HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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

Financial Statements and Management's Discussion and Analysis

June 30, 2017

C O N T E N T S

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Holyoke Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Holyoke Community College Foundation, Inc. (the "Foundation") as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of Holyoke Community College as of June 30, 2017 and 2016 and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-19, the schedule of the College's proportionate share of the net pension liability on page 54, the schedule of the College's contributions on page 55 and the notes to the required supplementary information on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 12, 2017, on our consideration of Holyoke Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holyoke Community College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 12, 2017

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

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

The following discussion and analysis provides management's view of the financial position of Holyoke Community College (the College) as of June 30, 2017, 2016 and 2015, 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 06/30/16 on the FY 17 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 17 statements reflect the implementation of GASB 68. Please see footnote, on page.

The College is a public institution of higher education serving approximately 11,267 students, with 127 faculty and 274 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, 2017, the College's assets of $72,471,652 and deferred outflows of resources of $2,702,678 exceeded its liabilities of $30,384,102 and deferred inflows of resources of $4,189,970 by $40,600,258. At June 30, 2016, the College's assets of $64,034,885 and deferred outflows of resources of $2,356,213 exceeded its liabilities of $28,075,708 and deferred inflows of resources of $3,757,571 by $34,557,819. At June 30, 2015, the College's assets of $61,681,225 and deferred outflows of resources of $561,145 exceeded its liabilities of $22,923,404 and deferred inflows of resources of $4,893,367 by $34,425,599. These resulting net position is summarized into the following categories:

	2017	2016	2015
Net invested in capital assets	$ 35,120,301	28,558,337	28,184,391
Restricted, expendable	639,835	499,612	259,685
Unrestricted	4,840,122	5,499,870	5,981,523
Total net assets	$ 40,600,258	34,557,819	34,425,599

- The College's Trustees may use the unrestricted net position to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net position may also be expended, but only for the purposes for which the donor or grantor intended.
- The College's Trustees have designated certain unrestricted net position for a number of purposes including: capital expansion funds; capital adaptation and renewal funds; new program funds; and long-term investment funds.
- Net position reflects the impact of the College's portion of the Commonwealth's unfunded pension liability of $9,496,282 in FY17, $9,174,886 in FY16 and $5,028,761 in FY15.
- The current year's increase in net position was positively impacted by a $4.18 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. The increase was negatively impacted by an unfunded pension liability expense (net) of $562,557. These combined impacts delivered an increase in net position of $6,042,439. The FY16 increase is the result of capital appropriations totaling $1,304,270, partially offset by operating deficits net of non-operating revenues of $642,122 and a net negative unfunded pension adjustment of $547,026. The FY15 increase is attributable to investment income of $529,928, capital appropriation of $577,563 offset by operating deficits net of non-operating revenue (excluding investment income) totaling $458,230. More information can be found in the capital assets discussion in this report and footnote 5 on page 38.
- The Holyoke Community College/MGM Culinary Arts Institute in downtown Holyoke is scheduled to open in late 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.

HOLYOKE COMMUNITY COLLEGE
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Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Overview of the Financial Statements

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

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

The Holyoke Community College Foundation (Foundation) is a legally separate tax-exempt component unit of Holyoke Community College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The board of directors of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. 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 position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.
>
> *The Statements of Revenues and Expenses* presents information showing how the College's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for

some items that will only result in cash flows in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

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

The financial statements can be found on pages 20-23 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 position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted, as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 24-54 of this report.

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

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. The College's assets exceeded liabilities by $40,600,258, $34,557,819 and $34,425,599 at the close of FY17, FY16, and FY15 respectively.

Net Assets		June 30 2017	2016 (In thousands)	2015
Current assets	$	13,241	14,810	13,959
Noncurrent assets		59,231	49,225	47,722
Total assets	$	72,472	64,035	61,681
Deferred outflows of resources	$	2,702	2,356	561
Current liabilities	$	8,310	9,062	7,386
Noncurrent liabilities		22,074	19,014	15,537
Total liabilities	$	30,384	28,076	22,923
Deferred inflows of resources	$	4,190	3,758	4,893
Net position:				
Net investment in capital assets	$	35,120	28,588	28,184
Restricted, expendable		640	500	260
Unrestricted		4,840	5,500	5,982
Total net position	$	40,600	34,588	34,426

The largest portion of the College's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. In FY17, investment in capital assets totaled $35,120,301 or 48.5% 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 FY17, restricted net position totaled $639,835 or 0.9% of total assets.

Unrestricted net position may be used to meet the College's ongoing obligations to its stakeholders. In FY17, unrestricted net position total $4,840,122, $5,499,870 in FY16, and $5,981,523 in FY15.

The College's Trustees have determined that unrestricted net position be designated for long-term investment, capital expansion, plant adaptation and renewal and other uses (see note 9 on page 43 of this report).

The College's net position increased $6,042,439 in fiscal 2017, $132,220 in fiscal 2016, and $649,261 in fiscal 2015. The schedule below provides a summary of Changes in Net Position.

Changes in Net Position		Year ended June 30 2017	2016	2015
			(In thousands)	
Operating revenues:				
Tuition and fees, net of tuition waivers, and remissions	$	13,573	14,598	15,871
Other operating sources		20,895	20,992	22,465
Total operating revenues		34,468	35,590	38,336
Operating expenses		61,702	61,327	62,498
Net operating loss		(27,234)	(25,737)	(24,162)
Nonoperating revenues (expenses):				
State appropriation		26,694	24,760	23,999
Other nonoperating income (expenses)		1,260	(195)	234
Total nonoperating revenues		27,954	24,565	24,233
Income (loss) before other revenues, expenses, gains, or losses		720	(1,172)	71
Capital revenues (expenses):				
State capital appropriations		5,322	1,304	578
Net capital revenues		5,322	1,304	578
Increase (decrease) in net assets		6,042	132	649
Net position:				
Beginning of year		34,558	34,426	33,777
End of year	$	40,600	34,558	34,426

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Management's Discussion and Analysis

June 30, 2017 and 2016

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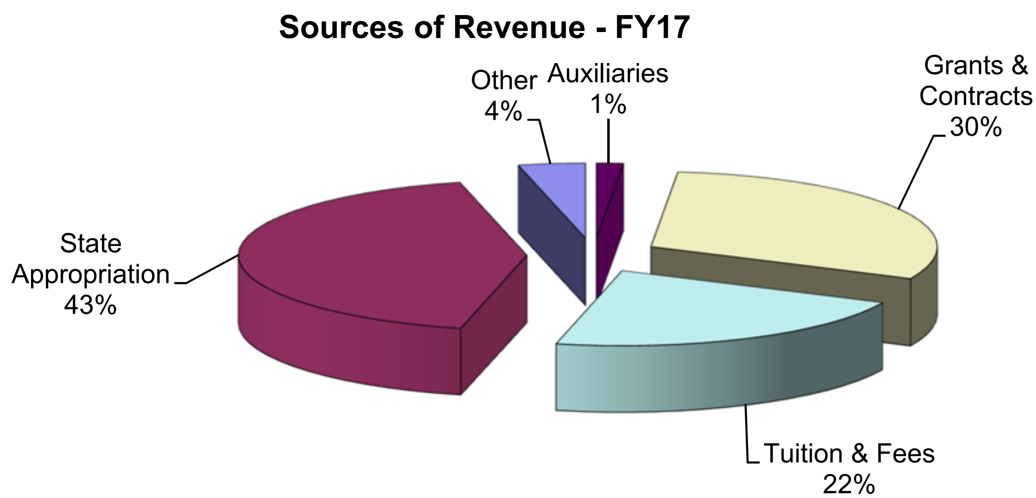

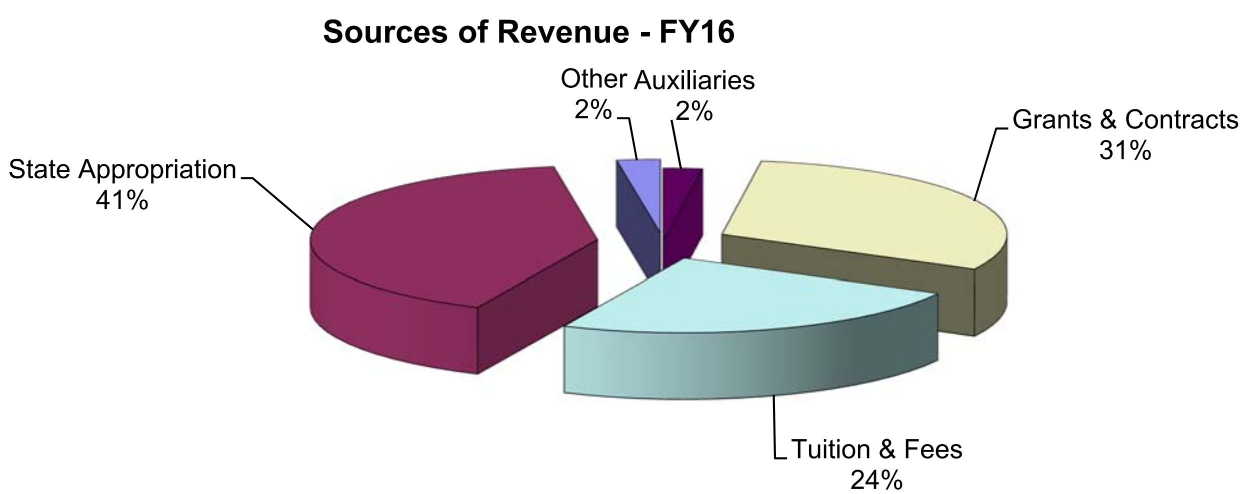

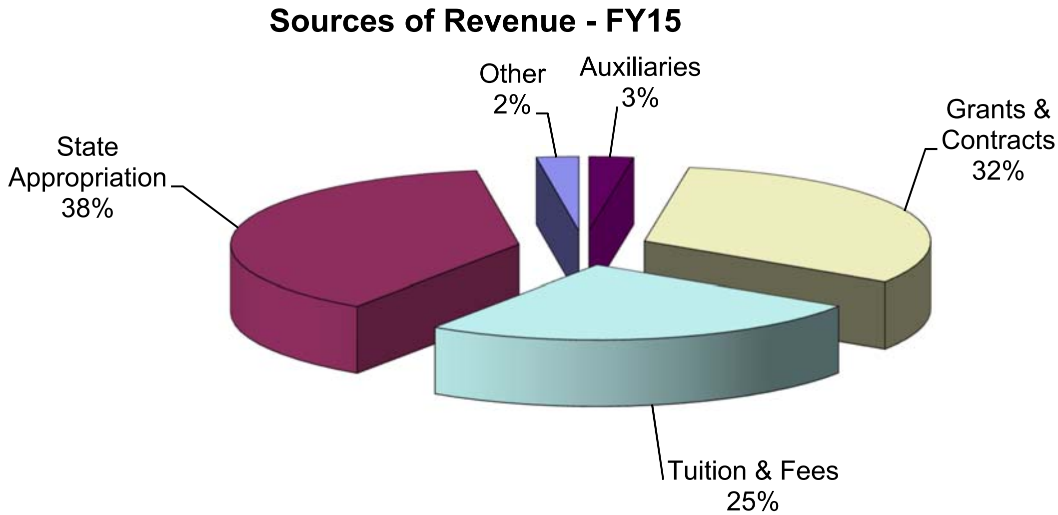

Revenue from all sources (excluding capital appropriations) totaled $62,684,257, $60,435,420 and $62,864,961 in FY17, FY16 and FY15 respectively.

Highlights of revenue include:

- State appropriations, which include the cost of fringe benefits (excluding capital appropriations), totaled $26,693,503, $24,759,813, and $23,999,262 in FY17, FY16, and FY15, respectively, and amount to 42.6%, 40.1%, and 38.2% of all revenue. In FY17, the State Appropriation increased $1,933,690 or 7.8% from prior year. The appropriation increased modestly in FY16 $760,551 or 3.2%. In FY15, the Governor implemented a MGL Chapter 29, Section 9C reduction of $283,165 to the College's original appropriation, and the College transferred this amount to the State Treasurer to satisfy this obligation.
- The category tuition and fees represents approximately 50% of our unrestricted revenue and totaled $23,681,147, $24,046,634 and $23,403,789 in FY17, FY16, and FY15, respectively. Of this amount, $10,108,440, $9,448,611, and $7,533,270 are tuition and fees paid by various financial aid programs including local funds designated by the College. In FY17, tuition and fees per credit hour were 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. Tuition and Fees per credit hour were increased $12 or 7.6% in FY16; this increase was substantially reduced by a 5.3% decline in credit enrollment resulting in a net 2.7% increase before allowances and discounts. The credit cost per hour increased $11 or

7.0% in FY15 and was substantially offset by a 4.4% decline in credit enrollment, resulting in a net increase of 1.1%.

- A 6% decline in enrollment is anticipated for the coming year and the decline is expected to be offset by a $5 Tuition and Fee increase.
- The category Grants and Contracts totaled $19,132,374, $18,618,289, and $19,944,269 in FY17, FY16, and FY15 respectively, of which $11,492,940, $13,998,232 and $15,127,437 was state and federal student financial aid. Grants and contracts for college programs were $7,639,434 in FY17; $4,620,057 in FY16; and $4,816,832 in FY15. The increase in FY17 is due to a state grant for culinary equipment for $1.5 million and an HCC Foundation gifts to the college of $1.1 million of which $750K is College for the Marieb Building Life Sciences project.
- 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 $1,656,417, $3,021,944, and $3,592,702 in FY17, FY16, and FY15, respectively. Included in this amount are $718,265, $1,682,283, and $2,027,615 in sales paid by financial aid. 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 spring 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 $507,758 (15.9%) in FY16 and by $152,293 (4.1%) in FY15.
- 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 $824,220, $1,034,504, and $955,896 in FY17, FY16, and FY15, respectively.

HOLYOKE COMMUNITY COLLEGE
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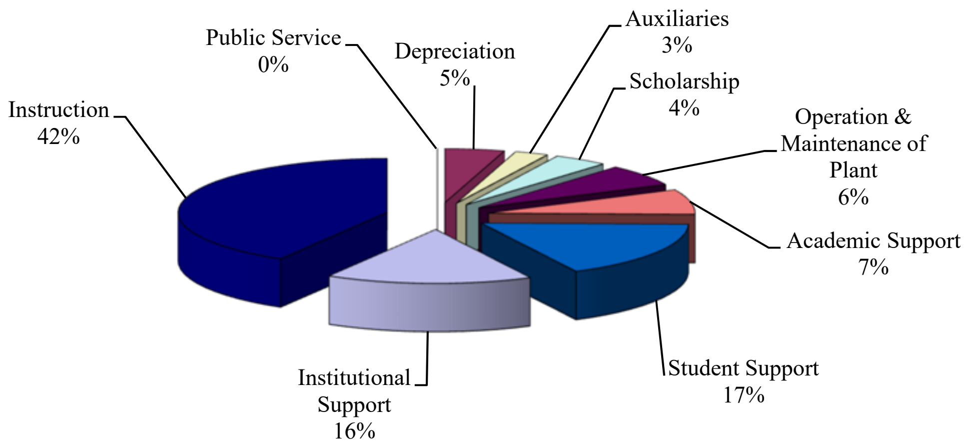
Management's Discussion and Analysis

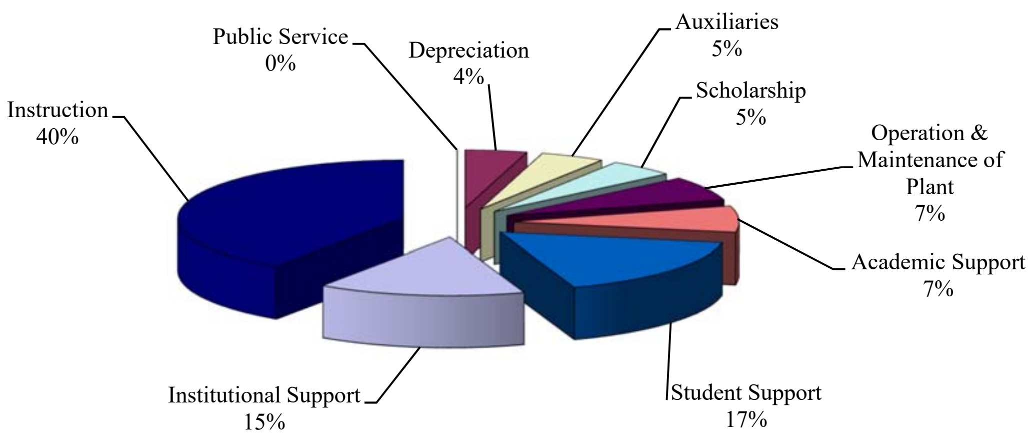
June 30, 2017 and 2016

(Unaudited)

FY17 Expenditures



FY16 Expenditures



HOLYOKE COMMUNITY COLLEGE
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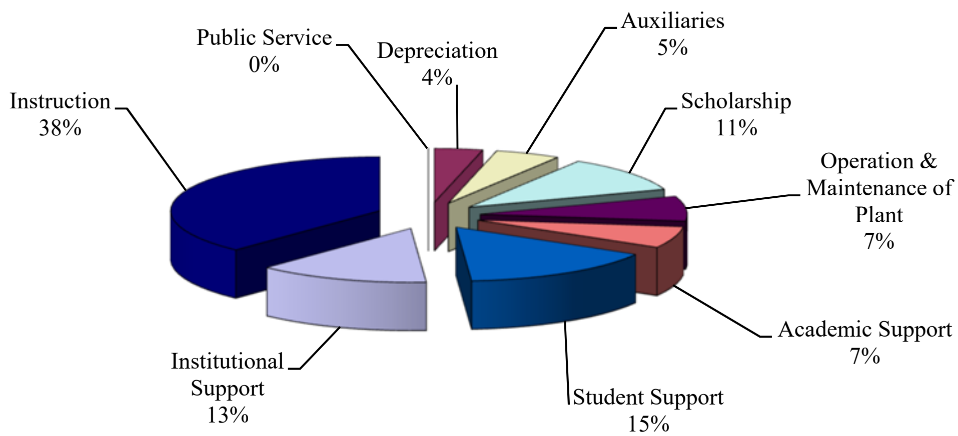
Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

FY15 Expenditures



Highlights of expenditures include:

In the current year, the College had a net pension expense of $562,557 resulting from the College's allocation of the Commonwealth's net Pension Liability impacting all expense categories except Scholarships and Depreciation. The following program expense category results are as follows:

- ***Instruction*** costs increased $763,190 in the current year, the increase was principally due to increased fringe benefit costs of $484,928, additional grant funded non-credit costs of $150,465, and the balance due to collective bargaining salary increases. In FY16, instruction increased $885,359 principally due to incremental grant funding for instructional programs. In FY15, instruction increased $1.5 million due to contractual salary increases, additional full time faculty, and new grant funded part time faculty positions in equal proportions..
- ***Scholarships*** (payments directly to students) decreased by $328,382 in the current year, primarily due to Pell awards decreasing $1.4 Million. This reduction was offset by other federal and local aid, and the amount applied towards tuition and fees increasing by $659,829 compared to last year. There was a substantial decrease in FY16 of $1.6 million due to an 18% decline in Pell awards to students. Scholarships decreased $713,087 in FY15 due to increased tuition and fees being paid with financial aid.

- ***Operation and maintenance of plant*** declined by $162,212 in the current year, primarily due to open positions. In FY16, this category decreased $517,972, principally due to lower energy costs and open positions. The increase of $314,972 in FY15 was due to contractual salary increases, which accounted for two-thirds of the increase with non-capital improvements accounting for the balance.

- ***Institutional support*** increased by $755,261 in FY17 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. In FY16, this category increased $719,638 due to higher labor costs and general expense increases across all categories. Institutional Support decreased by $633,869 in FY15 with lower bad debt expense accounting for a third of the decrease, the balance due to lower costs in equipment, consulting, and general expenses.

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.

- ***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 $1,747,245, or 7.1% in FY17, $857,210 or 3.6% in FY16, and $1,292,893 or 5.75% in FY15. The unrestricted state appropriation is the primary funding provided by the Commonwealth to support the operation of the College.

Investment gains were $1,523,301, $85,130, and $529,928 in FY17, FY16, and FY15, 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.

The following schedule presents the College's incurred losses from operations for the fiscal years ended June 30, 2017, 2016, and 2015 before pension adjustment:

		Year ended June 30		
		2017	**2016**	**2015**
Tuition and fee revenue	$	13,572,707	14,598,023	15,870,519
Other revenue		20,894,746	20,992,454	22,465,252
Operational expenses		(61,701,802)	(61,327,917)	(62,498,376)
Operating loss		(27,234,349)	(25,737,440)	(24,162,605)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth		26,693,503	24,759,813	23,999,262
Other nonoperating revenues, net		1,260,579	(194,423)	235,041
Net change before capital appropriations	$	719,733	(1,172,050)	71,698

Capital Assets and Debts of the College

Capital Assets

The College's investment in capital assets as of June 30, 2017, 2016, and 2015 amounts to $35,120,301, $28,558,337, and $28,184,391, 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 $6,561,964 or 22.9% in FY17; increased $373,946 or 4.1% in FY16, decreased $130,914 or -0.5% in FY15.

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

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 substantial completion is expected in April of 2019, with occupancy completed for 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 long-term debt balances of $8,240,000 for the 2012 series MDFA Revenue Bond, and $1,598,880 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 FY19.

Additional information about the College’s long-term liabilities can be found in note 6 on page 40 of this report

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 7.8%, in FY16 by 3.17%,and in FY15 by 5.75%, Tuition and Fees were increased $14 per credit hour in FY17 and by $12 per credit hour in FY16 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. In FY15 the Board approved $500,000 to upgrade five rooms to full model classrooms, upgrade technology on fifteen other classrooms, purchase furniture and make other classroom improvements.

For fiscal year 2017, 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 $150 per credit hour. In FY15, the College increased the Educational Service Fee by $12 from $124 per credit hour to $136 per credit hour and created a Facilities Fee of $4 per credit hour that provides a funding source for capital projects and infrastructure maintenance. The Technology Fee was increased by $20 from $55 to $75 per semester. The per semester Nursing/Radiology Program Fee and the Foundations of Health Fee increased by $125 and $50 respectively The College increased tuition and fees by $11 per credit hour to $124 per credit for fiscal 2015 having maintained them unchanged for the previous two years. 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

(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2017

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2017 College	2016 College	**2017 Foundation**	2016 Foundation
Assets:				
Current Assets:				
Cash and equivalents	**$ 1,942,017**	$ 3,179,465	**$ 70,119**	$ 164,745
Cash held by State Treasurer	**682,620**	708,541	**-**	-
Cash held by DCAMM	**4,283,431**	3,850,688	**-**	-
Short-term investments	**146,892**	108,961	**-**	-
Accounts receivable, net	**4,768,044**	6,447,027	**67,313**	113,525
Due from Foundation	**1,155,806**	121,554	**-**	-
Inventory and other current assets	**261,968**	393,420	**13,554**	2,749
Total Current Assets	**13,240,778**	14,809,656	**150,986**	281,019
Non-Current Assets:				
Long-term investments	**13,645,289**	12,094,345	**13,429,707**	12,060,663
Pledges receivable	**-**	-	**37,820**	83,992
Capital assets, net of accumulated depreciation	**45,585,585**	37,130,884	**546,572**	571,689
Total Non-Current Assets	**59,230,874**	49,225,229	**14,014,099**	12,716,344
Deferred Outflows of Resources:				
Pension related, net	**2,702,678**	2,356,213	**-**	-
Total Assets and Deferred Outflows of Resources	**$ 75,174,330**	$ 66,391,098	**$ 14,165,085**	$ 12,997,363

Liabilities, Deferred Inflows of Resources and Net Position

	2017 College	2016 College	**2017 Foundation**	2016 Foundation
Liabilities:				
Current Liabilities:				
Accounts payable and accrued liabilities	**$ 1,288,511**	$ 919,233	**$ 26,556**	$ 33,894
Accrued payroll	**2,125,351**	2,238,648	**-**	-
Compensated absences and other	**2,754,524**	2,619,945	**-**	-
Accrued interest payable	**43,239**	45,941	**-**	-
Student deposits and unearned revenues	**1,518,708**	2,632,837	**-**	-
Due to College	**-**	-	**1,155,806**	121,554
Funds held for others	**64,729**	90,338	**-**	-
Current portion of bonds payable	**515,000**	515,000	**-**	-
Total Current Liabilities	**8,310,062**	9,061,942	**1,182,362**	155,448
Non-Current Liabilities:				
Compensated absences and other	**1,857,051**	1,598,880	**-**	-
Net pension liability	**9,496,282**	9,174,886	**-**	-
Note payable	**2,995,707**	-	**-**	-
Long-term portion of bonds payable	**7,725,000**	8,240,000	**-**	-
Total Non-Current Liabilities	**22,074,040**	19,013,766	**-**	-
Total Liabilities	**30,384,102**	28,075,708	**1,182,362**	155,448
Deferred Inflows of Resources:				
Pension related, net	**676,962**	89,336	**-**	-
Governmental voluntary nonexchange transaction	**3,513,008**	3,668,235	**-**	-
Total Deferred Inflows of Resources	**4,189,970**	3,757,571	**-**	-
Net Position:				
Net investment in capital assets	**35,120,301**	28,558,337	**546,572**	571,689
Restricted:				
Nonexpendable	**-**	-	**5,474,094**	5,276,810
Expendable	**639,835**	499,612	**5,192,436**	5,234,322
Unrestricted	**4,840,122**	5,499,870	**1,769,621**	1,759,094
Total Net Position	**40,600,258**	34,557,819	**12,982,723**	12,841,915
Total Liabilities, Deferred Inflow of Resources and Net Position	**$ 75,174,330**	$ 66,391,098	**$ 14,165,085**	$ 12,997,363

See accompanying notes to the financial statements.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2017

	Primary Government		Component Unit	
	2017 College	2016 College	**2017 Foundation**	2016 Foundation
Operating Revenues:				
Tuition and fees	**$ 23,681,147**	$ 24,046,634	**$ -**	$ -
Less: scholarship allowances	**(10,108,440)**	(9,448,611)	**-**	-
Net student fees	**13,572,707**	14,598,023		
Federal, state, local and private grants and contracts	**19,132,374**	18,618,289	**8,237**	10,164
Auxiliary enterprises, net	**938,152**	1,339,661	**-**	-
Other operating revenues	**824,220**	1,034,504	**72,114**	72,139
Total Operating Revenues	**34,467,453**	35,590,477	**80,351**	82,303
Operating Expenses:				
Instruction	**25,608,145**	24,844,955	**-**	-
Academic support	**4,610,750**	4,455,135	**-**	-
Student services	**10,609,409**	10,308,781	**-**	-
Scholarships	**2,598,574**	2,926,956	**287,288**	980,242
Operation and maintenance of plant	**3,998,595**	4,160,807	**-**	-
Institutional support	**9,839,175**	9,083,914	**2,098,092**	516,286
Depreciation and amortization	**2,840,806**	2,718,288		-
Auxiliary enterprises	**1,596,348**	2,829,081	**-**	-
Total Operating Expenses	**61,701,802**	61,327,917	**2,385,380**	1,496,528
Net Operating Loss	**(27,234,349)**	(25,737,440)	**(2,305,029)**	(1,414,225)
Non-Operating Revenues (Expenses):				
State appropriations - unrestricted	**26,380,267**	24,633,022	**-**	-
State appropriations - restricted	**313,236**	126,791	**-**	-
Net investment income	**1,523,301**	85,130	**1,667,562**	144,365
Interest expense	**(262,722)**	(279,553)	**-**	-
Gifts and contributions	**-**	-	**778,275**	861,949
Net Non-Operating Revenues	**27,954,082**	24,565,390	**2,445,837**	1,006,314
Change in Net Position Before Capital Appropriations	**719,733**	(1,172,050)	**140,808**	(407,911)
Capital appropriations	**5,322,706**	1,304,270	**-**	-
Total Change in Net Position	**6,042,439**	132,220	**140,808**	(407,911)
Net Position:				
Beginning of Year	**34,557,819**	34,425,599	**12,841,915**	13,249,826
End of Year	**$ 40,600,258**	$ 34,557,819	**$ 12,982,723**	$ 12,841,915

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Year Ended June 30, 2017

	2017 College	2016 College
Cash Flows from Operating Activities:		
Tuition and fees	**$ 17,502,434**	$ 17,572,954
Grants and contracts	**20,921,326**	16,895,131
Payments to suppliers	**(8,626,268)**	(10,809,226)
Payments to employees	**(40,832,922)**	(38,397,592)
Payments to students	**(7,652,184)**	(5,208,805)
Other cash receipts	**1,690,968**	2,381,699
Net Cash Applied to Operating Activities	**(16,996,646)**	(17,565,839)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**20,738,164**	19,933,904
Tuition remitted to the State	**(593,824)**	(662,695)
Net Cash Provided by Non-Capital Financing Activities	**20,144,340**	19,271,209
Cash Flows from Capital and Related Financing Activities:		
Direct capital appropriations	**170,268**	88,435
Grant from governmental agency	**-**	800,000
Purchases of capital assets	**(3,147,362)**	(2,967,653)
Principal paid on debt	**(515,000)**	(515,000)
Interest on debt	**(265,424)**	(282,255)
Net Cash Applied to Capital and Related Financing Activities	**(3,757,518)**	(2,876,473)
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	**28,262**	68,634
Purchases of investments	**(471,636)**	(352,364)
Interest on investments	**222,572**	220,599
Net Cash Applied to Investing Activities	**(220,802)**	(63,131)
Net Decrease in Cash and Equivalents	**(830,626)**	(1,234,234)
Cash and Equivalents, Beginning of Year	**7,738,694**	8,972,928
Cash and Equivalents, End of Year	**$ 6,908,068**	$ 7,738,694

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Year Ended June 30, 2017

	2017 College	2016 College
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	**$ (27,234,349)**	$ (25,737,440)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	**2,840,806**	2,718,288
Fringe benefits provided by the State	**6,549,163**	5,488,604
Net pension activity	**562,557**	547,026
Bad debts	**269,825**	196,648
Changes in assets and liabilities:		
Accounts receivable, net	**1,409,158**	(2,537,772)
Due from Foundation	**(1,034,252)**	166,109
Inventory and other current assets	**131,452**	68,817
Accounts payable and accrued liabilities	**369,279**	(192,173)
Accrued employee compensation and benefits	**279,453**	397,473
Funds held for others	**(25,609)**	35,727
Students' deposits and unearned revenues	**(1,114,129)**	1,282,854
Net Cash Applied to Operating Activities	**$ (16,996,646)**	$ (17,565,839)
Reconciliation Cash and Equivalents to the Statement of Net Position, End of Year		
Cash and equivalents	**$ 1,942,017**	$ 3,179,465
Cash held by State Treasurer	**682,620**	708,541
Cash held by DCAMM	**4,283,431**	3,850,688
	$ 6,908,068	$ 7,738,694
Non-Cash Transactions:		
Fringe benefits provided by the State	**$ 6,549,163**	$ 5,488,604
Capital appropriation	**$ 5,152,438**	$ 1,215,835
Notes payable used to acquire capital assets	**$ 2,995,707**	$ -

See accompanying notes to the financial statements.

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

Organization
Holyoke Community College (the “College”) is a state-supported comprehensive community college that offers a quality education leading to associate degrees in arts and sciences as well as one-year certificate programs. 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 Association of Schools and Colleges.

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

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The College’s policy for defining operating activities in the statement of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth of Massachusetts (the “Commonwealth”), net investment income/(loss), gifts, and interest expense.

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

Basis of Presentation - Continued

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

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

Complete financial statements for the Foundation can be obtained from Holyoke Community College Foundation, 303 Homestead Avenue, Holyoke, MA 01040.

Net Position

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

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

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

Restricted - expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the College's Board of Trustees.

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

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

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

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

Cash held by DCAMM
Cash 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 statement of revenues, expenses and changes in net position. Any net earnings not expended are included in net position categories as follows:

(i) as increases in restricted – nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;

(ii) as increases in restricted – expendable net position if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The College has relied upon the Massachusetts Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as restricted – expendable; and

(iii) as increases in unrestricted net position in all other cases.

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

Investments - Continued
The College categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles as prescribed by the GASB. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The College does not have any investments that are measured using Level 2 or 3 inputs.

Inventory and Other Current Assets
Inventories consisting of books, publications, and supplies are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Other current assets consist of prepaid expenses.

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

Capital Assets
Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment, and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than $50,000 are capitalized. Library materials are generally capitalized and amortized over a five-year period. Interest costs on debt related to capital assets are capitalized during the construction period. College capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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.

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

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

Compensated Absences
Employees earn the right to be compensated during absences for vacation leave and sick leave, along with compensatory time. Accrued vacation is the amount earned by all eligible employees through June 30, 2017 and 2016. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2017 and 2016. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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.

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

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

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

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

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

New Governmental Accounting Pronouncements
GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 14, management is anticipating a restatement of balances during the upcoming fiscal year to include the effect of this Statement.

GASB Statement 83 – *Certain Asset Retirement Obligations* (“AROs”) is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this standard and its applicability.

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

New Governmental Accounting Pronouncements - Continued

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 to be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 86 – *Certain Debt Extinguishment Issues* is effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures in the financial statements for debt that is defeased in substance. Management has not completed its review of the requirements of this standard.

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 on the financial statements.

Note 2 - **Cash and Investments**

Deposits and investments consist of the following at June 30:

Deposits and investments	2017	2016
Cash on deposit	**$ 1,913,133**	$ 3,083,752
Money market funds	**28,884**	95,713
Total deposits	**1,942,017**	3,179,465
Debt securities	**4,368,193**	4,296,136
Equity investments	**9,423,988**	7,907,170
Total investments	**13,792,181**	12,203,306
Total deposits and investments	**$ 15,734,198**	$ 15,382,771

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:

	2017	2016
Common Fund:		
Multi-Strategy Bond Fund	**29.2%**	32.4%
Multi-Strategy Equity Fund	**27.4%**	26.0%
Core Equity Fund	**32.1%**	30.8%
Eaton Vance:		
Equities	**8.9%**	6.3%

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

Custodial Credit Risk
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.

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. Some banking institutions that hold the College's funds, obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured limits. At June 30, 2017 and 2016 the carrying amount of the College's deposits of $1,942,017 and $3,179,465, respectively, was not exposed to custodial credit risk as uninsured and uncollateralized.

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

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

Investment Policy – Continued
The following is the quality ratings for the College's debt investments as of June 30:

June 30, 2017

Debt investments	Fair value	Quality ratings AAA	AA/AA-	A/A-	BBB+&-	Unrated
U.S. Treasury Notes and Government securities 1.0% to 2.375%	$ 187,762	$187,762	$ -	$ -	$ -	$ -
Corporate Debt securities 2.25% to 6.75%	97,218	5,018	30,898	56,292	5,010	-
Fixed Income Mutual Funds	62,031	-	-	62,031	-	-
Common Fund:						
Multi -Strategy Bond Fund	4,021,182	-	4,021,182	-	-	-
Total	$4,368,193	$192,780	$4,052,080	$118,323	$ 5,010	$ -

June 30, 2016

Debt investments	Fair value	Quality ratings AAA	AA/AA-	A/A-	BBB+&-	Unrated
U.S. Treasury Notes and Government securities 1.0% to 2.375%	$ 186,579	$ 186,579	$ -	$ -	$ -	$ -
Corporate Debt securities 2.25% to 6.75%	89,279	-	31,739	57,540	-	-
Fixed Income Mutual Funds	62,651	-	-	62,651	-	
Common Fund:						
Multi -Strategy Bond Fund	3,957,627	-	3,957,627	-	-	-
Total	$ 4,296,136	$ 186,579	$ 3,989,366	$ 120,191	$ -	$ -

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:

June 30, 2017

		Investment maturities (in years)		
Investment type	Fair value	Less than 1	1 to 5	6 to 10
Debt securities:				
U.S. Treasury Notes and Government Securities 1.0% to 2.375%	$ 187,762	$ 69,817	$ 117,945	$ -
Corporate Debt Securities 1.0% to 6.75%	97,218	15,044	61,631	20,543
Fixed Income Mutual Funds	62,031	62,031	-	-
Common Fund:				
Multi-Strategy Bond Fund	4,021,182	-	-	4,021,182
	4,368,193	$ 146,892	$ 179,576	$ 4,041,725
Other investments:				
Equity Investments:				
Common Fund:				
Multi-Strategy Equity Fund	3,773,209			
Core Equity Fund	4,427,227			
Equities	924,766			
Foreign Equities	71,160			
Foreign Mutual Funds	227,627			
	9,423,989			
Money Market Funds:				
Eaton Vance Money Market	27,995			
TD Bank Money Market	888			
	28,883			
Cash on deposit	1,913,133			
Total	$ 15,734,198			

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

Maturities of Debt Securities - Continued

June 30, 2016

Investment type	Fair value	Investment maturities (in years) Less than 1	1 to 5	6 to 10
Debt securities:				
U.S. Treasury Notes and Government Securities 1.0% to 2.375%	$ 186,579	$ 36,249	$ 150,330	$ -
Corporate Debt Securities 1.0% to 6.75%	89,279	10,061	52,632	26,586
Fixed Income Mutual Funds	62,651	62,651	-	-
Common Fund:				
Multi-Strategy Bond Fund	3,957,627	-	-	3,957,627
	4,296,136	$ 108,961	$ 202,962	$ 3,984,213
Other investments:				
Equity Investments:				
Common Fund:				
Multi-Strategy Equity Fund	3,170,854			
Core Equity Fund	3,757,506			
Equities	772,924			
Foreign Equities	83,986			
Foreign Mutual Funds	121,900			
	7,907,170			
Money Market Funds:				
Eaton Vance Money Market	94,826			
TD Bank Money Market	887			
	95,713			
Cash on deposit	3,083,752			
Total	$ 15,382,771			

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.

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

At June 30, 2017 and 2016, all investments are categorized in Level 1 of the fair value hierarchy except corporate debt securities which are valued at Level 2.

Note 2 - Cash and Investments - Continued

Investments of the Foundation

	Fair Value at June 30, 2017	Fair value at June 30, 2016
Community Foundation of Western Massachusetts -		
Global Growth Portfolio	$ 19,452	$ 17,269
Eaton Vance Trust Company:		
Money Market Fund	14,617	495,010
Fixed Income	3,069,222	2,782,650
Equities	7,576,065	6,314,858
Foreign Assets		
Corporate Obligations	30,356	31,892
Equities	628,616	750,252
Mutual Funds	2,091,379	1,668,732
Total	$ 13,429,707	$ 12,060,663

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 $682,620 and $708,541 at June 30, 2017 and 2016, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Accounts Receivable**

Accounts receivable include the following at June 30:

	2017	2016
Student accounts receivable	$ 4,973,437	$ 5,692,816
Grants receivable	564,612	719,643
State receivables	945,659	1,991,609
Other receivables	754,583	783,031
	7,238,291	9,187,099
Less: allowance for doubtful accounts	(2,470,247)	(2,740,072)
	$ 4,768,044	$ 6,447,027

Note 5 - **Capital Assets**

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

	2017				
	Estimated lives (in years)	Beginning balance	Additions	Reclassifications	Ending balance
Capital assets not depreciated:					
Land		$ 264,421	$ -	$ -	$ 264,421
Construction in progress		3,475,344	10,734,809	(841,958)	13,368,195
Total not depreciated		3,739,765	10,734,809	(841,958)	13,632,616
Capital assets depreciated:					
Buildings, including improvements	20-40	84,415,474	32,979	559,852	85,008,305
Furnishings and equipment (including cost of capital leases)	3-10	9,681,973	527,719	282,106	10,491,798
Books	5	1,216,331	-	-	1,216,331
Total depreciated		95,313,778	560,698	841,958	96,716,434
Less: accumulated depreciation:					
Building, including improvements		(53,006,936)	(2,158,109)	-	(55,165,045)
Furnishings and equipment		(7,699,392)	(682,697)	-	(8,382,089)
Books		(1,216,331)	-	-	(1,216,331)
Total accumulated depreciation		(61,922,659)	(2,840,806)	-	(64,763,465)
Capital assets, net		$ 37,130,884	$ 8,454,701	$ -	$ 45,585,585

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 5 - **Capital Assets - Continued**

	2016				
	Estimated lives (in years)	Beginning balance	Additions	Reclassifications	Ending balance
Capital assets not depreciated:					
Land		$ 131,946	$ 132,475	$ -	$ 264,421
Construction in progress		7,651,828	1,597,933	(5,774,418)	3,475,343
Total not depreciated		7,783,774	1,730,408	(5,774,418)	3,739,764
Capital assets depreciated:					
Buildings, including improvements	20-40	78,164,691	476,366	5,774,418	84,415,475
Furnishings and equipment (including cost of capital leases)	3-10	7,705,259	1,976,714	-	9,681,973
Books	5	1,216,331	-	-	1,216,331
Total depreciated		87,086,281	2,453,080	5,774,418	95,313,779
Less: accumulated depreciation:					
Building, including improvements		(50,997,483)	(2,009,453)	-	(53,006,936)
Furnishings and equipment		(6,990,557)	(708,835)	-	(7,699,392)
Books		(1,216,331)	-	-	(1,216,331)
Total accumulated depreciation		(59,204,371)	(2,718,288)	-	(61,922,659)
Capital assets, net		$ 35,665,684	$ 1,465,200	$-	$ 37,130,884

Note 6 - **Long-Term Liabilities**

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

2017

	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:						
Note payable	$ -	$ 2,995,707	$ -	$ 2,995,707	$ -	$ 2,995,707
Bonds payable	8,755,000	-	515,000	8,240,000	515,000	7,725,000
Total notes payable	8,755,000	2,995,707	515,000	11,235,707	515,000	10,720,707
Liabilities for compensated absences and other:						
Accrued sick and vacation	4,026,579	218,395	10,051	4,234,923	2,686,350	1,548,573
Workers' compensation	192,245	184,407	-	376,652	68,174	308,478
Net pension liability	9,174,886	4,467,521	4,146,125	9,496,282	-	9,496,282
Total liabilities	13,393,710	4,870,323	4,156,176	14,107,857	2,754,524	11,353,333
Total long-term liabilities	$ 22,148,710	$ 7,866,030	$ 4,671,176	$ 25,343,564	$ 3,269,524	$ 22,074,040

2016

	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:						
Bonds payable	$ 9,270,000	$ -	$ 515,000	$ 8,755,000	$ 515,000	$ 8,240,000
Liabilities for compensated absences and other:						
Accrued sick and vacation	4,067,632	21,831	62,884	4,026,579	2,579,381	1,447,199
Workers' compensation	311,136	-	118,891	192,245	40,564	151,681
Net pension liability	5,028,761	4,146,125	-	9,174,886	-	9,174,886
Total liabilities	9,407,529	4,167,956	181,775	13,393,710	2,619,945	10,773,766
Total long-term liabilities	$ 18,677,529	$ 4,167,956	$ 696,775	$ 22,148,710	$ 3,134,945	$ 19,013,766

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 $149,891 and $161,661 for the years ended June 30, 2017 and 2016, respectively. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2017:

Years Ending June 30,	Operating Leases
2018	119,913
2019	111,032
2020	101,113
2021	19,043
	$ 351,101

Bond 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.

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 project was substantially complete during fiscal year 17. 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 principal payments will commence in fiscal year 2019.

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

As of June 30, 2017, principal and interest payments on the bond and loan payable for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest*
Fiscal year ending June 30,:		
2018	$ 515,000	$ 249,342
2019	615,601	353,088
2020	619,625	333,554
2021	623,810	312,714
2022	628,163	292,279
2023-2027	3,212,442	1,148,930
2028-2032	3,350,545	608,637
2033-2037	1,458,570	166,685
2038	211,951	8,478
	$ 11,235,707	$ 3,473,707

*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**

During 2015, the College received a $3,000,000 grant 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. During 2016, the College received an additional $800,000. At June 30, 2017 approximately $287,000 has been expended.

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 program support.

Note 9- **Unrestricted Net Position**

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

	2017	2016
Long -term investment	$ 1,823,394	$ 1,818,764
Completion of projects started in current fiscal year and subsequent fiscal year adaptation and renewal budgeted expenses	500,000	500,000
Purpose of developing new academic programs, providing state-of-the-art equipment and technology for renovation and construction of college facilities and to insure fiscal stability.	2,516,728	3,181,106
	$ 4,840,122	$ 5,499,870

Note 10- **Contingencies**

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

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

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

Note 11 - **Operating Expenses**

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

	2017	2016
Compensation and benefits	$ 47,102,632	$ 44,830,696
Supplies and services	9,159,790	10,851,977
Depreciation and amortization	2,840,806	2,718,288
Scholarships	2,598,574	2,926,956
	$ 61,701,802	$ 61,327,917

Note 12 - **State Appropriation**

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

	2017	2016
Direct unrestricted appropriations:	$ 20,424,928	$ 19,807,113
Add: fringe benefits for benefited employees on the state payroll	6,549,163	5,488,604
Less: day school tuition remitted to the state and included in tuition and fee revenue	(593,824)	(662,695)
Total unrestricted appropriations	26,380,267	24,633,022
Restricted appropriations:		
Workforce Development project	50,000	49,986
Other	263,236	76,805
Total restricted appropriations	313,236	126,791
Capital appropriations:		
Direct	170,268	88,435
Department of Capital Asset Management Allocation	5,152,438	1,215,835
Total capital appropriations	5,322,706	1,304,270
Total appropriations	$ 32,016,209	$ 26,064,083

Note 13 - Pensions

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to $1,945,199 and $1,778,104 for the years ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 75% of total related payroll for fiscal years end 2017 and 2016.

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

The Massachusetts State Employees' Retirement System does not issue a stand-alone financial statement.

Benefit Provisions

SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated based on the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the 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 cannot retire prior to age 60.

Note 13 - **Pensions - continued**

Contributions

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

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

Hire Date	Percentage of Compensation
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 College is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The College contributed $544,504 and $494,529 for the fiscal year ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017 and 2016, the College reported a liability of $9,496,282 and $9,174,886 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, 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, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, 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, 2015 rolled forward to June 30, 2015..

Note 13 - **Pensions – Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources – 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 2016 and 2015, respectively. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for the fiscal years. At June 30, 2016 and 2015, the College's proportion was 0.069% and 0.081%, respectively.

For the years ended June 30, 2017 and 2016, the College recognized a pension expense of $1,114,184 and $1,052,320, respectively. At June 30, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	2016
Deferred Outflows of Resources		
Contributions subsequent to the measurement date	**$ 544,504**	$ 494,529
Difference between expected experience	**451,049**	-
Difference between projected and actual investment earnings on pension plan investments	**637,468**	-
Changes in proportion from the Commonwealth of Massachusetts	**16,581**	-
Change in proportion due to internal allocation	-	272,783
Change in plan investment assumptions	**1,053,076**	1,588,901
Total	**$ 2,702,678**	$ 2,356,213

	2017	2016
Deferred Inflows of Resources		
Net difference between projected and actual earnings on pension plan investments	**$ -**	$ 82,292
Change in proportion from the Commonwealth of Massachusetts	-	7,044
Change in proportion due to internal allocation	**676,962**	-
Total	**$ 676,962**	$ 89,336

Note 13 - **Pensions – Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources – Continued
Contributions of $544,504 and $494,529 are reported as deferred outflows of resources related to pensions resulting from the College contributions in fiscal years 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability for the years ended June 30, 2018 and 2017, respectively.

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

Years Ending June 30,	
2017	$ 308,143
2018	308,143
2019	564,113
2020	254,182
2021	46,631
Total	$ 1,481,212

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

Measurement date	June 30, 2016	June 30, 2015
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	7.50%
Investment rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2016 and 2015, mortality rates were based on:

- Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)

Note 13 - **Pensions – Continued**

Actuarial Assumptions - continued

- Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

The actuarial assumptions used in the January 1, 2016 valuation rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of actuarial experience study performed as of January 1, 2016.

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:

	2016		2015	
Asset Class	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	6.90%	40%	6.90%
Core Fixed Income	13%	1.60%	13%	2.40%
Hedge Funds	9%	4.00%	9%	5.80%
Private Equity	10%	8.70%	10%	8.50%
Real Estate	10%	4.60%	10%	6.50%
Portfolio Completion Strategies	4%	3.60%	4%	5.50%
Value Added Fixed Income	10%	4.80%	10%	5.80%
Timber/Natural Resources	4%	5.40%	4%	6.60%
	100%		100%	

Note 13 - **Pensions – Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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.

	June 30, 2017	
1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
$ 12,375,140	$ 9,496,292	$ 7,056,357

	June 30, 2016	
1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00%)
$ 12,471,669	$ 9,174,886	$ 6,331,349

Note 14 - Fringe Benefits Provided by State

Fringe Benefits

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension, and worker's compensation benefits. Health insurance and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net position and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*. As discussed previously, GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces GASB 45 and will require a restatement of balances at July 1, 2017.

The Commonwealth is statutorily responsible for the pension benefit of the College's employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the State.

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

New Accounting Guidance Effective for Fiscal 2018

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the State Retirement Benefits Trust Fund. The College will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net other postemployment benefit ("OPEB") obligation. OPEB expense reported in the College's financial statements will reflect the change in the net OPEB liability for the fiscal year.

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

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

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

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2017, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans.

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

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

Insurance
The College participates in the various programs administered by the Commonwealth for property, general liability, automobile liability, workers' compensation and health insurance. The Commonwealth is self-insured for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are obligations of the Commonwealth. For 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.

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

Note 15 - **Commitment**

The College has entered into 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 expect to begin paying rent upon occupancy which is scheduled for late fall 2017.

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

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System ("MMARS") 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.*

Note 16 - Massachusetts Management Accounting and Reporting System - Continued

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

	2017	2016
Revenue per MMARS	**$ 44,205,235**	$ 45,293,469
Revenue per College	**$ 44,205,235**	$ 45,293,469

Note 17 - Pass-Through Grants

The College distributed $6,346,216 and $6,865,592 for the years ended June 30, 2017 and 2016, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

Required Supplementary Information

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

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

Masschusetts State Employees' Retirement System

Report date	June 30, 3017	June 30, 2016	June 30, 2015
Valuation date	January 1, 2016	January 1, 2015	January 1, 2014
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.069%	0.081%	0.068%
Proportionate share of the collective net pension liability	$ 9,496,282	$ 9,174,886	$ 5,028,761
Covered-employee payroll	$ 5,233,111	$ 4,856,747	$ 5,024,426
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplemental information.

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

Schedule of Contributions (Unaudited)

Massachusetts State Employees' Retirement System

For the Year Ended June 30, 2017

	2017	2016	2015
Contractually required contribution	$ 544,504	$ 494,529	$ 504,616
Contributions in relation to the contractually required contribution	(544,504)	(494,529)	(504,616)
Contribution excess	$ -	$ -	$ -
Covered employee payroll	$ 5,472,402	$ 5,233,111	$ 4,856,747
Contribution as a percentage of covered-employee payroll	9.95%	9.45%	10.39%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an 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 supplemental information.

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

Notes to the Required Supplementary Information

For the Year Ended June 30, 2017

(Unaudited)

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate ranging from 8.00% 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of $2.33 billion to be charged to income over an amortization period of 5.5 years beginning in the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of $102 million to be charged to income over an amortization period of 5.5 years beginning in the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the Statements of Net Position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.069% and 0.081% in fiscal years 2017 and 2016, respectively, as shown on the Schedule of the College's Proportionate Share of Net Pension Liability, and represent the relationship of contributions made by the College to total contributions by all participating State Agencies.

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

	2017	2016	2015
Changes in assumptions	**$ 1,939,199**	$ 1,939,199	$ 69,091
Accumulated amortization	**(886,123)**	(350,298)	(12,562)
Changes in assumptions, net	**$ 1,053,076**	$ 1,588,901	$ 56,529

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
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 statement of net position as of June 30, 2017 and 2016 and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Holyoke Community College's basic financial statements and have issued our report thereon dated October 12, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 12, 2017