

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

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

JUNE 30, 2019

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

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

June 30, 2019 & 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the 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, 2019 and 2018 and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibilities

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Certified Public Accountants
Braintree, Massachusetts

DATE

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2019, 2018 and 2017

(Unaudited)

The following discussion and analysis provides management's view of the financial position of Holyoke Community College (the College) as of June 30, 2019, 2018 and 2017, 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.

GASB Statement No. 68 of the Governmental Accounting Standard Board (GASB), Accounting and Reporting for Pensions establishes new standards for how governmental employers that contribute to pension plans report liabilities and plan details on their financial statements. GASB 68 requires that the Commonwealth report its unfunded pension liability on its statements of net position. As permitted by GASB 68, the Commonwealth will report its net pension liability as of June 30, 2018 on the FY 2019 statements. The pension plan is a cost sharing multiple-employer plan that pools retirement assets to pay benefits to any participating plan members. GASB 68 requires that pension liabilities and costs must be allocated to participating employers including Holyoke Community College. Holyoke Community College's FY 19 statements reflect the implementation of GASB 68. Please see footnote 12, on page 45.

GASB Statement No. 75 of the Governmental Accounting Standard Board (GASB), Accounting and Reporting for Postemployment Benefits Other Than Pensions completes the previously implemented GASB No. 68 (for pensions) standard for reporting the Commonwealth's unfunded postemployment liabilities on its statements of net position. Please see footnote 13, on page 51.

The College is a public institution of higher education serving approximately 10,100 students, with 124 faculty and 277 staff, as well as part-time faculty and 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, 2019, the College's assets of \$93,980,712 and deferred outflows of resources of \$7,798,188, totaling \$101,778,900 exceeded its liabilities of \$46,460,307 and deferred inflows of resources of \$6,783,781 by \$48,534,812. At June 30, 2018, the College's assets of \$81,613,298 and deferred outflows of resources of \$4,703,835, totaling \$86,317,133 exceeded its liabilities of \$45,200,888 and deferred inflows of resources of \$4,584,961 by \$36,531,284. At June 30, 2017, the College's assets of \$72,471,652 and deferred outflows of resources of \$3,140,013, totaling \$75,611,665 exceeded its liabilities of \$47,280,198 and deferred inflows of resources of \$4,189,970 by \$24,141,497. These resulting net assets are summarized into the following categories:

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June 30, 2019, 2018 and 2017

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net invested in capital assets	\$ 63,800,079	\$ 49,533,521	\$ 35,120,301
Restricted, expendable	1,051,672	836,839	639,835
Unrestricted	<u>(16,316,939)</u>	<u>(13,839,076)</u>	<u>(11,618,639)</u>
Total net position	<u>\$ 48,534,812</u>	<u>\$ 36,531,284</u>	<u>\$ 24,141,497</u>

- The Restricted, expendable net assets may be expended at the discretion of the Board of Trustees, but only for the purposes for which the donor or grantor intended.
- Total Net Position reflects the impact of the College's portion of the Commonwealth's unfunded pension liability of \$10,032,605 in FY19, \$8,931,979 in FY18, and \$9,496,282 in FY17. Significantly impacting the College's net position in FY 2018 is the recognition of unfunded postemployment benefits other than pensions in the amount of \$17,621,918. The College's Beginning Net Position was restated and reduced by \$16,458,761 in Fiscal 2018 for the prior year restatement.
- The FY19 increase is attributable to an increase in capital appropriation of \$15,559,657. The increase was negatively impacted by unfunded liabilities expenses (net) of \$614,988 for pensions and \$896,747 for postemployment benefits other than pensions, totaling \$1,511,735. The impact of the current year's postemployment benefits was offset by \$972,473 of investment gains. These combined impacts delivered an increase in the College's Net Position of \$12,003,528. The FY18 increase is attributable to an increase in capital appropriation of \$12,525,294. The increase was negatively impacted by unfunded liabilities expenses (net) of \$245,156 for pensions and \$824,666 for postemployment benefits other than pensions, totaling \$1,069,822. The impact of the current year's postemployment benefits was offset by \$1,088,178 of investment gains. These combined impacts delivered an increase in the College's Net Position of \$12,389,787. The FY17 increase is the result of a \$5.3 million increase in capital appropriations due ongoing capital projects – the energy project and the renovation of the Marieb building – as well as the positive impact of net investment income of \$1.5 million. More information can be found in the capital assets discussion in this report and footnote 5 on page 38.
- The Holyoke Community College Life Sciences Grant contributed \$3.2 million towards the increase in capital as part of the Marieb Building renovations and the "Clean Room" training facility. The total cost of the renovations was \$5.8 million and the project was completed for occupancy in January 2019.

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- The Holyoke Community College Campus Center underwent a major renovation and the project was completed in the summer of 2019 and ready for occupancy in the July 2019. The entire project was budgeted at \$43.5 million dollars with project-to-date expenditures of \$14.5 million in fiscal 2019, \$12.5 million in fiscal 2018 and \$2.8 million in fiscal 2017.
- The Holyoke Community College/MGM Culinary Arts Institute in downtown Holyoke opened in the fall 2017. The Institute is supported by a combination of state, federal and private funding estimated at approximately \$6.7 million. The total project cost is supported by \$1.55 million construction grant to the Foundation from the U.S. Department of Commerce, a \$1.75 million equipment grant from the Massachusetts Executive Office of Housing and Economic Development, \$400,000 from the City of Holyoke through the City's surrounding communities agreement with MGM, \$100,000 directly from MGM, and \$2.9 million from HCC and the HCC Foundation. The College will lease the space, approximately 19,888 square feet in a former industrial building in the Holyoke Innovation District, from the HCC Foundation. During the first two years of occupancy, the rent will include the College's financial contribution of \$1.9 million to the construction of the space, paid as supplemental rent. The facility includes a production kitchen, demonstration kitchen, bakery lab, hot lab, dining room, and laundry area, along with classrooms, offices, conference space and various support spaces.

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.

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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. Because these resources held by the Foundation can only be used for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

Management's Discussion and Analysis is required to focus on the College, not its component unit.

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 assets. 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 and Expenses 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*.

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Management's Discussion and Analysis

June 30, 2019, 2018 and 2017

(Unaudited)

The financial statements can be found on pages 19-23 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 assets 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 24-59 of this report.

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 \$48,534,812 and \$36,531,284 and \$24,141,497 at the close of FY19, FY18 and FY17, respectively. There was a restatement of FY17 to reflect the Postemployment Other than Pensions unfunded liability reducing the excess by \$16,458,761 to \$24,141,497.

In FY19, the increase was negatively impacted by unfunded liabilities expenses (net) of \$614,988 for pensions and \$896,747 for postemployment benefits other than pensions. These combined impacts delivered an increase in the College's Net Position of \$12,003,528. In FY18, the increase was negatively impacted by unfunded liabilities expenses (net) of \$245,156 for pensions and \$824,666 for postemployment benefits other than pensions. These combined impacts delivered an increase in the College's Net Position of \$12,389,787.

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Management's Discussion and Analysis

June 30, 2019, 2018 and 2017

(Unaudited)

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 is still outstanding. In FY19, investment in capital assets totaled \$63,800,079 or 62.39% of total assets. In FY18, investment in capital assets totaled \$49,533,521 or 57.22% of total 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 position represents resources that are subject to external restrictions on how they must be used. In FY19, restricted net position totaled \$1,051,672 or 1.0% of total assets. In FY18, restricted net position totaled \$836,839 or 1.0% of total assets. In FY17, restricted net position totaled \$639,835 or 0.9% of total assets.

Unrestricted net position reflects the impact of unfunded postemployment benefits totaling \$27,654,523. The accumulated impact of the GASB 68 and 75 postemployment benefit accounting on net position is \$10.0 million for pensions and \$17.6 million for other postemployment benefits. In FY19, unrestricted net position is a negative \$16,316,939, in FY18, unrestricted net position is a negative \$13,839,076 and FY17 is restated from \$4,840,122 to a negative \$11,618,639.

The College's net position increased \$12,003,528 in fiscal 2019, \$12,389,787 in fiscal 2018 and \$6,042,439 in fiscal year 2017 before the implementation of GASB 75. The implementation of GASB 75 resulted in a restatement to decrease net position by \$16,458,761 in fiscal 2017 financial statement presentation.

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Changes in Net Position	Year ended June 30		
	2019	2018	2017
Operating revenues:			
Tuition and fees, net of tuition waivers, and remissions	\$ 11,395	11,959	13,573
Other operating sources	17,561	22,741	20,895
Total operating revenues	28,956	34,700	34,468
Operating expenses:	63,451	62,289	61,702
Net operating loss	(34,495)	(27,589)	(27,234)
Nonoperating revenues (expenses):			
State appropriation	30,197	26,612	26,694
Other nonoperating income (expenses)	742	842	1,260
Total nonoperating revenues	30,939	27,454	27,954
Income (loss) before other revenues, expenses, gains, or losses	(3,556)	(135)	720
Capital revenues (expenses):			
State capital appropriations	15,560	12,525	5,322
Net capital revenues	15,560	12,525	5,322
Increase (decrease) in net position	12,004	12,390	6,042
Net position:			
Beginning of year	36,531	24,141	18,099
End of year	\$ 48,535	36,531	24,141

HOLYOKE COMMUNITY COLLEGE

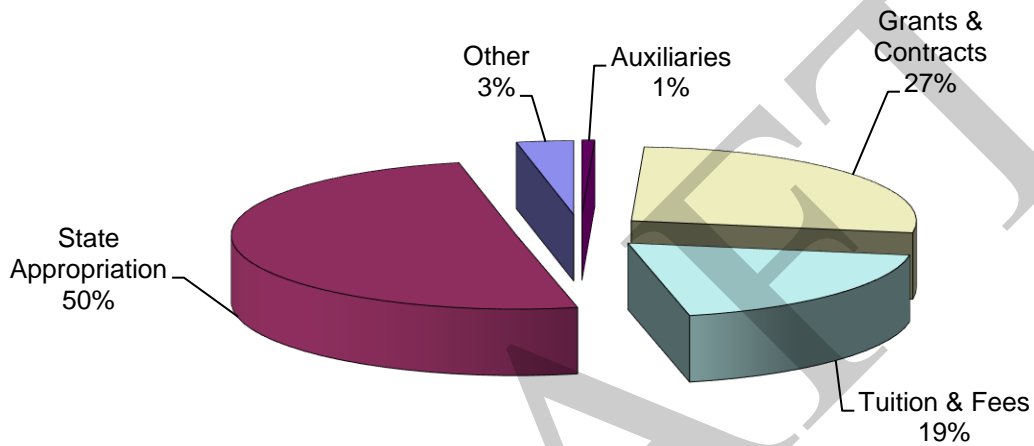
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Management's Discussion and Analysis

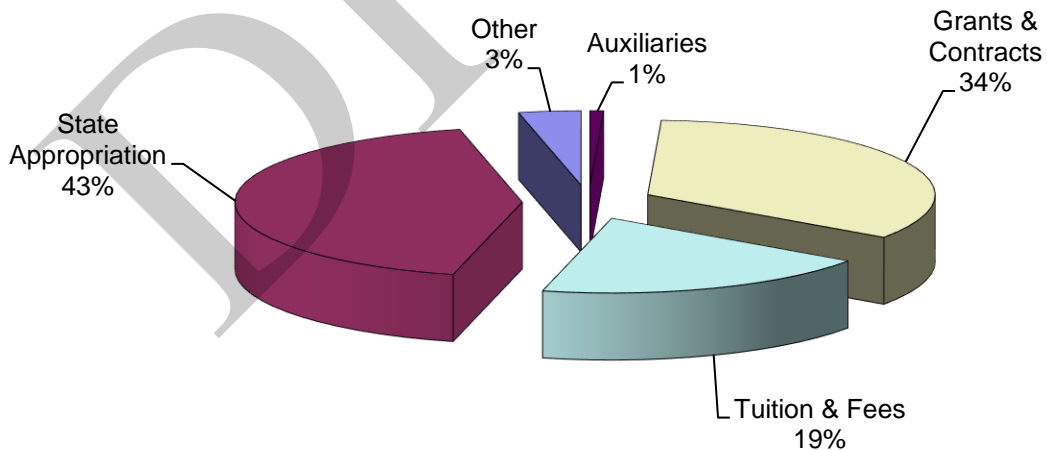
June 30, 2019, 2018 and 2017

(Unaudited)

Sources of Revenue - FY19



Sources of Revenue - FY18

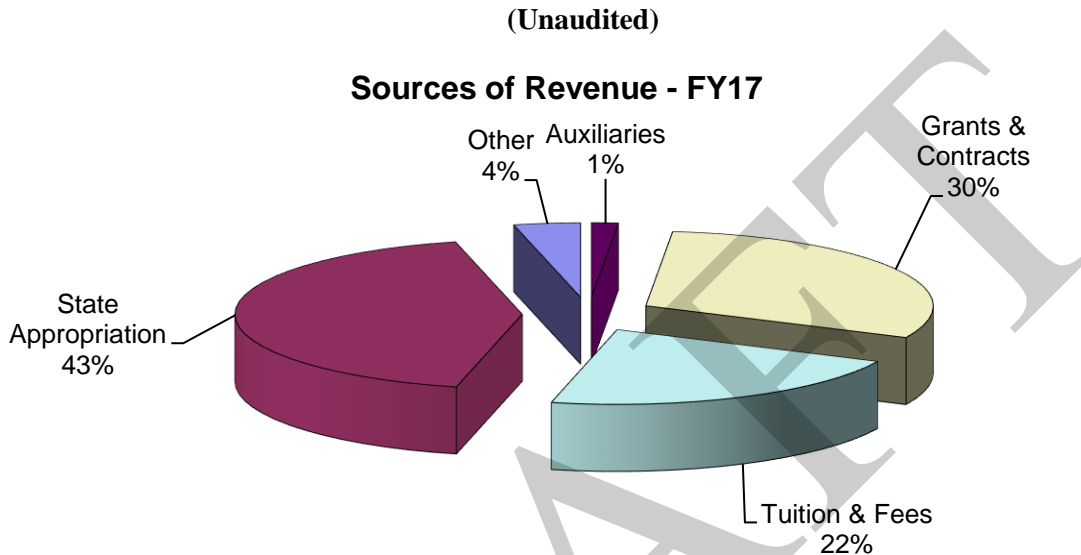


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June 30, 2019, 2018 and 2017



Revenue from all sources (excluding capital appropriations) totaled \$60,125,292, \$62,400,471 and \$62,684,257 in FY19, FY18 and FY17, respectively.

Highlights of revenue include:

- State appropriations, which include the cost of fringe benefits (excluding capital appropriations), totaled \$30,197,275, \$26,611,846 and \$26,693,503 in FY19, FY18 and FY17, respectively, and amount to 50.2%, 42.6%, 42.6% of all revenue in FY19, FY18 and FY17, respectively. In FY19, the State Appropriation increased \$3,585,429 or 13.47% from prior year. In FY18, the State Appropriation decreased \$81,657 or 0.31% from prior year. In FY17, the appropriation increased \$1,933,690 or 7.8% from prior year.
- The category tuition and fees represents approximately 44% of our unrestricted revenue and totaled \$22,604,228, \$23,328,820 and \$23,681,147 in FY19, FY18 and FY17, respectively. Of this amount, \$11,209,338, \$11,370,193 and \$10,108,440 are tuition and fees paid by various financial aid programs including local funds designated by the College. In FY19, tuition and fees per credit hour were increased \$10 or 5.5%; this increase was substantially offset by a 7.9% decline in credit hours enrollment, resulting in a net 3% decrease before allowances and discounts. In FY18, tuition and fees per credit hour were increased \$5 or 2.8%; this increase was substantially offset by a 5.1% decline in credit hours enrollment, resulting in a net 1.5% decrease before allowances and discounts. In FY17, tuition and fees per credit hour were

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increased \$14 or 10.2%; this increase was substantially offset by a 7.1% decline in credit enrollment, resulting in a net 1.5% increase before allowances and discounts.

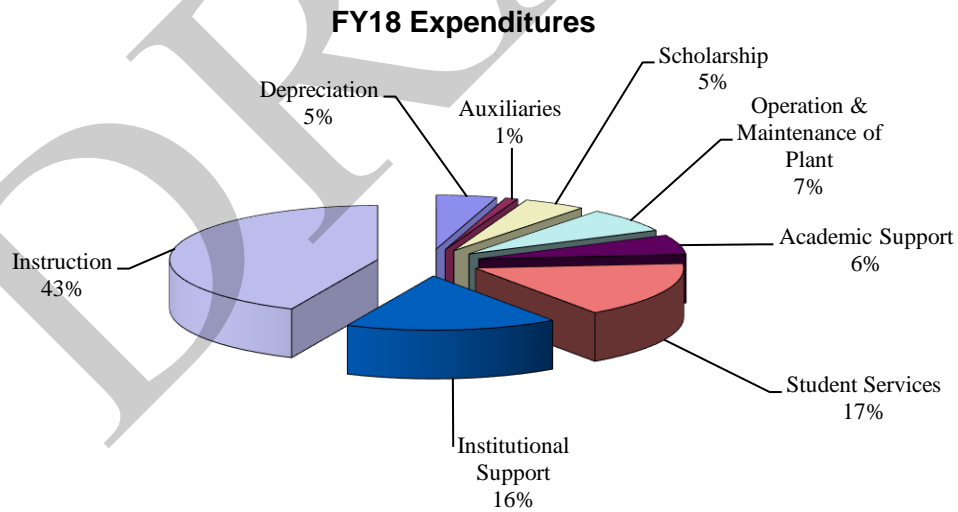
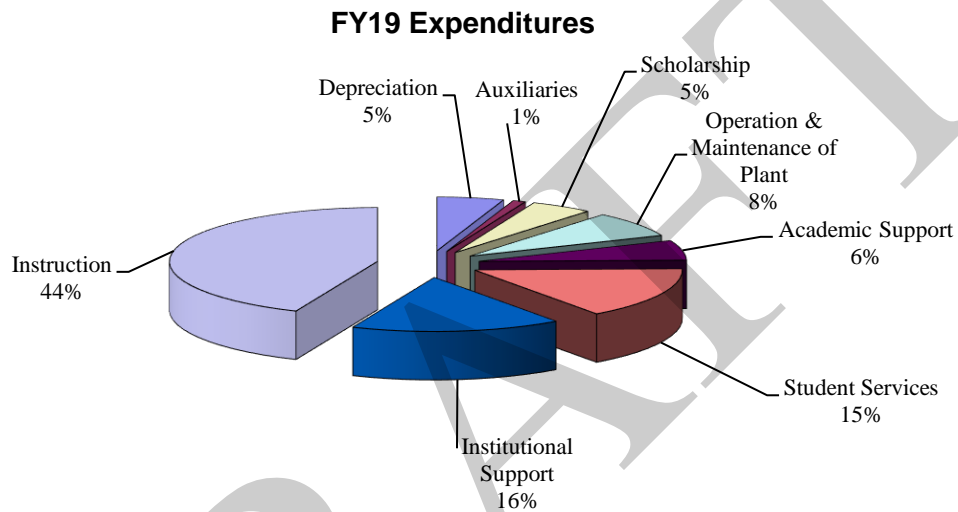
- A 6% decline in enrollment is anticipated for the coming year, FY20, and the decline is expected to be offset by a \$8 per credit hour Tuition and Fee increase.
- The category Grants and Contracts totaled \$16,155,724, \$21,170,284 and \$19,132,374 in FY19, FY18 and FY17 respectively, of which \$12,771,725, \$12,717,168 and \$11,492,940 was state and federal student financial aid. Grants and contracts for college programs were \$3,384,000 in FY19, \$8,453,116 in FY18 and \$7,639,434 in FY17. In FY19, the decrease is principally due to state grant funding in FY18 for the Marieb Building renovations and Capital Skills equipment funding. In FY18, the increase is attributable to recognition of \$3.2 million in grant income from MA Life Sciences Center for the renovation of Marieb that exceeded the culinary equipment grant in the prior year. The increase in FY17 is due to a state grant for culinary equipment for \$1.5 million and an HCC Foundation gift to the college of \$1.1 million of which \$750K is for the Marieb Building Life Sciences project equipment.
- 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 \$434,997, \$476,340, and \$938,152 in FY19, FY18, and FY17, respectively. Not included in these amounts are sales paid by financial aid of \$169,695 in FY19, \$191,124 in FY18 and \$718,265 in FY17. Half-way through FY17, the College Store model changed from on-ground book sales to on-line book sales through a bookseller. This was primarily driven by the relocation of the College Store to temporary space while the renovation of the Campus Center takes place through the fall of 2019. The change in model will substantially decrease Auxiliary enterprises revenue, as the revenue received from online book sales will be limited to commissions from those sales, plus the sales of educational supplies, incidentals and convenience items at the on-ground store. Sales decreased by \$41,343, \$461,812 and \$401,509 in FY19, FY18 & FY17, respectively.
- Other sources of revenues in this discussion include the Other Sources reported under Operating Revenues, in the Statement of Revenues and Expenses, and represents Sales and Services of Educational Departments and Commissions. Other operating revenues amounted to \$969,933, \$1,095,196 and \$824,220 in FY19, FY18 and FY17, respectively.

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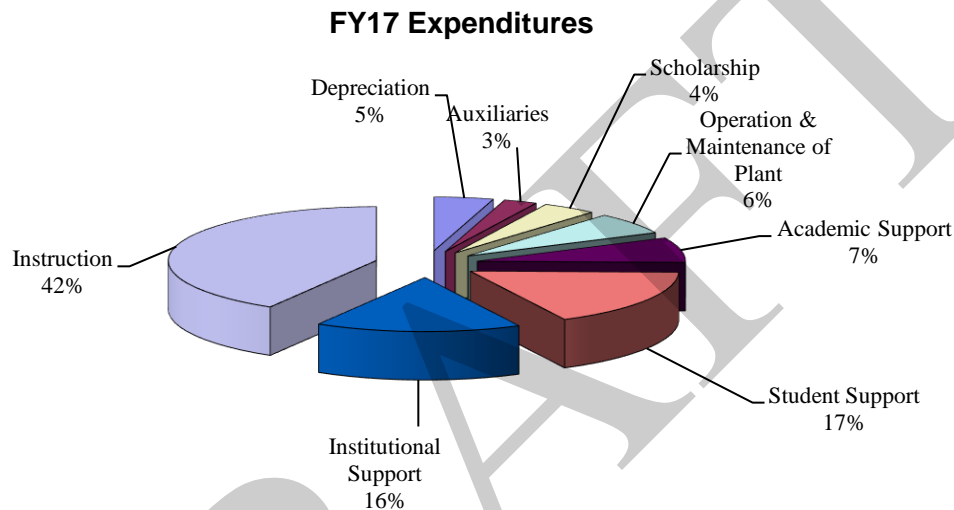


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Highlights of expenditures include:

In the current year, the College had a net postemployment benefit expense of \$1,511,735, resulting from the College's allocation of the Commonwealth's Net Pension and Other Postemployment Benefit Liability impacting all expense categories except Scholarships and Depreciation. The following program expense category results are as follows:

- ***Instruction and Academic Support*** in the current year costs increased \$855,975 was due to increased Postemployment Other than Pensions Benefit costs of \$478,863 and increased expense of \$329,628 for unfunded pension liability. In FY18, costs increased \$371,207 was due to increased Postemployment Other than Pensions Benefit costs of \$490,178.

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- **Scholarships** (payments directly to students) in the current year increased \$52,848. This is principally due to Pell federal grant decreasing by \$565,845 being offset by increased state grant funding. In FY18, scholarships increased \$425,527. This is principally due to Pell federal grant increasing \$901,119 with approximately half of the increase being applied to tuition and fees. In FY17, the amount decreased by \$328,382 primarily due to Pell awards decreasing \$1.4 million.
- **Operation and maintenance of plant** increased by \$330,770 in the current year, primarily due to higher energy and construction costs. In FY18, this category increased by \$530,950, primarily due to higher energy and construction costs. In FY17, this category decreased by \$162,212, primarily due to open positions.
- **Institutional support** increased by \$118,171 in the current year principally due to increased expense for unfunded pension liabilities of \$138,996 and postemployment benefits other than pension expense or \$94,707 that was offset by lower salaries due to open positions. In FY18, this category increased by \$415,125, principally due to amortized rent for the new Culinary Arts Institute totaling \$235,848 and postemployment benefit costs other than pensions of \$125,684. In FY17, this category increased by \$755,261 due to workers compensation charges increasing by \$303,298, fringe benefit costs increasing by \$172,267, Campus Center project expenses, maintenance and public safety overtime, collective bargaining increases, and student account write-offs accounted for the balance of the increase.

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.
- **Public services**—includes funds expended for activities established primarily to provide non-instructional service programs to individuals and groups external to the institution.

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- **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 \$1,772,006, or 6.7% in FY19, decreased \$104,892, or 0.4% in FY18, and increased \$1,747,245, or 7.1% in FY17. The unrestricted state appropriation is the primary funding provided by the Commonwealth to support the operation of the College.

Investment gains were \$972,473, \$1,088,178, and \$1,523,301 in FY19, FY18 and FY17, 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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(Unaudited)

The following schedule presents the College's incurred losses from operations for the fiscal years ended June 30, 2019, 2018, and 2017 before pension adjustment:

	Year ended June 30		
	2019	2018	2017
Tuition and fee revenue	\$ 11,394,890	11,958,627	13,572,707
Other revenue	17,560,654	22,741,820	20,894,746
Operational expenses	(63,450,864)	(62,289,339)	(61,701,802)
Operating loss	(34,495,320)	(27,588,892)	(27,234,349)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth	30,197,275	26,611,846	26,693,503
Other nonoperating revenues, net	741,916	841,539	1,260,579
Net change before capital appropriations	\$ (3,556,129)	(135,507)	719,733

Capital Assets and Debts of the College

Capital Assets

The College's investment in capital assets as of June 30, 2019, 2018 and 2017 amounts to \$63,800,079, \$49,533,521 and \$35,120,301, 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 increased by \$14,266,558 or 28.8% in FY19, \$14,413,220 or 41.9% in FY18 and by \$6,561,964 or 22.9% in FY17.

The College will use operating funds and proceeds from bond financing to invest in capital projects that enhance student services and learning.

The College has been awarded a \$3,800,000 grant from Massachusetts Center for Life Sciences to renovate 13,000 square feet of space in the Marieb building to create a Center for Life Sciences. The Center for Life Sciences is a \$4,550,000 project that will include the only clean room in Western Massachusetts to support training for students, faculty, and

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industry partners. The schematic design of the project began during the summer of 2015, construction started in the third calendar quarter of 2017 with occupancy fall 2018.

In August of 2015, Governor Baker announced that the state would fund \$2,500,000 for the design phase of improvements to the Campus Center. Additional funds of approximately \$8,500,000 were approved in March of 2016 to move the project forward. The construction will include new exterior sheathing, new windows and doors, and new mechanical and electrical systems. Once the campus center is completed it will house the college store, admissions, student activities, testing and advising services, and expanded cafeteria seating and food service area. This overall \$43,500,000 project began during summer of 2017, and was substantially completed in July of 2019, with operations beginning fall semester of 2019.

The Massachusetts Department of Capital Maintenance & Management (DCAMM) and Holyoke Community College are collaborating on an Accelerated Energy Program for the campus. The total cost of the project is approximately \$6.2 million. Holyoke Community College has pledged to reimburse DCAMM \$3.0 million of the total project cost over the next 20 years with the funds realized from energy cost savings. The project includes a new energy management system and new mechanical equipment including digital variable air volume controllers, pump motors, and related controls. The project also includes LED lighting upgrades, and a hybrid solar voltaic/hot water system.

All capital asset purchases are budgeted in the College's annual spending plan, which is approved by the board of trustees. Additional information about the College's capital assets can be found in note 5 on page 38 of this report.

Long-Term Liabilities

In preparation for the acquisition and renovation of the new Center for Health Education, the College borrowed \$7 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 debt balances of \$7,210,000 for the 2012 series MDFA Revenue Bond, and \$3,954,923 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.

Finally, the college will be paying off the \$3.0 million energy improvements loan from the Commonwealth over the next 20 years at 4.0% interest beginning in FY20.

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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 FY17 by \$1.7 million and providing level funding in FY18 increasing by \$104 thousand and \$1.8 million in FY19. Tuition and Fees were increased \$10 per credit hour in FY19, \$5 per credit hour in FY18 and \$14 per credit hour in FY17 in order to balance the budget. The College continues to be conservative in hiring only personnel essential for student services, purchase only necessary supplies and identify other costs savings. The college continues to investigate new ways to meet capital funding demands. The Board of Trustees, in FY15, approved a \$1,000,000 transfer from college reserves to set up a Capital Project Revolving Fund. Funding utilized from the revolving fund will be repaid over a 10-year period. Funds repaid to the revolving fund are utilized for additional capital projects.

For FY20, the Board of increased the Educational Service Fee by \$8 to \$201 per credit hour maintaining the Colleges position among Massachusetts Community Colleges. For fiscal year 2019, the Board increased the Education Service Fee by \$10 to \$193 per credit hour. For FY18, the Board increased the Education Service Fee by \$5 to \$183. For FY17, the Board of Trustees made a strategic decision to move the college out of the lowest-cost quartile of the Massachusetts Community College system by increasing the Educational Service Fee by \$14 to \$178 per credit hour. 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.

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
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Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	<u>2019</u> <u>College</u>	<u>2018</u> <u>College</u>	<u>2019</u> <u>Foundation</u>	<u>2018</u> <u>Foundation</u>
Assets:				
Current Assets:				
Cash and equivalents	\$ 980,466	\$ 1,541,649	\$ 66,747	\$ 1,183,535
Cash held by State Treasurer	870,242	405,450	-	-
Cash held by DCAMM	129,234	1,369,164	-	-
Short-term investments	185,173	75,572	-	-
Accounts receivable, net	3,827,979	4,190,518	213,023	179,865
Due from Foundation	141,382	859,569	-	-
Prepaid expenses and other current assets	<u>383,301</u>	<u>191,641</u>	<u>5,494</u>	<u>6,582</u>
Total Current Assets	<u>6,517,777</u>	<u>8,633,563</u>	<u>285,264</u>	<u>1,369,982</u>
Non-Current Assets:				
Long-term investments	12,201,641	12,307,217	13,784,871	13,381,778
Prepaid rent	1,255,508	600,743	-	-
Pledges receivable	-	-	41,490	26,588
Capital assets, net of accumulated depreciation	<u>74,005,786</u>	<u>60,071,775</u>	<u>5,197,217</u>	<u>5,451,954</u>
Total Non-Current Assets	<u>87,462,935</u>	<u>72,979,735</u>	<u>19,023,578</u>	<u>18,860,320</u>
Deferred Outflows of Resources:				
Pension related, net	2,860,619	2,575,227	-	-
OPEB related, net	<u>4,937,569</u>	<u>2,128,608</u>	-	-
Total Deferred Outflows of Resources	<u>7,798,188</u>	<u>4,703,835</u>	-	-
 Total Assets	 <u>\$ 101,778,900</u>	 <u>\$ 86,317,133</u>	 <u>\$ 19,308,842</u>	 <u>\$ 20,230,302</u>

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u> <u>College</u>	<u>2018</u> <u>College</u>	<u>2019</u> <u>Foundation</u>	<u>2018</u> <u>Foundation</u>
Liabilities:				
Current Liabilities:				
Line of credit	\$ -	\$ -	\$ -	\$ 2,500,000
Accounts payable and accrued liabilities	1,303,823	923,019	64,578	8,260
Accrued payroll	2,284,388	2,192,381	-	-
Compensated absences and other	2,361,211	2,796,194	-	-
Accrued interest payable	37,834	40,536	-	-
Student deposits and unearned revenues	975,523	413,070	-	-
Due to College	-	-	141,382	859,569
Funds held for others	43,586	66,075	-	-
Current portion of note payable	100,601	100,601	-	-
Current portion of bonds payable	<u>515,000</u>	<u>515,000</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>7,621,966</u>	<u>7,046,876</u>	<u>205,960</u>	<u>3,367,829</u>
Non-Current Liabilities:				
Compensated absences and other	1,593,712	1,744,174	-	-
Unearned rent revenue	-	-	1,255,508	600,743
Long-term portion of note payable	2,895,106	2,895,106	-	-
Long-term portion of bonds payable	6,695,000	7,210,000	-	-
Net pension liability	10,032,605	8,931,979	-	-
Net OPEB liability	<u>17,621,918</u>	<u>17,372,753</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>38,838,341</u>	<u>38,154,012</u>	<u>1,255,508</u>	<u>600,743</u>
Total Liabilities	<u>46,460,307</u>	<u>45,200,888</u>	<u>1,461,468</u>	<u>3,968,572</u>
Deferred Inflows of Resources:				
Pension related, net	1,158,722	1,358,968	-	-
OPEB related, net	5,495,825	2,039,282	-	-
Governmental voluntary nonexchange transaction	<u>129,234</u>	<u>1,186,711</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>6,783,781</u>	<u>4,584,961</u>	<u>-</u>	<u>-</u>
Net Position:				
Net investment in capital assets	63,800,079	49,533,521	5,197,217	5,451,954
Restricted:				
Nonexpendable	-	-	5,805,744	5,628,743
Expendable	1,051,672	836,839	7,501,259	5,683,159
Unrestricted	<u>(16,316,939)</u>	<u>(13,839,076)</u>	<u>(656,846)</u>	<u>(502,126)</u>
Total Net Position	<u>48,534,812</u>	<u>36,531,284</u>	<u>17,847,374</u>	<u>16,261,730</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 101,778,900</u>	<u>\$ 86,317,133</u>	<u>\$ 19,308,842</u>	<u>\$ 20,230,302</u>

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

Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,

	<u>2019</u> <u>College</u>	2018 <u>College</u>	<u>2019</u> <u>Foundation</u>	2018 <u>Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 22,604,228	\$ 23,328,820	\$ -	\$ -
Less: scholarship allowances	<u>(11,209,338)</u>	<u>(11,370,193)</u>	<u>-</u>	<u>-</u>
Net student fees	11,394,890	11,958,627		
Federal, state, local and private grants and contracts	16,155,724	21,170,284	4,500	1,735,879
Auxiliary enterprises, net	434,997	476,340	-	-
Other operating revenues	<u>969,933</u>	<u>1,095,196</u>	<u>512,812</u>	<u>66,411</u>
Total Operating Revenues	<u>28,955,544</u>	<u>34,700,447</u>	<u>517,312</u>	<u>1,802,290</u>
Operating Expenses:				
Instruction	27,671,933	26,929,058	209,953	229,665
Academic support	3,774,144	3,661,044	-	-
Student services	9,757,795	10,352,829	-	-
Scholarships	3,076,949	3,024,101	318,775	348,683
Operation and maintenance of plant	4,860,315	4,529,545	-	-
Institutional support	10,372,471	10,254,300	569,434	626,428
Depreciation and amortization	3,307,127	2,928,206	576,269	284,616
Auxiliary enterprises	<u>630,130</u>	<u>610,256</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>63,450,864</u>	<u>62,289,339</u>	<u>1,674,431</u>	<u>1,489,392</u>
Net Operating Income (Loss)	<u>(34,495,320)</u>	<u>(27,588,892)</u>	<u>(1,157,119)</u>	<u>312,898</u>
Non-Operating Revenues (Expenses):				
State appropriations - unrestricted	28,257,165	26,485,159	-	-
State appropriations - restricted	1,940,110	126,687	-	-
Net investment income	972,473	1,088,178	1,012,875	1,261,674
Interest expense	(230,557)	(246,639)	-	-
Gifts and contributions	<u>-</u>	<u>-</u>	<u>1,729,888</u>	<u>722,088</u>
Net Non-Operating Revenues	<u>30,939,191</u>	<u>27,453,385</u>	<u>2,742,763</u>	<u>1,983,762</u>
Change in Net Position Before Other Revenues	<u>(3,556,129)</u>	<u>(135,507)</u>	<u>1,585,644</u>	<u>2,296,660</u>
Capital appropriations	<u>15,559,657</u>	<u>12,525,294</u>	<u>-</u>	<u>-</u>
Total Change in Net Position	<u>12,003,528</u>	<u>12,389,787</u>	<u>1,585,644</u>	<u>2,296,660</u>
Net Position, Beginning of Year	<u>36,531,284</u>	<u>24,141,497</u>	<u>16,261,730</u>	<u>13,965,070</u>
Net Position, End of Year	<u>\$ 48,534,812</u>	<u>\$ 36,531,284</u>	<u>\$ 17,847,374</u>	<u>\$ 16,261,730</u>

See accompanying notes to the financial statements.

HOLYOKE COMMUNITY COLLEGE
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Statements of Cash Flows

For the Year Ended June 30, 2019

	<u>2019</u> <u>College</u>	<u>2018</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 11,468,500	\$ 12,166,648
Grants and contracts	15,248,619	18,961,312
Payments to suppliers	(9,177,706)	(10,126,411)
Payments to employees	(39,390,643)	(38,837,987)
Payments to students	(3,076,949)	(3,024,101)
Other cash receipts	<u>2,146,873</u>	<u>719,425</u>
Net Cash Applied to Operating Activities	<u>(22,781,306)</u>	<u>(20,141,114)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	23,372,682	20,335,596
Tuition remitted to the State	<u>(466,405)</u>	<u>(630,413)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>22,906,277</u>	<u>19,705,183</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(1,681,481)	(4,889,102)
Principal paid on debt	(515,000)	(515,000)
Interest on debt	<u>(233,259)</u>	<u>(249,342)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(2,429,740)</u>	<u>(5,653,444)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	1,059,601	2,571,320
Purchases of investments	(345,441)	(305,967)
Interest on investments	<u>254,288</u>	<u>232,217</u>
Net Cash Provided by Investing Activities	<u>968,448</u>	<u>2,497,570</u>
Net Decrease in Cash and Equivalents	(1,336,321)	(3,591,805)
Cash and Equivalents, Beginning of Year	<u>3,316,263</u>	<u>6,908,068</u>
Cash and Equivalents, End of Year	<u>\$ 1,979,942</u>	<u>\$ 3,316,263</u>

HOLYOKE COMMUNITY COLLEGE
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Statements of Cash Flows - Continued

For the Year Ended June 30, 2019

	<u>2019</u> <u>College</u>	2018 <u>College</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (34,495,320)	\$ (27,588,892)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	3,307,127	2,928,206
Fringe benefits provided by the State	7,290,998	6,906,662
Net pension activity	614,988	245,156
Net OPEB activity	896,747	824,666
Governmental voluntary nonexchange transaction	(1,057,478)	(2,326,297)
Bad debts	(45,039)	275,925
Changes in assets and liabilities:		
Accounts receivable, net	407,578	5,364
Due from Foundation	718,187	296,237
Prepaid expenses and other current assets	(191,660)	366,564
Prepaid rent	(654,765)	(600,743)
Accounts payable and accrued liabilities	380,805	(365,493)
Accrued payroll	(493,438)	(4,177)
Funds held for others	(22,489)	1,346
Students' deposits and unearned revenues	<u>562,453</u>	<u>(1,105,638)</u>
Net Cash Applied to Operating Activities	<u>\$ (22,781,306)</u>	<u>\$ (20,141,114)</u>
Reconciliation Cash and Equivalents to the Statement of Net Position, End of Year		
Cash and equivalents	\$ 980,466	\$ 1,541,649
Cash held by State Treasurer	870,242	405,450
Cash held by DCAMM	<u>129,234</u>	<u>1,369,164</u>
Total Cash and Equivalents	<u>\$ 1,979,942</u>	<u>\$ 3,316,263</u>
Non-Cash Transactions:		
Fringe benefits provided by the State	<u>\$ 7,290,998</u>	<u>\$ 6,906,662</u>
Capital appropriation	<u>\$ 15,559,657</u>	<u>\$ 12,525,294</u>

See accompanying notes to the financial statements.

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements

June 30, 2019 and 2018

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 the arts and sciences as well as one-year certificate programs. With its main campus located in Holyoke, Massachusetts, along with other satellite campuses, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies and business fields of study. The College also offers evening, weekend and web-based credit and noncredit courses, as well as community service programs. The College is accredited by the New England Commission of Higher Education.

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

Basis of Presentation

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

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

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

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Basis of Presentation - continued

The College's policy is to define operating activities in the statements of revenues and expenses as those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities including the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts, and interest expense.

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

The Holyoke Community College Foundation, Inc. (the "Foundation") is a legally separate tax-exempt organization. The Foundation was formed in 1972 to render financial assistance and support to the educational programs and development of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College as of June 30, 2019 and 2018 and is therefore discretely presented in the College's financial statements. Complete financial statements can be obtained from the Foundation's administrative offices in Holyoke, Massachusetts.

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.

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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 State Treasurer

Deposits held represent funds accessible by the College held by the Commonwealth of Massachusetts (the "Commonwealth") for payments on payroll.

Cash held by DCAMM

Cash held by the Massachusetts Division of Capital Asset Management and Maintenance ("DCAMM") for specific projects.

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 Statements of Revenues and Expenses. Any net earnings not expended are included in net position categories as follows:

- (i) as increases in restricted – nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- (ii) as increases in restricted – expendable net position if the terms of the gift or the College's interpretation of relevant State law impose restrictions on the current use of the income or net gains. The College has relied upon the 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, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies - Continued

Prepaid Expenses and Other Current Assets

Other current assets primarily consists of inventories of books, publications, and supplies which are stated at the lower of cost or market.

Allowance for Doubtful Accounts

Accounts receivable are periodically evaluated for collectability based on past history with students. Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, 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 Commonwealth's fringe benefit programs, including health insurance, unemployment, pension, and workers' compensation benefits. Health insurance, unemployment, and pension costs are billed through a fringe benefit rate charged to the College.

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave, along with compensatory time. Accrued vacation is the amount earned by all eligible employees through June 30, 2019 and 2018. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of State service at June 30, 2019 and 2018. Upon retirement, these employees are entitled to receive payment for this accrued balance.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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. Funds received in advance from various grants and contracts are unearned.

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.

Pensions

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

Postemployment Benefits Other Than Pensions ("OPEB")

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

Student Tuition and Fees

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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

New Governmental Accounting Pronouncements

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

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

New Governmental Accounting Pronouncements - continued

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

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

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

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

Reclassification

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

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - **Cash and Investments**

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

Deposits and investments	2019	2018
Cash on deposit	\$ 937,985	\$ 1,516,568
Money market funds	42,481	25,081
Total deposits	980,466	1,541,649
Debt securities	4,720,559	4,412,739
Equity investments	7,666,255	7,970,050
Total investments	12,386,814	12,382,789
Total deposits and investments	\$ 13,367,280	\$ 13,924,438

Custodial Credit Risk

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the College would not be able to recover its deposits that are in the possession of the outside parties. The College's policy is to mitigate as much custodial credit risk associated with its cash assets as possible. The College deposits funds with a banking institution that obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured levels.

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2019 and 2018, the carrying amount of the College's deposits were \$980,466 and \$1,541,649, respectively, and the bank balances of the College's deposits were \$1,905,922 and \$1,782,924, respectively, none of which was exposed to custodial credit risk as uninsured and uncollateralized.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Concentration of Credit Risk

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

	2019	2018
Common Fund:		
Multi-Strategy Bond Fund	34.5%	32.7%
Multi-Strategy Equity Fund	25.4%	22.6%
Core Equity Fund	25.1%	30.7%
Eaton Vance		
Equities	9.6%	8.4%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, the College's Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the state 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 domestic and international 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 of the College or his designee the authority to determine the exact dollar amounts to be invested within those established limits and guidelines.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 2 - Cash and Investments - Continued

The following is the quality ratings for the College's debt investments as of June 30,:

2019						
Debt investments	Fair Value	Quality ratings				
		AAA	AA/AA-	A/A-	BBB-+&-	Unrated
U.S. Treasury Notes and Government securities 1.0% to 2.38%	\$ 263,124	\$ 263,124	\$ -	\$ -	\$ -	\$ -
Corporate Debt securities 2.25% to 6.75%	117,452	4,998	35,654	61,589	15,211	-
Fixed Income Mutual Funds	62,527	-	-	62,527	-	-
Common Fund: Multi-Strategy Bond Fund	4,277,456	-	4,277,456	-	-	-
	<u>\$ 4,720,559</u>	<u>\$ 268,122</u>	<u>\$ 4,313,110</u>	<u>\$ 124,116</u>	<u>\$ 15,211</u>	<u>\$ -</u>
2018						
Debt investments	Fair Value	Quality ratings				
		AAA	AA/AA-	A/A-	BBB-+&-	Unrated
U.S. Treasury Notes and Government securities 1.0% to 2.38%	\$ 195,393	\$ 195,393	\$ -	\$ -	\$ -	\$ -
Corporate Debt securities 2.25% to 6.75%	114,182	4,921	54,552	49,819	4,890	-
Fixed Income Mutual Funds	60,528	-	-	60,528	-	-
Common Fund: Multi-Strategy Bond Fund	4,042,636	-	4,042,636	-	-	-
	<u>\$ 4,412,739</u>	<u>\$ 200,314</u>	<u>\$ 4,097,188</u>	<u>\$ 110,347</u>	<u>\$ 4,890</u>	<u>\$ -</u>

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Maturities of Debt Securities

The following is the investment maturities for the Colleges fixed income investments as of June 30,:

Investment type	2019			
	Fair value	Investment maturities (in years)		
		Less than 1	1 to 5	6 to 10
Debt securities				
U.S. Treasury Notes and Government Securities 1.0% to 2.375%	\$ 263,124	\$ 117,664	\$ 145,460	\$ -
Corporate Debt Securities 1.0% to 6.75%	117,452	4,982	112,470	-
Fixed Income Mutual Funds	62,527	62,527	-	-
Common Fund:				
Multi-Strategy Bond Fund	4,277,456	-	-	4,277,456
	<u>4,720,559</u>	<u>185,173</u>	<u>257,930</u>	<u>4,277,456</u>
Other Investments				
Equity Investments				
Common Fund:				
Multi-Strategy Equity Fund	3,141,250			
Core Equity Fund	3,111,661			
Equities	1,250,423			
Foreign Mutual Funds	162,921			
	<u>7,666,255</u>			
Total	<u>\$ 12,386,814</u>			

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Maturities of Debt Securities - continued

Investment type	Fair value	Investment maturities (in years)		
		Less than 1	1 to 5	6 to 10
2018				
Debt securities				
U.S. Treasury Notes and	\$ 195,393	\$ -	\$ 195,393	\$ -
Corporate Debt Securities 1.0%	114,182	15,044	79,423	19,715
Fixed Income Mutual Funds	60,528	60,528	-	-
Common Fund:				
Multi-Strategy Bond Fund	4,042,636	-	-	4,042,636
	<u>4,412,739</u>	<u>75,572</u>	<u>274,816</u>	<u>4,062,351</u>
Other Investments				
Equity Investments				
Common Fund:				
Multi-Strategy Equity Fund	2,799,844			
Core Equity Fund	3,803,488			
Equities	1,114,253			
Foreign Mutual Funds	252,465			
	<u>7,970,050</u>			
Total	<u>\$ 12,382,789</u>			

Fair Value Hierarchy

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs.

If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Fair Value Hierarchy - continued

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

Equity securities: Consist primarily of stocks traded on U.S. and non-U.S. security exchanges valued by the pricing method determined by investment managers at closing market prices on the valuation date. Stocks traded on active exchanges and valued at quoted market prices and documented trade history for identical assets are categorized within Level 1 of the fair value hierarchy.

U.S. Treasury and agency securities: Securities issued by the U.S. Government, its agencies, authorities, and instrumentalities are valued using quoted prices, documented trade history in the security, and pricing models maximizing the use of observable inputs determined by investment managers.

Corporate debt instruments: Valued either by using pricing models maximizing the use of observable inputs for similar securities or valued by the investment manager.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the College are open-end funds that are registered with the Securities and Exchange Commission. Mutual funds held in foreign countries are traded in similar markets as the U.S. Mutual funds held by the College and classified as Level 1 are deemed to be actively traded.

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

At June 30, 2019 and 2018, all investments are categorized in Level 1 of the fair value hierarchy except corporate debt securities which are valued at Level 2.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Investments of the Foundation

	Fair Value at June 30, 2019	Fair Value at June 30, 2018
Community Foundation of Western Massachusetts - Global Growth Profile	\$ -	\$ 20,887
Eaton Vance Trust Company:		
Money Market Fund	1,146,781	178,376
Fixed Income	2,580,787	3,067,890
Equities	8,403,762	7,593,982
Foreign Assets		
Equities	457,625	612,801
Mutual Funds	1,195,916	1,907,842
Total	\$ 13,784,871	\$ 13,381,778

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

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$870,242 and \$405,450 at June 30, 2019 and 2018, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Accounts Receivable**

Accounts receivable include the following at June 30,:

	2019	2018
Student accounts receivable	\$ 4,393,250	\$ 4,511,899
Grants receivable	699,389	287,308
State receivables	331,202	1,077,170
Other receivables	626,621	581,663
Less allowance for doubtful accounts	(2,222,483)	(2,267,522)
	\$ 3,827,979	\$ 4,190,518

Note 5 - **Capital Assets**

Capital assets of the College consist of the following at June 30, 2019:

	<u>Estimated lives</u> <u>(in years)</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reclassification</u>	<u>Ending Balance</u>
Capital assets not depreciated:					
Land		\$ 264,421	\$ -	\$ -	\$ 264,421
Construction in progress		27,059,640	17,010,604	(5,773,249)	38,296,995
Total not depreciated		27,324,061	17,010,604	(5,773,249)	38,561,416
Capital assets depreciated:					
Buildings, including improvements	20-40	86,370,390	-	5,773,249	92,143,639
Furnishings and equipment (including cost of capital leases)	3-10	12,852,664	230,534	-	13,083,198
Books	5	1,216,331	-	-	1,216,331
Total depreciated		100,439,385	230,534	5,773,249	106,443,168
Less: accumulated depreciation					
Building, including improvements		(57,286,667)	(2,259,043)	-	(59,545,710)
Furnishings and equipment		(9,188,673)	(1,048,084)	-	(10,236,757)
Books		(1,216,331)	-	-	(1,216,331)
Total accumulated depreciation		(67,691,671)	(3,307,127)	-	(70,998,798)
Capital assets, net		\$ 60,071,775	\$ 13,934,011	\$ -	\$ 74,005,786

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 5 - **Capital Assets - Continued**

Capital assets of the College consist of the following at June 30, 2018:

	<u>Estimated lives</u> <u>(in years)</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reclassification</u>	<u>Ending Balance</u>
Capital assets not depreciated:					
Land		\$ 264,421	\$ -		\$ 264,421
Construction in progress		<u>13,368,195</u>	<u>15,971,751</u>	<u>(2,280,306)</u>	<u>27,059,640</u>
Total not depreciated		13,632,616	15,971,751	(2,280,306)	27,324,061
Capital assets depreciated:					
Buildings, including improvements	20-40	85,008,305	341,034	1,021,051	86,370,390
Furnishings and equipment (including cost of capital leases)	3-10	10,491,798	1,101,611	1,259,255	12,852,664
Books	5	<u>1,216,331</u>	<u>-</u>	<u>-</u>	<u>1,216,331</u>
Total depreciated		<u>96,716,434</u>	<u>1,442,645</u>	<u>2,280,306</u>	<u>100,439,385</u>
Less: accumulated depreciation					
Building, including improvements		(55,165,045)	(2,121,622)	-	(57,286,667)
Furnishings and equipment		(8,382,089)	(806,584)	-	(9,188,673)
Books		<u>(1,216,331)</u>	<u>-</u>	<u>-</u>	<u>(1,216,331)</u>
Total accumulated depreciation		<u>(64,763,465)</u>	<u>(2,928,206)</u>	<u>-</u>	<u>(67,691,671)</u>
Capital assets, net		<u>\$ 45,585,585</u>	<u>\$ 14,486,190</u>	<u>\$ -</u>	<u>\$ 60,071,775</u>

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 6 - Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current portion</u>	<u>Long-term portion</u>
Bonds and Notes Payable:						
Notes payable	\$ 2,995,707	\$ -	\$ -	\$ 2,995,707	\$ 100,601	\$ 2,895,106
Bonds payable	<u>7,725,000</u>	<u>-</u>	<u>(515,000)</u>	<u>7,210,000</u>	<u>515,000</u>	<u>6,695,000</u>
Total notes payable	<u>10,720,707</u>	<u>-</u>	<u>(515,000)</u>	<u>10,205,707</u>	<u>615,601</u>	<u>9,590,106</u>
Liabilities for compensated absences and other:						
Accrued sick and vacation	4,174,605	92,620	(727,876)	3,539,349	2,271,031	1,268,318
Workers' compensation	365,763	49,811	-	415,574	90,180	325,394
Net pension liability	8,931,979	1,100,626	-	10,032,605	-	10,032,605
Net OPEB liability	<u>17,372,753</u>	<u>249,165</u>	<u>-</u>	<u>17,621,918</u>	<u>-</u>	<u>17,621,918</u>
Total liabilities	<u>30,845,100</u>	<u>1,492,222</u>	<u>(727,876)</u>	<u>31,609,446</u>	<u>2,361,211</u>	<u>29,248,235</u>
Total long-term liabilities	<u>\$ 41,565,807</u>	<u>\$ 1,492,222</u>	<u>\$ (1,242,876)</u>	<u>\$ 41,815,153</u>	<u>\$ 2,976,812</u>	<u>\$ 38,838,341</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current portion</u>	<u>Long-term portion</u>
Bonds and Notes Payable:						
Notes payable	\$ 2,995,707	\$ -	\$ -	\$ 2,995,707	\$ 100,601	\$ 2,895,106
Bonds payable	<u>8,240,000</u>	<u>-</u>	<u>(515,000)</u>	<u>7,725,000</u>	<u>515,000</u>	<u>7,210,000</u>
Total notes payable	<u>11,235,707</u>	<u>-</u>	<u>(515,000)</u>	<u>10,720,707</u>	<u>615,601</u>	<u>10,105,106</u>
Liabilities for compensated absences and other:						
Accrued sick and vacation	4,234,923	58,060	(118,378)	4,174,605	2,718,652	1,455,953
Workers' compensation	376,652	9,368	(20,257)	365,763	77,542	288,221
Net pension liability	9,496,282	-	(564,303)	8,931,979	-	8,931,979
Net OPEB liability	<u>16,896,096</u>	<u>476,657</u>	<u>-</u>	<u>17,372,753</u>	<u>-</u>	<u>17,372,753</u>
Total liabilities	<u>31,003,953</u>	<u>544,085</u>	<u>(702,938)</u>	<u>30,845,100</u>	<u>2,796,194</u>	<u>28,048,906</u>
Total long-term liabilities	<u>\$ 42,239,660</u>	<u>\$ 544,085</u>	<u>\$ (1,217,938)</u>	<u>\$ 41,565,807</u>	<u>\$ 3,411,795</u>	<u>\$ 38,154,012</u>

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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 \$471,697 and \$370,776 for the years ended June 30, 2019 and 2018, respectively. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2019:

Years Ending <u>June 30,</u>	<u>Operating Leases</u>
2020	\$ 864,120
2021	314,758
2022	303,652
2023	294,583
2024	4,060
2025-2028	<u>1,369,947</u>
	<u>\$ 3,151,120</u>

The College has a ten-year lease agreement with the Foundation to lease classroom space in downtown Holyoke. The agreement calls for monthly rental payments of approximately \$100,000 for the first two years of the agreement before reducing to \$22,000 per month with incremental increases at 3% each year thereafter. The College and Foundation recognize rental income and expense, respectively, on the straight-line basis over the lease term regardless of the actual cash payments. As a result, the individual statements of net position for each entity could include prepaid rent, for payments less than the straight-line amortization, or accrued rent expense for payment less than the straight-line amortization.

Bonds Payable

In October 2012, the College 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 2032 in principal repayment 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.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Note Payable

In January 2016, the College executed a Memorandum of Understanding with Massachusetts Division of Capital Asset Management and Maintenance (“DCAMM”) to undertake an Energy Equipment Design-Build Project at the College with the goal of making the facility more energy efficient, thus reducing utility expenses. The project was partially financed by Commonwealth General Obligation bond funds and utility incentives, with the balance being loaned to the College from the Clean Energy Investment Program (“CEIP”) Fund. The total value of the project was \$6,100,208, with the CEIP loan to the College totaling \$2,995,707, at a fixed interest rate of 4%, to be repaid over 20 years after DCAMM closes the project. The project was originally to be finalized during 2019, with payments commencing in 2019. However, the project was delayed one year and is now expected to be finalized during 2020, with payments commencing in 2020.

As of June 30, 2019, principal and interest payments on the bond and loan payable for the next five years and in subsequent five-year periods are as follows:

Fiscal year ending June 30:	<u>Principal</u>	<u>Interest*</u>
2020	\$ 615,601	\$ 337,578
2021	619,625	316,899
2022	623,810	296,631
2023	628,163	276,197
2024	632,689	255,985
2025-2029	3,237,939	962,433
2030-2034	2,866,567	424,546
2035-2039	981,313	120,834
	\$ 10,205,707	\$ 2,991,103

*Based on current 3.08% interest rate for Bond and 4.0% fixed interest rate for the note payable.

Note 7 - **Deferred Inflows of Resources**

The College received grants of \$3,800,000 from the Massachusetts Life Science Center, a state-funded investment agency, to assist with the construction costs of the College’s new Center for Health Sciences. At June 30, 2019, approximately \$3,700,000 has been recognized for construction costs paid on the project.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - **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

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

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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,:

	<u>2019</u>	<u>2018</u>
Compensation and benefits	\$ 47,699,938	\$ 47,732,484
Supplies and services	9,366,850	8,604,548
Depreciation and amortization	3,307,127	2,928,206
Scholarships	<u>3,076,949</u>	<u>3,024,101</u>
	<u>\$ 63,450,864</u>	<u>\$ 62,289,339</u>

Note 11 - State Appropriation

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

	<u>2019</u>	<u>2018</u>
Direct unrestricted appropriations:	\$ 21,432,572	\$ 20,208,910
Add: fringe benefits for benefited employees on the state payroll	7,290,998	6,906,662
Less: day school tuition remitted to the state and include in tuition and fee revenue	<u>(466,405)</u>	<u>(630,413)</u>
Total unrestricted appropriations	28,257,165	26,485,159
Restricted appropriations:	1,940,110	126,687
Capital appropriations		
Department of Capital Asset Management Allocation	<u>\$ 15,559,657</u>	<u>\$ 12,525,294</u>
Total appropriations	<u>\$ 45,756,932</u>	<u>\$ 39,137,140</u>

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Pensions**

Defined Benefit Plan Description

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

The Massachusetts State Employees' Retirement System does not issue stand-alone financial statements. Additional information regarding the plan is contained in the Commonwealth's financial statements, which is available online from the Office of State Comptroller's website.

Benefit Provisions

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

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

Contributions

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

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Pensions - Continued**

Contributions - continued

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

The Commonwealth does not require the College to contribute funding from its local trust funds for employees paid by State appropriations. Pension funding for employees paid from State appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$2,520,190, \$2,333,921, and \$1,945,199, for the years ended June 30, 2019, 2018 and 2017, respectively.

For employees covered by SERS but not paid from State appropriations, the College is required to contribute at an actuarially determined rate. The rate was 12.06%, 11.78% and 9.95% of annual covered payroll for the fiscal years ended June 30, 2019, 2018, and 2017, respectively. The College contributed \$571,187, \$693,458, and \$544,504 for the fiscal years ended June 30, 2019, 2018, and 2017, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 47%, 44%, and 47% of total related payroll for fiscal years end 2019, 2018 and 2017, respectively.

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

At June 30, 2019 and 2018, the College reported a liability of \$10,032,605 and \$8,931,979, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Pensions - Continued**

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

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2019 and 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the College's proportion was 0.076% and 0.070%, respectively.

For the years ended June 30, 2019 and 2018, the College recognized pension expense of \$1,186,164 and \$938,613, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

Deferred Outflows of Resources

	<u>2019</u>		<u>2018</u>
Contributions subsequent to the measurement date	\$ 571,187	\$	693,458
Difference between expected experience	318,149		345,347
Changes in proportion due to internal allocation	927,483		576,320
Changes in proportion from the Commonwealth of Massachusetts	27,058		30,592
Change in plan assumptions	<u>1,016,742</u>		<u>929,510</u>
Total	<u>\$ 2,860,619</u>	\$	<u>2,575,227</u>

Deferred Inflows of Resources

	<u>2019</u>		<u>2018</u>
Net difference between projected and actual earnings on pension plan investments	\$ 348,723	\$	106,425
Difference between expected experience	204,465		243,017
Change in proportion from the Commonwealth of Massachusetts	1,907		3,184
Change in proportion due to internal allocation	<u>603,627</u>		<u>1,006,342</u>
Total	<u>\$ 1,158,722</u>	\$	<u>1,358,968</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Pensions - Continued**

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

The College's contributions of \$571,187 and \$693,458 made during the fiscal years ending 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2020	\$ 700,243
2021	358,976
2022	(74,171)
2023	90,234
2024	<u>55,428</u>
Total	\$ <u>1,130,710</u>

Actuarial Assumptions

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

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

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

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Pensions - Continued**

Actuarial Assumptions - continued

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

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

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **Pensions - Continued**

Actuarial Assumptions - continued

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

Discount Rate

The discount rate used to measure the total pension liability was 7.35% and 7.50% at June 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate at June 30,:

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12- **Pensions - Continued**

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

1.00% Decrease	<u>2019</u> Current Discount Rate	1.00% Increase
(6.35%)	(7.35%)	(8.35%)
\$ 13,522,274	\$ 10,032,605	\$ 7,050,817
1.00% Decrease	<u>2018</u> Current Discount Rate	1.00% Increase
(6.50%)	(7.50%)	(8.50%)
\$ 12,164,997	\$ 8,931,979	\$ 6,327,724

Note 13 - **Other Post-Employment Benefits ("OPEB")**

Plan Description

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

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

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

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

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13- **Other Post-Employment Benefits (“OPEB”) - Continued**

Benefits Provided

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs, which are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

Contributions

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

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

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.79% and 8.92% of annual covered payroll for the fiscal years ended June 30, 2019 and 2018, respectively. The College contributed \$416,506 and \$525,030 for the fiscal years ended June 30, 2019 and 2018, respectively, equal to 100% of the required contribution for the year.

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

At June 30, 2019 and 2018, the College reported a liability of \$17,621,918 and \$17,372,753, respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively. The College’s proportion of the net OPEB liability was based on its share of the Commonwealth’s collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College’s share of total covered payroll for the fiscal years 2018 and 2017. The College’s proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2018 and 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the College’s proportion was 0.118% and 0.099%, respectively.

For the years ended June 30, 2019 and 2018, the College recognized OPEB expense of \$1,428,579 and \$1,376,937, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Contributions subsequent to the measurement date	\$ 416,506	\$ 525,030
Difference between expected experience	214,034	-
Changes in proportion due to internal allocation	4,250,397	1,567,219
Changes in proportion from the Commonwealth of Massachusetts	<u>56,632</u>	<u>36,359</u>
Total	\$ <u>4,937,569</u>	\$ <u>2,128,608</u>

Deferred Inflows of Resources

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual earnings on pension plan investments	\$ 44,002	\$ 31,696
Difference between expected experience	37,613	39,943
Changes in proportion due to internal allocation	-	-
Change in plan assumptions	<u>5,414,210</u>	<u>1,967,643</u>
Total	\$ <u>5,495,825</u>	\$ <u>2,039,282</u>

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

The College's contributions of \$416,506 and \$525,030 made during the fiscal year 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in each of the succeeding years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as increases (decreases) in OPEB expense as follows:

Years Ending June 30,	
2018	\$ (209,300)
2019	(209,300)
2020	(209,300)
2021	(95,145)
2022	<u>(251,717)</u>
Total	\$ <u>(974,762)</u>

Actuarial Assumptions

The total OPEB liability for 2019 and 2018 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Actuarial Assumptions - continued

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

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% of current and future contingent eligible participants will elect health care benefits at age 55, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

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

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Other Post-Employment Benefits ("OPEB") - Continued**

Actuarial Assumptions - continued

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

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

Discount Rate

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

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

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

1.00% Decrease	<u>2019</u> Current Discount Rate	1.00% Increase
(2.95%)	(3.95%)	(4.95%)
\$ 20,808,462	\$ 17,621,918	\$ 15,074,324
<u>2018</u>		
1.00% Decrease	Current Discount Rate	1.00% Increase
(2.63%)	(3.63%)	(4.63%)
\$ 20,622,847	\$ 17,372,753	\$ 14,788,675

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

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

1.00% Decrease	<u>2019</u> Current Healthcare Cost Trend Rate	1.00% Increase
(B)	(A)	(C)
\$ 14,640,772	\$ 17,621,918	\$ 21,513,669
<u>2018</u>		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
(B)	(A)	(C)
\$ 14,373,744	\$ 17,372,753	\$ 21,319,268

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

- (A) - Current healthcare cost trend rate, as disclosed on page 54.
- (B) - 1-percentage decrease in current healthcare cost trend rate, as disclosed on page 54.
- (C) - 1-percentage increase in current healthcare cost trend rate, as disclosed on page 54.

Note 14 - **Fringe Benefits Provided by State**

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

Group Insurance Commission

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

The GIC is a quasi-independent state agency governed by a seventeen-member body (the “Commission”) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth’s employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 14 - **Fringe Benefits Provided by State - Continued**

Other Retirement Plans

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

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

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

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

	<u>2019</u>	<u>2018</u>
Revenue per MMARS	<u>\$ 39,466,531</u>	<u>\$ 42,869,381</u>
Revenue per College	<u>\$ 39,466,531</u>	<u>\$ 42,869,381</u>

Note 16 - **Pass-Through Grants**

The College distributed \$5,331,646 and \$5,818,793 for the years ended June 30, 2019 and 2018, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

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

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

Massachusetts State Employees' Retirement System

Report date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.076%	0.070%	0.069%	0.081%	0.068%
Proportionate share of the collective net pension liability	\$ 10,032,605	\$ 8,931,989	\$ 9,496,282	\$ 9,174,886	\$ 5,028,761
Covered payroll	\$ 5,886,740	\$ 5,472,402	\$ 5,233,111	\$ 4,856,747	\$ 5,024,426
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	170.43%	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	67.91%	67.21%	63.48%	67.87%	76.32%

DRAFT

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2015 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Schedules of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Year Ended June 30,

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 571,187	\$ 693,458	\$ 544,504	\$ 494,529	\$ 504,616
Contributions in relation to the contractually required contribution	<u>(571,187)</u>	<u>(693,458)</u>	<u>(544,504)</u>	<u>(494,529)</u>	<u>(504,616)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,736,211	\$ 5,886,740	\$ 5,472,402	\$ 5,233,111	\$ 4,856,747
Contribution as a percentage of covered payroll	12.06%	11.78%	9.95%	9.45%	10.39%

DRAFT

Notes:

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

The Schedule is intended to show ten years. Information is only available for three years.

See accompanying notes to the required supplementary information.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - SERS (Unaudited)

June 30, 2019 and 2018

Note 1 - Change in Plan Actuarial and Assumptions

Measurement date – June 30, 2018

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

The mortality rate assumptions were changed as follows:

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

Measurement date – June 30, 2017

The mortality rates were changed as follows:

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

Measurement date – June 30, 2016

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

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

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

Notes to the Required Supplementary Information - SERS (Unaudited)

June 30, 2019 and 2018

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

Measurement date – June 30, 2015

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

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

The mortality rates were changed as follows:

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

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

Schedules of Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

Year ended	June 30, 2019	June 30, 2018
Measurement date	June 30, 2018	June 30, 2017
Valuation date	January 1, 2018	January 1, 2017
Proportion of the collective net OPEB liability	0.118%	0.099%
Proportionate share of the collective net OPEB liability	\$ 17,621,918	\$ 17,372,753
College's covered payroll	\$ 5,886,740	\$ 5,472,402
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	299.35%	317.46%
Plan fiduciary net position as a percentage of the total OPEB liability	7.38%	5.39%

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedules of Contributions - OPEB (Unaudited)

State Retirees' Benefit Trust

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 416,506	\$ 525,030
Contributions in relation to the statutorily required contribution	<u>(416,506)</u>	<u>(525,030)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 4,736,211	\$ 5,886,740
Contribution as a percentage of covered payroll	8.79%	8.92%

Notes:

Employers participating in the State Retirees' Benefit Trust are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

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

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information – OPEB (Unaudited)

June 30, 2019 and 2018

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2019

Assumptions:

Change in Trend on Future Costs

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

Change in Mortality Rates

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

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

Change in Discount Rate

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

Fiscal year June 30, 2018

Assumptions:

Change in Discount Rate

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

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

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, 2019 and 2018 and the related statements of revenues and expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated **DATE**. Our report includes a reference to other auditors who audited the financial statements of the Holyoke Community College Foundation. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

**Certified Public Accountants
Braintree, Massachusetts**

DATE