

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)



FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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

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

June 30, 2019 and 2018

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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"), and its discretely presented component unit Mount Wachusett Community College Foundation, Inc. (the "Foundation"), which comprise the statements of net position as of June 30, 2019 and 2018, the related statements of revenues and expenses, 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 as listed in the table of contents.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof 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 and the required supplementary information as listed in the table of contents 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 10, 2019, 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 solely 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 the effectiveness of the College's 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.



**Certified Public Accountants
Braintree, Massachusetts**

October 10, 2019

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

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, 2019. 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, 2019 the College's net position is \$29,075,334. The amount represents \$79,522,863 in total assets and deferred outflows of resources while liabilities and deferred inflows of resources equal \$50,447,529. Operating expenses for the fiscal year ended June 30, 2019 total \$52,061,113 while operating revenues were \$30,586,704.

The College's non-operating revenues/expenses for the fiscal year ended June 30, 2019 netted to \$20,906,674. This includes \$20,968,944 of state appropriations. The College also received \$4,088,569 in capital appropriations and \$1,167,211 in capital grants.

Overview of the Financial Statements

This discussion and analysis are 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 *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, 2019 and 2018

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.

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 24-63 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.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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, 2019, assets exceeded liabilities and deferred inflows of resources by \$29.08 million.

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

Schedules of Net Position			
June 30,			
(in millions)			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 11.24	\$ 10.98	\$ 15.03
Non-current assets:			
Capital assets, net of depreciation	64.26	60.90	57.34
Other	0.40	0.41	0.38
Total Assets	<u>\$ 75.90</u>	<u>\$ 72.29</u>	<u>\$ 72.75</u>
Deferred outflows of resources	<u>3.62</u>	<u>4.58</u>	<u>5.21</u>
Current liabilities	\$ 5.75	\$ 5.97	\$ 7.40
Noncurrent liabilities	<u>35.24</u>	<u>41.29</u>	<u>43.94</u>
Total Liabilities	<u>40.99</u>	<u>47.26</u>	<u>51.34</u>
Deferred inflows of resources	<u>9.45</u>	<u>5.23</u>	<u>2.85</u>
Net Position:			
Investment in capital assets	54.85	50.96	49.78
Restricted	0.43	0.41	0.39
Unrestricted	<u>(26.20)</u>	<u>(26.99)</u>	<u>(26.40)</u>
Total Net Position	<u>\$ 29.08</u>	<u>\$ 24.38</u>	<u>\$ 23.77</u>

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

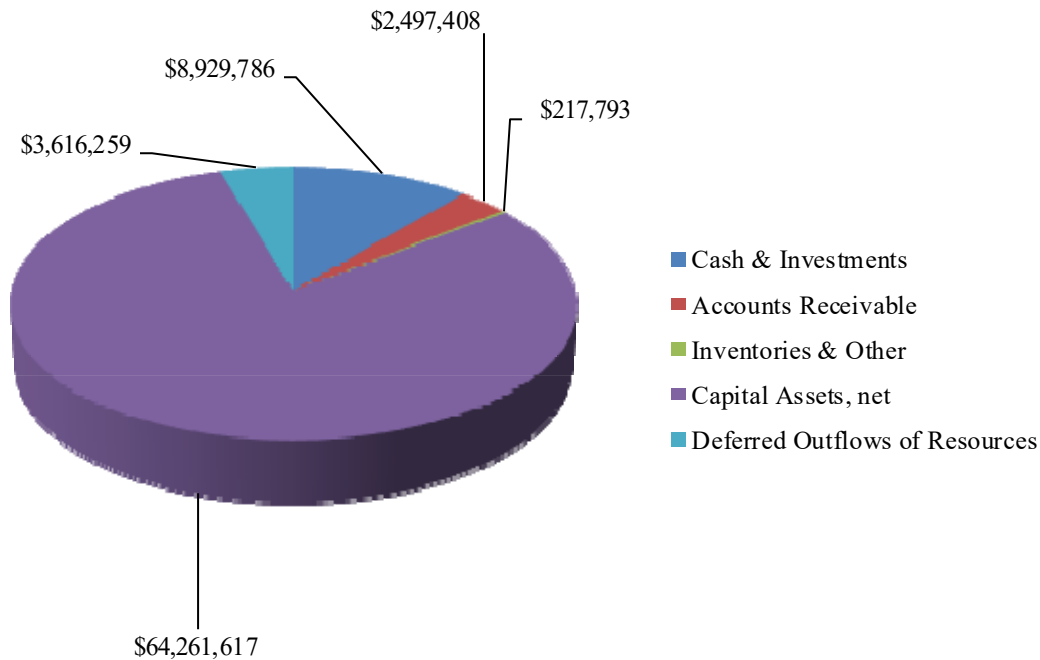
Financial Analysis of the College as a Whole - Continued

Schedules of Net Position - continued

Current assets increased by approximately \$.26 million from 2018 to 2019 due primarily to an increase in accounts receivable. Current assets of Cash and investments were steady from \$8.7 million in 2018 to \$8.5 million in 2019. Capital assets, net of depreciation increased by approximately \$3.4 million, the majority of which is the parking lot project and the Mass Life Sciences classroom.

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:



MOUNT WACHUSETT COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

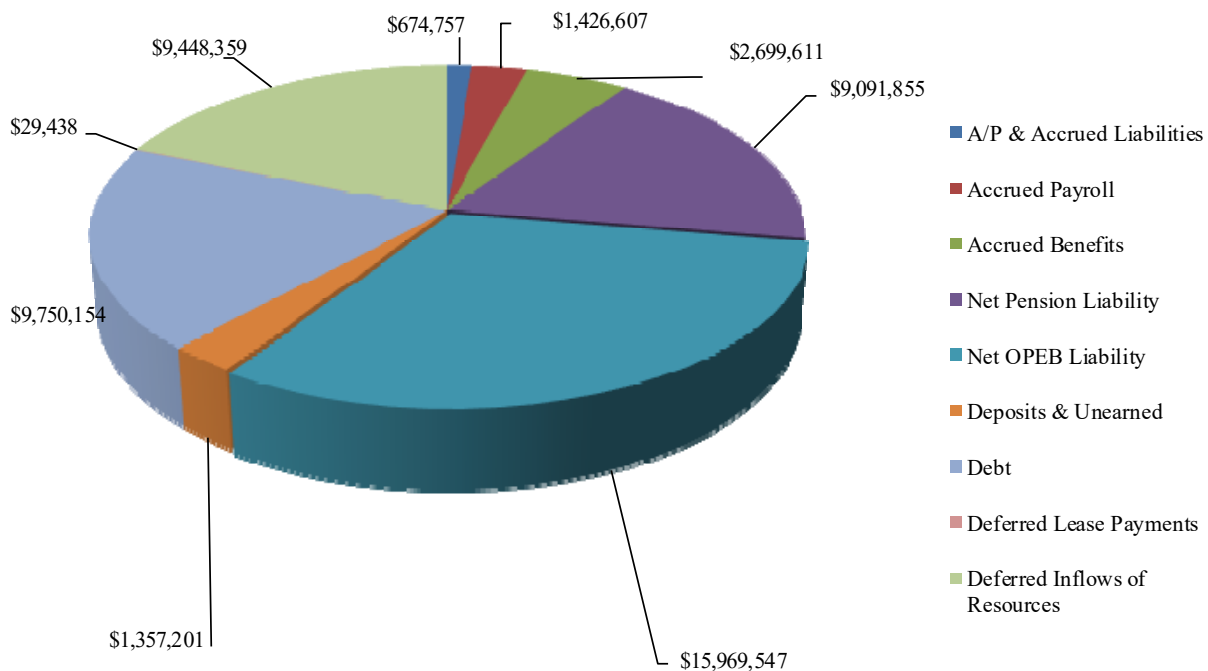
June 30, 2019 and 2018

Financial Analysis of the College as a Whole - Continued

Schedules of Net Position - continued

Current liabilities decreased from 2018 to 2019 by approximately \$.21 million. The major component of this decrease is the reduction of compensated absences, offset by increase in unearned revenue. Non-current liabilities decreased from 2018 to 2019 by \$6.0 million due to a decrease in the net OPEB liability (\$4.0m) and net pension liability (\$1.2m).

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



Accrued Benefits is made up of an accrual for compensated absences (\$2.4 million) and the College's Workers' Compensation liability (approximately \$290,000).

Deposits and Unearned consists of student deposits and advance tuition payments (approximately \$327,400), advance grant payments (approximately \$750,100), funds held for others (approximately \$21,200) and deferred revenue for the theater and fitness and wellness center (approximately \$258,400).

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

June 30, 2019 and 2018

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 2019, the College repaid \$711,261 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, 2019 and 2018

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>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenue:			
Tuition and fees	\$ 11.35	\$ 10.80	\$ 11.27
Grants and contracts	15.83	15.68	17.21
Auxiliary	1.21	1.09	1.14
Other	<u>2.21</u>	<u>2.06</u>	<u>2.10</u>
Total	30.60	29.63	31.72
Less: operating expenses	<u>52.06</u>	<u>51.97</u>	<u>53.34</u>
Net operating loss	<u>(21.46)</u>	<u>(22.34)</u>	<u>(21.62)</u>
Non-operating Revenue:			
State appropriations	20.96	19.83	19.52
Net interest & other non-operating	(0.06)	(0.12)	-
Capital appropriations, grants, and gifts	<u>5.26</u>	<u>3.24</u>	<u>8.66</u>
Total	<u>26.16</u>	<u>22.95</u>	<u>28.18</u>
Increase in net position	4.70	0.61	6.56
Net Position, Beginning of Year	<u>24.38</u>	<u>23.77</u>	<u>17.21</u>
Net Position, End of Year	<u>\$ 29.08</u>	<u>\$ 24.38</u>	<u>\$ 23.77</u>

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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>2019</u>	<u>2018</u>	<u>2017</u>
Tuition & Fees	\$ 11,350	\$ 10,797	\$ 11,270
Grants	14,467	14,712	16,184
Contracts	1,363	968	1,024
Auxiliary	1,204	1,086	1,137
State Appropriation	20,969	19,827	19,521
Capital Appropriation	4,088	3,151	8,496
Capital Grants & Gifts	1,167	96	166
Other	<u>2,530</u>	<u>2,375</u>	<u>2,112</u>
	<u>\$ 57,138</u>	<u>\$ 53,012</u>	<u>\$ 59,910</u>

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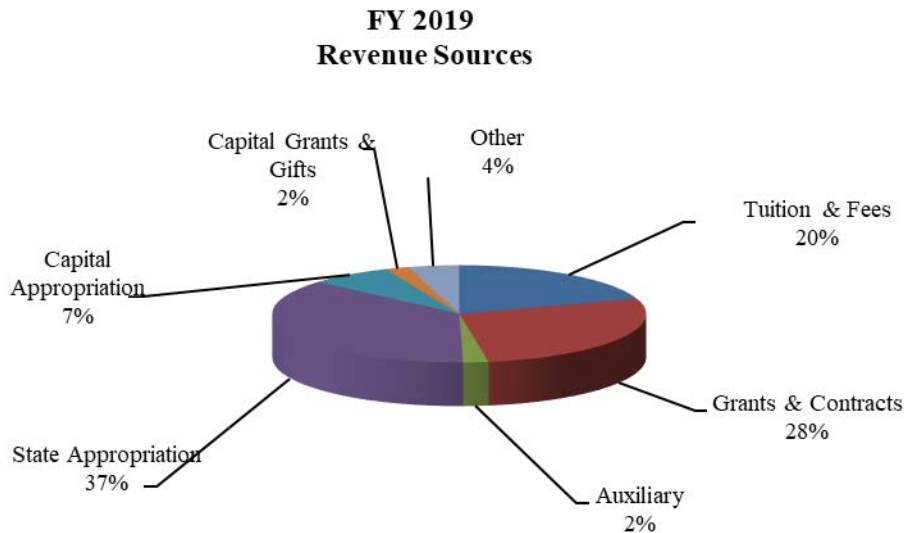
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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, Tech Hire through United States Department of Labor, Student Support Services project, as well as Mass Life Science and Mass Skills SIMS. Grants also include federal financial aid such as PELL grants.

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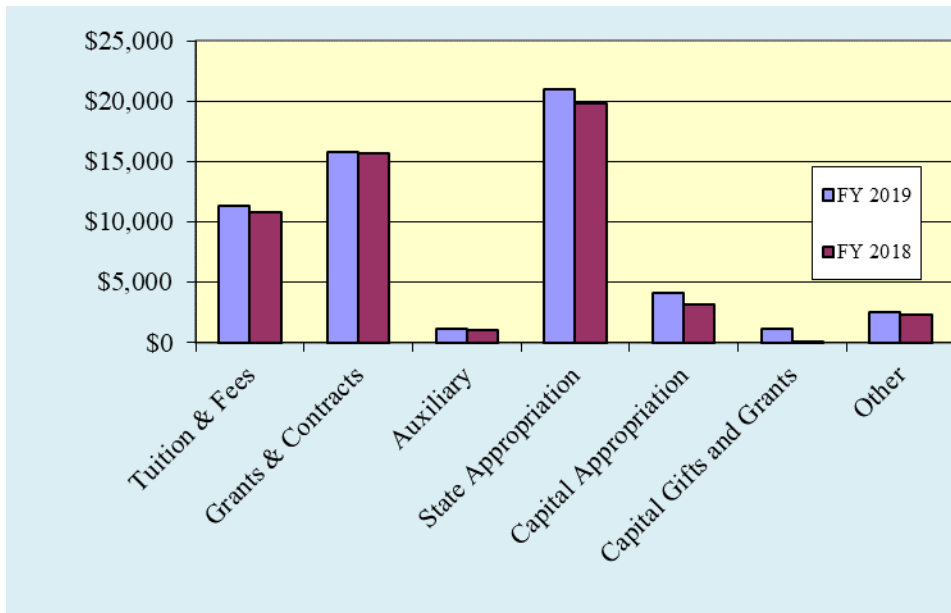
Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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 increased by \$553,000 over FY 2018 due primarily to fee increase. Grant and contract revenue increased approximately \$151,000. Decreases in various Federal grants including Pell were offset by increases in state and private grants. The state appropriation increased by approximately \$1,142,000. There was a capital appropriation of approximately \$4,088,000 consisting of approximately \$3.5 million for parking lot and roadway resurfacing and approximately \$590,000 for repairs and renovations to the campus infrastructure.

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

June 30, 2019 and 2018

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>2019</u>	<u>2018</u>	<u>2017</u>
Salaries & wages	\$ 28,805,436	\$ 27,790,104	\$ 28,857,684
Employee related expenses	300,623	273,748	313,055
Fringe benefits	7,433,989	7,378,572	7,572,324
Administrative	3,278,001	4,657,626	3,850,232
Supplies	1,736,382	1,443,965	1,591,415
Utilities/space rental	2,040,766	1,940,324	1,809,699
Consultants	823,572	899,241	1,214,347
Facility operations	432,603	308,347	427,453
Equipment purchase	1,123,842	970,117	1,755,419
Equipment lease	1,115,754	928,887	813,202
Client purchased service	217,804	233,430	291,245
Building & land maintenance	212,684	240,124	344,097
Scholarship	2,794,541	3,002,306	2,707,166
Depreciation	2,455,438	2,247,583	1,961,129
Compensated absences	<u>(710,322)</u>	<u>(347,737)</u>	<u>(164,786)</u>
	<u>\$ 52,061,113</u>	<u>\$ 51,966,637</u>	<u>\$ 53,343,681</u>

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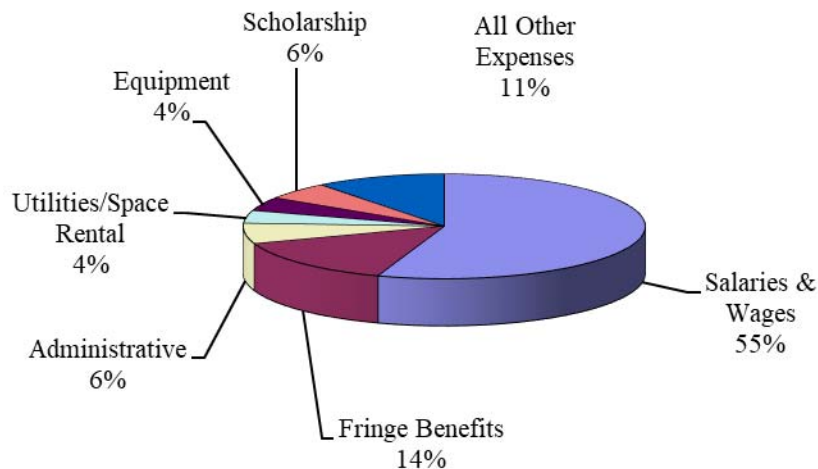
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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 69% and 67% of the cost of operations in FY 2019 and 2018, respectively.

In FY 19, the College offered an early retirement incentive program (ERIP) as a means of lowering future costs. The plan offered a \$10K bonus retirement payout and also waived the one year notice requirement for the standard early retirement bonus. Twenty-five employees took advantage of the offer. The payout costs for FY 19 amounted to approximately \$900K and is reflected in both a year to year increase in full time wages and also a decrease in the compensated absences liability. The College's plan to refill most of the positions with entry level employees is estimated to save \$500K per year.

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.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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>2019</u>	<u>2018</u>	<u>2017</u>
Instruction	\$ 14,185,330	\$ 14,376,117	\$ 14,166,519
Public service	1,097,659	1,148,685	1,174,320
Academic support	5,572,308	5,518,585	5,390,134
Student services	11,741,303	11,632,788	13,187,638
Institutional support	6,395,939	6,406,868	6,693,728
Operation & maintenance of plant	6,405,150	6,253,875	6,586,568
Depreciation	2,455,439	2,247,583	1,961,129
Student aid	2,796,996	3,002,306	2,707,166
Auxiliary enterprise	<u>1,410,989</u>	<u>1,379,820</u>	<u>1,476,479</u>
	<u>\$ 52,061,113</u>	<u>\$ 51,966,627</u>	<u>\$ 53,343,681</u>

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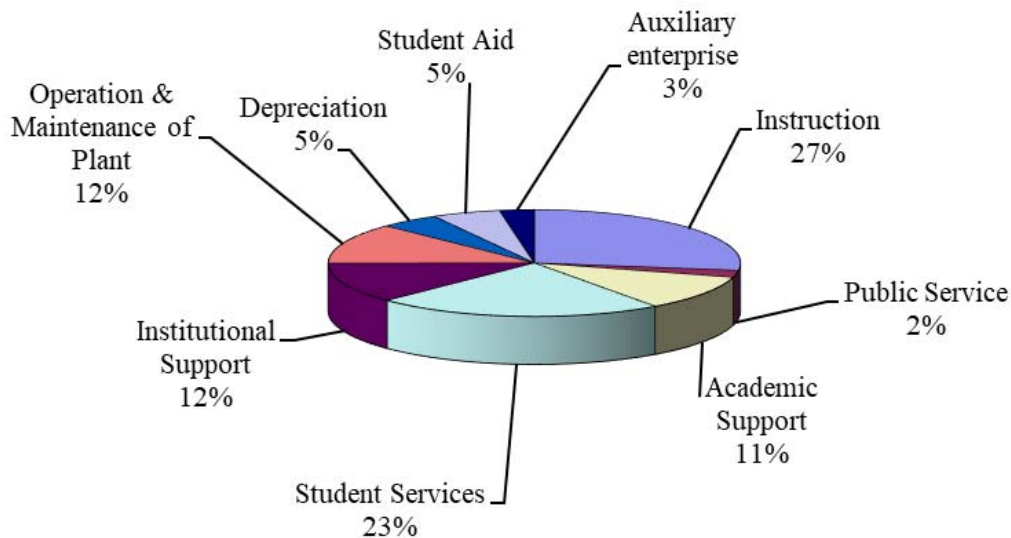
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

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 2019. Another 24% of the College's resources went to institutional support and the maintenance of the College's facilities in FY 2019, 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, 2019 the College had \$64,261,617 invested in capital assets, net of accumulated depreciation of \$27,904,221. This investment in capital assets includes land, buildings (including improvements) furnishings and equipment, and books. Depreciation charges for FY 2019 and 2018 were \$2,455,439 and \$2,247,583 respectively. Additions totaled \$5,821,875 primarily for the Parking Lots and Mass Life Sciences lab.

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

June 30, 2019 and 2018

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>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 41	\$ 41	\$ 41
Construction in progress	5,475	2,971	1,538
Buildings & improvements	81,274	78,242	73,990
Furnishing & equipments	4,968	4,682	4,568
Library books	<u>408</u>	<u>408</u>	<u>408</u>
 Total	 92,166	 86,344	 80,545
 Less: accumulated depreciation	 <u>27,904</u>	 <u>25,449</u>	 <u>23,201</u>
 Net capital assets	 <u>\$ 64,262</u>	 <u>\$ 60,895</u>	 <u>\$ 57,344</u>

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.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

Capital Asset and Debt Administration - Continued

Long-Term Liabilities

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Bonds payable	\$ 9,532,533	\$ 10,144,133	\$ 10,738,199
Deferred lease payments	29,438	29,438	68,134
Compensated absences	2,409,210	3,119,532	3,467,269
Net pension liability	9,091,855	10,269,022	11,503,109
Net OPEB liability	15,969,547	19,973,298	20,962,791
Notes payable – Foundation	217,621	317,282	411,302
Workers' compensation	<u>290,401</u>	<u>238,557</u>	<u>294,820</u>
	37,540,605	44,091,262	47,445,624
Less: current portion	<u>2,296,431</u>	<u>2,802,279</u>	<u>3,040,959</u>
Long-term liabilities	<u>\$ 35,244,174</u>	<u>\$ 41,288,983</u>	<u>\$ 44,404,665</u>

Economic Factors that Will Affect the Future

Statewide Concerns

The College's annual maintenance appropriation is comprised of a base amount, a performance based annual increase, and an allocation to cover the costs of new collective bargaining agreements. Generally, these three components will roll over into the next fiscal year as the new base amount component of the appropriation.

The Commonwealth has shown a commitment to increase funding for public higher education. A performance based funding formula is used to allocate annual increases to the community colleges. The chart below indicates the amount the Commonwealth has allocated to the community college segment and the allocation for Mount Wachusett. There was no allocation in FY 18. In FY's 17, 19 and 20 the segment wide allocation amounted to 1% of the aggregate community college base and was/ will be distributed on a straight line 1% basis.

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

Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

Economic Factors that Will Affect the Future - Continued

	Total	MWCC
FY 14	20.0 million	1,076,930
FY 15	13.2 million	813,997
FY 16	9.1 million	440,770
FY 17	2.7 million	143,293
FY 18	-	-
FY 19	2.8 million	145,378
FY 20	2.9 million	undetermined

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 from 4.2% in July of 2018 to 3.4% in July of 2019, according to the U.S. Department of Labor, Bureau of Labor Statistics. This compares to a decrease from 3.6% to 2.9% 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.

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

Economic Factors that Will Affect the Future - Continued

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,

Assets and Deferred Outflows of Resources

	2019	2018	2019	2018
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Current Assets:				
Cash and equivalents	\$ 3,639,650	\$ 3,111,853	\$ 298,996	\$ 1,102,641
Cash held by State Treasurer	2,618,718	2,336,871	-	-
Deposits held by MSCBA	119,513	214,183	-	-
Short-term investments	2,151,519	3,016,715	-	-
Accounts receivable, net	2,472,408	2,173,560	-	-
Current portion of pledges receivable	25,000	2,617	-	31,163
Current portion of note receivable - College	-	-	105,641	99,661
Other current assets	<u>217,793</u>	<u>126,627</u>	<u>29,746</u>	<u>28,320</u>
Total Current Assets	<u>11,244,601</u>	<u>10,982,426</u>	<u>434,383</u>	<u>1,261,785</u>
Non-Current Assets:				
Cash restricted for long term purposes	20,601	5,383	-	-
Investments restricted for long term purposes	379,785	378,597	5,095,217	4,406,029
Beneficial interest	-	-	2,057,815	2,026,585
Pledges receivable	-	25,000	-	-
Note receivable - College	-	-	111,980	217,621
Capital assets, net	<u>64,261,617</u>	<u>60,895,181</u>	<u>-</u>	<u>-</u>
Total Non-Current Assets	<u>64,662,003</u>	<u>61,304,161</u>	<u>7,265,012</u>	<u>6,650,235</u>
Deferred Outflows of Resources:				
Deferred outflows related to pensions	2,264,103	3,130,832	-	-
Deferred outflows related to OPEB	<u>1,352,156</u>	<u>1,457,885</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>3,616,259</u>	<u>4,588,717</u>	<u>-</u>	<u>-</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 79,522,863</u>	 <u>\$ 76,875,304</u>	 <u>\$ 7,699,395</u>	 <u>\$ 7,912,020</u>

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

Liabilities, Deferred Inflows of Resources and Net Position

	2019	2018	2019	2018
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 674,757	\$ 746,741	\$ 25,468	\$ 32,002
Accrued payroll	1,426,607	1,513,024	-	-
Accrued compensated absences	1,471,813	2,011,006	-	-
Accrued workers' compensation	63,017	50,574	-	-
Student deposits and unearned revenue	1,357,201	910,819	-	-
Current portion of bonds payable	626,522	611,600	-	-
Current portion of note payable - Foundation	105,641	99,661	-	-
Future lease payments	<u>29,438</u>	<u>29,438</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>5,754,996</u>	<u>5,972,863</u>	<u>25,468</u>	<u>32,002</u>
Non-Current Liabilities:				
Accrued compensated absences	937,397	1,108,526	-	-
Accrued workers' compensation	227,384	187,983	-	-
Net OPEB liability	15,969,547	19,973,298	-	-
Net pension liability	9,091,855	10,269,022	-	-
Bonds payable	8,906,011	9,532,533	-	-
Note payable - Foundation	<u>111,980</u>	<u>217,621</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>35,244,174</u>	<u>41,288,983</u>	<u>-</u>	<u>-</u>
Total Liabilities	40,999,170	47,261,846	25,468	32,002
Deferred Inflows of Resources:				
Service concession arrangements	-	50,000	-	-
Deferred inflows related to pension plan	3,293,484	2,831,624	-	-
Deferred inflows related to OPEB	<u>6,154,875</u>	<u>2,344,545</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>9,448,359</u>	<u>5,226,169</u>	<u>-</u>	<u>-</u>
Net Position:				
Net investment in capital assets	54,848,597	50,965,231	-	-
Restricted:				
Nonexpendable	367,459	367,459	1,248,844	1,133,114
Expendable	57,928	44,137	3,438,429	3,911,060
Unrestricted	<u>(26,198,650)</u>	<u>(26,989,538)</u>	<u>2,986,654</u>	<u>2,835,844</u>
Total Net Position	<u>29,075,334</u>	<u>24,387,289</u>	<u>7,673,927</u>	<u>7,880,018</u>
Total Liabilities and Net Position	<u>\$ 79,522,863</u>	<u>\$ 76,875,304</u>	<u>\$ 7,699,395</u>	<u>\$ 7,912,020</u>

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,

	2019	2018	2019	2018
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 16,898,374	\$ 16,727,885	\$ -	\$ -
Less: Scholarships and allowances	<u>(5,548,369)</u>	<u>(5,931,208)</u>	-	-
Net tuition and fees	11,350,005	10,796,677	-	-
Gifts and contributions	-	-	463,572	714,428
Federal grants and contracts	11,149,870	12,131,406	-	-
State and local grants and contracts	3,317,758	2,581,093	-	-
Non-governmental grants and contracts	1,363,808	968,127	-	-
Auxiliary enterprises	1,204,134	1,086,189	-	-
Other operating revenues	<u>2,201,129</u>	<u>2,064,685</u>	-	<u>29,396</u>
Total Operating Revenues	<u>30,586,704</u>	<u>29,628,177</u>	<u>463,572</u>	<u>743,824</u>
Operating Expenses:				
Instruction	14,185,330	14,376,117	-	-
Public service	1,097,659	1,148,685	38,335	61,340
Academic support	5,572,308	5,518,585	961,256	757,126
Student services	11,741,303	11,632,788	-	-
Institutional support	6,395,939	6,406,868	91,713	73,445
Operation and maintenance of plant	6,405,150	6,253,875	-	-
Depreciation	2,455,439	2,247,583	-	-
Scholarships and fellowships	2,796,996	3,002,306	-	-
Auxiliary enterprise	<u>1,410,989</u>	<u>1,379,820</u>	-	-
Total Operating Expenses	<u>52,061,113</u>	<u>51,966,627</u>	<u>1,091,304</u>	<u>891,911</u>
Net Operating Loss	<u>(21,474,409)</u>	<u>(22,338,450)</u>	<u>(627,732)</u>	<u>(148,087)</u>
Non-Operating Revenues (Expenses):				
State appropriation, unrestricted	20,829,750	19,633,599	-	-
State appropriation, restricted	139,194	193,120	-	-
Investment income	329,241	307,710	390,411	407,007
Change in value of beneficial interest	-	-	31,230	178,545
Gifts	-	2,617	-	-
Interest expense	<u>(391,511)</u>	<u>(437,345)</u>	-	-
Net Non-Operating Revenues	<u>20,906,674</u>	<u>19,699,701</u>	<u>421,641</u>	<u>585,552</u>
Net Increase (Decrease) in Net Position before Capital Revenue	(567,735)	(2,638,749)	(206,091)	437,465
Capital grants	1,167,211	96,125	-	-
Capital appropriations	<u>4,088,569</u>	<u>3,151,218</u>	-	-
Total Capital Revenue	<u>5,255,780</u>	<u>3,247,343</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Net Position	4,688,045	608,594	(206,091)	437,465
Net Position, Beginning of Year	<u>24,387,289</u>	<u>23,778,695</u>	<u>7,880,018</u>	<u>7,442,553</u>
Net Position, End of Year	<u>\$ 29,075,334</u>	<u>\$ 24,387,289</u>	<u>\$ 7,673,927</u>	<u>\$ 7,880,018</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

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 10,475,509	\$ 10,901,322
Grants and contracts	16,326,156	15,230,686
Payments to employees	(23,479,083)	(23,088,814)
Payments to students	(2,794,541)	(3,002,506)
Payments to suppliers and vendors	(18,638,178)	(18,279,850)
Other receipts	<u>3,372,731</u>	<u>3,097,990</u>
Net Cash Applied to Operating Activities	<u>(14,737,406)</u>	<u>(15,141,172)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	16,126,679	14,796,397
Restricted appropriations	139,194	193,120
Tuition remitted to state	<u>(322,662)</u>	<u>(296,767)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>15,943,211</u>	<u>14,692,750</u>
Cash Flows from Capital Financing Activities:		
Capital grants	1,167,211	96,125
Purchases of capital assets	(1,733,306)	(2,646,844)
Principal paid on Foundation note	(99,661)	(94,020)
Principal paid on note and bonds payable	(611,600)	(594,066)
Interest paid on note and bonds payable	<u>(391,511)</u>	<u>(437,345)</u>
Net Cash Applied to Capital Financing Activities	<u>(1,668,867)</u>	<u>(3,676,150)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(152,843)	(1,286,223)
Proceeds from sale of investments	1,029,841	1,647,460
Investment income	<u>316,256</u>	<u>117,186</u>
Net Cash Provided by Investing Activities	<u>1,193,254</u>	<u>478,423</u>
Net Increase (Decrease) in Cash and Equivalents	730,192	(3,646,149)
Cash and Equivalents, Beginning of Year	<u>5,668,290</u>	<u>9,314,439</u>
Cash and Equivalents, End of Year	<u>\$ 6,398,482</u>	<u>\$ 5,668,290</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	<u>\$ (21,474,409)</u>	<u>\$ (22,338,450)</u>
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	2,455,439	2,247,583
Fringe benefits provided by the State	5,360,926	5,066,894
Service concession arrangement	(50,000)	(50,000)
Decrease (increase) in allowance for doubtful accounts	(90,741)	135,022
Net pension activity	151,422	435,520
Net OPEB activity	(87,692)	896,073
Changes in assets and liabilities:		
Accounts receivables	(205,490)	(44,620)
Other current assets	(91,166)	105,901
Accounts payable and accrued expenses	(71,989)	(578,741)
Accrued payroll	(86,417)	(292,595)
Accrued compensated absences and workers' compensation	(658,478)	(404,001)
Student deposits and unearned revenues	<u>111,189</u>	<u>(319,758)</u>
Net Cash Applied to Operating Activities	<u>\$ (14,737,406)</u>	<u>\$ (15,141,172)</u>
Non-Cash Transactions:		
Fringe benefits provided by the state	<u>\$ 5,360,926</u>	<u>\$ 5,066,894</u>
Capital improvements provided by capital appropriations	<u>\$ 4,088,569</u>	<u>\$ 3,151,218</u>
Unrealized gain on investments	<u>\$ 153,167</u>	<u>\$ 190,524</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, 2019 and 2018

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 Commission of Higher Education.

The College is an agency of the Commonwealth of Massachusetts (the “State” or the “Commonwealth”). The accompanying financial statements reflect only the transactions of the College and its discretely presented component unit. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the College had been operated independently of the State.

Basis of Presentation

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

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 demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Basis of Presentation - continued

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

The College's policy is to define operating activities in the statements of revenues and expenses as 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.

The Mount Wachusett Community College Foundation, Inc. (the "Foundation") is a legally separate tax-exempt organization. The Foundation was formed in 1971 to render financial assistance and support to the educational programs and development of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College as of June 30, 2019 and 2018 and is therefore discretely presented in the College's financial statements.

Complete financial statements can be obtained from the Foundation's administrative offices in Gardner, Massachusetts.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Net Position

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

Net investment in capital assets: 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.

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 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.

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.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Investments

Investments in marketable securities are stated at fair market value. Dividends, interest, and net gains or losses 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 imposes 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.

Allowance for Doubtful Accounts

Accounts and pledges receivable are periodically evaluated for collectability 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.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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, 2019 and 2018. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2019 and 2018. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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

The Commonwealth provides workers' compensation coverage to its employees on a self-insured basis. The Commonwealth requires the College to record its portion of the workers' compensation in its records. Workers' compensation is assessed separately to the College based on the College's actual experience.

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.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Postemployment Benefits Other Than Pensions ("OPEB")

For purposes of measuring the College's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Retirees' Benefit Trust ("SRBT") and additions to/deductions from SRBT's fiduciary net position have been determined on the same basis as they are reported by SRBT. For this purpose, SRBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 statements 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.

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.

MOUNT WACHUSETT COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, and determining the net pension and OPEB liabilities.

New Governmental Accounting Pronouncements

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 fiduciary net position and a statement of changes in fiduciary 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 combined and 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 is in the process of evaluating this standard and has not yet determined its impact, if any, on the financial statements.

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 Standard. Management is in the process of evaluating this standard and has not yet determined its impact, if any, on the financial statements.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

New Governmental Accounting Pronouncements - continued

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management is in the process of evaluating this standard and has not yet determined its impact, if any, on the financial statements.

GASB Statement 90 – *Majority Equity Interests, an amendment of GASB Statements 14 and 61* is effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve the consistency of reporting a government's majority equity interest in a legally separate organization. A majority equity interest should be recognized using the equity method if the government's holding of the equity interest represents an investment. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 91 – *Conduit Debt Obligations* is effective for reporting periods beginning after December 15, 2020. The objective of this Statement is to improve the consistency of reporting conduit debt. This Statement requires government entities that issue conduit debt, but are not the obligors, not to recognize the liability unless it is more likely than not that the government issuer will service the debt. Management has not completed its review of the requirements of this standard and its applicability.

Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation, however, there was no change to the net position.

MOUNT WACHUSETT COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Cash and Equivalents**

Custodial credit risk is the risk that in the event of a financial institution's failure, the College would not be able to recover its deposits in full. The College periodically maintains cash balances in excess of the Federal Deposit Insurance Corporation ("FDIC") insurable limits. The standard FDIC insurance amount is \$250,000 per depositor, per insured bank, for each ownership category. Some of the College's deposits are made in domestic banks that are insured with supplemental insurance for those accounts exceeding the federally insured limits.

For the banks without supplemental insurance, management monitors the financial condition of banking institutions, along with its cash balances, to keep this potential risk to a minimum. At June 30, 2019 and 2018, the carrying amount of the College's deposits, net of deposits and disbursements in transit, were \$3,660,251 and \$3,117,236, respectively. The College had deposits of \$1,481,563 and \$1,494,030 in excess of FDIC and other supplemental insurance at June 30, 2019 and 2018, respectively.

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$2,618,718 and \$2,336,871 at June 30, 2019 and 2018, 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.

Note 4 - **Investments**

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, The College's 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 provide a dependable source of revenue for the identified purposes.

MOUNT WACHUSETT COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - Investments - Continued

Concentration of Credit Risk

The College places no limit on the amount it may invest in any one issuer. The College had no investments exceeding 5% of its total investment balance as of June 30, 2019 and 2018. 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 its name.

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 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

Non-negotiable certificates of deposit of \$555,337 and \$547,252 had an unrated credit risk rating at June 30, 2019 and 2018, respectively.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

Maturities of Debt Securities

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

2019					
<u>Investment Maturities (in years)</u>					
<u>Investment Type</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	\$ 555,337	\$ 555,337	\$ -	\$ -	\$ -
Mutual funds	176,228	176,228	-	-	-
Equities	1,799,739	1,799,739	-	-	-
	<u>\$ 2,531,304</u>	<u>\$ 2,531,304</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2018					
<u>Investment Maturities (in years)</u>					
<u>Investment Type</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	\$ 547,252	\$ 547,252	\$ -	\$ -	\$ -
Mutual funds	609,512	609,512	-	-	-
Equities	2,238,548	2,238,548	-	-	-
	<u>\$ 3,395,312</u>	<u>\$ 3,395,312</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

MOUNT WACHUSETT COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

Fair Value Hierarchy - continued

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.

Equities: 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 the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

	June 30, 2019				
	NAV	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:					
Certificates of deposit	\$ -	\$ -	\$ 555,337	\$ -	\$ 555,337
Mutual funds	176,228	-	-	-	176,228
Equities	<u>-</u>	<u>1,799,739</u>	<u>-</u>	<u>-</u>	<u>1,799,739</u>
Total investments at fair value	<u>\$ 176,228</u>	<u>\$ 1,799,739</u>	<u>\$ 555,337</u>	<u>\$ -</u>	<u>\$ 2,531,304</u>
					June 30, 2018
	NAV	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:					
Certificates of deposit	\$ -	\$ -	\$ 547,252	\$ -	\$ 547,252
Mutual funds	609,512	-	-	-	609,512
Equities	<u>-</u>	<u>2,238,548</u>	<u>-</u>	<u>-</u>	<u>2,238,548</u>
Total investments at fair value	<u>\$ 609,512</u>	<u>\$ 2,238,548</u>	<u>\$ 547,252</u>	<u>\$ -</u>	<u>\$ 3,395,312</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Investments - Continued**

Foundation

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

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Equities	\$ 1,679,056	\$ 3,365,529	\$ 1,886,055	\$ 3,496,999
Fixed-income funds	<u>1,714,042</u>	<u>1,729,688</u>	<u>920,150</u>	<u>909,030</u>
	<u>\$ 3,393,098</u>	<u>\$ 5,095,217</u>	<u>\$ 2,806,205</u>	<u>\$ 4,406,029</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.

Note 5 - **Accounts Receivable**

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

	<u>2019</u>	<u>2018</u>
Student accounts receivable	\$ 2,732,553	\$ 2,250,577
Grants receivable	858,032	1,170,215
Other receivables	<u>497,331</u>	<u>459,017</u>
	<u>4,087,916</u>	3,879,809
Less: allowance for doubtful accounts	<u>1,615,508</u>	<u>1,706,249</u>
	<u>\$ 2,472,408</u>	<u>\$ 2,173,560</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 25,000	\$ 2,617
Receivable in one to five years	<u>-</u>	<u>25,000</u>
	25,000	27,617
Less: Current portion of pledges receivable	<u>25,000</u>	<u>32,617</u>
Pledges receivable, net of current portion	<u>\$ -</u>	<u>\$ 25,000</u>

Foundation

There were no unconditional promises to give at June 30, 2019. Unconditional promises to give consisted of the following at June 30, 2018:

Receivable in less than one year	\$ 32,433
Less: discounts to net present value	<u>1,270</u>
Net unconditional promises to give	<u>\$ 31,163</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 7 - **Capital Assets**

Capital asset activity for the year ended June 30, 2019 was as follows:

	June 30, 2019					
	Estimated Lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Land		\$ 40,704	\$ -	\$ -	\$ -	\$ 40,704
Construction in progress		<u>2,970,590</u>	<u>5,378,970</u>	-	<u>(2,874,465)</u>	<u>5,475,095</u>
Total capital assets non-depreciable		<u>3,011,294</u>	<u>5,378,970</u>	-	<u>(2,874,465)</u>	<u>5,515,799</u>
Building, including improvements	25-40	78,242,546	156,845	-	2,874,465	81,273,856
Furnishing and equipment (including cost of capital leases)	3-5	4,681,800	286,060	-	-	4,967,860
Books	5	<u>408,323</u>	-	-	-	<u>408,323</u>
Total depreciable assets		<u>83,332,669</u>	<u>442,905</u>	-	<u>2,874,465</u>	<u>86,650,039</u>
Less: accumulated depreciation						
Building, including improvements		21,175,228	2,122,396	-	-	23,297,624
Furnishings and equipment		3,865,231	333,043	-	-	4,198,274
Books		<u>408,323</u>	-	-	-	<u>408,323</u>
Total accumulated depreciation		<u>25,448,782</u>	<u>2,455,439</u>	-	-	<u>27,904,221</u>
Capital assets, net		<u>\$ 60,895,181</u>	<u>\$ 3,366,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,261,617</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 7 - **Capital Assets - Continued**

Capital asset activity for the year ended June 30, 2018 was as follows:

June 30, 2018						
	Estimated Lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Land		\$ 40,704	\$ -	\$ -	\$ -	\$ 40,704
Construction in progress		<u>1,538,414</u>	<u>2,855,030</u>	<u>-</u>	<u>(1,422,854)</u>	<u>2,970,590</u>
Total capital assets non-depreciable		<u>1,579,118</u>	<u>2,855,030</u>	<u>-</u>	<u>(1,422,854)</u>	<u>3,011,294</u>
Building, including improvements	25-40	73,989,922	2,829,770	-	1,422,854	78,242,546
Furnishing and equipment (including cost of capital leases)	3-5	4,568,538	113,262	-	-	4,681,800
Books	5	<u>408,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>408,323</u>
Total depreciable assets		<u>78,966,783</u>	<u>2,943,032</u>	<u>-</u>	<u>1,422,854</u>	<u>83,332,669</u>
Less: accumulated depreciation						
Building, including improvements		19,163,585	2,011,643	-	-	21,175,228
Furnishings and equipment		3,629,291	235,940	-	-	3,865,231
Books		<u>408,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>408,323</u>
Total accumulated depreciation		<u>23,201,199</u>	<u>2,247,583</u>	<u>-</u>	<u>-</u>	<u>25,448,782</u>
Capital assets, net		<u>\$ 57,344,702</u>	<u>\$ 3,550,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,895,181</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **Deferred Inflows of Resources**

The College entered into an agreement, categorized as a service concession arrangement under GASB 60 *Accounting and Reporting for Service Concession Arrangements*, expiring 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. The additional payments were fully amortized during the fiscal year ended June 30, 2019. In August 2019, the College entered into a new agreement with the vendor beginning in fiscal year 2020. The agreement includes \$100,000 of additional support to the College, which will be received and recognized in fiscal year 2020.

Note 9 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2019, consist of:

	June 30, 2019				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes and bonds payable:					
Bonds payable	\$ 10,144,133	\$ -	\$ 611,600	\$ 9,532,533	\$ 626,522
Notes payable - related party	<u>317,282</u>	<u>-</u>	<u>99,661</u>	<u>217,621</u>	<u>105,641</u>
Total notes and bonds payable	<u>10,461,415</u>	<u>-</u>	<u>711,261</u>	<u>9,750,154</u>	<u>732,163</u>
Other long-term liabilities:					
Compensated absences	3,119,532	-	710,322	2,409,210	1,471,813
Workers' compensation	238,557	51,844	-	290,401	63,017
Net pension liability	10,269,022	-	1,177,167	9,091,855	-
Net OPEB liability	19,973,298	-	4,003,751	15,969,547	-
Future lease payments	<u>29,438</u>	<u>-</u>	<u>-</u>	<u>29,438</u>	<u>29,438</u>
Total other long-term liabilities	<u>33,629,847</u>	<u>51,844</u>	<u>5,891,240</u>	<u>27,790,451</u>	<u>1,564,268</u>
	<u>\$ 44,091,262</u>	<u>\$ 51,844</u>	<u>\$ 6,602,501</u>	<u>\$ 37,540,605</u>	<u>\$ 2,296,431</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Long-term liabilities at June 30, 2018, consist of:

	June 30, 2018				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes and bonds payable					
Bonds payable	\$ 10,738,199	\$ -	\$ 594,066	\$ 10,144,133	\$ 611,600
Notes payable - related party	<u>411,302</u>	<u>-</u>	<u>94,020</u>	<u>317,282</u>	<u>99,661</u>
Total notes and bonds payable	<u>11,149,501</u>	<u>-</u>	<u>688,086</u>	<u>10,461,415</u>	<u>711,261</u>
Other long-term liabilities:					
Compensated absences	3,467,269	-	347,737	3,119,532	2,011,006
Workers' compensation	294,820	-	56,263	238,557	50,574
Net pension liability	11,503,109	-	1,234,087	10,269,022	-
Net OPEB liability	20,466,685	-	493,387	19,973,298	-
Future lease payments	<u>68,131</u>	<u>-</u>	<u>38,693</u>	<u>29,438</u>	<u>29,438</u>
Total other long-term liabilities	<u>35,800,014</u>	<u>-</u>	<u>2,170,167</u>	<u>33,629,847</u>	<u>2,091,018</u>
	<u>\$ 46,949,515</u>	<u>\$ -</u>	<u>\$ 2,858,253</u>	<u>\$ 44,091,262</u>	<u>\$ 2,802,279</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 of 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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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 \$310,571 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
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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>
2020	\$ 732,163	\$ 359,899
2021	753,836	333,267
2022	659,854	305,827
2023	608,159	284,347
2024	624,883	262,308
2025-2029	3,152,149	955,396
2030-2034	2,728,331	359,558
2035-2039	<u>490,779</u>	<u>25,346</u>
	<u>\$ 9,750,154</u>	<u>\$ 2,885,948</u>

Lease Commitments

The College also leases facilities and equipment under various operating leases. Rent expense for operating leases was \$1,513,268 for the year ended June 30, 2019. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2019:

Years Ending <u>June 30,</u>	
2020	\$ 1,299,464
2021	1,004,498
2022	886,564
2023	584,325
2024	<u>324</u>
	<u>\$ 3,775,175</u>

MOUNT WACHUSETT COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension**

Defined Benefit Plan Description

Certain employees of the College participate in a cost-sharing multiple-employer defined benefit pension plan - the Massachusetts State Employees' Retirement System - 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 Employees' Retirement System does not issue stand-alone financial statements. Additional information regarding the Plan is contained in the Commonwealth's financial statements, which is available on-line from the Office of State Comptroller's website.

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, group creditable service, and group classification. The authority for amending these provisions rests with the Massachusetts State Legislature (the "Legislature").

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 age 60.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension - Continued**

Contributions

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 Commonwealth does not require the College to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$1,853,046, \$1,712,221 and \$1,427,439 for the years ended June 30, 2019, 2018 and 2017, respectively.

For employees covered by SERS but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 12.06%, 11.78% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2019, 2018, and 2017, respectively. The College contributed \$497,656, \$628,433 and \$626,011 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 68%, 72% and 73% of total related payroll for fiscal years ended 2019, 2018 and 2017, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension - Continued**

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

At June 30, 2019 and 2018, the College reported a liability of \$9,091,855 and \$10,269,022, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, 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, 2018 rolled forward to June 30, 2018. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, 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, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2019 and 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the College's proportion was 0.069% and 0.080%, respectively.

For the years ended June 30, 2019 and 2018, the College recognized pension expense of \$649,079 and \$1,063,950, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Contributions subsequent to the measurement date	\$ 497,656	\$ 628,433
Difference between expected experience	288,317	397,042
Changes in proportion due to internal allocation	532,207	1,001,537
Changes in proportion from the Commonwealth of Massachusetts	24,520	35,172
Change in plan assumptions	<u>921,403</u>	<u>1,068,648</u>
Total	<u>\$ 2,264,103</u>	<u>\$ 3,130,832</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension - Continued**

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

Deferred Inflows of Resources

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual earnings on pension plan investments	\$ 316,024	\$ 122,355
Difference between expected experience	185,292	279,394
Change in proportion from the Commonwealth of Massachusetts	1,728	3,661
Change in proportion due to internal allocation	<u>2,790,440</u>	<u>2,426,214</u>
Total	<u>\$ 3,293,484</u>	<u>\$ 2,831,624</u>

The College's contributions of \$497,656 and \$628,433 made during the fiscal years ending 2019 and 2018, 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 (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2020	\$ 41,158
2021	(268,108)
2022	(660,639)
2023	(511,650)
2024	<u>(127,798)</u>
Total	<u>\$ (1,527,037)</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension - Continued**

Actuarial Assumptions

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

	<u>2019</u>	<u>2018</u>
	June 30, 2018	June 30, 2017
Measurement date		
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	4.00% to 9.00%
Investment rate of return	7.35%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2018 and 2017, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females
- Disability - reflects RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct)

The 2019 pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 2018 and rolled forward to June 30, 2018. The 2018 pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 2017 and rolled forward to June 30, 2017.

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.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension - Continued**

Actuarial Assumptions – continued

2019		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39.0%	5.0%
Portfolio Completion Strategies	13.0%	3.7%
Core Fixed Income	12.0%	0.9%
Private Equity	12.0%	6.6%
Real Estate	10.0%	3.8%
Value Added Fixed Income	10.0%	3.8%
Timberland/Natural Resources	4.0%	3.4%
	100.0%	

2018		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0%	5.0%
Portfolio Completion Strategies	13.0%	3.6%
Core Fixed Income	12.0%	1.1%
Private Equity	11.0%	6.6%
Real Estate	10.0%	3.6%
Value Added Fixed Income	10.0%	3.8%
Timberland/Natural Resources	4.0%	3.2%
Hedge Funds	0.0%	3.6%
	100.0%	

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Pension - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.35% and 7.50% at June 30, 2019 and 2018, respectively. 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 pension plan's fiduciary 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 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 at June 30,:

1.00% Decrease (6.35%)	<u>2019</u> Current Discount Rate (7.35%)	1.00% Increase (8.35%)						
\$ 12,254,301	\$ 9,091,855	\$ 6,389,667						
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">1.00% Decrease (6.50%)</th> <th style="text-align: center; border-bottom: 1px solid black;"><u>2018</u> Current Discount Rate (7.50%)</th> <th style="text-align: right; border-bottom: 1px solid black;">1.00% Increase (8.50%)</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">\$ 13,985,980</td> <td style="text-align: center;">\$ 10,269,022</td> <td style="text-align: right;">\$ 7,274,923</td> </tr> </tbody> </table>			1.00% Decrease (6.50%)	<u>2018</u> Current Discount Rate (7.50%)	1.00% Increase (8.50%)	\$ 13,985,980	\$ 10,269,022	\$ 7,274,923
1.00% Decrease (6.50%)	<u>2018</u> Current Discount Rate (7.50%)	1.00% Increase (8.50%)						
\$ 13,985,980	\$ 10,269,022	\$ 7,274,923						

MOUNT WACHUSETT COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”)**

Plan Description

As an agency of the Commonwealth, certain employees of the College participate in the Commonwealth's single employer defined benefit-OPEB plan – the State Retirees' Benefit Trust ("SRBT"). Benefits are managed by the Group Insurance Commission ("GIC") and investments are managed by the Pension Reserves Investment Management ("PRIM") Board. The GIC has representation on the Board of Trustees of the State Retirees' Benefits Trust ("Trustees").

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Management of the SRBT is vested with the board of trustees, which consists of seven members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (or their designee), the State Treasurer (or their designee), the Comptroller (or a designee), one person appointed by the Governor and one person appointed by the State Treasurer. These members elect one person to serve as chair of the board.

The SRBT does not issue stand-alone audited financial statements but is reflected as a fiduciary fund in the Commonwealth's audited financial statements.

Benefits Provided

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 are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2019 and 2018, and as of the valuation date (January 1, 2018 and 2017), participants contributed 0% to 20%, respectively, of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

Effective beginning in fiscal year 2014, by statute, the Commonwealth is required to allocate, to the SRBT, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in fiscal year 2014 to 100% by fiscal year 2023. In fiscal years 2018 and 2017, 30% and 10%, respectively, of tobacco settlement proceeds or approximately \$73 million and \$25 million was allocated to the SRBT. The percentage of proceeds to be transferred to the SRBT in fiscal years 2018 and 2017 was set at 30% and 10%, respectively, overriding existing statute.

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.79% and 8.92% of annual covered payroll for the fiscal years ended June 30, 2019 and 2018, respectively. The College contributed \$362,888 and \$475,799 for the fiscal years ended June 30, 2019 and 2018, respectively, equal to 100% of the required contribution for the year.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the College reported a liability of \$15,969,547 and \$19,973,298, respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively. The College’s proportion of the net OPEB liability was based on its share of the Commonwealth’s collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College’s share of total covered payroll for the fiscal years 2018 and 2017. The College’s proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2018 and 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the College’s proportion was 0.107%.

For the years ended June 30, 2019 and 2018, the College recognized OPEB expense of \$379,707 and \$1,403,190, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Contributions subsequent to the measurement date	\$ 362,888	\$ 475,799
Difference between expected experience	193,964	-
Changes in proportion due to internal allocation	743,982	940,284
Changes in proportion from the Commonwealth of Massachusetts	<u>51,322</u>	<u>41,802</u>
Total	\$ <u>1,352,156</u>	\$ <u>1,457,885</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – continued

Deferred Inflows of Resources

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual earnings		
on pension plan investments	\$ 39,876	\$ 36,441
Difference between expected experience	34,086	45,922
Changes in proportion due to internal allocation	1,174,383	-
Change in plan assumptions	<u>4,906,530</u>	<u>2,262,182</u>
Total	\$ <u>6,154,875</u>	\$ <u>2,344,545</u>

The College's contributions of \$362,888 and \$475,799 made during the fiscal year 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as increases (decreases) in OPEB expense as follows:

Years Ending <u>June 30,</u>	
2018	\$ (1,185,546)
2019	(1,185,546)
2020	(1,185,546)
2021	(1,082,095)
2022	<u>(526,874)</u>
Total	\$ <u>(5,165,607)</u>

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Actuarial Assumptions

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	<u>2019</u>	<u>2018</u>
Measurement date	June 30, 2018	June 30, 2017
Inflation	3.0%	3.0%
Salary increases	4.0% per year	4.5% per year
Investment rate of return	7.35% net of OPEB investment expense, including inflation	7.5% net of OPEB investment expense, including inflation
Health care cost trend rates	8.0%, decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023 then decreasing 0.25% each year to an ultimate rate of 5.0% in 2025 for medical; 5.0% for EGWP	8.5% decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for medical; 5.0% for EGWP; 5.0% for administrative costs

The mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Actuarial Assumptions - Continued

- 80% of current and future contingent eligible participants will elect health care benefits at age 55, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

	<u>Retirement Age</u>	
	<u>Under 65</u>	<u>Age 65+</u>
Indemnity	40.0%	85.0%
POS/PPO	50.0%	0.0%
HMO	10.0%	15.0%

The actuarial assumptions used in the January 1, 2018 and 2017 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2016 and 2015 through December 31, 2017 and 2016, depending upon the criteria being evaluated.

As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2017 and 2016 actuarial valuations to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

The long-term expected rate of return on OPEB 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.

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2019 and 2018, are the same as discussed in the pension footnote.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Discount Rate

The discount rate used to measure the total OPEB liability for 2019 and 2018 was 3.95% and 3.63%, respectively. These rates were based on a blend of the Bond Buyer Index rate (3.87% and 3.58%) as of the measurement date and the expected rate of return. The OPEB plan’s fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2025 and 2023 for the fiscal years 2019 and 2018, respectively. Therefore, the long-term expected rate of return on OPEB plan investments is 7.35% and 7.50%, respectively per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the College’s proportionate share of the net OPEB liability to changes in the discount rate

The following presents the College’s proportionate share of the net OPEB liability, as well as what the College’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

1.00% Decrease	<u>2019</u> Current Discount Rate	1.00% Increase
(2.95%)	(3.95%)	(4.95%)
\$ 18,857,295	\$ 15,969,547	\$ 13,660,836
	<u>2018</u> Current Discount Rate	
1.00% Decrease	Discount Rate	1.00% Increase
(2.63%)	(3.63%)	(4.63%)
\$ 23,709,902	\$ 19,973,298	\$ 17,002,406

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Sensitivity of the College’s proportionate share of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the College’s proportionate share of the net OPEB liability, as well as what the College’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

1.00% Decrease	<u>2019</u> Current Healthcare Cost Trend Rate	1.00% Increase
(B)	(A)	(C)
\$ 13,267,937	\$ 15,969,547	\$ 19,496,377
<u>2018</u>		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
(B)	(A)	(C)
\$ 16,525,364	\$ 19,973,298	\$ 24,510,571

(A) - Current healthcare cost trend rate, as disclosed on page 55.

(B) - 1-percentage decrease in current healthcare cost trend rate, as disclosed on page 55.

(C) - 1-percentage increase in current healthcare cost trend rate, as disclosed on page 55.

Note 12 - **Other Fringe Benefits**

The College participates in the Commonwealth’s Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension and workers’ compensation benefits. Health insurance for active employees and retirees is paid through a fringe benefit rate charged to the College by the Commonwealth.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Other Fringe Benefits - Continued**

Group Insurance Commission

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 number of municipalities as an agent multiple-employer program, and is accounted for as an agency fund activity of the Commonwealth, not the College.

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, 2019 and 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain 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 pretax health care spending account and dependent care assistance program (for active employees only).

Other Employee Benefits

The employees of the College can elect to participate in two defined-contribution plans offered and administered by the Massachusetts Department of Higher Education;- an IRC 403(b) Tax-Deferred Annuity Plan and an IRC 457 Deferred Compensation SMART Plan. Employees can contribute by payroll deduction a portion of before-tax salary into these plans up to certain limits. The College has no obligation to contribute to these plans and no obligation for any future pay-outs.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Restricted Net Position**

College

The College has 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, 2019 and 2018, \$367,459 of the endowment was nonexpendable, respectively. As of June 30, 2019 and 2018 earnings of \$57,928 and \$44,137 were available for expenditure within the purpose and guidelines of the endowment.

Foundation

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

	<u>2019</u>	<u>2018</u>
Sterilite Student Success	\$2,080,169	\$2,126,585
Other scholarships	653,081	614,826
Garrison Early Childhood Education	285,578	356,767
John Burton Scholarship	102,842	96,916
Needy Books Fund	91,671	84,767
Student Center	80,644	281,300
Haley Scholarship Fund	67,222	79,186
Youth Venture	40,208	27,120
Robinson Broadhurst	27,977	36,545
College to Career Project	4,630	200,190
Career Focused Education Scholarship	4,407	6,858
	<u>\$ 3,438,429</u>	<u>\$ 3,911,060</u>

The Foundation also has nonexpendable net position of \$1,248,844 and \$1,133,114 at June 30, 2019 and 2018, which consists of scholarship endowment funds. The earnings on these funds are available to award student scholarships.

Note 14 - **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.

MOUNT WACHUSETT COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 14 - **Contingencies - Continued**

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.

The College participates in the various programs administered by the Commonwealth for property, general liability, automobile liability, and workers' compensation. The Commonwealth is self-insured for employees' workers' compensation, casualty, theft, tort claims, and other losses. Such losses, including estimates of amounts incurred but not reported, are obligations of the Commonwealth. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Note 15 - **Operating Expenses**

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

	<u>2019</u>	<u>2018</u>
Compensation and benefits	\$ 36,449,900	\$ 35,442,424
Supplies and services	10,358,779	11,274,314
Depreciation	2,455,438	2,247,583
Scholarships and fellowships	<u>2,796,996</u>	<u>3,002,306</u>
	<u>\$ 52,061,113</u>	<u>\$ 51,966,627</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 16 - **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*. The College's State appropriations are comprised of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Direct unrestricted appropriations	\$ 15,791,486	\$ 14,863,472
Add: Fringe benefits for benefited employees on the State payroll	5,360,926	5,066,894
Less: Day school tuition remitted to the State and included in tuition and fees revenue	<u>(322,662)</u>	<u>(296,767)</u>
Total unrestricted appropriations	20,829,750	19,633,599
Capital appropriations	4,088,569	3,151,218
Restricted appropriations	<u>139,194</u>	<u>193,120</u>
Total Appropriations	<u>\$ 25,057,513</u>	<u>\$ 22,977,937</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 16 - **Massachusetts Management Accounting and Reporting System - Continued**

A reconciliation between the College and MMARS as of June 30, 2019 and 2018 is as follows (unaudited):

	<u>2019</u>	<u>2018</u>
Revenue per MMARS	\$ 30,792,931	\$ 29,954,304
Revenue per College	<u>30,792,931</u>	<u>29,954,304</u>
Difference	<u>\$ -</u>	<u>\$ -</u>

Note 17 - **Pass-Through Grants**

The College distributed \$5,305,477 and \$5,220,060 during the years ended June 30, 2019 and 2018, 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)

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.069%	0.080%	0.083%	0.118%	0.100%
Proportionate share of the collective net pension liability	\$ 9,091,855	\$ 10,269,022	\$ 11,503,109	\$ 13,481,424	\$ 7,434,353
College's covered payroll	\$ 5,334,745	\$ 6,291,568	\$ 6,338,995	\$ 7,136,429	\$ 2,467,743
College's proportionate share of the net pension liability as a percentage of its covered payroll	170.43%	163.22%	181.47%	188.91%	301.26%
Plan fiduciary net position as a percentage of the total pension liability	67.91%	67.21%	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 supplementary information.

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

Schedule of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 497,656	\$ 628,433	\$ 626,011	\$ 599,035	\$ 741,475
Contributions in relation to the statutorily required contribution	<u>(497,656)</u>	<u>(628,433)</u>	<u>(626,011)</u>	<u>(599,035)</u>	<u>(741,475)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 4,126,501	\$ 5,334,745	\$ 6,291,568	\$ 6,338,995	\$ 7,136,429
Contribution as a percentage of covered payroll	12.06%	11.78%	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 supplementary information.

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

Notes to the Required Supplementary Information - Pension (Unaudited)

For the Year Ended June 30, 2019

Note 1 - **Change in Plan Actuarial and Assumptions**

Measurement date – June 30, 2018

The investment rate of return changed from 7.50% to 7.35%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

The mortality rate assumptions were changed as follows:

- Disabled members – the amount reflects the same assumptions as for superannuation retirees, but with an age set forward of one year

Measurement date – June 30, 2017

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Disability – did not change

Measurement date – June 30, 2016

The assumption for salary increases changed from a range of 3.5% to 9.0% depending on group and length of service to a range of 4.0% to 9.0% depending on group and length of service.

Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (“ORP”) to transfer to the SERS and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS increased by approximately 400 million as of June 30, 2016.

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

Notes to the Required Supplementary Information - Pension (Unaudited)

For the Year Ended June 30, 2019

Note 1 - **Change in Plan Actuarial and Assumptions - Continued**

Measurement date – June 30, 2015

The discount rate to calculate the pension liability decreased from 8.0% to 7.5%

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (“ERI”) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability – was changed from RP-2000 table projected 5 years with Scale AA (gender distinct) set forward three years for males to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

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

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

Year ended	June 30, 2019	June 30, 2018
Measurement date	June 30, 2018	June 30, 2017
Valuation date	January 1, 2018	January 1, 2017
Proportion of the collective net OPEB liability	0.107%	0.114%
Proportionate share of the collective net OPEB liability	\$ 15,969,547	\$ 19,973,298
College's covered payroll	\$ 5,334,745	\$ 6,291,568
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	299.35%	317.46%
Plan fiduciary net position as a percentage of the total OPEB liability	7.38%	5.39%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - OPEB (Unaudited)

Massachusetts State Retirees' Benefit Trust

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 362,888	\$ 475,799
Contributions in relation to the statutorily required contribution	<u>(362,888)</u>	<u>(475,799)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 4,126,501	\$ 5,334,745
Contribution as a percentage of covered payroll	8.79%	8.92%

Notes:

Employers participating in the Massachusetts State Retirees' Benefit Trust 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, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information – OPEB (Unaudited)

June 30, 2019

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2019

Assumptions:

Change in Trend on Future Costs

The healthcare trend rate decreased from 8.5% to 8.0%, which impact the high cost excise tax.

Change in Mortality Rates

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members – would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year

Change in Discount Rate

The discount rate was increased to 3.95% (based upon a blend of the Bond Buyer Index rate (3.87%) as of the measurement date as required by GASB Statement 74.

Fiscal year June 30, 2018

Assumptions:

Change in Discount Rate

The discount rate was increased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.58%) as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%.

See Independent Auditor's Report.

**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, 2019 and 2018, 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 of October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits 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 audits 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.

Handwritten signature in cursive script that reads "O'Connor + Drew, P.C."

**Certified Public Accountants
Braintree, Massachusetts**

October 10, 2019