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MIDDLESEX COMMUNITY COLLEGE

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2013

MIDDLESEX COMMUNITY COLLEGE

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2013

Table of Contents

	Exhibit
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>	I
Schedule of Expenditures of Federal Awards	II
Schedule of Current Year Findings and Questioned Costs	III
Financial Statements and 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 <i>Government Auditing Standards</i>	IV

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
Middlesex Community College:

Report on Compliance for Each Major Federal Program

We have audited Middlesex Community College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2013. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV).

The College's financial statements include the operations of the Middlesex Community College Foundation, Inc. (the Foundation) for the year ended June 30, 2013. Our audit, described below, did not include the operations of the Foundation because the Foundation engaged other auditors to perform their audit in accordance with OMB Circular A-133, as applicable.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Exhibit I***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 through 2013-Y. Our opinion on each major federal program is not modified with respect to these matters.

The College's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001 through 2013-Y, that we consider to be significant deficiencies.

The College's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Exhibit I

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the discretely presented component unit of Middlesex Community College as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated October __, 2013 which contained unmodified opinions on those financial statements. Our report refers to the report of other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

January __, 2014

Exhibit II

MIDDLESEX COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Expenditures</u>
U.S. Department of Education:		
Direct:		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	\$ 11,632,558
Federal Supplemental Educational Opportunity Grants	84.007	188,879
Federal Work-Study Program	84.033	158,985
Federal Perkins Loan Program (note 3)	84.038	32,800
Federal Direct Loan Program (note 4)	84.268	5,271,019
Total Student Financial Cluster		<u>17,284,241</u>
Title III - Strategies for Success	84.031	422,757
TRIO Cluster:		
Student Success Program	84.042	538,293
Talent Search	84.044	310,776
Upward Bound	84.047	238,520
		<u>1,087,589</u>
Passed through the Massachusetts Department of Education:		
Adult Education - Basic Grants to States	84.002	273,785
GEAR UP	84.334	286,164
Carl D. Perkins Career & Technical Education Act Allocation	84.048	344,354
College Access Grant	84.378	58,964
Passed through the CT Distance Learning Consortium:		
Online Center for Adult Learners	84.013	26,368
Passed Through the East West Center:		
Title IV	84.016	4,800
Total U.S. Department of Education		<u>19,789,022</u>
National Endowment for the Humanities:		
Passed Through the Association of American Colleges and Universities:		
AACU Democracy	45.162	2,279
Passed Through the East West Center:		
NEH Bridging Cultures	45.162	3,000
Total National Endowment for the Humanities		<u>5,279</u>
U.S. Department of Agriculture:		
Direct:		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	58,723
Total U.S. Department of Agriculture		<u>58,723</u>

Exhibit II

MIDDLESEX COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Expenditures</u>
U.S. Department of Labor:		
Passed Through Metro North Regional Employment Board:		
WIA Cluster:		
WIA Adult Program	17.258	\$ 498,516
WIA Youth Activities	17.259	512,004
Rapid response	17.278	13,492
WIA Dislocated Workers	17.278	689,470
Total WIA Cluster		<u>1,713,482</u>
Employment Service Cluster:		
Employment Service/Wagner-Peyser Funded Activities	17.207	988,300
Disabled Veterans' Outreach Program (DVOP)	17.801	17,860
Local Veterans' Outreach Program (LVER)	17.804	9,745
Total Employment Service Cluster		<u>1,015,905</u>
Direct:		
Unemployment Insurance	17.225	—
Health Care Sector Partners	17.277	142,500
Trade Case Management	17.245	23,747
Workforce Innovation	17.283	156,318
Passed Through Quinsigimund Community College:		
Trade Adjustment Assistance Community College and Career	17.282	519,057
Total U.S. Department of Labor		<u>3,571,009</u>
U.S. Department of Energy:		
Direct:		
Renewable Energy Research and Development - Geothermal project	81.087	204,125
Total U.S. Department of Energy		<u>204,125</u>
U.S. Department of Housing and Urban Development:		
Direct:		
Community Development Block Grant	14.218	7,161
Total U.S. Department of Housing and Urban Development		<u>7,161</u>
U.S. National Science Foundation:		
Passed through University of Massachusetts:		
Education and Human Resources - Stokes	47.076	17,210
Education and Human Resources - BATEC	47.076	8,450
Computer and Information Science and Engineering - CAITE	47.070	5,014
Passed through Northeastern University:		
Education and Human Resources - Step up	47.076	8,169
Total U.S. National Science Foundation		<u>38,843</u>

MIDDLESEX COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Expenditures</u>
U.S. Agency for International Development:		
Direct:		
Higher Education For Development (American Council on Education)	98.012	\$ <u>236,544</u>
Total U.S. Agency for International Development		<u>236,544</u>
Total expenditures of federal awards		<u>\$ <u>23,910,706</u></u>

See accompanying notes to schedule of expenditures of federal awards.

MIDDLESEX COMMUNITY COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Definition of Reporting Entity

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Middlesex Community College (the College). All expenditures of federal financial assistance received directly from federal agencies and passed through other governmental entities is included on the schedule. The schedule does not include expenditures of federal awards of the Middlesex Community College Foundation, Inc., which is a component unit of the College.

(2) Basis of Presentation

The accompanying schedule of expenditures of federal awards has been prepared on the accrual basis of accounting.

(3) Federal Perkins Loan Program

During the year ended June 30, 2013, \$32,800 of loans were advanced under the Federal Perkins Loan Program (Perkins). As of June 30, 2013, loan balances receivable, net under Perkins were \$424,226.

(4) Federal Direct Loan Program

During the year ended June 30, 2013, the College processed \$5,271,019 of new loans under the Federal Direct Loan Program (which includes Direct Subsidized and Unsubsidized Stafford Loans and Direct Parents' Loan for Undergraduate Students).

With respect to the Federal Family Education Loan Program, the College is responsible only for the performance of certain administrative duties and, accordingly, these loan balances are not included in the College's financial statements. It is not practical to determine the balances of loans outstanding from students of the College under this program at June 30, 2013.

MIDDLESEX COMMUNITY COLLEGE

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

(1) **Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	<u> x </u> none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	_____ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> x </u>	yes	_____ no

MIDDLESEX COMMUNITY COLLEGE

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

Identification of Major Programs

Name of federal program or cluster	CFDA number
Student Financial Assistance Cluster:	
Federal Pell Grant Program	84.063
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Direct Loan Program	84.268
Trade Adjustment Assistance Community College and Career Training	17.282
WIA Cluster:	
WIA – Adult Program	17.258
WIA – Youth Activities	17.259
WIA – Dislocated Workers	17.278
Employment Services Cluster:	
Employment Service/Wagner-Peyser	17.207
Disabled Veterans’ Outreach Program (DVOP)	17.801

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes x no

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

MIDDLESEX COMMUNITY COLLEGE

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2013

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2013-001

Federal Programs:

Federal Pell Grant Program

CFDA#: 84.063

Federal Agency:

U.S. Department of Education

Federal Award Year:

July 1, 2012 through June 30, 2013

Requirement

Financial Reporting-Pell Grants (34 CFR 690.83)

Institutions receiving Pell grants submit student payment data to the Department of Education through the Common Origination and Disbursement (COD) System. Institutions must report student payment data within 30 calendar days after making the disbursement; or becoming aware of the need to adjust previously reported student payment data.

In accordance with 34 CFR 668.164, Pell grant funds are considered disbursed on the date the institution (a) credits those funds to a student's account in the institutions general ledger, or (b) pays those funds to a student directly. Pell grant funds are considered disbursed even if an institution uses its own funds in advance of receiving program funds from the Department of Education.

Condition found

One Pell grant student payment record (of 25 sampled) was transmitted to the Department of Education 51 days after disbursement.

Questioned Costs

Not Applicable.

Possible asserted cause and effect

The delay in submission appears to have been attributable to unforeseen circumstances; and an isolated occurrence.

Recommendation

We recommend that management address any potential staffing issues to ensure controls are maintained over the timely submission of student Pell grant payment data transmissions.

Views of responsible officials



Exhibit IV

MIDDLESEX COMMUNITY COLLEGE

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit IV

Independent Auditors' Report

The Board of Trustees
Middlesex Community College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Middlesex Community College (the College) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor considers 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 opinions.



Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

The financial statements of the College are intended to present the financial position, the changes in financial position and cash flows that are attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-9 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 1, 2013 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.

KPMG LLP

November 1, 2013

Exhibit IV

MIDDLESEX COMMUNITY COLLEGE

Statements of Net Position

June 30, 2013 and 2012

(except for the Foundation, which is as of December 31, 2012 and 2011)

Assets	2013 Middlesex Community College	2012 Middlesex Community College	2012 Middlesex Community College Foundation, Inc.	2011 Middlesex Community College Foundation, Inc.
Current assets:				
Cash and cash equivalents (note 2)	\$ 6,020,434	10,219,297	954,262	1,049,035
Cash and cash equivalents, restricted (notes 2 and 7)	1,359,584	1,344,908	—	—
Cash held by State Treasurer (note 3)	1,132,360	967,412	—	—
Short-term investments (note 2)	3,843,276	2,299,113	—	—
Accounts and other receivables, net (note 4)	3,156,488	2,349,395	66,603	71,429
Prepaid expenses and deferred charges	—	5,000	—	—
Total current assets	<u>15,512,142</u>	<u>17,185,125</u>	<u>1,020,865</u>	<u>1,120,464</u>
Noncurrent assets:				
Cash and cash equivalents (note 2)	2,361,829	2,213,057	—	—
Long-term investments (note 2)	11,392,690	6,471,283	3,235,416	2,677,198
Loans receivable, net (notes 5 and 8)	343,058	349,813	—	—
Capital assets, net of accumulated depreciation (notes 6 and 7)	24,695,583	26,433,816	716,712	734,402
Other noncurrent assets (note 7)	82,656	91,133	—	—
Total noncurrent assets	<u>38,875,816</u>	<u>35,559,102</u>	<u>3,952,128</u>	<u>3,411,600</u>
Total assets	<u>\$ 54,387,958</u>	<u>52,744,227</u>	<u>4,972,993</u>	<u>4,532,064</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 2,311,198	1,986,015	42,000	42,000
Accrued payroll	1,422,613	1,458,821	—	—
Compensated absences and other liabilities (note 7)	3,646,824	3,268,800	—	—
Accrued interest payable	66,063	71,000	—	—
Students' deposits and unearned revenues	2,012,227	1,188,137	—	—
Funds held for others	127,202	554,303	—	—
Current portion of notes payable (note 7)	413,883	388,884	—	—
Total current liabilities	<u>10,000,010</u>	<u>8,915,960</u>	<u>42,000</u>	<u>42,000</u>
Noncurrent liabilities:				
Compensated absences and other liabilities (note 7)	2,525,850	2,416,978	—	—
Notes payable (note 7)	4,811,479	5,225,361	—	—
Grants refundable, net (note 8)	127,913	141,401	—	—
Total noncurrent liabilities	<u>7,465,242</u>	<u>7,783,740</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>\$ 17,465,252</u>	<u>16,699,700</u>	<u>42,000</u>	<u>42,000</u>
Net Position				
Net investment in capital assets	\$ 19,410,584	20,753,816	716,712	734,402
Restricted (note 9):				
Expendable	2,240,166	1,558,239	2,514,278	2,424,678
Unrestricted (note 10)	15,271,956	13,732,472	1,700,003	1,330,984
Commitments and contingencies (notes 7 and 11)				
Total net position	<u>\$ 36,922,706</u>	<u>36,044,527</u>	<u>4,930,993</u>	<u>4,490,064</u>

See accompanying notes to financial statements.

Exhibit IV
MIDDLESEX COMMUNITY COLLEGE

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(except for the Foundation, which is for the years ended December 31, 2012 and 2011)

	2013 Middlesex Community College	2012 Middlesex Community College	2012 Middlesex Community College Foundation, Inc.	2011 Middlesex Community College Foundation, Inc.
Operating revenues:				
Tuition and fees	\$ 35,028,316	34,506,911	—	—
Less scholarship allowances	(13,712,043)	(11,721,828)	—	—
Net student fees	21,316,273	22,785,083	—	—
Federal, state, local and private grants and contracts	25,140,546	20,476,206	—	—
License income – base amount	—	—	70,625	70,625
Other auxiliary enterprises	430,724	367,414	—	—
Other sources	1,802,587	1,407,354	—	—
Total operating revenues	<u>48,690,130</u>	<u>45,036,057</u>	<u>70,625</u>	<u>70,625</u>
Operating expenses (note 12):				
Instruction	26,826,447	26,675,735	—	—
Academic support	7,175,321	7,257,973	—	—
Student services	9,444,249	9,048,167	—	—
Scholarships and fellowships	3,585,669	4,238,210	10,099	44,275
Public service	5,061,934	2,615,804	366,155	373,119
Operation and maintenance of plant	7,207,831	7,041,678	—	—
Institutional support	8,500,041	8,437,551	13,827	13,838
Depreciation and amortization	2,919,266	2,785,214	42,715	42,300
Total operating expenses	<u>70,720,758</u>	<u>68,100,332</u>	<u>432,796</u>	<u>473,532</u>
Operating loss	<u>(22,030,628)</u>	<u>(23,064,275)</u>	<u>(362,171)</u>	<u>(402,907)</u>
Nonoperating revenues (expenses):				
State appropriations – unrestricted (note 13)	22,452,036	23,199,796	—	—
Federal grants (ARRA)	—	776	—	—
Net investment income	517,621	117,092	160,041	44,143
Interest expense (note 7)	(269,188)	(288,560)	—	—
Other nonoperating	(14,594)	(634,877)	—	22,500
Gifts and contributions	—	—	700,564	429,232
Payments between the College and the Foundation	57,505	51,908	(57,505)	(51,908)
Net nonoperating revenues	<u>22,743,380</u>	<u>22,446,135</u>	<u>803,100</u>	<u>443,967</u>
Change in net position before capital contributions	712,752	(618,140)	440,929	41,060
State capital contributions (note 13)	165,427	696,785	—	—
Increase in net position	878,179	78,645	440,929	41,060
Net position, beginning of year	<u>36,044,527</u>	<u>35,965,882</u>	<u>4,490,064</u>	<u>4,449,004</u>
Net position, end of year	<u>\$ 36,922,706</u>	<u>36,044,527</u>	<u>4,930,993</u>	<u>4,490,064</u>

See accompanying notes to financial statements.

Exhibit IV
MIDDLESEX COMMUNITY COLLEGE

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013 Middlesex Community College	2012 Middlesex Community College
Cash flows from operating activities:		
Tuition and fees	\$ 21,584,368	22,931,245
Grants and contracts	24,889,448	21,234,128
Payments to suppliers	(9,687,689)	(7,015,755)
Payments to employees	(49,352,065)	(48,656,145)
Payments to students	(3,585,669)	(4,238,210)
Loans issued to students	(32,800)	(17,550)
Collection of loans to students	39,555	44,381
Income from contract services	430,724	366,715
Other cash receipts	1,789,099	1,406,963
Net cash used in operating activities	<u>(13,925,029)</u>	<u>(13,944,228)</u>
Cash flows from noncapital financing activities:		
State appropriations	18,051,900	17,644,104
Federal grants (ARRA)	—	776
Payments from Foundation	57,505	51,908
Funds held for others	(427,101)	(13,067)
Net cash provided by noncapital financing activities	<u>17,682,304</u>	<u>17,683,721</u>
Cash flows from capital and related financing activities:		
Capital appropriations	165,427	696,785
Purchases of capital assets	(1,181,033)	(2,429,254)
Principal paid on debt	(395,000)	(380,000)
Interest paid on debt	(269,188)	(288,560)
Net cash used in capital financing activities	<u>(1,679,794)</u>	<u>(2,401,029)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,130,523	4,290,772
Cost of purchases of investments	(9,114,738)	(3,997,311)
Interest on investments	36,267	33,547
Net cash provided by (used in) investing activities	<u>(5,947,948)</u>	<u>327,008</u>
Net change in cash and cash equivalents	(3,870,467)	1,665,472
Cash and cash equivalents (including cash held by State Treasurer), beginning of year	<u>14,744,674</u>	<u>13,079,202</u>
Cash and cash equivalents (including cash held by State Treasurer), end of year	<u>\$ 10,874,207</u>	<u>14,744,674</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (22,030,628)	(23,064,275)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	2,919,266	2,785,214
Fringe benefits provided by the State	4,400,136	5,555,692
Changes in assets and liabilities:		
Accounts receivable, net	(807,093)	808,379
Prepaid and other assets	5,000	2,007
Loans receivable, net	6,755	26,831
Accounts payable and accrued liabilities	306,757	(507,918)
Accrued payroll and compensated absences	450,688	354,137
Students' deposits and unearned revenues	824,090	95,705
Net cash used in operating activities	<u>\$ (13,925,029)</u>	<u>(13,944,228)</u>
Noncash transactions:		
Fringe benefits provided by the State	\$ 4,400,136	5,555,692

See accompanying notes to financial statements.

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies**(a) 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 83 associate degree and certificate programs to almost 13,254 credit and 8,046 noncredit students. The College is involved in numerous community partnership programs and more than 30 different partnerships with the public schools in Lowell, Bedford and Billerica. The College also provides comprehensive, customized training, consulting, and technical assistance programs to area businesses.

(b) 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 U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College's policy 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 and certain grants and contracts. Certain other transactions are reported as nonoperating activities. These nonoperating activities include the College's operating and capital appropriations from the Commonwealth, net investment income, gifts and interest expense.

During 2013, the College implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which resulted in no material changes to the accompanying financial statements.

Middlesex Community College Foundation, Inc. (the Foundation) was established in August 1987, and is a legally separate tax-exempt component unit of the College. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. The Foundation is located at the College's Bedford, Massachusetts campus. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College and is discretely presented in the College's financial statements.

During the years ended June 30, 2013 and 2012, the Foundation distributed \$57,505 and \$51,908, 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 \$84,000 to the Foundation for use of the Nesmith House in Lowell, Massachusetts.

Complete financial statements for the Foundation can be obtained from Middlesex Community College Foundation, Inc., P.O. Box 716, Springs Road, Bedford, MA 01730.

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(c) Net Position

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

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

Restricted – nonexpendable: Net position subject to externally imposed conditions that the College must maintain them in perpetuity.

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 position 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.

(d) Cash Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

(e) Investments

Investments in marketable securities are stated at fair value.

The College has no donor-restricted endowments.

(f) 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. In addition, the College capitalizes assets acquired under certain grants that have a unit cost of \$1,000 or more. 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 3 to 40 years.

The College does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation.

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

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(g) Fringe Benefits

The College participates in the Commonwealth's Fringe Benefit programs, including health insurance, unemployment, pension, workers' compensation and certain post-retirement benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the College.

(h) Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2013 and 2012. 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, 2013 and 2012. Upon retirement, these employees are entitled to receive payment for this accrued balance.

(i) Workers' Compensation

The Commonwealth provides workers' compensation coverage to its employers on a self-insured basis. The College records its portion of the workers' compensation in its records. Worker's compensation costs are actuarially determined based on the College's actual experience.

(j) Students' Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are recorded as unearned revenue until earned.

(k) Student Fees

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

(l) Tax Status

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

(m) 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.

(2) Cash and Investments**(a) 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

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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.

The Short Term Asset Reserve (STAR) fund is designed as an investment vehicle for bond proceeds of organizations that borrow through the Massachusetts Development Finance Agency. The STAR fund operates as a Rule 2a-7-like pool and the value of the College's investment in the STAR fund represents its value of the pool's shares. The custodian of the invested funds is U.S. Bank.

(b) *Summary of Deposits and Investments*

Deposits and investments consist of the following at June 30:

<u>Deposits and investments</u>	<u>2013</u>	<u>2012</u>
Cash deposits	\$ 5,401,103	8,966,678
STAR Fund – restricted cash	1,359,584	1,344,908
Municipal notes	1,017,378	1,012,970
Certificates of deposit	3,900,957	3,722,974
Money market funds	8,182,046	2,722,380
Bond mutual funds	2,195,931	2,218,032
Equity mutual funds	2,920,814	2,559,716
Total deposits and investments	<u>\$ 24,977,813</u>	<u>22,547,658</u>

(c) *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, 2013 and 2012 were \$10,417,531 and \$13,650,055 respectively. Of these balances, \$5,609,622 and \$413, 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 BauerFinancial is required before investing any College funds in an institution.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the College may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2013 and 2012, \$1,003,250 and \$1,001,369, respectively, of the College's investments of \$15,675,753 and \$9,858,006, respectively, were uninsured, not registered in the name of the College and exposed to custodial credit risk. To mitigate

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

custodial credit risk on investments, the College requires the custodian to report quarterly to the Investment Committee showing securities held, and fund activity.

(d) *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, 2013 and 2012 consist of:

		2013				
		Investment maturities (in years)				
Investment type	Fair value	Less than 1	1 to 5	6 to 10	More than 10	
STAR fund	\$ 1,359,584	1,359,584	—	—	—	
Municipal notes	1,017,378	1,017,378	—	—	—	
Certificates of deposit	3,900,957	3,900,957	—	—	—	
Money market funds	8,182,046	8,182,046	—	—	—	
Bond mutual funds	2,195,931	—	—	2,195,931	—	
	<u>\$ 16,655,896</u>	<u>14,459,965</u>	<u>—</u>	<u>2,195,931</u>	<u>—</u>	

		2012				
		Investment maturities (in years)				
Investment type	Fair value	Less than 1	1 to 5	6 to 10	More than 10	
STAR fund	\$ 1,344,908	1,344,908	—	—	—	
Municipal notes	1,012,970	1,012,970	—	—	—	
Certificates of deposit	3,722,974	3,722,974	—	—	—	
Money market funds	2,722,380	2,722,380	—	—	—	
Bond mutual funds	2,218,032	—	—	2,218,032	—	
	<u>\$ 11,021,264</u>	<u>8,803,232</u>	<u>—</u>	<u>2,218,032</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

Notes to Financial Statements

June 30, 2013 and 2012

(e) **Credit Risk**

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 of the College's investments in debt securities as of June 30:

2013					
Rated debt investments	Fair value	Quality ratings			
		AAA	BB	B	Unrated
STAR fund	\$ 1,359,584	1,359,584	—	—	—
Municipal notes	1,017,378	—	—	—	1,017,378
Certificates of deposit	3,900,957	3,900,957	—	—	—
Money market funds	8,182,046	3,088,034	—	—	5,094,012
Bond mutual funds	2,195,931	—	816,423	1,026,751	352,757
Total	\$ 16,655,896	8,348,575	816,423	1,026,751	6,464,147

2012					
Rated debt investments	Fair value	Quality ratings			
		AAA	BB	B	Unrated
STAR fund	\$ 1,344,908	1,344,908	—	—	—
Municipal notes	1,012,970	—	—	—	1,012,970
Certificates of deposit	3,722,974	3,722,974	—	—	—
Money market funds	2,722,380	2,722,380	—	—	—
Bond mutual funds	2,218,032	—	816,423	1,026,751	374,858
Total	\$ 11,021,264	7,790,262	816,423	1,026,751	1,387,828

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

(f) **Concentration of Credit Risk**

The College had no investments that exceeded 5% of its total investments at June 30, 2013. Investments representing more than 5% of the College's total investments at June 30, 2012 are as follows:

2012			
Issuer	Investment type	Fair value	Percentage of the total
JP Morgan Mortgage	Bond mutual funds	\$ 837,991	6
Ridgworth SEIX float	Bond mutual funds	709,220	5

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(g) Investments of the Foundation

The Foundation's investments consist of the following at December 31 and are summarized as follows:

	Fair value	
	2013	2012
Fixed income securities	\$ 563,325	782,698
Equity securities	1,621,897	1,188,587
Bank certificates of deposit	1,050,194	705,913
	\$ 3,235,416	2,677,198

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$1,132,360 and \$967,412 at June 30, 2013 and 2012, 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.

(4) Accounts and Other Receivables

Accounts receivable include the following at June 30:

	2013	2012
Student accounts receivable	\$ 4,653,008	4,015,571
Grants receivable	362,747	102,124
Other receivables	117,524	127,049
	5,133,279	4,244,744
Less allowance for doubtful accounts	(1,976,791)	(1,895,349)
	\$ 3,156,488	2,349,395

(5) Loans Receivable

Loans receivable include the following at June 30:

	2013	2012
Perkins loans receivable	\$ 426,847	433,681
Nursing loans receivable	16,211	16,132
	443,058	449,813
Less allowance for doubtful accounts	(100,000)	(100,000)
	\$ 343,058	349,813

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(6) Capital Assets

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

2013						
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not being depreciated:						
Construction in progress	—	\$ 2,192,865	177,801	—	(1,838,125)	532,541
Land	—	1,986,303	—	—	—	1,986,303
Total not being depreciated		4,179,168	177,801	—	(1,838,125)	2,518,844
Capital assets being depreciated:						
Building, including improvements	20 – 40	74,283,159	1,003,232	—	1,838,125	77,124,516
Furnishings and equipment	5 – 10	2,750,787	—	(228,744)	—	2,522,043
Total being depreciated		77,033,946	1,003,232	(228,744)	1,838,125	79,646,559
Less accumulated depreciation:						
Building, including improvements		(51,274,701)	(2,773,581)	—	—	(54,048,282)
Furnishings and equipment		(3,504,597)	(145,685)	228,744	—	(3,421,538)
Total accumulated depreciation		(54,779,298)	(2,919,266)	228,744	—	(57,469,820)
Capital assets, net		\$ 26,433,816	(1,738,233)	—	—	24,695,583
2012						
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not being depreciated:						
Construction in progress	—	\$ 559,502	1,912,127	—	(278,764)	2,192,865
Land	—	1,986,303	—	—	—	1,986,303
Total not being depreciated		2,545,805	1,912,127	—	(278,764)	4,179,168
Capital assets being depreciated:						
Building, including improvements	20 – 40	73,487,268	517,127	—	278,764	74,283,159
Furnishings and equipment	5 – 10	2,750,787	—	—	—	2,750,787
Total being depreciated		76,238,055	517,127	—	278,764	77,033,946

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

	2012					
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Less accumulated depreciation:						
Building, including improvements		\$ (48,582,293)	(2,692,408)	—	—	(51,274,701)
Furnishings and equipment		(3,411,791)	(92,806)	—	—	(3,504,597)
Total accumulated depreciation		(51,994,084)	(2,785,214)	—	—	(54,779,298)
Capital assets, net		\$ 26,789,776	(355,960)	—	—	26,433,816

(7) Long-Term Liabilities

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

	2013					
	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:						
Revenue notes payable	\$ 5,614,245	—	(388,883)	5,225,362	413,883	4,811,479
Total notes payable	5,614,245	—	(388,883)	5,225,362	413,883	4,811,479
Liabilities for compensated absences:						
Accrued sick and vacation	5,463,680	415,100	—	5,878,780	3,582,167	2,296,613
Workers' compensation	222,098	71,796	—	293,894	64,657	229,237
Total liabilities	\$ 11,300,023	486,896	(388,883)	11,398,036	4,060,707	7,337,329
	2012					
	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:						
Revenue notes payable	\$ 5,988,129	—	(373,884)	5,614,245	388,884	5,225,361
Total notes payable	5,988,129	—	(373,884)	5,614,245	388,884	5,225,361
Liabilities for compensated absences:						
Accrued sick and vacation	5,070,140	393,540	—	5,463,680	3,219,938	2,243,742
Workers' compensation	177,954	44,144	—	222,098	48,862	173,236
Total liabilities	\$ 11,236,223	437,684	(373,884)	11,300,023	3,657,684	7,642,339

The revenue notes payable are payable semiannually through 2022 in principal repayment amounts between \$340,000 and \$660,000. Interest is payable semiannually (April 2 and October 2) at a predetermined rate that varies between 4.00% and 5.00%. Unamortized issuance costs related to these bonds of \$82,656 and \$91,133, respectively, as of June 30, 2013 and 2012, are included in other noncurrent assets and are being amortized over the 25-year repayment of the notes.

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

The College maintains a debt reserve account with the Massachusetts Development Finance Agency of \$1,359,584 which was funded from the proceeds of the bonds.

Payments on principal and interest on notes payable for the next five years and in subsequent five-year periods are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2014	\$ 420,000	253,750
2015	440,000	232,250
2016	460,000	209,750
2017	485,000	186,125
2018	510,000	161,250
2019 – 2023	<u>2,970,000</u>	<u>386,500</u>
	5,285,000	\$ <u><u>1,429,625</u></u>
Less unamortized discount	<u>(59,638)</u>	
	<u>\$ 5,225,362</u>	

Total interest expense for 2013 and 2012 was \$269,188 and \$288,560, respectively.

The College leases space to provide student, faculty, and staff parking at its Lowell campus. Office space is also leased in Woburn, Cambridge and Chelsea to support career and job placement services.

The following schedule summarizes future minimum payments due under noncancelable operating leases as of June 30, 2013:

	<u>Operating leases</u>
Year ending June 30:	
2014	\$ 756,356
2015	751,397
2016	750,946
2017	179,286
2018	179,286
2019	<u>104,584</u>
	<u>\$ 2,721,855</u>

Rental expense for operating leases was \$734,696 and \$734,245 for the years ended June 30, 2013 and 2012, respectively.

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(8) Grant Refundable

The College participates in the Federal Perkins Loan and Nursing Loan Programs. These programs are funded through a combination of federal and institutional resources. The portion of these programs that has been funded with federal funds is ultimately refundable back to the U.S. government upon the termination of the College's participation in the program.

(9) Restricted Net Assets

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are composed of the following at June 30:

	<u>2013</u>	<u>2012</u>
Restricted – expendable:		
Academic programs	\$ 2,240,166	1,558,239
	<u>\$ 2,240,166</u>	<u>1,558,239</u>

(10) Unrestricted Net Position

The College's unrestricted net position at June 30 are composed of the following:

	<u>2013</u>	<u>2012</u>
Net position designated by the College's Board of Trustees for the following purposes:		
Renovation and Deferred Maintenance Fund:		
Building renovation and modernization	\$ 2,000,000	2,000,000
Energy efficiencies and improvements	3,500,000	2,500,000
Various building roof repairs	250,000	250,000
Parking and roadway repairs	350,000	350,000
Life safety and security improvements	200,000	200,000
Planning, engineering and design cost	150,000	150,000
Total Renovation and Deferred Maintenance Fund	<u>6,450,000</u>	<u>5,450,000</u>
Technology Improvements Fund:		
Computer upgrade and replacement	1,250,000	1,250,000
Academic equipment and software updates	500,000	500,000
Technology infrastructure improvements	500,000	500,000
Total Technology Improvements Fund	<u>2,250,000</u>	<u>2,250,000</u>

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Plant Fund:		
Capital facility study, design and construction	\$ 3,500,000	3,000,000
Total Plant Fund	<u>3,500,000</u>	<u>3,000,000</u>
Stabilization Fund:		
For Academic program continuity	3,071,956	3,032,472
Total Stabilization Fund	<u>3,071,956</u>	<u>3,032,472</u>
	<u>\$ 15,271,956</u>	<u>13,732,472</u>

(11) Contingencies

One lawsuit is pending against the College that arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened, which would materially affect the College's financial position.

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

The College participates in the Massachusetts College Savings Prepaid Tuition Program (the Program). 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 16,000 square feet of office and classroom space from the Lowell Middlesex Charter School (the School), a related party. The lease agreements had an expiration date of June 30, 2013 and were formally renewed on September 24, 2013 by both parties for the period July 1, 2013 through June 30, 2014, the next expiration date. Monthly rental payments for all leases are approximately \$13,417 per month

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

The College spent \$222,379 for leasehold improvements in the leased spaced that have been capitalized as of June 30, 2013.

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(12) Operating Expenses

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

	<u>2013</u>	<u>2012</u>
Compensation and benefits	\$ 49,802,753	48,390,001
Supplies and services	14,413,070	12,686,907
Depreciation and amortization	2,919,266	2,785,214
Scholarships and fellowships	3,585,669	4,238,210
	<u>\$ 70,720,758</u>	<u>68,100,332</u>

(13) State Appropriations

The College's state appropriations are composed of the following for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Direct unrestricted appropriations	\$ 18,252,811	17,935,437
Add fringe benefits for benefited employees on the state payroll	4,400,136	5,555,692
Less day school tuition remitted to the state and included in tuition and fee revenue	(200,910)	(291,333)
Total unrestricted appropriations	<u>\$ 22,452,036</u>	<u>23,199,796</u>
State capital contribution	<u>\$ 165,247</u>	<u>696,785</u>
Total restricted appropriations	<u>\$ 165,247</u>	<u>696,785</u>

(14) Fringe Benefit Programs

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 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.

(a) Retirement Plan

The Commonwealth is statutorily responsible for the pension benefit of College employees who participate in the Massachusetts State Employees' Retirement System (the Retirement System). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all nonstudent employees. The College is charged for contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to \$1,958,345 and \$2,354,279 for the years ended June 30, 2013 and 2012, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 70% and 68% of annual total payroll for the College in 2013 and 2012, respectively.

MIDDLESEX COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(b) Insurance

The College participates in the various programs administered by the Commonwealth for property, general liability, automobile liability, workers' compensation, and health insurance. The Commonwealth is self-insured for employees' workers' compensation, casualty, theft, tort claims, and other losses. Such losses, including estimates of amounts incurred but not reported, are obligations of the Commonwealth. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers healthcare and other insurance for the Commonwealth's employees and retirees. The Commonwealth assesses the state agencies and departments a portion of the cost related to health insurance, and as such Government Accounting Standards Board No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was appropriately implemented at the Commonwealth, not the College.

As of June 30, 2013, the College had paid for all amounts charged to it through the Commonwealth's fringe benefit recovery program.

(c) 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.

(15) Pass-through Grants

The College distributed \$5,271,019 and \$6,220,278 during 2013 and 2012, 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 nor as cash disbursements and cash receipts in the accompanying financial statements.

(16) Subsequent Events

In FY2013, the College continued to work in furtherance of the next phase of approval for the Academic Arts Classroom building project that will be housed in 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 approved the funds in the budget for the project's design and construction. This phase of work will commence in 2013, with construction occurring through 2014 and 2015 and building occupancy planned for fall of 2016.



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit IV

**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***

The Board of Trustees
Middlesex Community College:

We have audited, in accordance with the 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 the business-type activities and the discretely presented component unit of Middlesex Community College (the College) as of and for the year ended June 30, 2013, 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 1, 2013. Our report includes a reference to other auditors who audited the financial statements of the Middlesex Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,



Exhibit IV

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 College'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.

KPMG LLP

November 1, 2013