of the community college attendees. As the economy has been improving, these students have been able to find new careers and are leaving the college campuses.

Regional Concerns

The unemployment rate for the Leominster-Fitchburg-Gardner metropolitan area decreased slightly from 4.9% in June of 2016 to 4.8% in June of 2017, according to the U.S. Department of Labor, Bureau of Labor Statistics. This compares to a decrease from 4.9% to 4.3% respectively, on a statewide level.

Due to the demographic changes associated with an aging and increasingly diverse population in the North Central Worcester County area, the need for an affordable, accessible education remains high. In addition, much of the region consists of rural communities where economic development and workforce development issues are dependent upon higher education to respond. Furthermore, excellence in technical education and the demands of the contemporary high-tech workplace require the college to maintain state-of-the art equipment, to develop new programs, and to continue with faculty development efforts.

The College's ability to respond to these concerns depends on the continuation of state funding, the availability of federal and state grants and contracts, a steady enrollment, and cost containment and conservation strategies in order to meet the College's basic operational needs.

Requests for Information

This financial report is designed to provide a general overview, for all those with an interest in Mount Wachusett Community College's finances. Questions concerning the information provided in this report, or requests for additional financial information, should be addressed to Robert E. LaBonte, Vice President of Finance & Administration, 444 Green Street, Mount Wachusett Community College, Gardner, MA.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30,

| <u>Assets</u> | Primary Government | | Component Unit | |
|---|------------------------|------------------------|---------------------------|---------------------------|
| | 2017 <u>College</u> | 2016 <u>College</u> | 2017 <u>Foundation</u> | 2016 <u>Foundation</u> |
| Current Assets: | | | | |
| Cash and equivalents | \$ 2,770,921 | \$ 4,204,572 | \$ 825,584 | \$ 321,265 |
| Cash held by State Treasurer | 3,329,407 | 3,616,546 | - | - |
| Deposits held by MSCBA | 3,169,279 | - | - | - |
| Short-term investments | 3,264,302 | 3,033,043 | - | - |
| Accounts receivable, net | 2,236,506 | 2,154,055 | - | - |
| Current portion of pledges receivable | 30,075 | 4,000 | 284,983 | 9,690 |
| Current portion of note receivable - College | - | - | 94,020 | 88,698 |
| Other current assets | 232,527 | 140,932 | 30,982 | 33,869 |
| Total Current Assets | <u>15,033,017</u> | <u>13,153,148</u> | <u>1,235,569</u> | <u>453,522</u> |
| Non-Current Assets: | | | | |
| Cash restricted for long term purposes | 44,832 | 37,543 | - | - |
| Investments | 299,102 | 275,311 | 3,822,869 | 3,354,012 |
| Beneficial interest | - | - | 2,048,040 | 2,026,208 |
| Pledges receivable | 25,000 | 50,000 | 37,470 | 9,420 |
| Note receivable - College | - | - | 317,282 | 411,302 |
| Capital assets, net | 57,344,701 | 49,936,839 | - | - |
| Total Non-Current Assets | <u>57,713,635</u> | <u>50,299,693</u> | <u>6,225,661</u> | <u>5,800,942</u> |
| Deferred Outflows of Resources: | | | | |
| Pension related, net | 4,716,673 | 5,140,421 | - | - |
| Total Assets and Deferred Outflows of Resources | <u>\$ 77,463,325</u> | <u>\$ 68,593,262</u> | <u>\$ 7,461,230</u> | <u>\$ 6,254,464</u> |
| <u>Liabilities, Deferred Inflows of Resources and Net Assets</u> | | | | |
| Current Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 1,286,786 | \$ 600,298 | \$ 18,677 | \$ 20,448 |
| Accrued payroll | 1,805,619 | 2,639,340 | - | - |
| Accrued compensated absences | 2,203,009 | 2,433,552 | - | - |
| Accrued workers' compensation | 53,362 | 44,304 | - | - |
| Student deposits and unearned revenue | 1,297,652 | 1,393,239 | - | - |
| Current portion of bonds payable | 594,071 | 463,432 | - | - |
| Current portion of loan payable - Foundation | 94,020 | 88,698 | - | - |
| Future lease payments | 68,131 | 122,030 | - | - |
| Total Current Liabilities | <u>7,402,650</u> | <u>7,784,893</u> | <u>18,677</u> | <u>20,448</u> |
| Non-Current Liabilities: | | | | |
| Accrued compensated absences | 1,264,260 | 1,198,502 | - | - |
| Accrued workers' compensation | 241,458 | 165,666 | - | - |
| Bonds payable | 10,144,128 | 7,758,683 | - | - |
| Net pension liability | 11,503,109 | 13,481,424 | - | - |
| Note payable - Foundation | 317,282 | 411,302 | - | - |
| Future lease payments | - | 68,131 | - | - |
| Total Non-Current Liabilities | <u>23,470,237</u> | <u>23,083,708</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>30,872,887</u> | <u>30,868,601</u> | <u>18,677</u> | <u>20,448</u> |
| Deferred Inflows of Resources: | | | | |
| Service concession arrangements | 100,000 | 150,000 | - | - |
| Pension related, net | 2,747,858 | 397,750 | - | - |
| Total Deferred Inflows of Resources | <u>2,847,858</u> | <u>547,750</u> | <u>-</u> | <u>-</u> |
| Net Position: | | | | |
| Investment in capital assets, net | 49,775,781 | 41,714,724 | - | - |
| Restricted: | | | | |
| Nonexpendable | 364,843 | 363,231 | 717,761 | 432,448 |
| Expendable | 34,166 | 3,623 | 4,119,380 | 3,557,918 |
| Unrestricted | (6,432,210) | (4,904,667) | 2,605,412 | 2,243,650 |
| Total Net Position | <u>43,742,580</u> | <u>37,176,911</u> | <u>7,442,553</u> | <u>6,234,016</u> |
| Total Liabilities and Net Position | <u>\$ 77,463,325</u> | <u>\$ 68,593,262</u> | <u>\$ 7,461,230</u> | <u>\$ 6,254,464</u> |

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

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses and Changes in Net Position

For the Years Ended June 30,

| | Primary Government | | Component Unit | |
|---|------------------------|------------------------|---------------------------|---------------------------|
| | 2017 <u>College</u> | 2016 <u>College</u> | 2017 <u>Foundation</u> | 2016 <u>Foundation</u> |
| Operating Revenues: | | | | |
| Tuition and fees | \$ 17,351,898 | \$ 17,748,779 | \$ - | \$ - |
| Less: Scholarships and allowances | <u>(6,081,440)</u> | <u>(6,242,668)</u> | - | - |
| Net tuition and fees | 11,270,458 | 11,506,111 | - | - |
| Gifts and contributions | - | - | 1,158,502 | 627,087 |
| Federal grants and contracts | 14,104,935 | 14,007,487 | - | - |
| State and local grants and contracts | 2,080,012 | 2,112,356 | - | - |
| Non-governmental grants and contracts | 1,024,281 | 1,137,567 | - | - |
| Auxiliary enterprises | 1,137,957 | 1,102,340 | - | - |
| Other operating revenues | <u>2,112,348</u> | <u>2,095,448</u> | <u>54,827</u> | <u>114,872</u> |
| Total Operating Revenues | <u>31,729,991</u> | <u>31,961,309</u> | <u>1,213,329</u> | <u>741,959</u> |
| Operating Expenses: | | | | |
| Instruction | 14,166,518 | 14,251,884 | - | - |
| Public service | 1,174,319 | 1,057,252 | 56,749 | 30,991 |
| Academic support | 5,390,134 | 5,225,996 | 601,420 | 835,662 |
| Student services | 13,187,637 | 12,498,969 | - | - |
| Institutional support | 6,693,728 | 6,301,104 | 111,563 | 116,764 |
| Operation and maintenance of plant | 6,586,568 | 6,430,694 | - | - |
| Depreciation | 1,961,129 | 1,261,108 | - | - |
| Scholarships and fellowships | 2,707,165 | 3,105,857 | - | - |
| Auxiliary enterprise | <u>1,476,479</u> | <u>1,460,690</u> | <u>-</u> | <u>-</u> |
| Total Operating Expenses | <u>53,343,677</u> | <u>51,593,554</u> | <u>769,732</u> | <u>983,417</u> |
| Net Operating (Loss) Income | <u>(21,613,686)</u> | <u>(19,632,245)</u> | <u>443,597</u> | <u>(241,458)</u> |
| Non-Operating Revenues (Expenses): | | | | |
| State appropriation, unrestricted | 19,207,947 | 18,399,650 | - | - |
| State appropriation, restricted | 313,683 | 7,500 | - | - |
| Investment income (loss) | 326,232 | 45,207 | 543,108 | (20,916) |
| Change in value of beneficial interest | - | - | 221,832 | (31,407) |
| Gifts | 1,612 | 10,940 | - | - |
| Interest expense | <u>(329,294)</u> | <u>(372,456)</u> | <u>-</u> | <u>-</u> |
| Net Non-Operating Revenues | <u>19,520,180</u> | <u>18,090,841</u> | <u>764,940</u> | <u>(52,323)</u> |
| Net Increase (Decrease) in Net Position Before Capital Revenue | <u>(2,093,506)</u> | <u>(1,541,404)</u> | <u>1,208,537</u> | <u>(293,781)</u> |
| Capital grants | 162,978 | 280,780 | - | - |
| Capital appropriations | <u>8,496,197</u> | <u>25,545,701</u> | <u>-</u> | <u>-</u> |
| Total Capital Revenue | <u>8,659,175</u> | <u>25,826,481</u> | <u>-</u> | <u>-</u> |
| Net Increase (Decrease) in Net Position | <u>6,565,669</u> | <u>24,285,077</u> | <u>1,208,537</u> | <u>(293,781)</u> |
| Net Position, Beginning of Year | <u>37,176,911</u> | <u>12,891,834</u> | <u>6,234,016</u> | <u>6,527,797</u> |
| Net Position, End of Year | <u>\$ 43,742,580</u> | <u>\$ 37,176,911</u> | <u>\$ 7,442,553</u> | <u>\$ 6,234,016</u> |

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

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30,

| | Primary Government | |
|--|------------------------|------------------------|
| | 2017 College | 2016 College |
| Cash Flows from Operating Activities: | | |
| Tuition and fees | \$ 10,995,619 | \$ 10,926,481 |
| Grants and contracts | 17,031,483 | 17,367,985 |
| Payments to employees | (24,885,453) | (23,946,476) |
| Payments to students | (2,707,166) | (3,103,258) |
| Payments to suppliers and vendors | (18,298,018) | (16,851,566) |
| Other receipts | <u>3,142,027</u> | <u>3,156,596</u> |
| Net Cash Applied to Operating Activities | <u>(14,721,508)</u> | <u>(12,450,238)</u> |
| Cash Flows from Non-Capital Financing Activities: | | |
| State appropriations | 14,680,064 | 14,314,332 |
| Restricted appropriations | 313,683 | 7,500 |
| Gifts | 1,612 | 20,940 |
| Tuition remitted to state | <u>(278,068)</u> | <u>(294,319)</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>14,717,291</u> | <u>14,048,453</u> |
| Cash Flows from Capital Financing Activities: | | |
| Capital grants | 162,978 | 280,780 |
| Proceeds from issuance of bond payable | 3,055,000 | - |
| Purchases of capital assets | (872,794) | (706,072) |
| Proceeds from Foundation loan | - | 500,000 |
| Principal paid on Foundation loan | (88,698) | - |
| Principal paid on note and bonds payable | (538,916) | (552,415) |
| Interest paid on note and bonds payable | <u>(328,757)</u> | <u>(372,456)</u> |
| Net Cash Provided by (Applied to) Capital Financing Activities | <u>1,388,813</u> | <u>(850,163)</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of investments | (358,726) | (2,243,265) |
| Proceeds from sale of investments | 373,331 | - |
| Investment income | <u>56,577</u> | <u>32,423</u> |
| Net Cash Provided by (Applied to) Investing Activities | <u>71,182</u> | <u>(2,210,842)</u> |
| Net Increase (Decrease) in Cash and Equivalents | 1,455,778 | (1,462,790) |
| Cash and Equivalents, Beginning of Year | <u>7,858,661</u> | <u>9,321,451</u> |
| Cash and Equivalents, End of Year | \$ 9,314,439 | \$ 7,858,661 |
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | | |
| Net operating loss | <u>\$ (21,613,686)</u> | <u>\$ (19,632,245)</u> |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | | |
| Depreciation | 1,961,129 | 1,261,108 |
| Fringe benefits provided by the State | 4,805,951 | 4,379,637 |
| Service concession arrangement | (50,000) | (50,000) |
| Increase in allowance for doubtful accounts | 234,674 | 355,023 |
| Changes in assets and liabilities: | | |
| Accounts receivables | (318,201) | (609,162) |
| Other current assets | (92,132) | (50,947) |
| Accounts payable and accrued expenses | 564,459 | 108,749 |
| Accrued salaries and wages | (833,721) | 286,987 |
| Accrued compensated absences and workers' compensation | (79,935) | (143,218) |
| Student deposits and unearned revenues | (95,587) | 269,800 |
| Net pension activity | <u>795,541</u> | <u>1,374,030</u> |
| Net Cash Applied to Operating Activities | <u>\$ (14,721,508)</u> | <u>\$ (12,450,238)</u> |
| Non-Cash Transactions: | | |
| Fringe benefits provided by the state | <u>\$ 4,805,951</u> | <u>\$ 4,379,637</u> |
| Debt reserve applied towards bond principal | <u>537</u> | <u>540</u> |
| Capital improvements provided by capital appropriations | <u>\$ 8,496,197</u> | <u>\$ 25,545,701</u> |
| Unrealized gain on investments | <u>\$ 262,481</u> | <u>\$ 12,784</u> |

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

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2017 and 2016

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

Organization

Mount Wachusett Community College (the “College”) is a state-supported comprehensive college that offers a quality education leading to associate degrees in the arts and sciences, as well as one-year certificate programs. With its primary campus located in Gardner, Massachusetts, along with other satellite campuses, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies, and business fields of study. The College also offers, through the Division of Continuing Education, credit and noncredit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

Basis of Presentation and Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”).

The Mount Wachusett Community College Foundation, Inc. (the “Foundation”), a component unit of the College, was formed in 1971 to render financial assistance and support to the educational programs and development of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included in the financial statements because of the nature and significance of its relationship with the College. Complete financial statements can be obtained from the Foundation’s administrative office in Gardner, Massachusetts.

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

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation and Accounting - continued

The College has determined that it functions as a business-type activity, as defined by GASB. The effect of inter-fund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information (“RSI”) for general-purpose governments consist of management's discussion and analysis, basic financial statements including the College’s discretely presented component unit, the Foundation, and required supplementary information. The College presents statements of net position, revenues, expenses, changes in net position, and cash flows on a combined College-wide basis.

The College's policy for defining operating activities in the statements of revenues and expenses 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 including the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts, and interest expense.

The College’s financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements.

Net Position

Resources are classified for accounting purposes into the following four net position categories:

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

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

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Net Position - continued

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

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

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

Trust Funds

In accordance with the requirements of the Commonwealth of Massachusetts, the College's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

Cash and Equivalents

The College considers all highly liquid debt instruments with original maturity dates of three months or less, whether held in its own accounts or by state agencies on its behalf, to be cash equivalents.

Investments

Investments in marketable securities are stated at fair market value. Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the statements of revenues and expenses. Any net earnings not expended are included in net position categories as follows:

- (i) As increases in restricted - nonexpendable net position 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 position 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. The College has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as restricted - expendable; and
- (iii) As increases in unrestricted net position in all other cases.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Allowance for Doubtful Accounts

Accounts and pledges receivable are periodically evaluated for collectibility based on past history with students. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic condition.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. College capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years.

The College does not have collections of historical treasures, works of art or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Cash Held by State Treasurer

Cash held by state treasurer represents funds accessible by the College held by the Commonwealth of Massachusetts for payroll.

Deposits Held by MSCBA

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

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.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2017. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2017. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Student Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs, tuition received for the following academic year, advance theater ticket sales, and unexpired health center memberships are deferred and recorded as revenues as earned.

Pensions

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

Student Tuition and Fees

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

Future Lease Payments

United States generally accepted accounting principles requires that rent expense under lease agreements is recognized ratably over the period of the agreement regardless of the presence of rent holidays, scheduled rent increases and other terms affecting the monthly payment. Accordingly, when the required monthly payment is less than the pro rata monthly expense the aggregate of this difference is presented on the statement of net position as a liability. The liability is liquidated in future periods as the required monthly payment increases in accordance with the lease agreement.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Tax Status

The College is an agency of the Commonwealth of Massachusetts and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates

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

New Governmental Accounting Pronouncements

GASB Statement 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 17, management anticipates that implementation of this standard will require the restatement of balances as of July 1, 2017.

GASB Statement 83 - *Certain Asset Retirement Obligations* ("ARO's") is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition

MOUNT WACHUSETT COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements - continued

GASB Statement 83 Continued - occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 84 – Fiduciary Activities is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of net position and a statement of changes in net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 85 – Omnibus 2017 is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 86 – Certain Debt Extinguishment Issues is effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures in the financial statements for debt that is defeased in substance. Management has not completed its review of the requirements of this standard.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements - continued

GASB Statement 87 – Leases is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Statement. Management is in the process of evaluating this Statement and has not yet determined its impact on the financial statements.

Note 2 - **Cash and Equivalents**

Custodial credit risk is the risk associated with the failure of a depository financial institution. The College's deposits are made in domestic banks that are Federally insured with supplemental insurance for those accounts exceeding the Federally insured limits. At June 30, 2017 and 2016 the carrying amount of the College's deposits, which reflect deposits in transit and outstanding checks, were \$2,815,753 and \$4,242,115, respectively. The College had deposits of \$1,425,326 and \$1,893,771 in excess of FDIC Insurance at June 30, 2017 and 2016, respectively.

The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the Massachusetts Municipal Depository Trust ("MMDT"), a qualified external investment pool for cities, towns and other state and local agencies within the Commonwealth. MMDT operates as a Rule 2a-7-like pool and is valued by MMDT's management on amortized cost where the net asset value is \$1 per share. At June 30, 2017 and 2016, the College has \$3 and \$5,146, respectively, invested with MMDT and is included in cash and equivalents.

Note 3 - **Cash Held By State Treasurer**

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$3,329,407 and \$3,616,546 at June 30, 2017 and 2016, respectively. 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.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments**

College

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, The Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the state legislator or derived from federal allocation. The primary objective of the College's investment policy is to provide a source of liquidity, income and capital appreciation for the College. The College's investments are comprised of short term/liquid investments, which include cash and other short term investments expected to mature within three years, and long term investments, which include bonds, equities, and other investments expected to mature within three to ten years. Investments identified as endowment funds are designed to ensure a total return sufficient to preserve and enhance the principal of the funds and provided a dependable source of revenue for the identified purposes.

Concentration of Credit Risk

The College places no limit on the amount it may invest in any one issuer. The College had no investments exceed 5% of its total investment balance as of June 30, 2017 and 2016. Under accounting principles generally accepted in the United States of America, investments issued or explicitly guaranteed by the federal government and mutual funds are specifically excluded for purposes of determining concentration of credit risk disclosures.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the College, or are held by either the counterparty or the counterparty's trust department or agent but not in the College's name. The College's policy is to hold all investments in the name of the organization.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College does not have a formal policy that limits

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

College - continued

Interest Rate Risk – Continued

investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The College's investment policy establishes guidelines for permissible investments, which include certificates of deposits, mutual funds, equities and bonds.

Disclosure of Credit Risk of Debt Securities

Credit risk of debt securities is as follows at June 30,:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>2017</u> | | | | | | |
|---|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|
| | | <u>A</u> | <u>A-</u> | <u>BBB+</u> | <u>BBB</u> | <u>BBB-</u> | <u>BB+</u> | <u>Unrated</u> |
| Certificates of deposit - non negotiable | <u>\$ 1,062,785</u> | <u>\$ -</u> | <u>\$ 1,062,785</u> |
| | | <u>2016</u> | | | | | | |
| <u>Investment Type</u> | <u>Fair Value</u> | <u>A</u> | <u>A-</u> | <u>BBB+</u> | <u>BBB</u> | <u>BBB-</u> | <u>BB+</u> | <u>Unrated</u> |
| Certificates of deposit - non negotiable | <u>\$ 1,057,452</u> | <u>\$ -</u> | <u>\$ 1,057,452</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

College - continued

Maturities of Debt Securities

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

| <u>Investment Type</u> | <u>2017</u> <u>Investment Maturities (in years)</u> | | | | |
|-------------------------|--|---------------------|------------------|-------------------|---------------------------|
| | <u>Market Value</u> | <u>Less than 1</u> | <u>1-5 years</u> | <u>6-10 years</u> | <u>More than 10 years</u> |
| Certificate of deposits | \$ 1,062,785 | \$ 1,062,785 | \$ - | \$ - | \$ - |
| Mutual funds | 575,607 | 575,607 | - | - | - |
| Equities | 1,925,012 | 1,925,012 | - | - | - |
| | <u>\$ 3,563,404</u> | <u>\$ 3,563,404</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| <u>Investment Type</u> | <u>2016</u> <u>Investment Maturities (in years)</u> | | | | |
|-------------------------|--|---------------------|------------------|-------------------|---------------------------|
| | <u>Market Value</u> | <u>Less than 1</u> | <u>1-5 years</u> | <u>6-10 years</u> | <u>More than 10 years</u> |
| Certificate of deposits | \$ 1,057,452 | \$ 1,057,452 | \$ - | \$ - | \$ - |
| Mutual funds | 473,657 | 473,657 | - | - | - |
| Equities | 1,777,245 | 1,777,245 | - | - | - |
| | <u>\$ 3,308,354</u> | <u>\$ 3,308,354</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

College - continued

Fair Value Hierarchy

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

Certificates of Deposit: Valued at initial investment cost plus accrued interest.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value ("NAV") of the shares held by the College at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MOUNT WACHUSETT COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

College - continued

Fair Value Hierarchy - continued

The following tables set forth, by level, the College's investments:

| | June 30, 2017 | | | | |
|---|-------------------|---------------------|---------------------|-------------|---------------------|
| | NAV | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements: | | | | | |
| Certificates of deposit | \$ - | \$ - | \$ 1,062,785 | \$ - | \$ 1,062,785 |
| Mutual funds | 575,607 | - | - | - | 575,607 |
| Equities | - | <u>1,925,012</u> | - | - | <u>1,925,012</u> |
| Total investments at fair value | <u>\$ 575,607</u> | <u>\$ 1,925,012</u> | <u>\$ 1,062,785</u> | <u>\$ -</u> | <u>\$ 3,563,404</u> |
| | | | | | |
| | June 30, 2016 | | | | |
| | NAV | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements: | | | | | |
| Certificates of deposit | \$ - | \$ - | \$ 1,057,452 | \$ - | \$ 1,057,452 |
| Mutual funds | 473,657 | - | - | - | 473,657 |
| Equities | - | <u>1,777,245</u> | - | - | <u>1,777,245</u> |
| Total investments at fair value | <u>\$ 473,657</u> | <u>\$ 1,777,245</u> | <u>\$ 1,057,452</u> | <u>\$ -</u> | <u>\$ 3,308,354</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments - Continued**

Foundation

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

| | <u>2017</u> | | <u>2016</u> | |
|--------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Cost</u> | <u>Market Value</u> | <u>Cost</u> | <u>Market Value</u> |
| Equities | \$ 1,890,550 | \$ 3,150,430 | \$ 1,897,772 | \$ 2,672,139 |
| Fixed income funds | <u>667,090</u> | <u>672,439</u> | <u>667,172</u> | <u>681,873</u> |
| | <u>\$ 2,557,640</u> | <u>\$ 3,822,869</u> | <u>\$ 2,564,944</u> | <u>\$ 3,354,012</u> |

The following summarizes the investment return and its classification for the years ended June 30,:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|--------------------|
| Dividend and interest income | \$ 77,260 | \$ 81,609 |
| Realized gain | 4,166 | 187,331 |
| Investment expenses | (13,739) | (13,248) |
| Net unrealized gain (loss) on investments | <u>475,421</u> | <u>(276,608)</u> |
| Total investment return | <u>\$ 543,108</u> | <u>\$ (20,916)</u> |

Promulgations of the Financial Accounting Standards Board have established a framework for measuring fair value of the investments, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Please refer to the financial statements of the respective component unit for more information.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 5 - **Accounts Receivable**

The accounts receivable balance comprises the following at June 30,:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|---------------------|
| Student accounts receivable | \$ 2,257,487 | \$ 2,073,750 |
| Grants receivable | 1,012,513 | 770,182 |
| Other receivables | <u>537,733</u> | <u>646,675</u> |
| | 3,807,733 | 3,490,607 |
| Less: allowance for doubtful accounts | <u>1,571,227</u> | <u>1,336,552</u> |
| | <u>\$ 2,236,506</u> | <u>\$ 2,154,055</u> |

Note 6 - **Pledges Receivable**

College

Unconditional promises to give represent amounts pledged towards the College's endowment for the humanities. A discount has not been recorded due to a lack of materiality. Pledges receivable consists of the following at June 30,:

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| Receivable in less than one year | \$ 30,075 | \$ 4,000 |
| Receivable in one to five years | <u>25,000</u> | <u>50,000</u> |
| | 55,075 | 54,000 |
| Less: Current portion of pledges receivable | <u>30,075</u> | <u>4,000</u> |
| Pledges receivable, net of current portion | <u>\$ 25,000</u> | <u>\$ 50,000</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 6 - **Pledges Receivable - Continued**

Foundation

Unconditional promises to give due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 4% and consist of the following at June 30,:

| | <u>2017</u> | <u>2016</u> |
|---|------------------|-----------------|
| Receivable in less than one year | \$ 284,983 | \$ 10,254 |
| Receivable in one to five years | <u>39,983</u> | <u>10,000</u> |
| | 324,966 | 20,254 |
| Less: discounts to net present value | <u>2,513</u> | <u>1,144</u> |
| Net pledges receivable | 322,453 | 19,110 |
| Less: Current portion of pledges receivable | <u>284,983</u> | <u>9,690</u> |
| Pledges receivable, net of current portion | <u>\$ 37,470</u> | <u>\$ 9,420</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Capital Assets**

Capital asset activity for the year ended June 30, 2017 was as follows:

| June 30, 2017 | | | | | | |
|---|----------------------------------|----------------------|---------------------|-------------|---------------------|----------------------|
| | Estimated Lives (in years) | Beginning Balance | Additions | Retirements | Reclassifications | Ending Balance |
| Land | | \$ 40,704 | \$ - | \$ - | \$ - | \$ 40,704 |
| Construction in progress | | <u>30,516,991</u> | <u>1,538,414</u> | - | <u>(30,516,991)</u> | <u>1,538,414</u> |
| Total capital assets non-depreciable | | <u>30,557,695</u> | <u>1,538,414</u> | - | <u>(30,516,991)</u> | <u>1,579,118</u> |
| Building, including improvements | 25-40 | 35,805,331 | 7,667,600 | - | 30,516,991 | 73,989,922 |
| Furnishings and equipment (including cost of capital leases) | 3-5 | 4,405,561 | 162,977 | - | - | 4,568,538 |
| Books | 5 | <u>408,323</u> | - | - | - | <u>408,323</u> |
| Total depreciable assets | | <u>40,619,215</u> | <u>7,830,577</u> | - | <u>30,516,991</u> | <u>78,966,783</u> |
| Less: accumulated depreciation | | | | | | |
| Building, including improvements | | 17,712,700 | 1,450,885 | - | - | 19,163,585 |
| Furnishings and equipment | | 3,119,048 | 510,244 | - | - | 3,629,292 |
| Books | | <u>408,323</u> | - | - | - | <u>408,323</u> |
| Total accumulated depreciation | | <u>21,240,071</u> | <u>1,961,129</u> | - | - | <u>23,201,200</u> |
| Capital assets, net | | <u>\$ 49,936,839</u> | <u>\$ 7,407,862</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 57,344,701</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Capital Assets - Continued**

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

| June 30, 2016 | | | | | | |
|--|----------------------------------|----------------------|----------------------|-------------|--------------------|----------------------|
| | Estimated Lives (in years) | Beginning Balance | Additions | Retirements | Reclassifications | Ending Balance |
| Land | | \$ 40,704 | \$ - | \$ - | \$ - | \$ 40,704 |
| Construction in progress | | 6,346,479 | 25,425,940 | - | (1,255,428) | 30,516,991 |
| Total capital assets non-depreciable | | <u>6,387,183</u> | <u>25,425,940</u> | <u>-</u> | <u>(1,255,428)</u> | <u>30,557,695</u> |
| Building, including improvements | 25-40 | 34,434,383 | 115,520 | - | 1,255,428 | 35,805,331 |
| Furnishing and equipment (including cost of capital leases) | 3-5 | 3,695,247 | 710,314 | - | - | 4,405,561 |
| Books | 5 | 408,323 | - | - | - | 408,323 |
| Total depreciable assets | | <u>38,537,953</u> | <u>825,834</u> | <u>-</u> | <u>1,255,428</u> | <u>40,619,215</u> |
| Less: accumulated depreciation | | | | | | |
| Building, including improvements | | 16,750,546 | 962,154 | - | - | 17,712,700 |
| Furnishings and equipment | | 2,820,094 | 298,954 | - | - | 3,119,048 |
| Books | | 408,323 | - | - | - | 408,323 |
| Total accumulated depreciation | | <u>19,978,963</u> | <u>1,261,108</u> | <u>-</u> | <u>-</u> | <u>21,240,071</u> |
| Capital assets, net | | <u>\$ 24,946,173</u> | <u>\$ 24,990,666</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 49,936,839</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Deferred Inflows of Resources**

The College has entered into an agreement, categorized as a service concession arrangement under GASB 60 *Accounting and Reporting for Service Concession Arrangements*, expiring through June 2019, with a vendor for the provision of book store management services. As part of this arrangement, the vendor provided the College with \$250,000 in support of the mission of the College. In accordance with GASB 65, *Items Previously Reported as Assets and Liabilities*, the College has accounted for these monies as deferred inflows of resources and will amortize the amounts into income over the life of the agreement. In addition, the agreement provides for additional payments to the College to defray certain costs and as revenue sharing. During the fiscal year ended June 30, 2017 and 2016, such additional payments aggregated \$228,673 and \$290,024.

Note 9 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2017, consist of:

| | June 30, 2017 | | | | |
|-----------------------------------|------------------------------|---------------------|---------------------|---------------------------|----------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
| Notes and bonds payable: | | | | | |
| Bonds payable | \$ 8,222,115 | \$ 3,055,000 | \$ 538,916 | \$ 10,738,199 | \$ 594,071 |
| Notes payable - related party | <u>500,000</u> | - | <u>88,698</u> | <u>411,302</u> | <u>94,020</u> |
| Total notes and bonds payable | <u>8,722,115</u> | <u>3,055,000</u> | <u>627,614</u> | <u>11,149,501</u> | <u>688,091</u> |
| Other long-term liabilities: | | | | | |
| Compensated absences | 3,632,054 | - | 164,785 | 3,467,269 | 2,203,009 |
| Workers' compensation | 209,970 | 84,850 | - | 294,820 | 53,362 |
| Net pension liability | 13,481,424 | - | 1,978,315 | 11,503,109 | - |
| Future lease payments | <u>190,161</u> | - | <u>122,030</u> | <u>68,131</u> | <u>68,131</u> |
| Total other long-term liabilities | <u>17,513,609</u> | <u>84,850</u> | <u>2,265,130</u> | <u>15,333,329</u> | <u>2,324,502</u> |
| | <u>\$ 26,235,724</u> | <u>\$ 3,139,850</u> | <u>\$ 2,892,744</u> | <u>\$ 26,482,830</u> | <u>\$ 3,012,593</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 9 - **Long-Term Liabilities - Continued**

Long-term liabilities at June 30, 2016 consist of:

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Ending <u>Balance</u> | Current <u>Portion</u> |
|-----------------------------------|-----------------------------|---------------------|-------------------|--------------------------|---------------------------|
| Notes and bonds payable | | | | | |
| Bonds payable | \$ 8,678,779 | \$ - | \$ 456,664 | \$ 8,222,115 | \$ 463,432 |
| Notes payable - related party | <u>-</u> | <u>500,000</u> | <u>-</u> | <u>500,000</u> | <u>88,698</u> |
| Total notes and bonds payable | <u>8,678,779</u> | <u>500,000</u> | <u>456,664</u> | <u>8,722,115</u> | <u>552,130</u> |
| Other long-term liabilities: | | | | | |
| Obligations under capital lease | 95,751 | - | 95,751 | - | - |
| Compensated absences | 3,678,409 | - | 46,355 | 3,632,054 | 2,433,552 |
| Workers' compensation | 306,833 | - | 96,863 | 209,970 | 44,304 |
| Net pension liability | 7,434,353 | 6,047,071 | - | 13,481,424 | - |
| Future lease payments | <u>283,725</u> | <u>-</u> | <u>93,564</u> | <u>190,161</u> | <u>122,030</u> |
| Total other long-term liabilities | <u>11,799,071</u> | <u>6,047,071</u> | <u>332,533</u> | <u>17,513,609</u> | <u>2,599,886</u> |
| | <u>\$ 20,477,850</u> | <u>\$ 6,547,071</u> | <u>\$ 789,197</u> | <u>\$ 26,235,724</u> | <u>\$ 3,152,016</u> |

Bonds Payable

The College issued a \$1,200,000 Massachusetts Health and Education Facilities Authority (“HEFA”) Variable Rate Demand Revenue Bond, Capital Asset Program Issue, Series M-2 with interest of 1.67% payable monthly. Annual principal payments of \$60,000 commenced June 15, 2003 and reduced to annual payments of \$54,546 during fiscal year 2006. Under the HEFA Bond agreement, the College is required to maintain the ratio of gross tuition and fees to total debt service to be at least 10:1. This bond matures in July, 2022.

The College issued a \$310,000 Clean Renewable Energy Bond (“CREB”) through the Massachusetts Development Finance Agency. The bond is for fifteen years and is interest free. No interest has been imputed due to a lack of materiality. Annual principal payments in the amount of \$20,667 commenced on December 31, 2007. The bond matures in December, 2022.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 9 - **Long-Term Liabilities - Continued**

Bonds Payable - continued

In 2011, the College issued a \$2,145,000 Clean Renewable Energy Bond through the Massachusetts Development Finance Agency with interest at 2.5%. Annual principal payments of \$126,176 and bi-annual interest payments began May 2011 through maturity in May 2027.

On October 1, 2010, the College issued a \$4,400,000 Clean Energy Investment Program Bond ("CEIP") through the Massachusetts Department of Capital Asset Management. The bond is for twenty years at 4.7% interest. Annual principal and interest payments in the amount of \$350,575 are due through January, 2032.

On March 6, 2014, the College issued a \$3,000,000 bond through Massachusetts State College Building Authority ("MSCBA"). These funds are being used for the upgrade and renovation of the Haley Academic Center. The bond is for twenty years at the interest rate of 4.25%. The College is required to make bi-annual principal and interest payments beginning in May, 2015. The bond matures in May, 2034.

In 2017, the College issued a \$3,055,000 bond through Massachusetts State College Building Authority ("MSCBA"). These funds are being used to build a new student center. The bond is for twenty years at interest rates varying from 1.865% to 3.398%. The College is required to make bi-annual principal and interest payments beginning in November, 2017. The bond matures in November, 2036.

Notes Payable - Related Party

During the year ended June 30, 2016, the College received a loan from the Foundation for \$500,000. This loan will be repaid in annual payments of \$118,698, including interest at 6% per annum, beginning October 31, 2016 through 2020. A corresponding note receivable has been recorded on the records of the Foundation.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 9 - **Long-Term Liabilities - Continued**

Future Maturities

Principal and interest on notes and bonds payable for the next five years are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------|----------------------|---------------------|
| 2018 | \$ 688,091 | \$ 430,250 |
| 2019 | 711,261 | 384,843 |
| 2020 | 732,163 | 359,705 |
| 2021 | 753,836 | 333,138 |
| 2022 | 589,806 | 305,762 |
| 2023-2027 | 3,287,112 | 1,192,101 |
| 2028-2032 | 3,102,504 | 589,001 |
| 2033-2037 | <u>1,284,728</u> | <u>97,352</u> |
| | <u>\$ 11,149,501</u> | <u>\$ 3,692,152</u> |

Lease Commitments

The College also leases facilities and equipment under various operating leases. Rent expense for operating leases was \$1,605,498 for the year ended June 30, 2017. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2017:

| Years Ending <u>June 30,</u> | |
|---------------------------------|---------------------|
| 2018 | \$ 1,670,794 |
| 2019 | 640,661 |
| 2020 | 177,308 |
| 2021 | 4,842 |
| 2022 | <u>1,211</u> |
| | <u>\$ 2,494,816</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan**

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$2,245,119 and \$2,002,026 for the year ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 73% and 75% of annual total payroll for the College for the years ended June 30, 2017 and 2016, respectively.

Certain employees of the College participate in a cost-sharing multiple-employer defined benefit pension plan – the Massachusetts State Employees’ Retirement System (“SERS”) – administered by the Massachusetts State Board of Retirement (the “Board”), which is a public employee retirement system (“PERS”). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits through the plan, regardless of the status of the employers’ payment of its pension obligations to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The Massachusetts State Employee’s Retirement System does not issue a stand-alone financial statement.

Benefit Provisions

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

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan - Continued**

Contributions

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

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

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

| <u>Hire Date</u> | <u>Percent of Compensation</u> |
|---------------------|---|
| Prior to 1975 | 5% of regular compensation |
| 1975 - 1983 | 7% of regular compensation |
| 1984 to 6/30/1996 | 8% of regular compensation |
| 7/1/1996 to present | 9% of regular compensation except for State Police which is 12% of regular compensation |
| 1979 to present | An additional 2% of regular compensation in excess of \$30,000 |

The College is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016. The College contributed \$626,011 and \$599,035 and, for the fiscal years ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan - Continued**

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

At June 30, 2017 and 2016, the College reported a liability of \$11,503,109 and \$13,481,424, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015.

The College's proportionate share was based on actual employer contributions to SERS for fiscal year 2016 and 2015 relative to total contributions of all participating employers for that fiscal year. At June 30, 2016 and 2015, the College's proportion was 0.083% and 0.118%, respectively.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan - Continued**

Pension Liabilities, Pensions Expense and Deferred Outflows of Resources and Deferred Inflows of Resources - continued

For the years ended June 30, 2017 and 2016, the College recognized a net pension expense of \$795,541 and \$1,374,029, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| <u>Deferred Outflows of Resources</u> | | |
| Contributions subsequent to the measurement date | \$ 626,011 | \$ 599,035 |
| Changes in plan actuarial assumptions | 1,275,618 | 2,334,706 |
| Changes in proportion due to internal allocation | 1,470,868 | 1,940,198 |
| Changes in proportion from Commonwealth | 25,627 | - |
| Differences between expected and actual experience | 546,367 | 266,482 |
| Differences between projected and actual earnings of pension plan investments | <u>772,182</u> | <u>-</u> |
| Total | <u>\$ 4,716,673</u> | <u>\$ 5,140,421</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Changes in proportion due to internal allocation | \$ 2,742,316 | \$ 387,400 |
| Changes in proportion from Commonwealth | <u>5,542</u> | <u>10,350</u> |
| Total | <u>\$ 2,747,858</u> | <u>\$ 397,750</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan - Continued**

Pension Liabilities, Pensions Expense and Deferred Outflows of Resources and Deferred Inflows of Resources - continued

The College's contributions of \$626,011 and \$599,035 made during the fiscal years ending 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases in pension expense as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|---------------------|
| 2017 | \$ 260,406 |
| 2018 | 260,406 |
| 2019 | 570,469 |
| 2020 | 195,041 |
| 2021 | <u>56,482</u> |
| | <u>\$ 1,342,804</u> |

Actuarial Assumptions

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

| Measurement date | June 30, 2016 | June 30, 2015 |
|--|----------------|----------------|
| Inflation | 3.00% | 3.00% |
| Salary increases | 4.00% to 9.00% | 3.50% to 9.00% |
| Investment rate of return | 7.50% | 8.00% |
| Interest rate credited to annuity savings fund | 3.50% | 3.50% |

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan - Continued**

Actuarial Assumptions - continued

For measurement dates June 30, 2016 and 2015, mortality rates were based on the pre-retirement of RP-2000 Employees table projected 20 years with Scale BB (gender distinct), and post-retirement of Healthy Annuitant table projected generationally with Scale BB (gender distinct). The actuarial assumptions used in the January 1, 2016 valuation rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of actuarial experience study performed as of January 1, 2016.

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

| Asset Class | 2016 | | 2015 | |
|---------------------------------|-------------------|--|-------------------|--|
| | Target Allocation | Long-Term Expected Real Rate of Return | Target Allocation | Long-Term Expected Real Rate of Return |
| Global Equity | 40.0% | 6.9% | 40.0% | 6.9% |
| Core Fixed Income | 13.0% | 1.6% | 13.0% | 2.4% |
| Private Equity | 10.0% | 8.7% | 10.0% | 8.5% |
| Real Estate | 10.0% | 4.6% | 10.0% | 6.5% |
| Value Added Fixed Income | 10.0% | 4.8% | 10.0% | 5.8% |
| Hedge Funds | 9.0% | 4.0% | 9.0% | 5.8% |
| Portfolio Completion Strategies | 4.0% | 3.6% | 4.0% | 5.5% |
| Timber / Natural Resources | 4.0% | 5.4% | 4.0% | 6.6% |
| Total | <u>100.0%</u> | | <u>100.0%</u> | |

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Pension Plan - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the years ended June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate of 7.50 percent for the years ended June 30, 2016 and 2015, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

| June 30, 2017 | | |
|-----------------------|----------------------|-----------------------|
| 1.00% Decrease | Discount Rate | 1.00% Increase |
| (6.50%) | (7.50%) | (8.50%) |
| \$ 14,990,333 | \$ 11,503,109 | \$ 8,547,552 |
| June 30, 2016 | | |
| 1.00% Decrease | Discount Rate | 1.00% Increase |
| (6.50%) | (7.50%) | (8.50%) |
| \$ 18,325,679 | \$ 13,481,424 | \$ 9,303,187 |

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Restricted Net Position**

College

During the year ended June 30, 2015 the College received funding to establish an endowment in which the earnings must be used to support research, education, and public programs in the humanities. As of June 30, 2017 and 2016, \$364,842 and \$363,231 of the endowment was nonexpendable, respectively. As of June 30, 2017 and 2016 earnings of \$34,166 and \$3,623 were available for expenditure for the endowment's purpose, respectively.

Foundation

The Foundation's restricted-expendable net position consists of the following at June 30,:

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Sterilite Student Success | \$ 2,048,040 | \$ 2,026,208 |
| Other scholarships | 829,937 | 701,126 |
| Student Center | 500,000 | - |
| Early Childhood Education | 423,838 | 461,421 |
| Haley Scholarship Fund | 87,936 | 94,436 |
| John Burton Scholarship | 88,744 | 76,794 |
| Needy Books Fund | 77,283 | 70,140 |
| Career Focused Education Scholarship | 10,029 | 51,662 |
| Youth Venture | 11,373 | 4,489 |
| Boston Foundation-Advanced Manufacturing | - | 50,000 |
| Robinson Broadhurst | 42,200 | 21,642 |
| | <u>\$ 4,119,380</u> | <u>\$ 3,557,918</u> |

The Foundation also has nonexpendable net position of \$717,761 and \$432,448 at June 30, 2017 and 2016, which consists of scholarship endowment funds. The earnings on these funds are available to award student scholarships.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Contingencies**

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

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

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

Note 13 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, are comprised of the following for the years ended June 30,:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|----------------------|----------------------|
| Compensation and benefits | \$ 36,743,062 | \$ 35,447,658 |
| Supplies and services | 11,932,321 | 11,778,931 |
| Depreciation | 1,961,129 | 1,261,108 |
| Scholarships and fellowships | <u>2,707,165</u> | <u>3,105,857</u> |
| | <u>\$ 53,343,677</u> | <u>\$ 51,593,554</u> |

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 14 - **Fringe Benefits**

Fringe Benefit Programs

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

New Accounting Guidance Effective for Fiscal 2018

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the State Retirement Benefits Trust Fund. The University will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net other postemployment benefit ("OPEB") obligation. OPEB expense reported in the College's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Group Insurance Commission

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

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 14 - **Fringe Benefits - Continued**

Group Insurance Commission - continued

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

The GIC administers a plan included within the State Retirement Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution rates. The GIC is a quasi-independent state agency governed by an eleven member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2017 and 2016, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 15 - **Massachusetts Management Accounting and Reporting System**

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

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 15 - **Massachusetts Management Accounting and Reporting System - Continued**

The College's state appropriations are comprised of the following at June 30,:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Direct unrestricted appropriations | \$ 14,680,064 | \$ 14,314,332 |
| Add: Fringe benefits for benefited employees on the state payroll | 4,805,951 | 4,379,637 |
| Less: Day school tuition remitted to the state and included in tuition and fees revenue | <u>(278,068)</u> | <u>(294,319)</u> |
| Total unrestricted appropriations | 19,207,947 | 18,399,650 |
| Capital appropriations | 8,496,197 | 25,545,701 |
| Restricted appropriations | <u>313,683</u> | <u>7,500</u> |
| Total Appropriations | <u>\$ 28,017,827</u> | <u>\$ 43,952,851</u> |

A reconciliation between the College and MMARS as of June 30, 2017 and 2015 is as follows (unaudited):

| | <u>2017</u> | <u>2016</u> |
|---------------------|-------------------|-------------------|
| Revenue per MMARS | \$ 31,816,057 | \$ 33,199,560 |
| Revenue per College | <u>31,816,057</u> | <u>33,199,560</u> |
| Difference | <u>\$ -</u> | <u>\$ -</u> |

Note 16 - **Pass-Through Grants**

The College distributed \$4,996,084 and \$5,033,099 during the years ended June 30, 2017 and 2016, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of Proportionate Share of the Net Pension Liability
(Unaudited)

| Valuation date Measurement date | January 1, 2016 June 30, 2016 | January 1, 2015 June 30, 2015 | January 1, 2014 June 30, 2014 |
|--|--|----------------------------------|----------------------------------|
| Proportion of the net collective pension liability | 0.083% | 0.118% | 0.100% |
| Proportionate share of the collective net pension liability | \$ 11,503,109 | \$ 13,481,424 | \$ 7,434,353 |
| Covered-employee payroll | \$ 6,338,995 | \$ 7,136,425 | \$ 7,427,945 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 181.47% | 188.91% | 100.09% |
| Plan fiduciary net position as a percentage of the plan's total pension liability | 63.48% | 67.87% | 76.32% |

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of Contributions (Unaudited)

For the Years Ended June 30,

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------|----------------|----------------|
| Contractually required contribution | \$ 626,011 | \$ 599,035 | \$ 741,475 |
| Contributions in relation to the contractually required contribution | <u>626,011</u> | <u>599,035</u> | <u>741,475</u> |
| Contribution excess | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 6,291,568 | \$ 6,338,995 | \$ 7,136,429 |
| Contribution as a percentage of covered-employee payroll | 9.95% | 9.45% | 10.39% |

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

MOUNT WACHUSETT COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information
(Unaudited)

For the Year Ended June 30, 2016 and 2015

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.0% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2017. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.083%, 0.118% and .100% respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

The College's portion of these amounts is as follows:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|------------------|
| Changes in assumptions | \$ 2,843,140 | \$ 2,843,140 | \$ 102,141 |
| Recognized in current year pension expense | <u>(1,567,522)</u> | <u>(508,434)</u> | <u>(18,571)</u> |
| Changes in assumptions | <u>\$ 1,275,618</u> | <u>\$ 2,334,706</u> | <u>\$ 83,570</u> |

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



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
Mount Wachusett Community College
Gardner, Massachusetts

We have audited, 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, the financial statements of Mount Wachusett Community College (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and we have issued our report thereon dated October 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

O'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 12, 2017