

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Middlesex Community College
Lowell, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Middlesex Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statement of net position as of June 30, 2016, the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We did not audit the financial statements of Middlesex Community College Foundation, Inc., as discussed in Note 1. The financial statements of this component unit were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity not audited by us included in the discretely presented component unit of the College, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

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

Prior Period Financial Statements

The financial statements of the College as of June 30, 2015 were audited by other auditors, whose report dated November 12, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-12, the schedules of proportionate share of net pension liability on page 46, the schedules of contributions on page 47 and the notes to the required supplementary information on page 48 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 November 3, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants

Braintree, Massachusetts

November 3, 2016

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides management's view of the financial position of Middlesex Community College (the "College" or "MCC") as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereon, which are also presented in this document.

The College is an entrepreneurial learning community committed to providing educational programs and services that support personal growth and economic opportunity for our diverse student populations. A public institution of higher education in the Commonwealth of Massachusetts, MCC maintains campuses in Bedford and Lowell. The College offers 86 programs leading to degrees or certificates, as well as many noncredit career and professional development programs and hundreds of noncredit courses serving approximately 12,254 credit and 13,996 noncredit students. In addition, the College has more than 30 partnerships with schools and colleges throughout the Merrimack Valley.

The Middlesex Community College Foundation (the Foundation) is a legally separate tax-exempt component unit of Middlesex Community College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. 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. Because these resources held by the Foundation can only be used for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

Management's Discussion and Analysis focuses on the College, not its component unit.

Financial Highlights

- As of the close of the fiscal year, June 30, 2016, the College's financial position remained strong. The College's final state maintenance appropriation for FY2016 and FY2015 was \$23.6 million and \$22.6 million, respectively. Despite the increase in non-operating revenue from the state appropriation, the College's FY2016 operating revenue saw an overall decrease of \$207,986 or less than 1% due to reduced federal financial aid funding as a result of decreased enrollments.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Financial Highlights - Continued

- For FY2016, the mandatory per credit cost of education was \$186 per credit. This is an increase of \$5 per credit – up from \$181 per credit. The Safety Net Scholarship program was increased to \$1,100,000, a 10% or \$100,000 increase over FY15. In FY2015, 93.3% of all eligible students received financial aid sufficient to cover the direct cost of education in accordance with the federal financial aid guidelines. For FY2016 the number of students having the direct cost of their education costs met was 84.9%
- The College's FY2016 total operating expenses from restricted and unrestricted funds totaled \$78.8 million, and \$77.4 million in FY2015. This increase is attributable to increased instructional and student support expenses, facilities projects, and collective bargaining obligations of the College.
- The approved budget for FY2016 for unrestricted funds from both state and local sources was \$57.9 million. Of that amount, \$54 million was expended or 93.3%. The difference between budgeted and expended is largely due to the capitalization of assets instead of expensing. There were no material deviations from the approved budget and final expenditures and all records were in order and maintained in accordance with trust fund guidelines.
- Full-time equivalent credit enrollment for FY2016 was 5,670; a 2% decrease over FY2015 enrollment of 5,786. The headcount in FY2016 was 12,254 credit students, and 12,353 credit students in FY2015, a 1% change from FY2015. Total credits generated in FY2016 were 170,103, a decrease of 2% over FY2015 total of 173,570.
- Consistent with the College's strategic plan, investment continued in technology and physical plant. Technology investment projects totaled \$735,315 including life cycle management for computer replacement, software updates, and installation of a new Voice over IP telephone system. Physical plant renovations including improvements and adaptation & renewal projects totaled \$3.3 million and include life safety improvements, and various deferred maintenance projects. MCC partnered with DCAM, completing 2 HVAC projects and energy management updates to the Talbot & Derby buildings and 5 buildings on the Bedford campus totaling \$2.5 million in FY2016.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Overview of the Financial Statements

The College's financial statements are comprised of two primary components: (1) the financial statements and (2) the notes to the financial statements. Additionally, the financial statements focus on the College as a whole, rather than upon individual funds or activities.

The Financial Statements

The financial statements are designed to provide readers with a broad overview of the College's finances and are comprised of three basic statements.

The *statements of net position* present information on all of the College's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.

The *statements of revenues, expenses, and changes in net position* 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., the payment for accrued compensated absences, or the receipt of amounts due from students and other for services rendered).

The *statements of cash flows* are reported on the direct method. The direct method of cash flow reporting presents 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.

The financial statements can be found on pages 13-16 of this report.

The College reports its activity as a business type activity using the economic resources measurement focus and full accrual basis of accounting. The College is part of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position and cash flows are included in the Commonwealth's Comprehensive Annual Financial Report.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Overview of the Financial Statements - Continued

The Financial Statements - Continued

The Commonwealth of Massachusetts follows *Government Auditing Standards* Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The employees of the College are employees of the Commonwealth and the Commonwealth is legally responsible to provide these benefits to the College's employees, as discussed in the following paragraphs. Therefore, the liability associated with this benefit is being reported in the Commonwealth's financial statements, and not in these financial statements of the College.

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 provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 17-45 of this report.

Financial Analysis

Net position may serve over time as a useful indicator of the College's financial position. For FY2016 and FY2015, MCC's assets exceeded liabilities by \$31.3 million and \$29.2 million, respectively.

By far the largest portion of the College's net position reflects its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt financing used to acquire those assets that is still outstanding. The College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending.

Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the College's financial statements, the Commonwealth of Massachusetts regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings by the Commonwealth are not reflected in these financial statements.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Financial Analysis - Continued

Following is a condensed summary of net position:

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|----------------------|
| Current assets | \$ 18,623,280 | \$ 16,029,102 | \$ 17,295,915 |
| Capital assets | 31,958,788 | 30,997,231 | 25,639,574 |
| Noncurrent assets | <u>9,602,656</u> | <u>9,561,532</u> | <u>11,941,449</u> |
| Total assets | 60,184,724 | 56,587,865 | 54,876,938 |
| Deferred Outflows | <u>7,883,112</u> | <u>1,285,064</u> | <u>—</u> |
| Total assets and deferred outflows | 68,067,836 | 57,872,929 | 54,876,938 |
| Current liabilities | 9,640,569 | 9,934,981 | 10,200,839 |
| Noncurrent liabilities | <u>26,364,505</u> | <u>16,279,797</u> | <u>5,942,529</u> |
| Total liabilities | 36,005,074 | 26,214,778 | 16,143,368 |
| Deferred Inflows | <u>788,147</u> | <u>2,440,920</u> | <u>—</u> |
| Total liabilities and deferred inflows | 36,793,221 | 28,655,698 | 16,143,368 |
| Net position: | | | |
| Net investment in capital assets | 29,036,804 | 27,661,211 | 21,902,258 |
| Restricted, expendable | 1,473,368 | 1,555,096 | 1,820,801 |
| Unrestricted | <u>764,443</u> | <u>924</u> | <u>15,010,511</u> |
| Total net position | <u>\$ 31,274,615</u> | <u>\$ 29,217,231</u> | <u>\$ 38,733,570</u> |

- Assets and deferred outflows of \$68.1 million exceeded liabilities and deferred inflows of \$36.8 million by \$31.3 million in FY2016.
- Operating expenses from all sources incurred during FY2016 and FY2015 totaled \$78.9 million and \$77.4 million, respectively. Revenues from tuition and fees, state capital support and state appropriations, and other sources totaled \$80.9 million and \$80.3 million in FY2016 and FY2015, respectively.

Capital Assets

The College's investment in capital assets as of June 30, 2016 and 2015 amounts to \$32 million and \$31 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, building (including improvements), and furnishings and equipment. Capital assets increased during the year by 3% or approximately \$1 million due to an investment in capital assets of \$4.7 million which was offset by depreciation expense of \$3.7 million.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited)

Financial Analysis - Continued

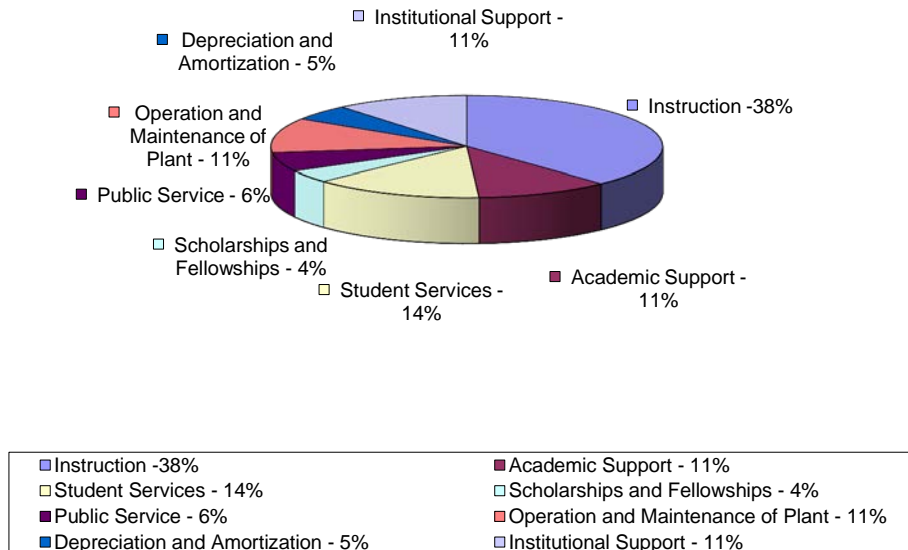
Liabilities and Debt

In addition to accruals for compensated absences and workers compensation, the College carries long-term debt for revenue bonds issued. The accrual for compensated absences consists of sick and vacation pay relating to employees on the College's payroll. As of June 30, 2016 and 2015 the College had bonds payable amounting to \$2,921,984 and \$3,336,020, respectively. This reduction is due to scheduled principal payments.

Revenues, Expenses, and Changes in Net Position

The following is a summary of the College's expenses using the Functional Classification Format.

FY2016 Expenses



MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Financial Analysis - Continued

Revenues, Expenses, and Changes in Net Position - Continued

Highlights of revenue activity for FY2016 include:

- Total operating revenue decreased slightly from \$47.4 million to \$47.2 million, due to a decrease in financial aid as a result of declining enrollment.
- Total net non-operating revenue increased \$1.7 million due to an increase in state funding.
- Grants and contracts, exclusive of state and federal financial aid awards (e.g., Pell, SEOG, Mass Grants) received by the College for FY2016 and FY2015 total approximately \$10.5 million and \$8.4 million, respectively.

Major grants and contracts for the year include the following:

- The Career Place and the Career Source grants from the Metro North Regional Employment Board and other sources in the amount of \$4.1 million for career and related job services.
- The College partnered with the US Department of Labor and received a Mass Skills Capital Grant to be used for the creation of two cybersecurity classrooms. Total Mass Skills Capital Grant funds spent in FY2016 were \$103,261.
- The Talent Search Program exposes students to higher education opportunities and provides information and assistance with the college application process, emphasizing academic advising, college visits, life skills, test taking skills and college prep workshops. The total funds spent on this grant in FY2016 were \$328,849.
- The Upward Bound Program is in partnership with Lowell High school and assists in preparing students for higher education. It is a semester-based credited academic program that is tailored to meet the specialized needs of students in grades 9-12. The total funds spent on this grant in FY2016 were \$250,000.
- The BRIDGE Program is an alternative middle school for Lowell Public School students, ages 12-16 in grades 7 and 8, who have been exhibiting behavioral problems in their assigned middle school. This program has been run by the College since 1997. The total funds spent on this program in FY2016 were \$868,063.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited)

Financial Analysis – Continued

Revenues, Expenses, and Changes in Net Position – Continued

Highlights of expense activity include:

- The fringe benefit rate for College employees changed from 28.86% to 30.82% resulting in \$634,404 increase in the fringe expense across all spending categories.
- Overall operating expenses increased by \$1.5 million in FY2016 over FY2015. The increase includes ongoing support for faculty and staff but is largely attributable to investments in plant and college-wide technology as well as increases in prices for supplies and materials used in day to day operations.

Non-Operating Revenues and Expenses

As required by the Governmental Accounting Standards Board, appropriations from the state are considered non-operating. However, the expenditures that result from non-operating revenue are classified as operating expenses. As a result, public higher education institutions will usually incur a loss from operations.

Non-operating revenues from the Commonwealth, exclusive of fringe benefits, totaled \$23.5 million in unrestricted appropriations in FY2016 and \$22.6 million in FY2015. The \$23.5 million in FY2016 includes \$186,074 in retained tuition in addition to the state maintenance appropriation. In FY2016, Middlesex received an additional allocation of \$50,000 in workforce development performance based funding.

The fringe benefit rate increased from 28.86% in FY2015 to 30.82% in FY2016. The Commonwealth's fringe benefit amount for full time employees on the state payroll was \$6.4 million in FY2016 and \$5.7 million in FY2015. These funds are appropriated to the State Treasurer's office for the benefit of the college for employees funded by the state maintenance appropriation. The College must budget and expense the cost of fringe benefits for all College employees funded from local trust funds. The expense of these funds is allocated among the functional expense classifications.

Net investment income was \$3,555 and \$217,076 in FY2016 and FY2015, respectively. This decrease was due to the downturn in the market. The market value of the College's equity mutual funds was \$5,521,156 in FY2016 and \$7,629,088 in FY2015.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited)

Additional Information

The cost of education for FY2016 was increased by \$5 per credit, or 2.7%, to \$186 per credit. Although enrollments were down slightly by 2.0%, local revenue from tuition and fees was up due to the slight increase in fees. Decline in enrollments is projected to be in the double digits through 2020 largely due to smaller graduating class sizes from our local high schools.

As a result of this projected decline in enrollments, the College will be facing significant challenges that can only be addressed through the active engagement of the entire College community. To meet these challenges, the College is embarking on a *Strategic Transformation* process to better understand the changing context and engage in an inclusive and creative process to develop a plan of action.

The Massachusetts Community College Council (MCCC) representing the Adjunct Faculty at the community colleges had a Division of Continuing Education agreement in place with Massachusetts community colleges for the period June 1, 2013 through May 31, 2016. The new contract is still in negotiation, but there is holdover language in the old contract.

The Massachusetts Community College Council (MCCC) representing the Full Time Faculty and Full-Time Unit Professionals at the community colleges had an agreement in place for the period July 1, 2013 through June 30, 2015. A new agreement was negotiated between the parties for the period July 1, 2015 through June 30, 2018. While the contract was subsequently approved in FY2017 retroactive to FY2016, it has not yet been paid. The amounts due to faculty for the period July 1, 2015 through June 30, 2016 (FY2016) are, however, reflected in these financial statements.

The American Federation of State, County and Municipal Employees (AFSCME) representing the support staff of the state and community colleges have an agreement in place through June 30, 2017.

In FY2016, the College continued to work in furtherance of the next phase of the Academic Arts Classroom building project that will be housed in the historic Boston & Maine Railroad building in downtown Lowell. The building was acquired from the federal government in 2008 and will be used to provide critically needed music, dance and performing arts classroom space. The study, funded by the College, was completed a year ago. In September 2013, the state included funds in its budget for the project's design and construction. The design work was completed in FY2015 and construction commenced in the fall of 2015. In FY2016, DCAM spent \$1.8 million on this project. In FY2017, the College is obligated to send DCAM \$8,082,900 toward the completion of the project which is expected to be completed in the fall of 2017.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited)

Requests for Information

This financial report is designed to provide a general overview of the College's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Fiscal Officer, Middlesex Community College, 33 Kearney Square, Lowell, Massachusetts, 01852.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2016 and 2015

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2016 and 2015

(Except for Foundation which is full year June 30, 2016 and half year June 30, 2015)

Assets and Deferred Outflows of Resources

| | 2016 | 2015 | 2016 | 2015 |
|---|---------------------------------|---------------------------------|--------------------------------|--------------------------------|
| | Middlesex | Middlesex | Middlesex | Middlesex |
| | Community | Community | Community | Community |
| | College | College | College | College |
| | College | College | Foundation, | Foundation, |
| | Inc. | Inc. | Inc. | Inc. |
| Current Assets: | | | | |
| Cash and equivalents | \$ 10,343,177 | \$ 5,552,888 | \$ 1,983,654 | \$ 1,761,101 |
| Cash held by State Treasurer | 999,643 | 436,258 | - | - |
| Short-term investments | 3,495,366 | 6,969,340 | 2,900,523 | 3,009,542 |
| Accounts and other receivables, net | 3,703,275 | 3,065,040 | 82,171 | 115,233 |
| Prepaid expenses and deferred charges | <u>81,820</u> | <u>5,576</u> | <u>-</u> | <u>-</u> |
| Total Current Assets | <u>18,623,281</u> | <u>16,029,102</u> | <u>4,966,348</u> | <u>4,885,876</u> |
| Non-Current Assets: | | | | |
| Long-term investments | 9,381,877 | 9,301,719 | 200,000 | 200,000 |
| Loans receivable, net | 220,778 | 259,813 | - | - |
| Capital assets, net of accumulated depreciation | <u>31,958,788</u> | <u>30,997,231</u> | <u>565,084</u> | <u>608,384</u> |
| Total Non-Current Assets | <u>41,561,443</u> | <u>40,558,763</u> | <u>765,084</u> | <u>808,384</u> |
| Total Assets | <u>60,184,724</u> | <u>56,587,865</u> | <u>5,731,432</u> | <u>5,694,260</u> |
| Deferred Outflows of Resources: | | | | |
| Contributions subsequent to the measurement date | 904,530 | 1,163,148 | - | - |
| Change in plan actuarial assumptions | 3,662,363 | 121,916 | - | - |
| Differences between projected and actual earnings on plan investments | 418,020 | - | - | - |
| Changes in proportion | <u>2,898,199</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Deferred Outflows of Resources | <u>7,883,112</u> | <u>1,285,064</u> | <u>-</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 68,067,836</u> | <u>\$ 57,872,929</u> | <u>\$ 5,731,432</u> | <u>\$ 5,694,260</u> |

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

Liabilities, Deferred Inflows of Resources and Net Position

| | 2016 | 2015 | 2016 | 2015 |
|--|-----------------------------|-----------------------------|----------------------------|----------------------------|
| | Middlesex | Middlesex | Middlesex | Middlesex |
| | Community | Community | College | Community |
| | College | College | Foundation, | College |
| | Inc. | Inc. | Inc. | Inc. |
| Current Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 2,243,867 | \$ 1,988,534 | \$ - | \$ 38,600 |
| Accrued payroll | 1,879,509 | 1,809,709 | - | - |
| Accrued compensated absences and workers' compensation | 3,467,016 | 3,842,062 | - | - |
| Students' deposits and unearned revenues | 1,463,554 | 1,402,158 | 4,040 | 4,525 |
| Funds held for others | 160,971 | 479,638 | - | - |
| Current portion of bonds payable | <u>425,652</u> | <u>412,880</u> | <u>-</u> | <u>-</u> |
| Total Current Liabilities | <u>9,640,569</u> | <u>9,934,981</u> | <u>4,040</u> | <u>43,125</u> |
| Non-Current Liabilities: | | | | |
| Accrued compensated absences and workers' compensation | 2,661,223 | 2,445,432 | - | - |
| Net pension liability | 21,147,785 | 10,845,528 | - | - |
| Bonds payable | 2,496,332 | 2,923,140 | - | - |
| Grants refundable | <u>59,165</u> | <u>65,697</u> | <u>-</u> | <u>-</u> |
| Total Non-Current Liabilities | <u>26,364,505</u> | <u>16,279,797</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>36,005,074</u> | <u>26,214,778</u> | <u>4,040</u> | <u>43,125</u> |
| Deferred Inflows of Resources: | | | | |
| Differences between projected and actual earnings on plan investments | 607,699 | 2,226,032 | - | - |
| Changes in proportion | <u>180,448</u> | <u>214,888</u> | <u>-</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>788,147</u> | <u>2,440,920</u> | <u>-</u> | <u>-</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>36,793,221</u> | <u>28,655,698</u> | <u>4,040</u> | <u>43,125</u> |
| Net Postion: | | | | |
| Net investment in capital assets | 29,036,804 | 27,661,211 | 565,084 | 608,384 |
| Restricted: | | | | |
| Expendable | 1,473,368 | 1,555,096 | 3,626,921 | 3,614,008 |
| Unrestricted | <u>764,443</u> | <u>924</u> | <u>1,535,387</u> | <u>1,428,743</u> |
| Total Net Position | <u>31,274,615</u> | <u>29,217,231</u> | <u>5,727,392</u> | <u>\$ 5,651,135</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 68,067,836</u> | <u>\$ 57,872,929</u> | <u>\$ 5,731,432</u> | <u>\$ 5,694,260</u> |

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2016 and 2015
(Except for Foundation which is full year June 30, 2016 and half year June 30, 2015)

| | 2016 Middlesex Community College | 2015 Middlesex Community College | 2016 Middlesex Community College Foundation, Inc. | 2015 Middlesex Community College Foundation, Inc. |
|---|---|---|--|--|
| Operating Revenues: | | | | |
| Tuition and fees | \$ 35,720,240 | \$ 35,245,001 | \$ - | \$ - |
| Less: scholarship allowances | <u>(13,513,276)</u> | <u>(14,158,101)</u> | - | - |
| Net Student Fees | 22,206,964 | 21,086,900 | - | - |
| Federal, state, local and private grants and contracts | 22,870,608 | 24,004,649 | - | - |
| License income - base amount | - | - | 116,165 | 59,358 |
| Other auxiliary enterprises | 333,902 | 377,056 | - | - |
| Other sources | <u>1,821,696</u> | <u>1,972,551</u> | - | - |
| Total Operating Revenues | <u>47,233,170</u> | <u>47,441,156</u> | <u>116,165</u> | <u>59,358</u> |
| Operating Expenses: | | | | |
| Instruction | 29,779,772 | 29,101,665 | - | - |
| Academic support | 8,630,884 | 8,003,581 | - | - |
| Student services | 10,844,110 | 10,622,313 | - | - |
| Scholarships and fellowships | 3,178,905 | 3,742,808 | 4,160 | 38,735 |
| Public service | 4,908,903 | 4,448,411 | 303,145 | 279,209 |
| Operation and maintenance of plant | 8,748,053 | 9,218,611 | - | - |
| Institutional support | 9,036,181 | 8,913,492 | 44,685 | 2,439 |
| Depreciation and amortization | <u>3,757,780</u> | <u>3,355,812</u> | <u>43,299</u> | <u>21,650</u> |
| Total Operating Expenses | <u>78,884,588</u> | <u>77,406,693</u> | <u>395,289</u> | <u>342,033</u> |
| Operating Loss | <u>(31,651,418)</u> | <u>(29,965,537)</u> | <u>(279,124)</u> | <u>(282,675)</u> |
| Non-Operating Revenues (Expenses): | | | | |
| State appropriations - unrestricted | 29,995,146 | 28,391,147 | - | - |
| Net investment income (expense) | 3,555 | 217,076 | (34,187) | 10,384 |
| Interest expense | (93,265) | (106,339) | - | - |
| Transfer to State | - | (309,466) | - | - |
| Other nonoperating | - | - | - | - |
| Gifts and contributions | - | - | 520,718 | 432,136 |
| Payments between the College and the Foundation | <u>131,150</u> | <u>109,700</u> | <u>(131,150)</u> | <u>(109,700)</u> |
| Net Non-Operating Revenues | <u>30,036,586</u> | <u>28,302,118</u> | <u>355,381</u> | <u>332,820</u> |
| Change in Net Position before Capital Appropriations | (1,614,832) | (1,663,419) | 76,257 | 50,145 |
| Capital appropriations | <u>3,672,216</u> | <u>4,556,449</u> | - | - |
| Change in Net Position | 2,057,384 | 2,893,030 | 76,257 | 50,145 |
| Net Position, Beginning of Year | <u>29,217,231</u> | <u>26,324,201</u> | <u>5,651,135</u> | <u>5,600,990</u> |
| Net Position, End of Year | <u>\$ 31,274,615</u> | <u>\$ 29,217,231</u> | <u>\$ 5,727,392</u> | <u>\$ 5,651,135</u> |

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

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30,

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|----------------------------|
| Cash Flows from Operating Activities: | | |
| Tuition and fees | \$ 21,983,390 | \$ 21,442,498 |
| Grants and contracts | 22,517,346 | 23,950,619 |
| Payments to suppliers | (8,873,057) | (10,932,356) |
| Payments to employees | (54,567,144) | (54,411,115) |
| Payments to students | (3,178,905) | (3,742,808) |
| Loans issued to students | - | (4,500) |
| Collection of loans to students | 39,035 | 62,038 |
| Income from contract services | 333,902 | 329,910 |
| Other cash receipts | <u>1,834,646</u> | <u>1,989,729</u> |
| Net Cash Applied to Operating Activities | <u>(19,910,787)</u> | <u>(21,315,985)</u> |
| Cash Flows from Non-Capital Financing Activities: | | |
| State appropriations | 23,609,029 | 22,639,434 |
| Payments from Foundation | 131,150 | 109,700 |
| Funds held for others | <u>(318,667)</u> | <u>140,586</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>23,421,512</u> | <u>22,889,720</u> |
| Cash Flows from Capital Financing Activities: | | |
| Purchases of capital assets | (1,047,121) | (4,157,020) |
| Principal paid on bond payable | (414,036) | (710,762) |
| Interest paid on bond payable | <u>(93,265)</u> | <u>(106,339)</u> |
| Net Cash Applied to Capital Financing Activities | <u>(1,554,422)</u> | <u>(4,974,121)</u> |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales and maturities of investments | 6,820,891 | 4,148,913 |
| Purchases of investments | (3,476,682) | (4,451,373) |
| Interest on investments | <u>53,162</u> | <u>60,063</u> |
| Net Cash Provided by (Applied to) Investing Activities | <u>3,397,371</u> | <u>(242,397)</u> |
| Net Increase (Decrease) in Cash and Equivalents | 5,353,674 | (3,642,783) |
| Cash and Equivalents, Beginning of Year | <u>5,989,146</u> | <u>9,631,929</u> |
| Cash and Equivalents, End of Year | \$ <u>11,342,820</u> | \$ <u>5,989,146</u> |

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30,

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | | |
| Net operating loss | \$ (31,651,418) | \$ (29,965,537) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | | |
| Depreciation and amortization | 3,757,780 | 3,355,812 |
| Net pension activity | 2,051,436 | (407,985) |
| Fringe benefits provided by the State | 6,386,117 | 5,751,713 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (638,235) | 411,460 |
| Prepaid expenses and deferred charges | (76,244) | (5,576) |
| Loans receivable, net | 39,035 | 57,539 |
| Accounts payable, accrued liabilities & grant refundable | 248,801 | (216,556) |
| Accrued payroll and compensated absences | (89,455) | (186,961) |
| Students' deposits and unearned revenues | <u>61,396</u> | <u>(109,894)</u> |
| Net Cash Applied to Operating Activities | <u>\$ (19,910,787)</u> | <u>\$ (21,315,985)</u> |
| Non-Cash Transactions: | | |
| Fringe benefits provided by the State | <u>\$ 6,386,117</u> | <u>\$ 5,751,713</u> |
| Capital assets acquired through capital appropriations | <u>\$ 3,672,216</u> | <u>\$ 4,556,449</u> |

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

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies

Organization

Middlesex Community College (the “College”) is one of the largest community colleges in the Commonwealth of Massachusetts (the “Commonwealth”) and serves the largest county in the Commonwealth with campuses in urban Lowell and suburban Bedford. The College’s mission is to provide educational, occupational and cultural opportunities for an academically, economically and culturally diverse population. The College offers 86 associate degree and certificate programs to approximately 12,254 credit and 13,996 noncredit students. The College is involved in numerous community partnership programs and more than 30 different partnerships with schools and colleges throughout the Merrimack Valley. The College also provides comprehensive, customized training, consulting and technical assistance programs to area businesses. The College is accredited by the New England Association of Schools and Colleges.

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 statement of revenues, expenses and changes in net assets 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.

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.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Basis of Presentation - Continued

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, the Foundation, and required supplementary information. The College presents statements of net assets, revenues, expenses and changes in net assets, and cash flows on a combined College-wide basis.

The College's policies for defining operating activities in the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities*. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, and interest expense.

The Middlesex Community College Foundation, Inc. (the "Foundation"), a component unit of the College, was formed in 1987 to render financial assistance and to support the educational programs and development of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included within these financial statements because of the nature and significance of its relationship with the College. The Foundation is located at the College's Bedford, Massachusetts campus. Complete financial statements for the Foundation can be obtained from Middlesex Community College Foundation, Inc., P.O. Box 716, Springs Road, Bedford, MA 01730.

During the years ended June 30, 2016 and 2015, the Foundation distributed \$131,150 and \$109,700, respectively, to the College for both restricted and unrestricted purposes. During each of these years, the College paid a license fee in the amount of \$100,425 and \$50,213, respectively, to the Foundation for use of the Nesmith House in Lowell, Massachusetts.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Net Position

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

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

Restricted - expendable: Net position 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 position. 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.

Cash and Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less, and cash and deposits held by state agencies on behalf of the College to be cash equivalents.

Allowance for Doubtful Accounts

Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

Investments

Investments in marketable securities are stated at fair value. The College has no donor restricted endowments at June 30, 2016 and 2015.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items 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 Commonwealth's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period. 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 5 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed. The College does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation.

Pensions

For purposes of measuring the net pension liability, deferred outflow 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.

Fringe Benefits

The College participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the College. Workers' compensation costs are assessed separately based on the College's actual experience.

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, 2016. The accrued sick leave balance represents 20% of amounts earned by those employees with or expected to have ten or more years of Commonwealth service at June 30, 2016. Upon retirement, these employees are entitled to receive payment for this accrued balance.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Students' Deposits and Unearned Revenue

Student deposits and unearned revenues consist primarily of deposits and advance payments received for tuition and fees related to certain summer programs, and the following academic year, and are recorded as revenues when earned.

Student Fees

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

Tax Status

The College is a governmental component unit of the Commonwealth and is therefore exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

New Governmental Accounting Pronouncements

GASB Statement 81 – *Irrevocable Split-interest Agreements*, effective for periods beginning after December 15, 2016 requires a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at inception of the agreement. It also requires recognition of assets representing the beneficial interest in an irrevocable split-interest agreement administered by a third-party in certain circumstances. Revenues related to these agreements should be recognized when the resources become applicable to the reporting period. Management has not completed its review of the requirements of this standard and its applicability.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

New Governmental Accounting Pronouncements - Continued

GASB Statement 80 – Blending Requirements for Certain Component Units- an Amendment of GASB Statement No. 14 effective for periods beginning after June 15, 2016, provides additional criterion requiring blending of a component unit incorporated as a not-for-profit corporation in which the primary government is they sole corporate member. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 78 – Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans is effective for periods beginning after December 15, 2015 and amends Statement 68 to exclude certain pensions provided to employees of state or local governments that, among other factors, are used to provide pension benefits to governmental and non-governmental employees. The Statement establishes requirements for the recognition and measurement of pension expense, expenditures, and liabilities, note disclosures and required supplementary information. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this standard had no effect on financial position.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

New Governmental Accounting Pronouncements - Continued

GASB Statement 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

Note 2 - **Cash and Investments**

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, the Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the Commonwealth legislature or derived from federal allocations. The principal objectives of the investment policy are: (1) safety of principal, (2) liquidity for operating needs, (3) return on investment, and (4) diversification of risk. The Board of Trustees supports the investments of trust funds in a variety of vehicles, including bank instruments, equities, bonds, government and commercial paper of high quality and mutual funds holding any or all of the above. The Board will, from time to time, establish investment fund ceilings and broad asset allocation guidelines, and authorizes the Chief Financial officer to invest, or instruct the Comptroller to invest, the College’s funds within the guidelines established by the investment policy.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 2 - **Cash and Investments - Continued**

Summary of Deposits and Investments

Deposits and investments consist of the following at June 30,:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|--------------------------|--------------------------|
| Cash deposits | \$ 7,770,361 | \$ 2,430,099 |
| Money market funds | 2,572,816 | 3,374,647 |
| Certificates of deposit | 3,495,366 | 3,717,481 |
| Bond mutual funds | 3,860,722 | 4,672,632 |
| Equity mutual funds | <u>5,521,155</u> | <u>7,629,088</u> |
| Total Deposits and Investments | <u>\$ 23,220,420</u> | <u>\$ 21,823,947</u> |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be recovered. Deposits, including certificates of deposit, are made in domestic banks that are federally insured and in some banks that are Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. The College's bank balances, including certificates of deposit, as of June 30, 2016 and 2015 were \$10,904,186 and \$6,117,673, respectively. Of these balances, \$6,795,350 and \$1,637,685, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. To mitigate custodial credit risk for deposits, the College obtains ratings for all banks and credit unions which hold the College's investments. A star rating of 3+ stars from Bauer Financial is required before investing any College funds in an institution.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 2 - **Cash and Investments - Continued**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Maturities of investments exposed to interest rate risk at June 30, 2016 and 2015 consist of:

| <u>Investment type</u> | 2016 | | | | |
|-------------------------|----------------------|----------------------------------|---------------|----------------|---------------------|
| | <u>Fair value</u> | Investment Maturities (in Years) | | | |
| | | <u>Less than 1</u> | <u>1 to 5</u> | <u>6 to 10</u> | <u>More than 10</u> |
| Certificates of deposit | \$ 3,495,366 | \$ 3,495,366 | \$ - | \$ - | \$ - |
| Money market funds | 2,572,816 | 2,572,816 | - | - | - |
| Bond mutual funds | <u>3,860,722</u> | <u>3,860,722</u> | - | - | - |
| | <u>\$ 9,928,904</u> | <u>\$ 9,928,904</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | 2015 | | | | |
| <u>Investment type</u> | <u>Fair value</u> | Investment Maturities (in Years) | | | |
| | | <u>Less than 1</u> | <u>1 to 5</u> | <u>6 to 10</u> | <u>More than 10</u> |
| Certificates of deposit | \$ 3,717,481 | \$ 3,717,481 | \$ - | \$ - | \$ - |
| Money market funds | 3,374,647 | 3,374,647 | - | - | - |
| Bond mutual funds | <u>4,672,632</u> | <u>4,672,632</u> | - | - | - |
| | <u>\$ 11,764,760</u> | <u>\$ 11,764,760</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

To mitigate interest rate risk, it is the policy of the College to generally not exceed one (1) year in its maturities of Operating Fund investments.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 2 - **Cash and Investments - Continued**

Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counter party to a debt security will not fulfill its obligations. The following is a listing of credit quality ratings, using Moody's and Standard & Poor's, of the College's investments at June 30,:

| <u>Investment Type</u> | 2016 | | | | | | | |
|-------------------------|---------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>Fair value</u> | <u>Quality Ratings</u> | | | | | | |
| | | <u>AAA</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> | <u>BB</u> | <u>B</u> | <u>Unrated</u> |
| Certificates of deposit | \$ 3,495,366 | \$ 3,495,366 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Money market funds | 2,572,816 | 2,207,298 | - | - | - | - | - | 365,518 |
| Bond mutual funds | <u>3,860,722</u> | <u>384,644</u> | <u>971,022</u> | <u>449,108</u> | <u>296,359</u> | <u>908,179</u> | <u>851,410</u> | - |
| Total | <u>\$ 9,928,904</u> | <u>\$ 6,087,308</u> | <u>\$ 971,022</u> | <u>\$ 449,108</u> | <u>\$ 296,359</u> | <u>\$ 908,179</u> | <u>\$ 851,410</u> | <u>\$ 365,518</u> |

| <u>Investment Type</u> | 2015 | | | | | | | |
|-------------------------|---------------------|------------------------|-------------------|-------------------|-------------------|---------------------|---------------------|----------------|
| | <u>Fair value</u> | <u>Quality Ratings</u> | | | | | | |
| | | <u>AAA</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> | <u>BB</u> | <u>B</u> | <u>Unrated</u> |
| Certificates of deposit | \$ 3,717,481 | \$ 3,717,481 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Money market funds | 3,374,647 | 3,374,647 | - | - | - | - | - | - |
| Bond mutual funds | <u>4,672,632</u> | - | <u>532,215</u> | <u>444,273</u> | <u>885,865</u> | <u>1,164,731</u> | <u>1,645,548</u> | - |
| Total | <u>\$11,764,760</u> | <u>\$ 7,092,128</u> | <u>\$ 532,215</u> | <u>\$ 444,273</u> | <u>\$ 885,865</u> | <u>\$ 1,164,731</u> | <u>\$ 1,645,548</u> | <u>\$ -</u> |

The College manages credit risk by purchasing investment-grade securities with a high concentration in securities rated AAA and above.

Concentration of Credit Risk

The College had no investments that exceeded 5% of its total investments at June 30, 2016 and 2015.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 2 - **Cash and Investments - Continued**

Investments of the Foundation

The Foundation's investments consist of the following at June 30, and are summarized as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|---------------------|---------------------|
| Fixed income securities | \$ 782,387 | \$ 278,747 |
| Equity securities | 1,844,600 | 1,851,698 |
| Bank certificates of deposit | <u>473,536</u> | <u>1,079,097</u> |
| | <u>\$ 3,100,523</u> | <u>\$ 3,209,542</u> |

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$999,643 and \$436,258 at June 30, 2016 and 2015, 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 - **Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for similar assets or liabilities in inactive markets;

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Fair Value Measurements - Continued**

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. With the adoption of GASB Statement 72, there have been no changes in the methodologies used to measure fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the College are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the College are deemed to be actively traded.

At June 30, 2016 and 2015, all assets of the College are considered Level 1 investments.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 5 - **Accounts and Other Receivables**

Accounts receivable include the following at June 30,:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| Student accounts receivable | \$ 4,527,627 | \$ 4,282,815 |
| Grants receivable | 1,002,208 | 557,927 |
| Other receivables | <u>101,096</u> | <u>192,115</u> |
| | 5,630,931 | 5,032,857 |
| Less: allowance for doubtful accounts | <u>(1,927,656)</u> | <u>(1,967,817)</u> |
| | <u>\$ 3,703,275</u> | <u>\$ 3,065,040</u> |

Note 6 - **Loans Receivable and Grants Refundable**

Loans payable and receivable consist of the Federal Perkins Loan Program ("Perkins") and the Federal Nursing Loan Program ("NSL"). The Federal Government originally provided the majority of the funds to support these programs. The loan payments from students made under those programs may be re-loaned after collection. The portion of the Perkins and NSL Programs provided by the Federal Government is refundable to the Federal Government upon the ending ("liquidation") of the College's participation in the programs.

Loans receivable consist of the following at June 30,:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-------------------|-------------------|
| Perkins loans receivable | \$ 307,398 | \$ 346,433 |
| Nursing loans receivable | <u>13,380</u> | <u>13,380</u> |
| | 320,778 | 359,813 |
| Less: allowance for doubtful accounts | <u>(100,000)</u> | <u>(100,000)</u> |
| | <u>\$ 220,778</u> | <u>\$ 259,813</u> |

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 6 - **Loans Receivable and Grants Refundable - Continued**

Amounts that would have to be repaid to the Federal Government upon liquidation by the College at June 30, 2016 and 2015 are \$59,165 and \$65,697, respectively, and are included as a non-current liability in the financial statements.

Note 7 - **Capital Assets**

Capital assets of the College consist of the following at June 30,:

| | 2016 | | | | | Ending balance |
|----------------------------------|----------------------------------|----------------------|--------------------|-------------|--------------------|----------------------|
| | Estimated lives (in years) | Beginning balance | Additions | Retirements | Reclassifications | |
| Capital assets, not depreciable: | | | | | | |
| Construction in progress | - | \$ 10,731,285 | \$ 1,596,203 | \$ - | \$ (8,724,853) | \$ 3,602,635 |
| Land | - | <u>1,986,303</u> | - | - | - | <u>1,986,303</u> |
| Total | | <u>12,717,588</u> | <u>1,596,203</u> | - | <u>(8,724,853)</u> | <u>5,588,938</u> |
| Capital assets, depreciable: | | | | | | |
| Building, including improvements | 20-40 | 78,302,558 | 3,123,134 | - | 8,724,853 | 90,150,545 |
| Furnishings and equipment | 5-10 | <u>3,907,071</u> | - | - | - | <u>3,907,071</u> |
| Total | | <u>82,209,629</u> | <u>3,123,134</u> | - | <u>8,724,853</u> | <u>94,057,616</u> |
| Less accumulated depreciation: | | | | | | |
| Building, including improvements | | (59,956,413) | (3,375,015) | - | - | (63,331,428) |
| Furnishings and equipment | | <u>(3,973,573)</u> | <u>(382,765)</u> | - | - | <u>(4,356,338)</u> |
| Total accumulated depreciation | | <u>(63,929,986)</u> | <u>(3,757,780)</u> | - | - | <u>(67,687,766)</u> |
| Capital assets, net | | <u>\$ 30,997,231</u> | <u>\$ 961,557</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 31,958,788</u> |

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 7 - **Capital Assets - Continued**

| | | 2015 | | | | |
|----------------------------------|---|------------------------------|---------------------|--------------------|--------------------------|---------------------------|
| | Estimated lives (in years) | Beginning balance | Additions | Retirements | Reclassifications | Ending balance |
| Capital assets, not depreciable: | | | | | | |
| Construction in progress | - | \$ 3,027,201 | \$ 8,004,084 | \$ - | \$ (300,000) | \$ 10,731,285 |
| Land | - | <u>1,986,303</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,986,303</u> |
| Total | | <u>5,013,504</u> | <u>8,004,084</u> | <u>-</u> | <u>(300,000)</u> | <u>12,717,588</u> |
| Capital assets, depreciable: | | | | | | |
| Building, including improvements | 20-40 | 77,668,133 | 334,425 | - | 300,000 | 78,302,558 |
| Furnishings and equipment | 5-10 | <u>3,532,111</u> | <u>374,960</u> | <u>-</u> | <u>-</u> | <u>3,907,071</u> |
| Total | | <u>81,200,244</u> | <u>709,385</u> | <u>-</u> | <u>300,000</u> | <u>82,209,629</u> |
| Less accumulated depreciation: | | | | | | |
| Building, including improvements | | (56,945,870) | (3,010,543) | - | - | (59,956,413) |
| Furnishings and equipment | | <u>(3,628,304)</u> | <u>(345,269)</u> | <u>-</u> | <u>-</u> | <u>(3,973,573)</u> |
| Total accumulated depreciation | | <u>(60,574,174)</u> | <u>(3,355,812)</u> | <u>-</u> | <u>-</u> | <u>(63,929,986)</u> |
| Capital assets, net | | <u>\$ 25,639,574</u> | <u>\$ 5,357,657</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 30,997,231</u> |

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Long-Term Liabilities**

Long-term liabilities at June 30, consist of the following:

| | 2016 | | | | | |
|------------------------------|------------------------------|----------------------|-----------------------|---------------------------|----------------------------|------------------------------|
| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Current portion</u> | <u>Long-term portion</u> |
| Bonds payable | \$ 3,336,020 | \$ - | \$ (414,036) | \$ 2,921,984 | \$ 425,652 | \$ 2,496,332 |
| Other long-term liabilities: | | | | | | |
| Accrued sick and vacation | 5,885,651 | - | (177,250) | \$ 5,708,401 | \$ 3,378,430 | \$ 2,329,971 |
| Net pension liability | 10,845,528 | 10,302,257 | - | 21,147,785 | - | 21,147,785 |
| Grants refundable | 65,697 | - | (6,532) | 59,165 | - | 59,165 |
| Workers' compensation | <u>401,843</u> | <u>17,995</u> | <u>-</u> | <u>419,838</u> | <u>88,586</u> | <u>331,252</u> |
| | <u>17,198,719</u> | <u>10,320,252</u> | <u>(183,782)</u> | <u>27,335,189</u> | <u>3,467,016</u> | <u>23,868,173</u> |
| Total | <u>\$ 20,534,739</u> | <u>\$ 10,320,252</u> | <u>\$ (597,818)</u> | <u>\$ 30,257,173</u> | <u>\$ 3,892,668</u> | <u>\$ 26,364,505</u> |
| | | | | | | |
| | 2015 | | | | | |
| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Current portion</u> | <u>Long-term portion</u> |
| Bonds payable | \$ 3,737,316 | \$ - | \$ (401,296) | \$ 3,336,020 | \$ 412,880 | \$ 2,923,140 |
| Other liabilities: | | | | | | |
| Accrued sick and vacation | 6,230,229 | - | (344,578) | 5,885,651 | 3,754,460 | 2,131,191 |
| Net pension liability | - | 13,268,678 | (2,423,150) | 10,845,528 | - | 10,845,528 |
| Grants refundable | 95,665 | - | (29,968) | 65,697 | - | 65,697 |
| Workers' compensation | <u>349,203</u> | <u>52,640</u> | <u>-</u> | <u>401,843</u> | <u>87,602</u> | <u>314,241</u> |
| | <u>6,675,097</u> | <u>13,321,318</u> | <u>(2,797,696)</u> | <u>17,198,719</u> | <u>3,842,062</u> | <u>13,356,657</u> |
| Total | <u>\$ 10,412,413</u> | <u>\$ 13,321,318</u> | <u>\$ (3,198,992)</u> | <u>\$ 20,534,739</u> | <u>\$ 4,254,942</u> | <u>\$ 16,279,797</u> |

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Long-Term Liabilities - Continued**

In December 2013, the College issued \$3,900,598 of Series D bonds with a fixed rate of 2.95%. The bonds were issued through the Massachusetts Development Finance Agency for the purpose of refunding, together with other funds available for such purpose, the outstanding principal amount of the Series B bonds. Principal and interest is payable monthly through October 1, 2022. The College completed the refunding to reduce its total debt service payments by \$574,591 and to obtain an economic gain of \$287,973. The bonds are collateralized by certain property.

Remaining principal and interest payments for the years subsequent to June 30, 2016, on bonds payable are as follows:

| Year Ending <u>June 30,:</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|-------------------|
| 2017 | \$ 425,652 | \$ 81,649 |
| 2018 | 438,559 | 68,742 |
| 2019 | 451,858 | 55,443 |
| 2020 | 465,452 | 41,848 |
| 2021 | 359,892 | 27,627 |
| 2022-2023 | <u>780,571</u> | <u>14,133</u> |
| | <u>\$ 2,921,984</u> | <u>\$ 289,442</u> |

Total interest expense for 2016 and 2015 was \$93,265 and \$106,339, respectively.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions**

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$2,987,403 and \$3,331,708 for the years ended June 30, 2016 and 2015, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 70% of total related payroll for fiscal years end 2016 and 2015, respectively.

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 a stand-alone financial statement.

Benefit Provisions

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

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

Benefit Provisions - Continued

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 cannot retire prior to age 60. The retirement systems' 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.

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 |

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

Contributions - Continued

The College is required to contribute at an actuarially determined rate; the rate was 9.45% and 10.39% of annual covered payroll for the fiscal years ended June 30, 2016 and 2015, respectively, paid out of 'local funds' of the College. The College contributed \$904,530 and \$1,163,148 for the fiscal years ended June 30, 2016 and 2015, respectively, equal to 100% of the required contributions for the year.

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

At June 30, 2016 and 2015, the College reported a liability of \$21,147,785 and \$10,845,528, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability was measured as of June 30, 2015 and 2014, the measurement dates, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 and 2014, respectively, rolled forward to June 30, 2015 and 2014, respectively. 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 the College for the fiscal year 2015 and 2014.

The Commonwealth's proportionate share calculation was based on actual employer contributions to the SERS out of the College's 'local funds' for fiscal years 2015 and 2014 relative to total contributions of all participating employers for those fiscal years, respectively. At June 30, 2015 and 2014, the College's proportion was 0.186% and 0.160%, respectively.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

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

For the years ended June 30, 2016 and 2015, the College recognized pension expense of \$2,980,849 and \$755,163, respectively and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Contributions subsequent to the measurement date | \$ 904,530 | \$ 1,163,148 |
| Change in plan actuarial assumptions | 3,662,363 | 121,916 |
| Differences between projected and actual earnings on pension plan investments | 418,020 | - |
| Changes in proportion | <u>2,898,199</u> | <u>-</u> |
| Total | <u>\$ 7,883,112</u> | <u>\$ 1,285,064</u> |

Deferred Inflows of Resources

| | | |
|---|-------------------|---------------------|
| Differences between projected and actual earnings on pension plan investments | \$ 607,699 | \$ 2,226,032 |
| Changes in proportion | <u>180,448</u> | <u>214,888</u> |
| Total | <u>\$ 788,147</u> | <u>\$ 2,440,920</u> |

The College's contributions of \$904,530 and \$1,163,148 made during the fiscal years ending 2016 and 2015, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

| Year Ending <u>June 30,</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| 2017 | \$ 1,269,709 |
| 2018 | 1,269,709 |
| 2019 | 1,269,709 |
| 2020 | 1,961,024 |
| 2021 | <u>420,284</u> |
| | <u>\$ 6,190,435</u> |

Actuarial Assumptions

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

| Measurement date | June 30, 2015 | June 30, 2014 |
|---------------------------|---------------|---------------|
| Inflation | 3.00% | 3.00% |
| Salary increases | 3.50% - 9.00% | 3.50% - 9.00% |
| Investment rate of return | 7.50% | 8.00% |

For measurement dates June 30, 2015 and 2014, mortality rates were based on the pre-retirement of RP-2000 Employees table projected 20 years with Scale BB and Scale AA, (gender distinct), respectively, and post-retirement of Healthy Annuitant table projected 15 years with Scale BB and AA (gender distinct), respectively.

The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of the actuarial experience study performed as of January 1, 2015.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

Actuarial Assumptions - Continued

Investment assets of SERS are with the Pension Reserves Investment Trust (“PRIT”) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2015 and 2014 are summarized in the following tables:

| Asset Class | 2015 | | 2014 | |
|---------------------------------|--------------------|--|--------------------|--|
| | Target Allocation | Long-term expected real rate of return | Target Allocation | Long-term expected real rate of return |
| Global Equity | 40% | 6.90% | 43% | 7.20% |
| Core Fixed Income | 13% | 2.40% | 13% | 2.50% |
| Private Equity | 10% | 8.50% | 10% | 8.80% |
| Real Estate | 10% | 6.50% | 10% | 6.30% |
| Value Added Fixed Income | 10% | 5.80% | 10% | 6.30% |
| Hedge Funds | 9% | 5.80% | 10% | 5.50% |
| Portfolio Completion Strategies | 4% | 5.50% | 0% | 0.00% |
| Timber/Natural Resources | 4% | 6.60% | <u>4%</u> | 5.00% |
| | <u>100%</u> | | <u>100%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.5% and 8.0%, respectively at June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

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

The following tables illustrate 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.

| <u>June 30, 2016</u> | | |
|-----------------------------|--------------------------|---------------------------|
| Current | | |
| 1.00% Decrease (6.5%) | Discount Rate (7.5%) | 1.00% Increase (8.5%) |
| \$ 28,746,780 | \$ 21,147,785 | \$ 14,593,547 |
| <u>June 30, 2015</u> | | |
| Current | | |
| 1.00% Decrease (7.00%) | Discount Rate (8.00%) | 1.00% Increase (9.00%) |
| \$ 15,701,216 | \$ 10,845,528 | \$ 6,677,545 |

Note 10 - **Fringe Benefit Provided by the State**

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 and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net position and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 10 - **Fringe Benefit Provided by the State - Continued**

Fringe Benefits - Continued

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

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 amount of municipalities as an agent multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the College.

The GIC administers a plan included within the State Retirement Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums, benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution rates.

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is administratively located within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees, and their survivors and dependents. During the fiscal year ended June 30, 2016 and 2016, 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 of its health plans.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 10 - **Fringe Benefit Provided by the State - Continued**

Group Insurance Commission - Continued

In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

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-out.

Note 11 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. As of June 30, 2016 and 2015, these funds are composed of restricted-expendable funds held for the use of academic purposes in the amount of \$1,473,368 and \$1,555,096, respectively.

Note 12 - **Contingencies**

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.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 12 - **Contingencies - Continued**

The College participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). Individuals pay into the Program 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 from the Program 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 leases approximately 17,069 square feet of office and classroom space from the Lowell Middlesex Charter School ("LMACS"), a related party. The lease agreements had an expiration date of June 30, 2016 and were formally renewed on July 18, 2016 for the period of July 1, 2016 through June 30, 2017. Monthly rental payments for all leases are approximately \$14,224 per month.

Under the terms of the lease, the College has the right to extend the expiration date by giving written notice to LMACS within 30 days prior to the then scheduled expiration date. Further, the lease agreements allow for LMACS to revoke the lease agreements at any time upon 45 days written notice to the College. Currently, management of the College and LMACS has no plans that would result in the termination of the leases.

Note 13 - **Operating Expenses**

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

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|----------------------|----------------------|
| Compensation and benefits | \$ 56,632,514 | \$ 53,816,169 |
| Supplies and services | 15,315,390 | 16,491,904 |
| Depreciation and amortization | 3,757,779 | 3,355,812 |
| Scholarships and fellowships | <u>3,178,905</u> | <u>3,742,808</u> |
| | <u>\$ 78,884,588</u> | <u>\$ 77,406,693</u> |

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 14 - **Operating Leases**

The College leases space to provide student, faculty and staff parking at its Lowell campus. Office space is also leased in Woburn and Cambridge to support career and job placement services. In addition, the College leases space from LMACS as further described in Note 12.

The following schedule summarizes future minimum payments due under non-cancelable operating leases as of June 30, 2016:

| Year Ending <u>June 30,:</u> | |
|---------------------------------|---------------------|
| 2017 | \$ 751,770 |
| 2018 | 749,642 |
| 2019 | <u>104,584</u> |
| | <u>\$ 1,605,996</u> |

Rental expense for operating leases was \$757,330 and \$759,241 for the years ended June 30, 2016 and 2015, respectively.

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

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

No timing differences occurred where the College had additional revenue that was reported to MMARS after June 30, 2016 and 2015.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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

| | <u>2016</u> | <u>2015</u> |
|--|--------------------------|--------------------------|
| Direct unrestricted appropriations | \$ 23,903,924 | \$ 22,948,631 |
| Add fringe benefits for benefited employees on the state payroll | 6,386,117 | 5,751,713 |
| Less day school tuition remitted to the state and included in tuition and fee revenue | <u>(294,895)</u> | <u>(309,197)</u> |
| Total Unrestricted Appropriations | <u>\$ 29,995,146</u> | <u>\$ 28,391,147</u> |
| State capital contribution (restricted appropriations) | <u>\$ 3,672,216</u> | <u>\$ 4,556,449</u> |

Note 16 - **Pass-through Grants**

The College distributed \$4,718,887 and \$4,807,354 during 2016 and 2015, respectively, for student loans through the U.S. Department of Education Federal Direct Student Loans 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

MIDDLESEX COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

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

| Valuation date | January 1, 2015 | January 1, 2014 |
|--|------------------------|-----------------|
| Measurement date | June 30, 2015 | June 30, 2014 |
| Proportion of the collective net pension liability | 0.186% | 0.160% |
| Proportionate share of the collective net pension liability | \$ 21,147,785 | \$ 10,845,528 |
| Covered-employee payroll | \$ 11,194,880 | \$ 10,836,179 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 188.91% | 100.09% |
| Plan fiduciary net position as a percentage of the total pension liability | 67.87% | 76.32% |

Notes:

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

See accompanying notes to the required supplemental information.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of Contributions (Unaudited)

For the Years Ended June 30,

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|------------------|
| Contractually required contribution | \$ 904,530 | \$ 1,163,148 |
| Contributions in relation to the contractually required contribution | <u>904,530</u> | <u>1,163,148</u> |
| Contribution excess | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 9,571,746 | \$ 11,194,880 |
| Contribution as a percentage of covered-employee payroll | 9.45% | 10.39% |

Notes:

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

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

See accompanying notes to the required supplemental information.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information (Unaudited)

For the Year Ended June 30, 2016 and 2015

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.0% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.186% and 0.160%, respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

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

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|-------------------|
| Changes in assumptions | \$ 4,932,072 | \$ 701,667 |
| Recognized in current year pension expense | <u>1,269,709</u> | <u>579,751</u> |
| Deferred outflows of resources | <u>\$ 3,662,363</u> | <u>\$ 121,916</u> |

**Independent Auditors' 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***



Independent Auditors' 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
Middlesex Community College
Lowell, 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 Middlesex Community College (the "College") which comprise the statement of net position as of June 30, 2016, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated November 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middlesex Community 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middlesex Community 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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 3, 2016