

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

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

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

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

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Holyoke Community College
Holyoke, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of Holyoke Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2014 and 2013, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Holyoke Community College Foundation, Inc. (the "Foundation") as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for, is 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 opinion.

Opinion

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of Holyoke Community College as of June 30, 2014 and 2013, and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-17 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of Holyoke Community 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 Holyoke Community College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 8, 2014

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The following discussion and analysis provides management's view of the financial position of Holyoke Community College (the College) as of June 30, 2014, 2013, and 2012, and the results of operations for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereto which are also presented in this document.

The College is a public institution of higher education serving approximately 7,650 students, with 126 faculty and 271 staff, as well as part-time employees. The campus is located in Holyoke, Massachusetts. The College offers more than 80 programs of study leading to an associate's degree, certificate programs and noncredit programs.

Financial Highlights

- At June 30, 2014, the College's assets of \$59,585,089 exceeded its liabilities of \$19,124,059 by \$40,461,030. At June 30, 2013, the College's assets of \$58,680,005 exceeded its liabilities of \$18,917,288 by \$39,762,717. At June 30, 2012, the College's assets of \$52,251,596 exceeded its liabilities of \$12,415,603 by \$39,835,993. These resulting net assets are summarized into the following categories:

	2014	2013	2012
Invested in capital assets, net of related debt	\$ 28,315,305	29,064,500	30,074,228
Restricted, expendable	111,439	93,993	752,050
Unrestricted	12,034,286	10,604,224	9,009,715
Total net assets	\$ 40,461,030	39,762,717	39,835,993

- The College's Trustees may use the unrestricted net assets to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net assets may also be expended, but only for the purposes for which the donor or grantor intended.
- The College's Trustees have designated certain unrestricted net assets for a number of purposes including: capital expansion funds; capital adaptation and renewal funds; new program funds; and long-term investment funds.

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- The College's total net assets increased by \$698,313 in 2014 as compared to an decrease of \$73,276 in 2013 and an increase of \$583,897 in 2012. The 2014 increase is a result of \$1,759,142 investment income, capital appropriation of \$299,957, offset by operating deficits net of non-operating revenue totaling \$1,360,786. The FY 2013 decrease was due to various offsetting factors that resulted in a small net decrease in net assets. In FY 2013 a 3% or \$4 increase in tuition and fees was partially offset by a 0.2% decline in credit enrollments. Higher interest expense and bond financing cost in conjunction also contributed to the decrease. The FY 2012 increase was due to an increase in tuition and fees, the result of a 6% or \$8 per credit hour fee increase partially offset by 2.4% decrease in credit hours. Also, an additional \$1.3 million in state funded projects were completed in FY12. More information can be found in the capital assets discussion in this report and footnote 5 on page 34.

Overview of the Financial Statements

The College's financial statements comprise 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.

In May 2002, GASB issued Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB 14)*. GASB 39 establishes new criteria for evaluating the need to include component units of the College. The College adopted GASB 39 as of July 1, 2003.

The Holyoke Community College Foundation (Foundation) is a legally separate tax-exempt component unit of Holyoke 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. The board of directors of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Since the 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 is required to focus on the College, not its component unit.

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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 presents 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 assets 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 presents information showing how the College's net assets changed during the most recent fiscal year. All changes in net assets 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 others for services rendered).

The Statements of Cash Flows is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services). The Government Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used. In accordance with GASB 39, the Foundation is not required to present the *Statements of Cash Flows*.

The financial statements can be found on pages 18-21 of this report.

Holyoke Community College reports its activity as a business-type activity using the full accrual measurement focus and basis of accounting. The College is a component unit of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

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 22-42 of this report.

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Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. The College's assets exceeded liabilities by \$40,461,030, \$39,762,717, and \$39,835,993, at the close of FY14, FY13, and FY12, respectively.

Net Position	June 30		
	2014	2013	2012
	(In thousands)		
Current assets	\$ 14,807	13,227	8,686
Noncurrent assets	44,778	45,453	43,566
Total assets	\$ 59,585	58,680	52,252
Current liabilities	\$ 8,128	7,477	7,477
Noncurrent liabilities	10,996	11,440	4,939
Total liabilities	\$ 19,124	18,917	12,416
Net assets:			
Invested in capital assets	\$ 28,315	29,065	30,074
Restricted, expendable	111	94	752
Unrestricted	12,035	10,604	9,010
Total net assets	\$ 40,461	39,763	39,836

The largest portion of the College's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are outstanding. In FY14, investment in capital assets totaled \$28,315,305 or 70.0% of total net assets. The College uses these capital assets to provide services to students, faculty, administration, and the community. 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.

The restricted portion of the College's net assets represents resources that are subject to external restrictions on how they must be used. In FY14, restricted net assets totaled \$111,439 or 0.3% of total net assets.

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Unrestricted net assets may be used to meet the College's ongoing obligations to its stakeholders. In FY14, unrestricted net assets totaled \$12,034,286 or 29.7% of total net assets. The College's Trustees have determined that these funds be designated for long-term investment, capital expansion, plant adaptation and renewal and other uses (see note 8 on page 38 of this report).

The College's net assets increased by \$698,313 in fiscal 2014, decreased by \$73,276 in fiscal year 2013, and increased by \$583,897 in 2012, respectively. The schedule below provides a summary of changes in net assets.

Changes in Net Position	Year ended June 30		
	2014	2013	2012
	(In thousands)		
Operating revenues:			
Tuition and fees, net of tuition waivers, and remissions	\$ 16,215	17,045	15,917
Other operating sources	22,339	22,344	22,311
Total operating revenues	38,554	39,389	38,228
Operating expenses	62,435	61,475	60,312
Net operating loss	(23,881)	(22,086)	(22,084)
Nonoperating revenues (expenses):			
State appropriation	22,829	20,608	21,308
Other nonoperating income (expenses)	1,451	1,044	32
Total nonoperating revenues	24,280	21,652	21,340
Income (loss) before other revenues, expenses, gains, or losses	399	(434)	(744)
Capital revenues (expenses):			
State capital appropriations	299	361	1,328
Net capital revenues	299	361	1,328
Increase (decrease) in net assets	698	(73)	584
Net assets:			
Beginning of year	39,763	39,836	39,252
End of year	\$ 40,461	39,763	39,836

HOLYOKE COMMUNITY COLLEGE

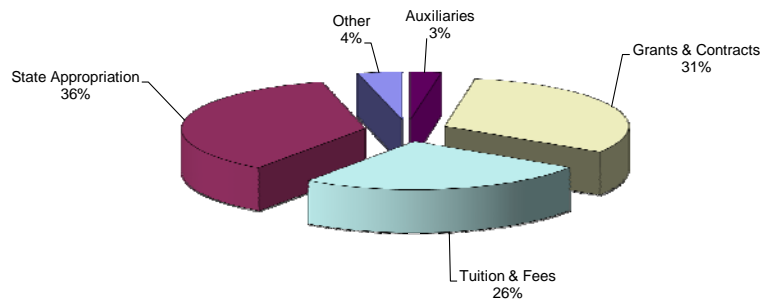
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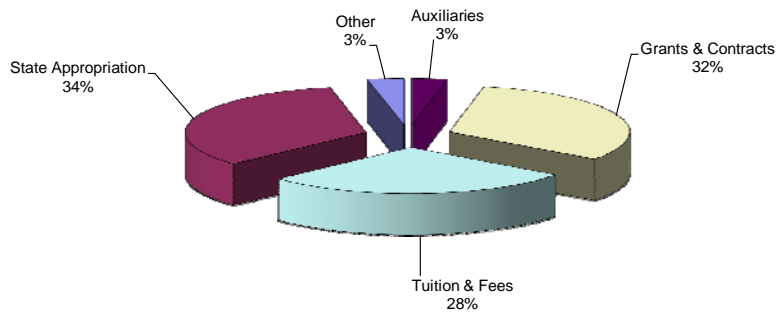
June 30, 2014 and 2013

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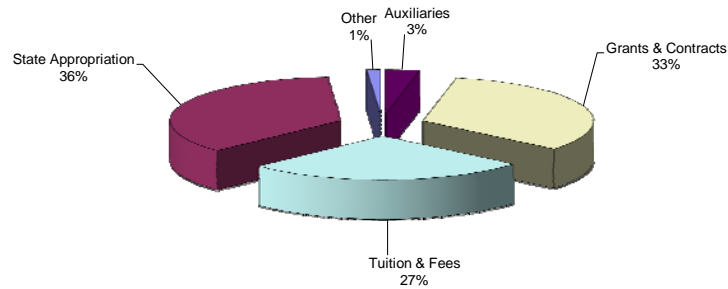
Sources of Revenue - FY14



Sources of Revenue - FY13



Sources of Revenue - FY12



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Revenue from all sources (excluding capital appropriations) totaled \$63,142,099 and \$61,271,728, and \$59,717,094 in FY14, FY13, and FY12, respectively.

Highlights of revenue include:

- State appropriations, which include the cost of fringe benefits (excluding capital appropriations), totaled \$22,829,133, \$20,607,977 and \$21,284,953 in FY14, FY13 and FY12, respectively, and amount to 36%, 34%, and 36% of all revenue. State appropriations increased in FY14 due to a new state funding formula, inclusion of impact bargaining increase, and an agreement to have student fees consistent with FY13. Appropriation funding decreased in FY13 due to a decrease in the fringe benefit rate from 33% to 26%. State appropriation funding increased in FY12 due to an increase in the fringe benefit rate and an increase in the state appropriation to ensure level funding from FY11 to FY12
- The category tuition and fees represents the largest portion of our unrestricted revenue and totaled \$23,143,670, \$24,206,288, and \$23,025,041 in FY14, FY13, and FY12, respectively. Of this amount, \$6,928,830, \$7,161,583 and \$7,107,932 are tuition and fees paid by various financial aid programs including local funds designated by the College. In Fiscal 2014 fees remained consistent in exchange for an increase in the state appropriation. Per credit fees remained the same as FY13; the college realized less in revenue due to a 5.4% decline in enrollment. Fees were increased 3% in fiscal 2013 and full-time equivalent enrollment declined slightly (0.2%) from the prior year. The College instituted a 6% increase in fees in fiscal 2012 and experienced a decrease of 2% in overall enrollment resulting in a net increase in tuition and fee revenue. Declining enrollment is anticipated for the coming year and tuition and fee revenue is expected to be slightly lower or unchanged compared to fiscal 2014.
- The category Grants and Contracts totaled \$19,714,412, \$19,553,777 and \$19,570,874 in FY14, FY13, and FY12, respectively, of which \$16,055,761, \$15,490,070, and \$15,292,160, was state and federal student financial aid. Grants and contracts for college programs increased in FY14 by \$60,635, and decreased in FY13 by \$17,097.
- Auxiliary enterprises revenue is comprised principally of College bookstore operation, and is reported net of sales that are paid by financial aid. Auxiliary revenue totaled \$3,744,995, \$4,053,844, and \$3,848,060 in FY14, FY13, and FY12, respectively. Included in this amount are \$2,080,396, \$2,169,391 and \$1,967,914 in sales paid by financial aid. Sales declined \$308,849 from the prior year due to enrollment decline and the continued market share increases by online retailers offering lower costs options.

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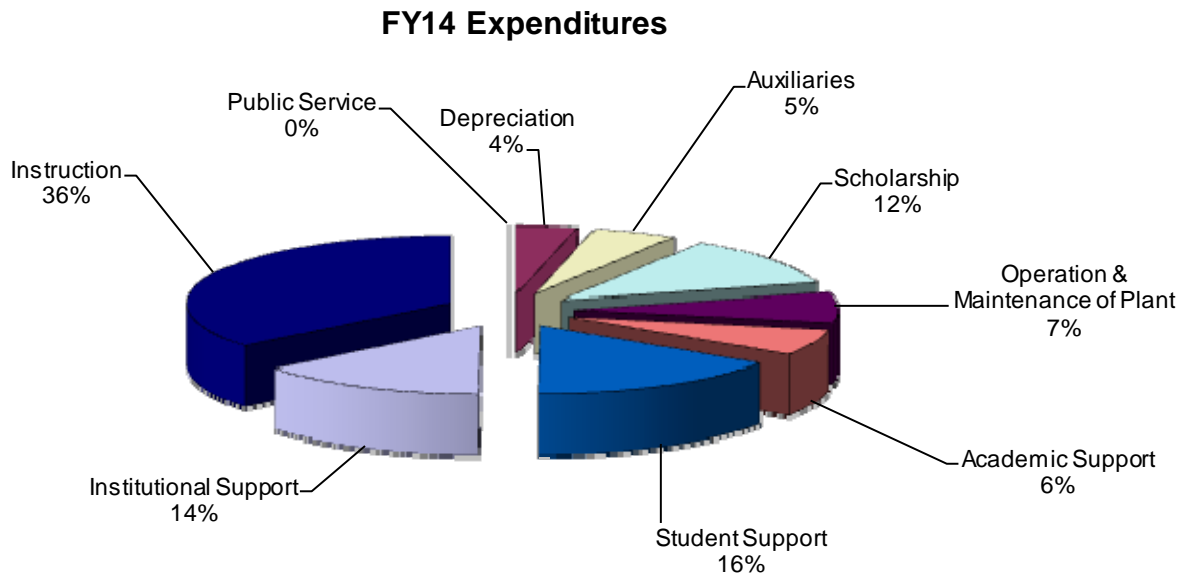
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- Other sources of revenues in this discussion include the Other Sources reported under Operating Revenues, State appropriations, and Net Investment gains (losses) reported under Non-operating revenues (expenses) in the Statement of Revenues, Expenses and Changes in Net Position.
- In FY14, income categorized above as other sources increased \$2,698,120 principally due to \$2,159,821 in higher state appropriations and higher investment income of \$484,188. Other sources of income increased \$1,265,043 in FY13 over FY12 principally due to a \$1.1 million increase in net investment income.



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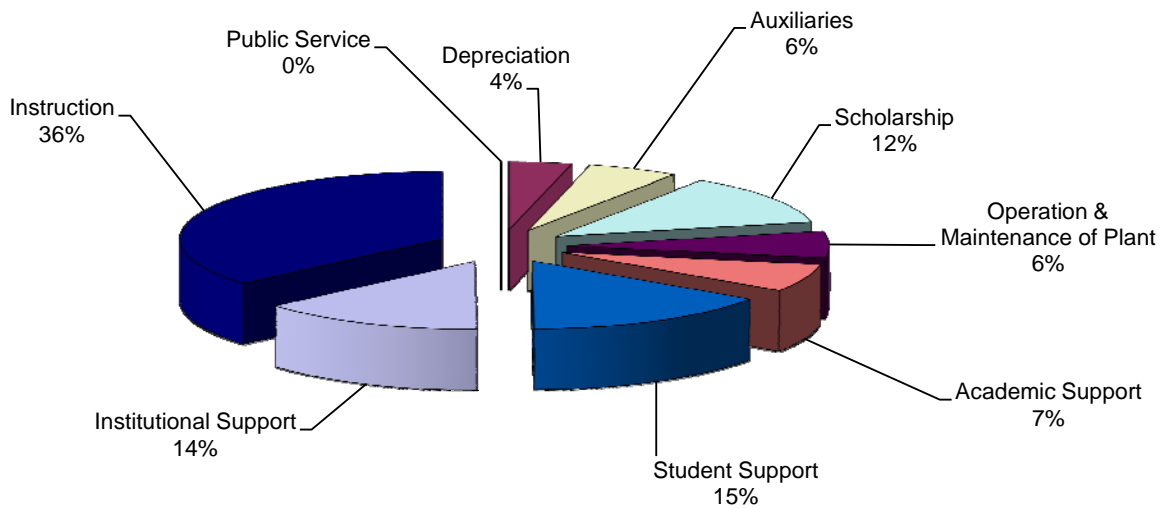
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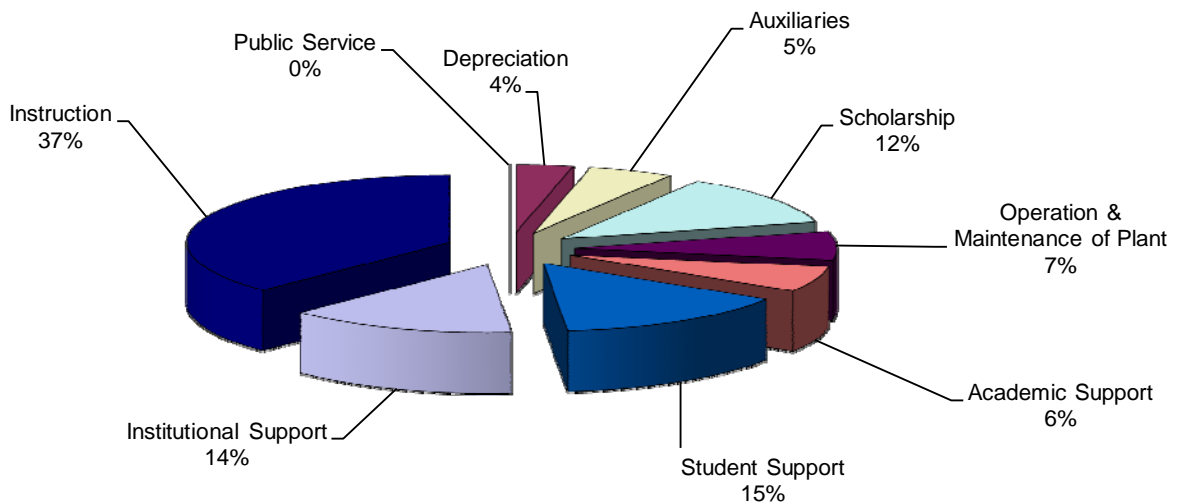
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FY13 Expenditures



FY12 Expenditures



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Expenditures from all sources totaled \$62,435,477, \$61,474,865, and \$60,310,792 in FY14, FY13, and FY12, respectively.

Highlights of expenditures include:

- **Instruction** costs increased slightly by \$7,306 (0.0%) in FY14 and decreased by \$234,836 (1.0%) in FY13 due to a lower state funded fringe benefit rate and open faculty positions.
- **Academic support** decreased by \$157,437 (3.9%) in FY14 primarily due to open positions.
- **Student services** increased \$397,864 (4.2%) in FY14 due to increased student payroll and higher staff payroll.
- **Scholarships** (payments directly to students) increased by \$34,688 (0.5%) in FY14 and by \$46,721 (0.6%) in FY13 and have remained level with prior year reflecting slightly higher awards offsetting higher tuition charges.
- **Operation and maintenance of plant** increased in FY14 by \$456,817 (11.5%) due to higher energy and rental costs, increased maintenance of physical plant, and increased payroll expense.
- **Institutional support** increased by \$485,596 (5.7%) in FY14 due to increasing the College's provision for allowances on bad debt and the result of a judgment on a lawsuit.
- **Auxiliary** declined by \$221,453 (6.5%) principally due to lower volume that resulted from loss of market share to online retailers.

Expenditure classifications are defined below:

- **Instruction**—costs directly related to the classroom, i.e., faculty salaries, instructional supplies, and equipment.
- **Academic support**—academic computing, library, academic administration.
- **Student services**—Admissions, Registrar, and Financial Aid offices, as well as counseling, tutoring, interpreters and athletics.
- **Scholarships**—all student aid including federal, state, and private grants, i.e., Pell, S.E.O.G., Mass State Cash Grants and Mass State Scholarship which was not used to pay tuition and fees.

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- **Public services**—includes funds expended for activities established primarily to provide non-instructional service programs to individuals and groups external to the institution.
- **Operation and maintenance of plant**—all costs of operating and direct maintenance of the physical plant and grounds.
- **Institutional support**—President's office, business operations, development office, and all other administrative functions including campus police.
- **Auxiliary**—Bookstore. Because dining services is operated by a private contractor, any expenses related to this activity are categorized under Institutional Support.

Non-operating Revenues and Expenses

For non-operating revenues and expenses, the Commonwealth's unrestricted appropriation increased 11.3% or \$2,282,765 in FY14, in FY13 it decreased by 3.7% or \$786,319, and increased by 3.1% or \$634,425 in FY12. The unrestricted state appropriation is the primary funding provided by the Commonwealth to support the operation of the College. The increase in FY14 is due to additional funding formula appropriation, funding for the MCCC and AFSCME increases. These increases occurred because the college agreed not to increase per credit fees.

Investment gains were \$1,759,142, \$1,274,954, and \$181,979 in FY14, FY13 and FY12, respectively.

Loss from Operations

Due to the nature of public higher education, institutions incur a loss from operations. The Commonwealth's Board of Higher Education sets tuition. The College sets fees and other charges. Commonwealth appropriations to the College make up the loss from operations not covered by tuition and fees. The College, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to adequately manage the operation of the institution taking into consideration such issues as physical plant maintenance, delivery of instruction and student services, long range plans, and enrollment growth.

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The following schedule presents the College's incurred losses from operations for the fiscal years ended June 30, 2014, 2013, and 2012:

	Year ended June 30		
	2014	2013	2012
Tuition and fee revenue	\$ 16,214,840	17,044,705	15,917,109
Other revenue	22,338,984	22,344,092	22,310,479
Operational expenses	<u>(62,435,477)</u>	<u>(61,474,865)</u>	<u>(60,310,792)</u>
Operating loss	(23,881,653)	(22,086,068)	(22,083,204)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth	22,829,133	20,607,977	21,307,527
Other nonoperating revenues, net	<u>1,450,876</u>	<u>1,043,523</u>	<u>31,979</u>
Net change before capital appropriations	<u>\$ 398,356</u>	<u>(434,568)</u>	<u>(743,698)</u>

Capital Assets and Debts of the College

Capital Assets

The College's investment in capital assets as of June 30, 2014, 2013, and 2012 amounts to \$33,171,105, \$34,378,693, and \$33,674,228 respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), furnishings, and equipment (including the cost of capital leases). Capital assets decreased \$1,207,588 or 3.5% in FY14, increased by 2.1% or \$704,465 in FY13. The decrease is due to depreciation exceeding capital improvements in FY14. The College will invest an additional \$5,000,000 in the coming year to renovate and furnish the newly acquired property to house The Center for Health Education at 404 Jarvis Avenue. as well as upgrading labs and facilities at the main campus.

In FY13, the College acquired a property for \$1,925,000 that will become The Center for Health Education at Holyoke Community College. In the prior year the College invested a half million dollars to upgrade its network infrastructure in support of instructional labs and student administrative services.

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In FY12, the College invested \$3,272,563 in major capital expenditures. This amount included the FY12 construction of the following projects that began in FY11: the offices of Development, Health Services, Student Activities and the Advising Center, as well as the cooling tower, library light fixtures, and security cameras. Projects that were started and completed during FY12 are the following: upgrade of the information technology infrastructure, installation of boiler control system, renovation of the culinary arts program lab, purchase of nursing lab simulation equipment, and the purchase of a pot washer for the campus center. Other projects included the access road, campus lighting, continuation of signage upgrade, installation of a renewable energy lab, parking lot addition, waterproofing of the campus buildings, and acquisition activities for a building which will be the location for the Nursing and Radiology programs, as well as the headquarters of Campus Police Department.

All capital asset purchases are budgeted in the College's annual spending plan, which is approved by the board of trustees. A capital spending plan is also submitted to the Board of Higher Education. Additional information about the College's capital assets can be found in note 5 on page 34 of the Notes to the Financial Statements.

Long-Term Liabilities

In preparation for the acquisition and renovation of the new Center for Health Education, the College borrowed \$10.3 million in October 2012 through the Massachusetts Development Finance Agency (MDFA). The bonds will be paid over a twenty-year period.

The College retired in FY13 the 2003 Series Bond balance of \$3,600,000 with the proceeds from the 2012 MDFA Revenue Bonds. The College carries long-term debt balances of \$9,785,000 for the 2012 series MDFA Revenue Bond, and \$2,419,649 for compensated absences and workers compensation. The accrual for compensated absences consists of the long-term portion of sick and vacation pay relating to employees on the College's payroll. See note 6 on page 35 of the Notes to the Financial Statements for more information on long-term liabilities.

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Economic Factors and Next Year's Tuition and Student Fee Rates

The Governor and Legislature continue to strive to support public higher education in Massachusetts by increasing funding to the College in FY14 by 11.3% and maintaining level funding in FY13 and FY12. The College did not increase tuition and fees for FY14. This was made possible by Performance Incentive funding provided by the Commonwealth. Tuition and Fees were increased 7% or \$11 per credit hour for fiscal year 2015 in order to maintain a breakeven budget. The College continues to be conservative in hiring only personnel essential for student services (i.e., faculty and technology support), purchase only necessary supplies and identify other costs savings. The college continues to investigate new ways to meet capital funding demand. The Board of Trustees has approved a \$1,000,000 transfer from college reserves to set up a Capital Project Revolving Fund to be used for capital projects. Funding utilized from the revolving fund will be repaid over a 10-year period. Funds repaid to the revolving fund may be utilized for additional capital projects. The Board and administration are confident that with these initiatives, we can minimize fee increases and retain the high standard of education with affordable access for our constituencies.

The College will use operating funds and proceeds from bond financing to invest in capital projects that enhance student services and learning. The Center for Health Education and the Center for Life Sciences are the most significant improvements planned for FY 2015.

The College opened The Picknelly Adult and Family Education Center in fiscal year 2011. This jointly funded effort between private (Peter Pan Bus and Pioneer Valley Transit Authority) and public (federal grants) agencies/businesses to create a presence in downtown Holyoke to expand access to Adult Basic Education and credit classes at a site where the College has partnered with HALO, Head Start and other service agencies to augment learning tools. This site also shares space with the regional bus company to enhance public access. The Board believes this is a large step forward to accomplish the College's mission of affordable access to continuing education. With the partnerships that are in place and revenue created by the non-credit and credit offerings, this location's operations are expected to be largely self-sustaining.

The College increased tuition and fees by \$11 per credit hour to \$152 per credit for fiscal 2015 having maintained them unchanged for the previous two years. For the fall 2012 semester, fee charges increased by \$4 to \$141 per credit. The College will continue to strive to make educational opportunities affordable to all who seek them while simultaneously working to raise sufficient revenues to support the mission of the institution.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

(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 Vice President for Administration and Finance, Holyoke Community College, 303 Homestead Avenue, Holyoke, Massachusetts 01040

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

Statements of Net Position

June 30,

	<u>Assets</u>			
	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2014 College</u>	2013 College	<u>2014 Foundation</u>	2013 Foundation
Assets:				
Current Assets:				
Cash and equivalents	\$ 3,238,567	\$ 1,720,550	\$ 62,799	\$ 73,105
Cash held by State Treasurer	1,640,731	1,675,898	-	-
Cash held by DCAMM	4,929,200	465,000	-	-
Restricted cash and equivalents	-	4,520,807	-	-
Short-term investments	44,385	80,616	-	-
Accounts receivable, net	4,334,169	4,222,542	195,871	101,390
Due from Foundation	110,190	162,552	-	-
Inventory and other current assets	<u>509,736</u>	<u>378,763</u>	<u>2,007</u>	<u>1,955</u>
Total Current Assets	<u>14,806,978</u>	<u>13,226,728</u>	<u>260,677</u>	<u>176,450</u>
Non-Current Assets:				
Long-term investments	11,607,006	11,074,584	12,197,234	9,508,784
Pledges receivable	-	-	125,457	49,813
Capital assets, net of accumulated depreciation	<u>33,171,105</u>	<u>34,378,693</u>	<u>458,741</u>	<u>452,535</u>
Total Non-Current Assets	<u>44,778,111</u>	<u>45,453,277</u>	<u>12,781,432</u>	<u>10,011,132</u>
Total Assets	<u>\$ 59,585,089</u>	<u>\$ 58,680,005</u>	<u>\$ 13,042,109</u>	<u>\$ 10,187,582</u>
	<u>Liabilities and Net Position</u>			
Liabilities:				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 921,042	\$ 607,942	\$ 5,443	\$ 9,388
Accrued payroll	2,730,971	2,819,960	-	-
Compensated absences	2,419,649	2,330,593	-	-
Accrued interest payable	51,345	54,048	-	-
Student deposits and unearned revenues	1,421,951	1,110,718	-	-
Due to College	-	-	110,190	162,552
Funds held for others	68,440	39,291	-	-
Current portion of bonds payable	<u>515,000</u>	<u>515,000</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>8,128,398</u>	<u>7,477,552</u>	<u>115,633</u>	<u>171,940</u>
Non-Current Liabilities:				
Compensated absences	1,725,661	1,654,736	-	-
Long-term portion of bonds payable	<u>9,270,000</u>	<u>9,785,000</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>10,995,661</u>	<u>11,439,736</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>19,124,059</u>	<u>18,917,288</u>	<u>115,633</u>	<u>171,940</u>
Net Position:				
Net investment in capital assets	28,315,305	29,064,500	458,741	452,535
Restricted:				
Nonexpendable	-	-	4,840,186	4,580,868
Expendable	111,439	93,993	5,446,888	3,310,186
Unrestricted	<u>12,034,286</u>	<u>10,604,224</u>	<u>2,180,661</u>	<u>1,672,053</u>
Total Net Position	<u>40,461,030</u>	<u>39,762,717</u>	<u>12,926,476</u>	<u>10,015,642</u>
Total Liabilities and Net Position	<u>\$ 59,585,089</u>	<u>\$ 58,680,005</u>	<u>\$ 13,042,109</u>	<u>\$ 10,187,582</u>

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2014 College</u>	2013 <u>College</u>	<u>2014 Foundation</u>	2013 <u>Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 23,143,670	\$ 24,206,288	\$ -	\$ -
Less: scholarship allowances	<u>(6,928,830)</u>	<u>(7,161,583)</u>	<u>-</u>	<u>-</u>
Net student fees	16,214,840	17,044,705	-	-
Federal, state, local and private grants and contracts	19,714,412	19,553,777	16,879	21,171
Auxiliary enterprises, net	1,664,599	1,884,453	-	-
Other operating revenues	<u>959,973</u>	<u>905,862</u>	<u>56,635</u>	<u>44,412</u>
Total Operating Revenues	<u>38,553,824</u>	<u>39,388,797</u>	<u>73,514</u>	<u>65,583</u>
Operating Expenses:				
Instruction	22,355,097	22,347,791	-	-
Academic support	3,909,371	4,066,808	-	-
Student services	9,853,690	9,455,826	-	-
Scholarships	7,477,668	7,442,980	636,672	790,587
Operation and maintenance of plant	4,351,043	3,894,226	-	1,455
Institutional support	8,959,063	8,473,467	243,037	202,171
Depreciation and amortization	2,319,368	2,362,137	-	-
Auxiliary enterprises	<u>3,210,177</u>	<u>3,431,630</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>62,435,477</u>	<u>61,474,865</u>	<u>879,709</u>	<u>994,213</u>
Net Operating Loss	<u>(23,881,653)</u>	<u>(22,086,068)</u>	<u>(806,195)</u>	<u>(928,630)</u>
Non-Operating Revenues (Expenses):				
State appropriations - unrestricted	22,482,919	20,200,154	-	-
State appropriations - restricted	346,214	407,823	-	-
Net investment income	1,759,142	1,274,954	1,815,900	987,243
Interest expense	(308,266)	(231,431)	-	-
Gifts and contributions	<u>-</u>	<u>-</u>	<u>1,901,129</u>	<u>995,768</u>
Net Non-Operating Revenues	<u>24,280,009</u>	<u>21,651,500</u>	<u>3,717,029</u>	<u>1,983,011</u>
Income (Loss) Before Capital Appropriations	398,356	(434,568)	2,910,834	1,054,381
Capital appropriations	<u>299,957</u>	<u>361,292</u>	<u>-</u>	<u>-</u>
Total Change in Net Position	698,313	(73,276)	2,910,834	1,054,381
Net Position:				
Beginning of Year	<u>39,762,717</u>	<u>39,835,993</u>	<u>10,015,642</u>	<u>8,961,261</u>
End of Year	<u>\$ 40,461,030</u>	<u>\$ 39,762,717</u>	<u>\$ 12,926,476</u>	<u>\$ 10,015,642</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

	<u>2014</u> <u>College</u>	<u>2013</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 16,661,614	\$ 16,193,750
Grants and contracts	19,519,606	19,414,684
Payments to suppliers	(11,233,033)	(10,962,420)
Payments to employees	(36,585,459)	(35,962,646)
Payments to students	(7,477,668)	(7,442,980)
Other cash receipts	<u>2,624,572</u>	<u>2,774,455</u>
Net Cash Applied to Operating Activities	<u>(16,490,368)</u>	<u>(15,985,157)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	18,982,507	16,970,482
Tuition remitted to the State	<u>(691,055)</u>	<u>(651,743)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>18,291,452</u>	<u>16,318,739</u>
Cash Flows from Capital and Related Financing Activities:		
Direct capital appropriations	5,500	6,250
Proceeds from sale of capital bonds	-	10,300,000
Purchases of capital assets	(817,323)	(2,711,560)
Principal paid on debt	(515,000)	(3,600,000)
Interest on debt	<u>(310,969)</u>	<u>(213,383)</u>
Net Cash Provided by (Applied to) Capital and Related Financing Activities	<u>(1,637,792)</u>	<u>3,781,307</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	1,350,000	940,768
Purchases of investments	(290,547)	(1,078,454)
Interest on investments	<u>203,498</u>	<u>209,961</u>
Net Cash Provided by Investing Activities	<u>1,262,951</u>	<u>72,275</u>
Net Increase in Cash and Equivalents	1,426,243	4,187,164
Cash and Equivalents, Beginning of Year	<u>8,382,255</u>	<u>4,195,091</u>
Cash and Equivalents, End of Year	<u>\$ 9,808,498</u>	<u>\$ 8,382,255</u>

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>2014</u> <u>College</u>	<u>2013</u> <u>College</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (23,881,653)	\$ (22,086,068)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	2,319,368	2,362,137
Fringe benefits provided by the State	4,537,681	4,289,238
Bad debts	318,123	270,595
Changes in assets and liabilities:		
Accounts receivable	(429,750)	(706,772)
Due from Foundation	52,362	1,685
Inventory and other current assets	(130,973)	100,391
Accounts payable and accrued liabilities	313,099	155,234
Accrued employee compensation and benefits	70,993	199,819
Funds held for others	29,149	(15,860)
Students' deposits and unearned revenues	<u>311,233</u>	<u>(555,556)</u>
Net Cash Applied to Operating Activities	<u>\$ (16,490,368)</u>	<u>\$ (15,985,157)</u>
Reconciliation Cash and Equivalents to Statement of Net Position, End of Year:		
Cash and equivalents	\$ 3,238,567	\$ 1,720,550
Cash held by State Treasurer	1,640,731	1,675,898
Cash held by DCAMM	4,929,200	465,000
Restricted cash and equivalents	<u>-</u>	<u>4,520,807</u>
	<u>\$ 9,808,498</u>	<u>\$ 8,382,255</u>
Non-Cash Transactions:		
Fringe benefits provided by the State	<u>\$ 4,537,681</u>	<u>\$ 4,289,238</u>
Capital appropriation	<u>\$ 294,457</u>	<u>\$ 355,042</u>

See accompanying notes to the financial statements.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2014 and 2013

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

Organization

Holyoke Community College (the “College”) is a state-supported comprehensive community college that offers a quality education leading to associate degrees in arts and sciences, as well as one-year certificate programs. From its main campus located in Holyoke, Massachusetts, along with other sites, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies and business fields of study. The College also offers evening, weekend and web-based credit and noncredit courses, as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with the United States of America 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 policies for defining operating activities in the statements of revenues, expenses, and changes in net position 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. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth of Massachusetts, net investment income/(loss), gifts, and interest expense.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Basis of Presentation - Continued

Holyoke Community College Foundation, Inc. (the "Foundation") is a legally separate tax-exempt entity. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are 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.

In reliance on the guidance issued by the Massachusetts Department of Higher Education, the College and its discretely presented component unit have classified the prior matching contributions from the Commonwealth of Massachusetts to the Endowment Incentive Program, as well as the underlying gift from the donor, in accordance with either the donor's original intent or this previously issued guidance. Accordingly, these amounts may be classified as restricted nonexpendable, restricted expendable, or unrestricted.

A complete copy of the financial statements for the Foundation can be obtained from Holyoke Community College Foundation, 303 Homestead Avenue, Holyoke, MA 01040.

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 such 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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Net Position - Continued

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

Trust Funds

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

Cash and Equivalents

The College has defined cash and equivalents to include cash on hand, demand deposits, and cash and deposits held by state agencies on behalf of the College.

Cash held by DCAMM

Cash is held by the Massachusetts Division of Capital Asset Management and Maintenance for specific projects.

Restricted Cash and Equivalents

Restricted cash consists of bond proceeds held in escrow to be used for specific projects as defined in the bond agreement.

Investments

Investments in marketable securities are stated at fair value.

Dividends, interest and net gains or losses on investments of endowments and similar funds are reported in the statement of revenues, expenses and changes in net position. Any net earnings not expended are included in net position categories as follows:

- (i) as increases in restricted – nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- (ii) as increases in restricted – expendable net position if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The College has relied upon the Massachusetts Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as restricted – expendable; and
- (iii) as increases in unrestricted net position in all other cases.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Inventories and Other Current Assets

Inventories consisting of books, publications, and supplies are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. At June 30, 2014 and 2013 the College had inventory of \$425,567 and \$310,421, respectively. Other current assets consist of prepaid expenses.

Allowance for Doubtful Accounts

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

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 state's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Library materials are generally capitalized and amortized over a five-year period. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Fringe Benefits

The College participates in the State's retirement plan and programs for fringe benefits and others, including health insurance, unemployment and pension. Health insurance, unemployment, and pension costs are billed through a fringe benefit rate charged to the College.

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, 2014 and 2013. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2014 and 2013. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Workers' Compensation

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

Student Deposits and Unearned Revenue

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

Student Tuition and 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 operating expenses.

Tax Status

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

Use of Estimates

The preparation of financial statements in conformity with United States of America 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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

New Governmental Accounting Pronouncements

GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon its financial reporting, but does not expect any material impact.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB 68* is required for periods beginning after June 15, 2014. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon their financial reporting.

Reclassification

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - **Cash and Investments**

Overall Deposits and Investments Description

Deposits and investments consist of the following at June 30:

Deposits and investments	2014	2013
Cash on deposit	\$ 3,206,015	\$ 6,121,444
Money market funds	32,552	119,913
Total deposits	3,238,567	6,241,357
Debt securities	4,053,167	4,329,872
Equity investments	7,598,224	6,825,328
Total investments	11,651,391	11,155,200
Total deposits and investments	\$ 14,889,958	\$ 17,396,557

Concentration of Credit Risk

The College places no limit on the amount the College may invest in any one issuer. The following investments represent more than 5 percent of the College's investments as of June 30:

	2014	2013
Common Fund:		
Multi-Strategy Bond Fund	32.1%	21.5%
Multi-Strategy Equity Fund	26.6%	16.6%
Core Equity Fund	30.0%	15.6%
Eaton Vance:		
Equities	7.3%	5.1%

As a means of limiting the College's exposure to interest rate risk, the College diversifies its investments by security type and limits holdings in any one type of investment with any one issuer. The College coordinates its investment maturities to closely match cash flow needs.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. Some banking institutions that hold the College's funds, obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured limits. As of June 30, 2014 and 2013, none of the College's bank balances of \$3,038,931 and \$6,026,858, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, the Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the state legislature or derived from federal allocations. The principal objectives of the investment policy are: (1) preservation of capital and safety of principal, (2) minimizing price volatility, (3) liquidity, (4) return on investment, and (5) diversification. The Board of Trustees will support the investment 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 delegates to the President or his designee the authority to determine the exact dollar amounts to be invested within those established limits and guidelines.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Credit Risk of Debt Securities

June 30, 2014						
Debt investments	Fair value	Quality ratings				
		AAA	AA/AA-	A/A-	BBB-+&-	Unrated
U.S. Treasury Notes and Government securities 0.5% to 2.875%	\$ 163,593	\$ 163,593	\$ -	\$ -	\$ -	\$ -
Corporate Debt securities 2.25% to 6.75%	83,923	-	5,114	42,419	36,390	-
Fixed Income Mutual Funds	45,005	-	-	-	-	45,005
Foreign Assets - Corporate	16,085	-	5,144	5,786	5,155	-
Common Fund:						
Multi -Strategy Bond Fund	3,744,561	-	-	3,744,561	-	-
Total	<u>\$ 4,053,167</u>	<u>\$ 163,593</u>	<u>\$ 10,258</u>	<u>\$ 3,792,766</u>	<u>\$ 41,545</u>	<u>\$ 45,005</u>
June 30, 2013						
Debt investments	Fair value	Quality ratings				
		AAA	AA/AA-	A/A-	BBB-+&-	Unrated
U.S. Treasury Notes and Government securities 0.5% to 2.875%	\$ 313,183	\$ 313,183	\$ -	\$ -	\$ -	\$ -
Corporate Debt securities 2.25% to 6.75%	85,000	-	5,124	48,291	31,585	-
Fixed Income Mutual Funds	67,529	-	-	-	-	67,529
Foreign Assets - Corporate	16,095	-	5,163	-	10,932	-
Common Fund:						
Multi -Strategy Bond Fund	3,848,065	-	-	3,848,065	-	-
Total	<u>\$ 4,329,872</u>	<u>\$ 313,183</u>	<u>\$ 10,287</u>	<u>\$ 3,896,356</u>	<u>\$ 42,517</u>	<u>\$ 67,529</u>

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Maturities of Debt Securities

Investment type	June 30, 2014			
	Fair value	Investment maturities (in years)		
		Less than 1	1 to 5	6 to 10
Debt securities:				
U.S. Treasury Notes and Government Securities .5% to 2.875%	\$ 163,593	\$ 44,386	\$ 119,207	\$ -
Corporate Debt Securities 2.25% to 6.75%	83,923	-	83,923	-
Fixed Income Mutual Funds	45,005	-	-	45,005
Foreign Assets:				
Corporate Obligations	16,085	-	16,085	-
Common Fund:				
Multi-Strategy Bond Fund	3,744,561	-	-	3,744,561
	<u>4,053,167</u>	<u>\$ 44,386</u>	<u>\$ 219,215</u>	<u>\$ 3,789,566</u>
Other investments:				
Equity Investments:				
Common Fund:				
Multi-Strategy Equity Fund	3,098,217			
Core Equity Fund	3,499,291			
Equities	852,837			
Foreign Preferred Stock	-			
Foreign Equities	93,034			
Foreign Mutual Funds	54,845			
	<u>7,598,224</u>			
Money Market Funds:				
Eaton Vance Money Market	31,668			
TD Bank Money Market	884			
	32,552			
Cash on deposit	3,206,015			
Total	<u>\$ 14,889,958</u>			

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Maturities of Debt Securities - Continued

June 30, 2013				
Investment type	Fair value	Investment maturities (in years)		
		Less than 1	1 to 5	6 to 10
Debt securities:				
U.S. Treasury Notes and Government Securities .5% to 2.875%	\$ 313,183	\$ 80,616	\$ 165,886	\$ 66,681
Corporate Debt Securities 2.25% to 6.75%	85,000	-	85,000	-
Fixed Income Mutual Funds	67,529	-	48,358	19,171
Foreign Assets:				
Corporate Obligations	16,095	-	10,307	5,788
Common Fund:				
Multi-Strategy Bond Fund	3,848,065	-	-	3,848,065
	<u>4,329,872</u>	<u>\$ 80,616</u>	<u>\$ 309,551</u>	<u>\$ 3,939,705</u>
Other investments:				
Equity Investments:				
Common Fund:				
Multi-Strategy Equity Fund	2,960,181			
Core Equity Fund	2,792,923			
Equities	907,357			
Foreign Preferred Stock	3,239			
Foreign Equities	99,448			
Foreign Mutual Funds	62,180			
	<u>6,825,328</u>			
Money Market Funds:				
Eaton Vance Money Market	119,031			
TD Bank Money Market	882			
	119,913			
Cash on deposit	6,121,444			
Total	<u>\$ 17,396,557</u>			

The College has foreign currency investments, and does not have securities lending agreements or derivative instruments.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Investments of the Foundation

	Fair value at June 30,	
	2014	2013
Community Foundation of Western Massachusetts -		
Global Growth Portfolio	\$ 17,716	\$ 15,264
Eaton Vance Trust Company:		
Money Market Fund	158,910	173,539
Fixed Income	2,768,337	2,091,244
Equities	7,228,560	5,650,723
Foreign Assets:		
Corporate Obligations	96,510	64,379
Preferred Stock	-	10,796
Equities	810,835	639,404
Mutual Funds	1,116,366	862,994
	12,179,518	9,493,079
Corporate stocks	-	441
Total	\$ 12,197,234	\$ 9,508,784

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$1,640,731 and \$1,675,898 at June 30, 2014 and 2013, 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.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - Accounts Receivable

Accounts receivable include the following at June 30:

	2014	2013
Student accounts receivable	\$ 5,282,724	\$ 5,100,142
Grants receivable	195,365	376,071
State receivables	636,194	414,702
Other receivables	620,327	413,945
	6,734,610	6,304,860
Less: allowance for doubtful accounts	(2,400,441)	(2,082,318)
	\$ 4,334,169	\$ 4,222,542

Note 5 - Capital Assets

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

		2014				
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:						
Land		\$ 131,946	\$ -	\$ -	\$ -	\$ 131,946
Construction in progress		3,216,838	800,815		(146,840)	3,870,813
Total not depreciated		3,348,784	800,815	-	(146,840)	4,002,759
Capital assets depreciated:						
Buildings, including improvements	20-40	76,725,763	250,136	-	146,840	77,122,739
Furnishings and equipment (including cost of capital leases)	3-10	7,675,848	60,829	(4,240)	-	7,732,437
Books	5	1,216,331	-	-	-	1,216,331
Total depreciated		85,617,942	310,965	(4,240)	146,840	86,071,507
Less: accumulated depreciation:						
Building, including improvements		47,419,303	1,790,156	-	-	49,209,459
Furnishings and equipment		5,952,399	529,212	(4,240)	-	6,477,371
Books		1,216,331	-	-	-	1,216,331
Total accumulated depreciation		54,588,033	2,319,368	(4,240)	-	56,903,161
Capital assets, net		\$ 34,378,693	\$ (1,207,588)	\$ -	\$ -	\$ 33,171,105

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 5 - Capital Assets - Continued

		2013					
		Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:							
Land			\$ 131,946	\$ -	\$ -	\$ -	\$ 131,946
Construction in progress			2,757,576	2,240,300	-	(1,781,038)	3,216,838
Total not depreciated			2,889,522	2,240,300	-	(1,781,038)	3,348,784
Capital assets depreciated:							
Buildings, including improvements	20-40		74,641,755	533,807	-	1,550,201	76,725,763
Furnishings and equipment (including cost of capital leases)	3-10		7,176,885	292,495	(24,369)	230,837	7,675,848
Books	5		1,216,331	-	-	-	1,216,331
Total depreciated			83,034,971	826,302	(24,369)	1,781,038	85,617,942
Less: accumulated depreciation:							
Building, including improvements			45,645,141	1,774,162	-	-	47,419,303
Furnishings and equipment			5,388,793	587,975	(24,369)	-	5,952,399
Books			1,216,331	-	-	-	1,216,331
Total accumulated depreciation			52,250,265	2,362,137	(24,369)	-	54,588,033
Capital assets, net			\$ 33,674,228	\$ 704,465	\$ -	\$ -	\$ 34,378,693

Note 6 - Long-Term Liabilities

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

		2014					
		Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:							
Bonds payable		\$ 10,300,000	\$ -	\$ (515,000)	\$ 9,785,000	\$ 515,000	\$ 9,270,000
Total notes payable		10,300,000	-	(515,000)	9,785,000	515,000	9,270,000
Liabilities for compensated absences and other:							
Accrued sick and vacation		3,669,537	172,003	-	3,841,540	2,358,591	1,482,949
Workers' compensation		315,792	12,022	(24,044)	303,770	61,058	242,712
Total liabilities for compensated absences and other		3,985,329	184,025	(24,044)	4,145,310	2,419,649	1,725,661
Total long-term liabilities		\$ 14,285,329	\$ 184,025	\$ (539,044)	\$ 13,930,310	\$ 2,934,649	\$ 10,995,661

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Long-Term Liabilities - Continued

	2013					
	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:						
Bonds payable	\$ 3,600,000	\$ 10,300,000	\$ (3,600,000)	\$ 10,300,000	\$ 515,000	\$ 9,785,000
Total notes payable	3,600,000	10,300,000	(3,600,000)	10,300,000	515,000	9,785,000
Liabilities for compensated absences and other:						
Accrued sick and vacation	3,629,168	49,513	(9,144)	3,669,537	2,262,382	1,407,155
Workers' compensation	306,613	9,179	-	315,792	68,211	247,581
Total liabilities for compensated absences and other	3,935,781	58,692	(9,144)	3,985,329	2,330,593	1,654,736
Total long-term liabilities	<u>\$ 7,535,781</u>	<u>\$ 10,358,692</u>	<u>\$ (3,609,144)</u>	<u>\$ 14,285,329</u>	<u>\$ 2,845,593</u>	<u>\$ 11,439,736</u>

Operating Leases

The College leases classrooms and office space for its Ludlow and Intermodal campuses and also leases office equipment under operating leases. Rental expense for operating leases was \$123,364 and \$125,988 for the years ended June 30, 2014 and 2013, respectively. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2014:

Years Ending <u>June 30,</u>	Operating <u>Leases</u>
2015	\$ 125,231
2016	114,699
2017	116,046
2018	116,910
2019-2021	<u>231,187</u>
	<u>\$ 704,073</u>

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - **Long-Term Liabilities - Continued**

Bond Payable

The College has borrowed \$10,300,000 in a bond issue (Series 2012) through the Massachusetts Development Finance Agency (MDFA). The bonds are payable annually commencing on November 1, 2013 through 2033 in principal amounts of \$515,000. Interest is payable semi-annually (November 1 and May 1) at a predetermined fixed rate of 3.08% through 2022, at which time a recalculation, based on the Federal Home Loan Bank Rate, will fix the rate for the remainder of the term of the bond.

As of June 30, 2014, principal and interest payments on bonds payable for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest*
<u>Fiscal years ending June 30.:</u>		
2015	\$ 515,000	\$ 297,589
2016	515,000	282,225
2017	515,000	265,424
2018	515,000	249,342
2019	515,000	233,260
2020-2024	2,575,000	926,032
2025-2029	2,575,000	523,226
2030-2033	2,060,000	128,967
	\$ 9,785,000	\$ 2,906,065

*Based on current 3.08% interest rate.

Note 7 - **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 and are restricted for instructional, department and scholarship purposes.

The Foundation's restricted – nonexpendable net position consists of endowment funds to be held in perpetuity, whose income is mainly used for various scholarships and program support.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - **Unrestricted Net Position**

The College's Board of Trustees has designated the College's unrestricted net position at June 30, for the following purposes:

	2014	2013
Long -term investment	\$ 1,725,661	\$ 1,654,736
Completion of projects started in current fiscal year and subsequent fiscal year adaptation and renewal budgeted expenses	500,000	1,000,000
Purpose of developing new academic programs, providing state-of-the-art equipment and technology for renovation and construction of college facilities and to insure fiscal stability.	9,808,625	7,949,488
	\$ 12,034,286	\$ 10,604,224

Note 9 - **Contingencies**

Various lawsuits are pending or threatened against the College, which arose from the ordinary course of operations. In the opinion of management, no litigation is now pending or threatened that 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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 10 - **Operating Expenses**

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

	2014	2013
Compensation and benefits	\$ 41,194,133	\$ 40,451,703
Supplies and services	11,444,308	11,218,045
Depreciation and amortization	2,319,368	2,362,137
Scholarships	7,477,668	7,442,980
	\$ 62,435,477	\$ 61,474,865

Note 11 - **State Appropriation**

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

	2014	2013
Direct unrestricted appropriations:	\$ 18,636,293	\$ 16,562,659
Add fringe benefits for benefited employees on the state payroll	4,537,681	4,289,238
Less: day school tuition remitted to the state and included in tuition and fee revenue	(691,055)	(651,743)
Total unrestricted appropriations	22,482,919	20,200,154
Restricted appropriations:		
Workforce Development project	74,544	71,433
Other	271,670	336,390
Total restricted appropriations	346,214	407,823
Capital appropriations:		
Direct	5,500	6,250
Department of Capital Asset Management Allocation	294,457	355,042
Total capital appropriations	299,957	361,292
Total appropriations	\$ 23,129,090	\$ 20,969,269

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - **Retirement Plan**

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*.

The Commonwealth is statutorily responsible for the pension benefit of the College's 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 state. The College makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to \$1,370,290 and \$1,116,060 for the years ended June 30, 2014 and 2013, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 75% and 69% of annual total payroll for the College in 2014 and 2013, respectively.

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.

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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - **Retirement Plan - Continued**

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

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2014, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans.

The GIC also administered carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 13 - **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*.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 13 - **Massachusetts Management Accounting and Reporting System - Continued**

A reconciliation of revenues between the College and MMARS as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Revenue per MMARS	\$ <u>48,187,175</u>	\$ <u>48,419,204</u>
Revenue per College	\$ <u>48,187,175</u>	\$ <u>48,419,204</u>

Note 14 - **Pass-Through Grants**

The College distributed \$8,345,073 and \$9,072,959 for the years ended June 30, 2014 and 2013, respectively, for student loans through the U.S. Department of Education Federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.



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
Holyoke Community College
Holyoke, Massachusetts

Report on Financial Statements

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 Holyoke Community College (the "College"), which comprise the statements of net position as of June 30, 2014 and 2013, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Holyoke Community College's basic financial statements and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 8, 2014