

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

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

JUNE 30, 2016

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

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

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Holyoke Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2016 and 2015 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

Opinion

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of Holyoke Community College as of June 30, 2016 and 2015 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 3-18, the schedule of the College's proportionate share of the net pension liability on page 50, the schedule of the College's contributions on page 51 and the notes to the required supplementary information on page 52 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 10, 2016, 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 10, 2016

HOLYOKE COMMUNITY COLLEGE

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Management's Discussion and Analysis

June 30, 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, 2016, 2015 and 2014, 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 06/30/15 on the FY 16 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 16 statements reflect the implementation of GASB 68. Please see footnote 13, on page 43.

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, 2016, the College's assets of \$66,384,054 exceeded its liabilities of \$28,075,708 and deferred inflows of resources of \$3,750,527 by \$34,557,819. At June 30, 2015, the College's assets of \$62,242,370 exceeded its liabilities of \$22,923,404 and deferred inflows of resources of \$4,893,367 by \$34,425,599. At June 30, 2014, the College's assets, and deferred outflow of resources of \$59,983,526, exceeded its liabilities of \$26,207,188 by \$33,776,338. These resulting net position are summarized into the following categories:

	2016	2015	2014
Net invested in capital assets	\$ 28,558,337	28,184,391	28,315,305
Restricted, expendable	499,612	259,685	111,439
Unrestricted	5,499,870	5,981,523	5,349,594
Total net position	\$ 34,557,819	34,425,599	33,776,338

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- 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 reflect the impact of College's portion of the Commonwealth's unfunded pension liability of \$9,174,886 in FY16, \$5,028,761 in FY15 and 7,083,129 in FY14.
- The current year's increase in net position was negatively impacted by two significant liabilities that we had to recognize in the current year: an unfunded pension liability expense (net) of \$547,026; and an agreement between the Commonwealth and the community colleges faculty and professional staff bargaining unit to pay salary increases retroactive to 7/1/2015 totaling \$333,643. As of June 30, 2016, the legislature had yet to fund any portion of this increase and therefore the entire cost was absorbed by the College in the current year. The College anticipates the legislature funding approximately 60% of the retroactive salary costs in FY 2017. These two provisions combined to reduce the increase in net position by \$880,669 to \$132,220.
- The College's total net position increased by \$132,220, \$649,261 and \$698,313 in 2016, 2015 and 2014 respectively. In FY16 the increase is the result of capital appropriations totaling \$1,304,270, partially offset by operating deficits net of non-operating revenues of \$625,024 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. The FY14 increase is attributable to investment income of \$1,759,142, capital appropriation of \$299,957 offset by operating deficits net of non-operating revenue totaling \$1,360,786. The College's allocation of the Commonwealth's Pension Liability required a restatement that lowered its beginning net position for FY14 by \$6,684,692. More information can be found in the capital assets discussion in this report and footnote 5 on page 37.

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.

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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).

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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 19-22 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 23-50 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. The College's assets exceeded liabilities by \$34,557,819, \$34,425,599 and \$33,776,338 at the close of FY16, FY15, and FY14 respectively.

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June 30, 2016 and 2015

(Unaudited)

Net Assets	June 30		
	2016	2015	2014
		(In thousands)	
Current assets	\$ 14,810	13,959	14,807
Noncurrent assets	49,225	47,722	44,778
Total assets	\$ 64,035	61,681	59,585
Deferred outflows of resources	\$ 2,349	561	398
Current liabilities	\$ 9,062	7,386	8,128
Noncurrent liabilities	19,014	15,537	18,078
Total liabilities	\$ 28,076	22,923	26,206
Deferred inflows of resources	\$ 3,750	4,893	—
Net position:			
Net investment in capital assets	\$ 28,558	28,184	28,315
Restricted, expendable	500	260	112
Unrestricted	5,500	5,982	5,350
Total net position	\$ 34,558	34,426	33,777

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 FY16, investment in capital assets totaled \$28,558,337 or 43.0% 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 FY16, restricted net position totaled \$499,612 or 0.7% of total position. Unrestricted net position may be used to meet the College's ongoing obligations to its stakeholders. In FY16, unrestricted net position total \$5,499,870, \$5,981,523 in FY15, and \$5,349,594 in FY14.

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To account for the College's allocation of the Commonwealth's Unfunded Pension Liability, the FY 2014 unrestricted net position were decreased by \$6,684,692 to \$5,349,594. The prior year's net impact increased unrestricted net position by \$631,929 and the current year decreased unrestricted net position by \$547,026. The total impact of the unfunded pension liability reduced unrestricted net position by \$6,599,787. Excluding the impact of the unfunded pension liability, unrestricted net position would in the current fiscal year increase to \$12,099,657 from the reported \$5,499,870. The College's Trustees have determined that these funds be designated for long-term investment, capital expansion, plant adaptation and renewal and other uses (see note 8 on page 40 of this report).

The College's net position increased \$132,220 in fiscal 2016, \$649,261 in fiscal 2015, and \$698,313 in fiscal 2014. The schedule below provides a summary of Changes in Net Position.

Changes in Net Position	Year ended June 30		
	2016	2015	2014
		(In thousands)	
Operating revenues:			
Tuition and fees, net of tuition waivers, and remissions	\$ 16,908	15,871	16,214
Other operating sources	20,964	22,465	22,340
Total operating revenues	37,872	38,336	38,554
Operating expenses	63,609	62,498	62,436
Net operating loss	(25,737)	(24,162)	(23,882)
Nonoperating revenues (expenses):			
State appropriation	24,760	23,999	22,829
Other nonoperating income (expenses)	(195)	234	1,451
Total nonoperating revenues	24,565	24,233	24,280
Income (loss) before other revenues, expenses, gains, or losses	(1,172)	71	398
Capital revenues (expenses):			
State capital appropriations	1,304	578	300
Net capital revenues	1,304	578	300
Increase (decrease) in net assets	132	649	698
Net position:			
Beginning of year	34,426	33,777	33,079
End of year	\$ 34,558	34,426	33,777

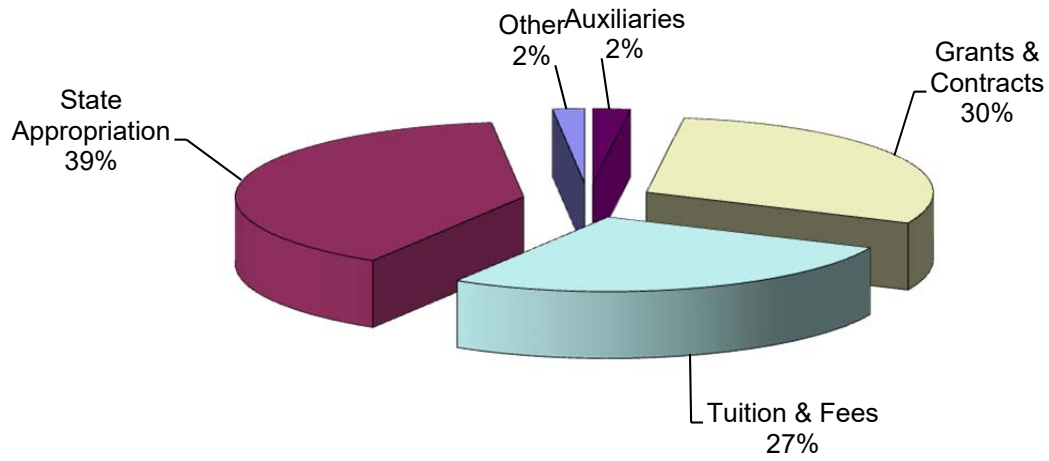
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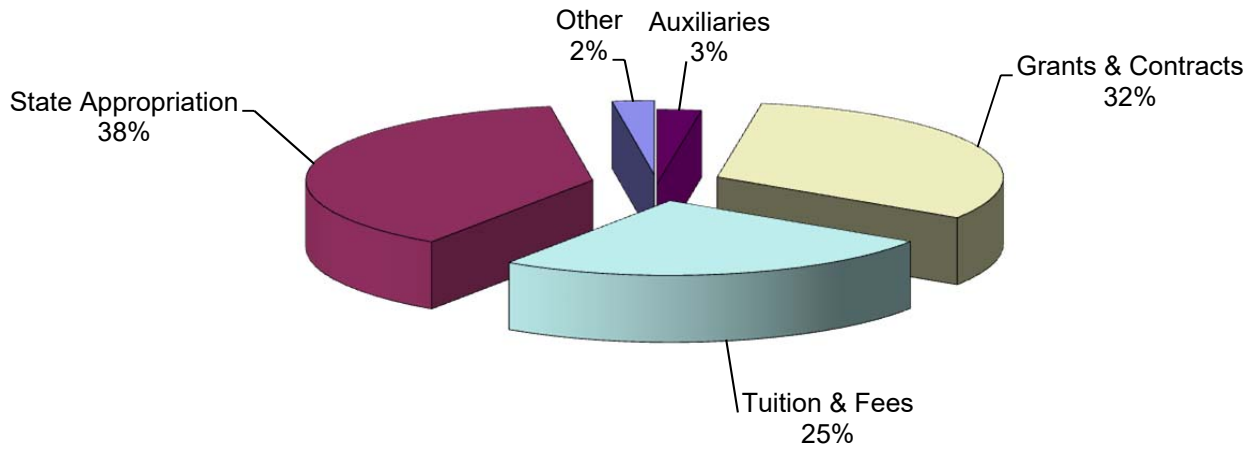
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Sources of Revenue - FY16



Sources of Revenue - FY15



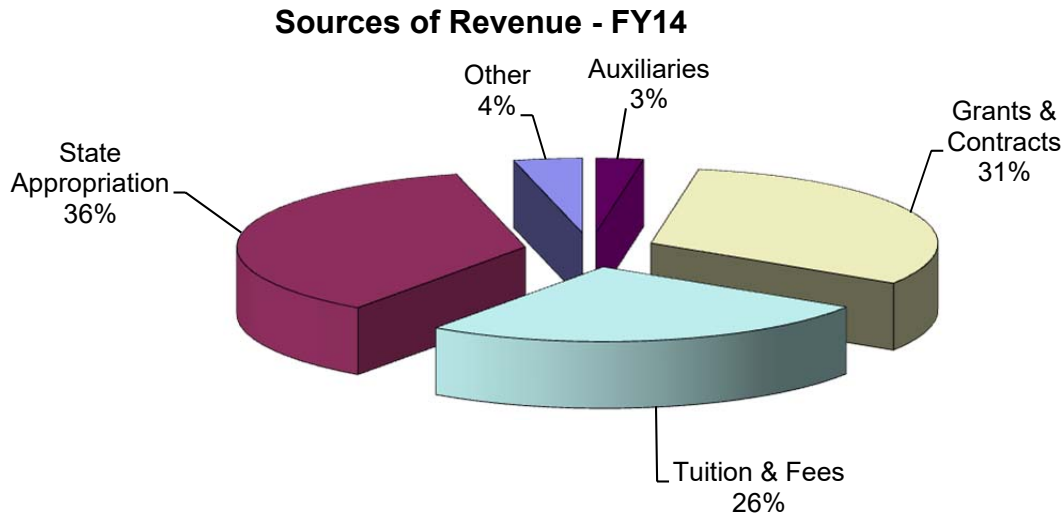
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Revenue from all sources (excluding capital appropriations) totaled \$62,717,269, \$62,864,961 and \$63,142,099 in FY16, FY15 and FY14 respectively.

Highlights of revenue include:

- State appropriations, which include the cost of fringe benefits (excluding capital appropriations), totaled \$24,759,813, \$23,999,262, and \$22,829,133 in FY16, FY15, and FY14, respectively, and amount to 39.5%, 38%, and 36% of all revenue. The State Appropriation increased modestly \$760,551 or 3.2% from prior year. The appropriation increased in FY15 \$1,746,579 or 7.6% due to additional funding formula appropriations and funding for the MCCC and AFSCME increases net of the College's transfer to the state. In FY15, the Governor implemented a MGL Chapter 29, Section 9C reduction of \$283,175 to the College's original appropriation, and the College transferred this amount to the State Treasurer to satisfy this obligation. In FY14 the State Appropriation increased due to a new state funding formula, and the funding of impact bargaining salary increases.
- The category tuition and fees represents approximately 50% of our unrestricted revenue and totaled \$24,046,634, \$23,403,789 and \$22,143,670 in FY16, FY15, and FY14, respectively. Of this amount, \$7,138,568, \$7,533,270, and \$6,928,830 are tuition and fees paid by various financial aid programs including local funds designated by the College. 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

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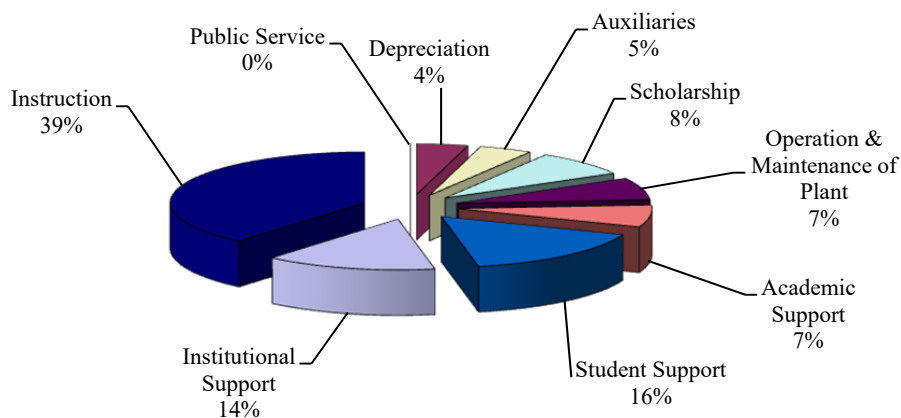
June 30, 2016 and 2015

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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%. In FY 2014, a 3% increase in tuition and fees was partially offset by a 5.2% decline in credit enrollments.

- A 5% decline in enrollment is anticipated for the coming year and the decline is expected to be substantially offset by a \$14 Tuition and Fee increase.
- The category Grants and Contracts totaled \$18,618,289, \$19,944,269, and \$19,714,412 in FY16, FY15, and FY14 respectively, of which \$13,998,232, \$15,127,437 and \$15,330,500 was state and federal student financial aid. Grants and contracts for college programs increased in FY16 by \$1,382,246 in FY15 by \$592,490, and in FY14 by \$60,635. The FY16 increase is the result of equipment grants from the HCC Foundation and MA Life Sciences.
- Auxiliary enterprises revenue is comprised principally of College bookstore operation, and is reported net of sales that are paid by financial aid. Auxiliary revenue totaled \$3,021,944, \$3,592,702, and \$3,744,995 in FY16, FY15, and FY14, respectively. Included in this amount are \$1,710,477, \$2,027,615, and \$2,080,396 in sales paid by financial aid. Sales declined \$507,758 (14.1%) from the prior year due to enrollment declines and the continued market share encroachment by online retailers offering lower costs options. Sales decreased by \$152,293 (4.1%) in FY15 and by \$308,849 (7.6%) in FY14.
- 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 \$1,034,504, \$955,896, and \$959,973 in FY16, FY15, and FY14, respectively.

FY16 Expenditures

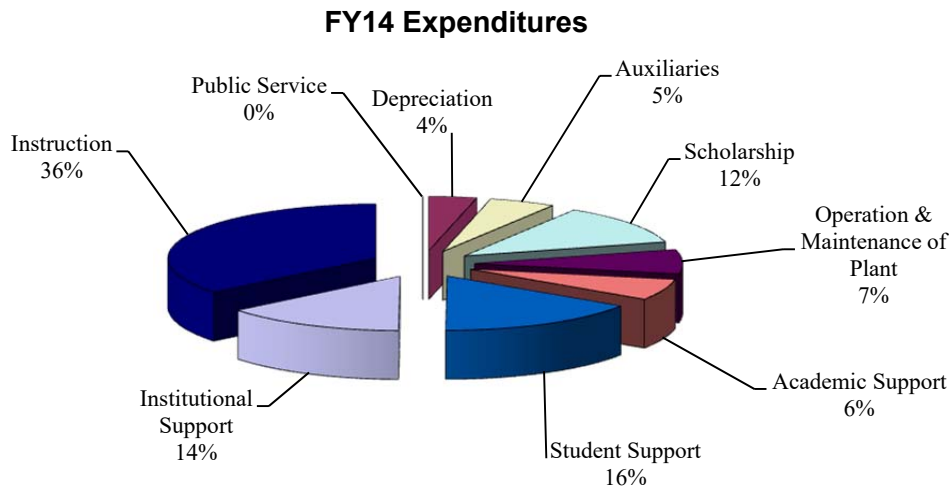
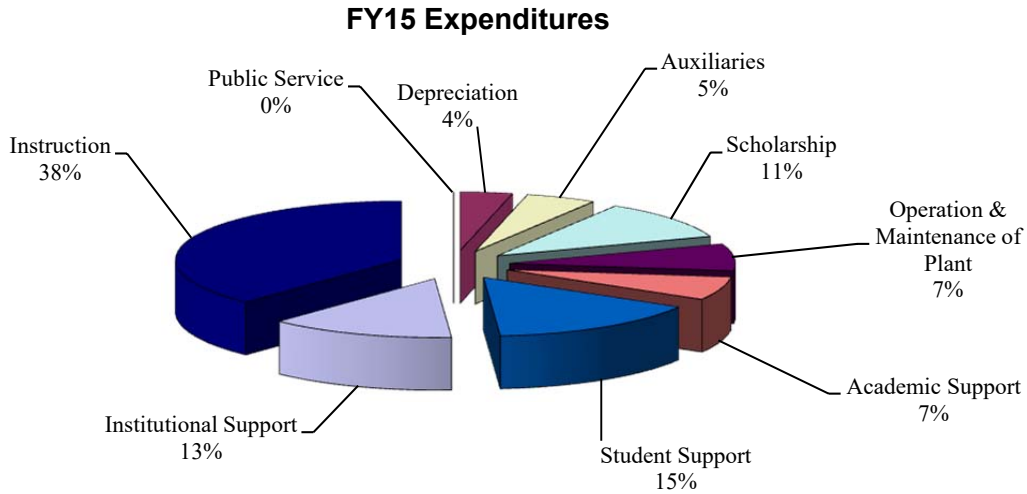


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Not including expense impact for the Commonwealth's Net Pension Liability

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Expenditures from all sources totaled \$63,609,757, \$62,498,376, and \$62,435,477 in FY16, FY15, and FY14, respectively.

Highlights of expenditures include:

In the current year, the College had a net pension expense of \$547,026 resulting from the College's allocation of the Commonwealth's net Pension Liability impacting all expense categories except Scholarships and Depreciation. The following program categories experienced the following:

- **Instruction** costs increased \$1,129,444 in the current year 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. FY14 cost were level compared to FY13.
- **Scholarships** (payments directly to students) There was a substantial decrease of \$1.6 million in the current year 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. In FY14, there was a modest increase of \$34,688.
- **Operation and maintenance of plant** decreased \$477,096 in FY16, principally due to lower energy costs and open positions in public safety. 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. In FY14, expenses increased by \$456,817 due to higher energy and rental costs, increased maintenance of physical plant, and increased payroll expense.
- **Institutional support** increased by \$808,878 in FY16 as labor costs were 2.7% higher than prior year while expenses increased across all categories for a total increase of 30%. 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. Expenses increased by \$317,965 in FY14 due to an increase in the College's provision for allowances on bad debt and a provision for a judgment from a law suit.

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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 \$857,210 or 3.6% in FY16, \$1,292,893 or 5.75% in FY15, and \$2,282,765 or 11.3% in FY14. The unrestricted state appropriation is the primary funding provided by the Commonwealth to support the operation of the College. The Commonwealth experienced revenue shortfalls and resulted in reduced support for Higher Education.

Investment gains were \$85,130, \$529,928, and \$1,759,142 in FY16, FY15, and FY14, respectively.

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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, 2016, 2015, and 2014:

	Year ended June 30		
	2016	2015	2014
Tuition and fee revenue	\$ 16,908,066	15,870,519	16,214,840
Other revenue	20,964,260	22,465,252	22,338,984
Operational expenses	(63,609,766)	(62,498,376)	(62,435,477)
Operating loss	(25,737,440)	(24,162,605)	(23,881,653)
Commonwealth direct appropriations, fringe benefits for employees on the Commonwealth's payroll, net of remitted tuition to the Commonwealth	24,759,813	23,999,262	22,829,133
Other nonoperating revenues, net	(194,423)	235,041	1,450,876
Net change before capital appropriations	\$ (1,172,050)	71,698	398,356

Capital Assets and Debts of the College

Capital Assets

The College's investment in capital assets as of June 30, 2016, 2015, and 2014 amounts to \$37,130,884, \$35,665,684, and \$33,171,105, 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 \$1,465,200 or 4.1% in FY16, increased \$2,494,579 or 7.5% in FY15, and decreased \$1,207,588 or 3.5% in FY14. The increases in FY16 and FY15 are due to capital improvements exceeding depreciation. The decrease in FY14 is due to depreciation exceeding capital improvements.

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

Holyoke Community College and the Holyoke Community College Foundation opened Doyle Drive in March of 2015. Doyle Drive provides the campus community access to the college from Westfield Road. The road was funded by grants received from Federal and State agencies through the Holyoke Community College Foundation. The planning process for the roadway had identified the need for the construction of a water infrastructure improvement to loop the water system of the college and thus improve the delivery system to the college. The college funded \$465,000 towards the water system upgrade and the access road.

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 is planned to start early in calendar 2017.

The Center for Health Education opened at the start of the fall 2015 semester. In fiscal year 2013 the college purchased the land and building for \$1,925,000. Construction costs totaled \$4,000,000. Funding for the project has come from bond financing and gifts from the Holyoke Community College Foundation.

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 is expected to begin in January of 2017 and last 18 to 24 months.

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 estimated to be \$9,000,000. Holyoke Community College has pledged to reimburse DCAMM approximately \$3,000,000 of the total project cost over the next 20 years with the funds realized from energy cost savings. The project

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(Unaudited)

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 37 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.

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 FY16 by 3.17%, in FY15 by 5.75%, and in FY14 by 11.3%. Tuition and Fees were increased \$12 per credit hour in FY16 and by \$11 per credit hour in FY15 in order to balance the budget. The College did not increase tuition and fees for FY14. This was made possible by Performance Incentive funding provided by the Commonwealth. 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 that is used for capital projects. 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. The Board and administration are confident that with these initiatives, we can control fee increases and retain the high standard of education with affordable access for our constituencies.

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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 the current fiscal year, the College increased the Educational Service Fee by \$8 from \$128 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 \$152 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
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Statements of Net Position

June 30, 2016

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2016	2015	2016	2015
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Assets:				
Current Assets:				
Cash and equivalents	\$ 3,179,465	\$ 3,705,086	\$ 164,745	\$ 31,939
Cash held by State Treasurer	708,541	479,135	-	-
Cash held by DCAMM	3,850,688	4,788,707	-	-
Short-term investments	108,961	129,831	-	-
Accounts receivable, net	6,447,027	4,105,903	113,525	90,725
Due from Foundation	121,554	287,663	-	-
Inventory and other current assets	<u>393,420</u>	<u>462,237</u>	<u>2,749</u>	<u>10,145</u>
Total Current Assets	<u>14,809,656</u>	<u>13,958,562</u>	<u>281,019</u>	<u>132,809</u>
Non-Current Assets:				
Long-term investments	12,094,345	12,056,979	12,060,663	12,728,288
Pledges receivable	-	-	83,992	105,080
Capital assets, net of accumulated depreciation	<u>37,130,884</u>	<u>35,665,684</u>	<u>571,689</u>	<u>596,806</u>
Total Non-Current Assets	<u>49,225,229</u>	<u>47,722,663</u>	<u>12,716,344</u>	<u>13,430,174</u>
Deferred Outflows of Resources:				
Changes of assumptions	1,588,901	56,529	-	-
Changes in proportion	265,739	-	-	-
Contributions made after the plan date	<u>494,529</u>	<u>504,616</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>2,349,169</u>	<u>561,145</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 66,384,054</u>	<u>\$ 62,242,370</u>	<u>\$ 12,997,363</u>	<u>\$ 13,562,983</u>

Liabilities, Deferred Inflows of Resources and Net Position

Liabilities:				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 919,233	\$ 1,111,406	\$ 33,894	\$ 25,494
Accrued payroll	2,238,648	1,681,232	-	-
Compensated absences and other	2,619,945	2,625,377	-	-
Accrued interest payable	45,941	48,643	-	-
Student deposits and unearned revenues	2,632,837	1,349,983	-	-
Due to College	-	-	121,554	287,663
Funds held for others	90,338	54,611	-	-
Current portion of bonds payable	<u>515,000</u>	<u>515,000</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>9,061,942</u>	<u>7,386,252</u>	<u>155,448</u>	<u>313,157</u>
Non-Current Liabilities:				
Compensated absences and other	1,598,880	1,753,391	-	-
Net pension liability	9,174,886	5,028,761	-	-
Long-term portion of bonds payable	<u>8,240,000</u>	<u>8,755,000</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>19,013,766</u>	<u>15,537,152</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>28,075,708</u>	<u>22,923,404</u>	<u>155,448</u>	<u>313,157</u>
Deferred Inflows of Resources:				
Differences between projected and actual earnings of plan investments	82,292	1,032,147	-	-
Changes in proportion	-	861,220	-	-
Governmental voluntary nonexchange transaction	<u>3,668,235</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>3,750,527</u>	<u>4,893,367</u>	<u>-</u>	<u>-</u>
Net Position:				
Net investment in capital assets	28,558,337	28,184,391	571,689	596,806
Restricted:				
Nonexpendable	-	-	5,276,810	5,115,469
Expendable	499,612	259,685	5,234,322	5,578,694
Unrestricted	<u>5,499,870</u>	<u>5,981,523</u>	<u>1,759,094</u>	<u>1,958,857</u>
Total Net Position	<u>34,557,819</u>	<u>34,425,599</u>	<u>12,841,915</u>	<u>13,249,826</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 66,384,054</u>	<u>\$ 62,242,370</u>	<u>\$ 12,997,363</u>	<u>\$ 13,562,983</u>

See accompanying notes to the financial statements.

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

Statements of Revenues and Expenses

For the Year Ended June 30, 2016

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2016 College</u>	<u>2015 College</u>	<u>2016 Foundation</u>	<u>2015 Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 24,046,634	\$ 23,403,789	\$ -	\$ -
Less: scholarship allowances	<u>(7,138,568)</u>	<u>(7,533,270)</u>	<u>-</u>	<u>-</u>
Net student fees	16,908,066	15,870,519		
Federal, state, local and private grants and contracts	18,618,289	19,944,269	10,164	11,477
Auxiliary enterprises, net	1,311,467	1,565,087	-	-
Other operating revenues	<u>1,034,504</u>	<u>955,896</u>	<u>72,139</u>	<u>77,471</u>
Total Operating Revenues	<u>37,872,326</u>	<u>38,335,771</u>	<u>82,303</u>	<u>88,948</u>
Operating Expenses:				
Instruction	24,844,955	23,715,511	-	-
Academic support	4,455,135	4,016,099	-	-
Student services	10,308,781	9,606,754	-	-
Scholarships	5,208,805	6,764,581	980,242	566,557
Operation and maintenance of plant	4,160,807	4,637,903	-	-
Institutional support	9,083,914	8,275,036	516,286	361,282
Depreciation and amortization	2,718,288	2,328,389	-	-
Auxiliary enterprises	<u>2,829,081</u>	<u>3,154,103</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>63,609,766</u>	<u>62,498,376</u>	<u>1,496,528</u>	<u>927,839</u>
Net Operating Loss	<u>(25,737,440)</u>	<u>(24,162,605)</u>	<u>(1,414,225)</u>	<u>(838,891)</u>
Non-Operating Revenues (Expenses):				
State appropriations - unrestricted	24,633,022	23,775,812	-	-
State appropriations - restricted	126,791	223,450	-	-
Net investment income	85,130	529,928	144,365	581,570
Interest expense	(279,553)	(294,887)	-	-
Gifts and contributions	<u>-</u>	<u>-</u>	<u>861,949</u>	<u>580,671</u>
Net Non-Operating Revenues	<u>24,565,390</u>	<u>24,234,303</u>	<u>1,006,314</u>	<u>1,162,241</u>
Income (Loss) Before Capital Appropriations	(1,172,050)	71,698	(407,911)	323,350
Capital appropriations	<u>1,304,270</u>	<u>577,563</u>	<u>-</u>	<u>-</u>
Total Change in Net Position	132,220	649,261	(407,911)	323,350
Net Position:				
Beginning of Year	<u>34,425,599</u>	<u>33,776,338</u>	<u>13,249,826</u>	<u>12,926,476</u>
End of Year	<u>\$ 34,557,819</u>	<u>\$ 34,425,599</u>	<u>\$ 12,841,915</u>	<u>\$ 13,249,826</u>

See accompanying notes to the financial statements.

HOLYOKE COMMUNITY COLLEGE
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Statements of Cash Flows
For the Year Ended June 30, 2016

	<u>2016</u> <u>College</u>	<u>2015</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 17,572,954	\$ 19,360,040
Grants and contracts	16,895,131	16,433,573
Payments to suppliers	(10,809,226)	(10,465,051)
Payments to employees	(38,397,592)	(38,746,561)
Payments to students	(5,208,805)	(6,764,581)
Other cash receipts	<u>2,381,699</u>	<u>2,507,153</u>
Net Cash Applied to Operating Activities	<u>(17,565,839)</u>	<u>(17,675,427)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	19,933,904	20,100,772
Tuition remitted to the State	(662,695)	(631,080)
9C Reduction	<u>-</u>	<u>(283,175)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>19,271,209</u>	<u>19,186,517</u>
Cash Flows from Capital and Related Financing Activities:		
Direct capital appropriations	88,435	44,068
Grant from governmental agency	800,000	3,000,000
Purchases of capital assets	(2,967,653)	(4,289,472)
Principal paid on debt	(515,000)	(515,000)
Interest on debt	<u>(282,255)</u>	<u>(297,589)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(2,876,473)</u>	<u>(2,057,993)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	68,634	310,632
Purchases of investments	(352,364)	(818,595)
Interest on investments	<u>220,599</u>	<u>219,296</u>
Net Cash Applied to Investing Activities	<u>(63,131)</u>	<u>(288,667)</u>
Net Decrease in Cash and Equivalents	(1,234,234)	(835,570)
Cash and Equivalents, Beginning of Year	<u>8,972,928</u>	<u>9,808,498</u>
Cash and Equivalents, End of Year	<u>\$ 7,738,694</u>	<u>\$ 8,972,928</u>

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

Statements of Cash Flows - Continued

For the Year Ended June 30, 2016

	<u>2016</u> <u>College</u>	<u>2015</u> <u>College</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (25,737,440)	\$ (24,162,605)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	2,718,288	2,328,389
Fringe benefits provided by the State	5,488,604	5,095,920
Net pension activity	547,026	(323,709)
Bad debts	196,648	326,118
Changes in assets and liabilities:		
Accounts receivable, net	(2,537,772)	(97,852)
Due from Foundation	166,109	(177,473)
Inventory and other current assets	68,817	47,499
Accounts payable and accrued liabilities	(192,173)	190,364
Accrued employee compensation and benefits	397,473	(816,281)
Funds held for others	35,727	(13,829)
Students' deposits and unearned revenues	<u>1,282,854</u>	<u>(71,968)</u>
Net Cash Applied to Operating Activities	<u>\$ (17,565,839)</u>	<u>\$ (17,675,427)</u>
Reconciliation Cash and Equivalents to the Statement of Net Position, End of Year		
Cash and equivalents	\$ 3,179,465	\$ 3,705,086
Cash held by State Treasurer	708,541	479,135
Cash held by DCAMM	<u>3,850,688</u>	<u>4,788,707</u>
	<u>\$ 7,738,694</u>	<u>\$ 8,972,928</u>
Non-Cash Transactions:		
Fringe benefits provided by the State	<u>\$ 5,488,604</u>	<u>\$ 5,095,920</u>
Capital appropriation	<u>\$ 1,215,835</u>	<u>\$ 533,495</u>

See accompanying notes to the financial statements.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2016 and 2015

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.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Basis of Presentation - Continued

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.

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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 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.

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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, 2016 and 2015. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2016 and 2015. 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.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Use of Estimates

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

New Governmental Accounting Pronouncements

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

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

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

New Governmental Accounting Pronouncements - Continued

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

Note 2 - **Cash and Investments**

Deposits and investments consist of the following at June 30:

Deposits and investments	2016	2015
Cash on deposit	\$ 3,083,752	\$ 3,678,008
Money market funds	95,713	27,078
Total deposits	3,179,465	3,705,086
Debt securities	4,296,136	4,165,602
Equity investments	7,907,170	8,021,208
Total investments	12,203,306	12,186,810
Total deposits and investments	\$ 15,382,771	\$ 15,891,896

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:

	2016	2015
Common Fund:		
Multi-Strategy Bond Fund	32.4%	31.1%
Multi-Strategy Equity Fund	26.0%	26.8%
Core Equity Fund	30.8%	30.9%
Eaton Vance:		
Equities	6.3%	6.8%

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Concentration of Credit Risk - Continued

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

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, 2016 and 2015 the carrying amount of the College's deposits of \$2,850,524 and \$3,809,066, 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.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Credit Risk of Debt Securities

		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%	83,963	-	31,739	52,224	-	-
Fixed Income Mutual Funds	62,651	-	-	62,651	-	-
Foreign Assets - Corporate	5,316	-	-	5,316	-	-
Common Fund:						
Multi-Strategy Bond Fund	3,957,627	-	3,957,627	-	-	-
Total	\$ 4,296,136	\$ 186,579	\$ 3,989,366	\$ 120,191	\$ -	\$ -

		June 30, 2015				
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%	\$ 215,311	\$ 165,803	\$ -	\$ -	\$ -	\$ 49,508
Corporate Debt securities 2.25% to 6.75%	105,073	-	20,521	46,168	38,384	-
Fixed Income Mutual Funds	44,565	-	-	-	-	44,565
Foreign Assets - Corporate	10,611	-	5,063	5,548	-	-
Common Fund:						
Multi-Strategy Bond Fund	3,790,042	-	3,790,042	-	-	-
Total	\$ 4,165,602	\$ 165,803	\$ 3,815,626	\$ 51,716	\$ 38,384	\$ 94,073

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Maturities of Debt Securities

Investment type	Fair value	Investment maturities (in years)		
		Less than 1	1 to 5	6 to 10
June 30, 2016				
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%	83,963	10,061	47,316	26,586
Fixed Income Mutual Funds	62,651	62,651	-	-
Foreign Assets:				
Corporate Obligations	5,316	-	5,316	-
Common Fund:				
Multi-Strategy Bond Fund	3,957,627	-	-	3,957,627
	<u>4,296,136</u>	<u>\$ 108,961</u>	<u>\$ 202,962</u>	<u>\$ 3,984,213</u>
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			
	<u>7,907,170</u>			
Money Market Funds:				
Eaton Vance Money Market	94,826			
TD Bank Money Market	887			
	95,713			
Cash on deposit	3,083,752			
Total	<u>\$ 15,382,771</u>			

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Maturities of Debt Securities

Investment type	June 30, 2015			
	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%	\$ 215,311	\$ 60,763	\$ 154,548	\$ -
Corporate Debt Securities 1.0% to 6.75%	105,073	64,005	41,068	-
Fixed Income Mutual Funds	44,565	-	-	44,565
Foreign Assets:				
Corporate Obligations	10,611	5,063	5,548	-
Common Fund:				
Multi-Strategy Bond Fund	3,790,042	-	-	3,790,042
	<u>4,165,602</u>	<u>\$ 129,831</u>	<u>\$ 201,164</u>	<u>\$ 3,834,607</u>
Other investments:				
Equity Investments:				
Common Fund:				
Multi-Strategy Equity Fund	3,260,824			
Core Equity Fund	3,764,848			
Equities	827,829			
Foreign Equities	54,924			
Foreign Mutual Funds	112,783			
	<u>8,021,208</u>			
Money Market Funds:				
Eaton Vance Money Market	26,192			
TD Bank Money Market	886			
	<u>27,078</u>			
Cash on deposit	<u>3,678,008</u>			
Total	<u>\$ 15,891,896</u>			

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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.

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.

Common stocks, equities, corporate bonds and U.S. Government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of the shares held by the Foundation at year end.

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 University 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, 2016 and 2015, all investments are categorized in Level 1 of the fair value hierarchy.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Investments of the Foundation

	<u>Fair value at June 30, 2016</u>	<u>Fair value at June 30, 2015</u>
Community Foundation of Western Massachusetts - Global Growth Portfolio	<u>\$ 17,269</u>	<u>\$ 17,827</u>
Eaton Vance Trust Company:		
Money Market Fund	495,010	266,579
Fixed Income	2,782,650	3,314,516
Equities	6,314,858	6,833,311
Foreign Assets		
Corporate Obligations	31,892	63,666
Equities	750,252	509,782
Mutual Funds	<u>1,668,732</u>	<u>1,722,607</u>
Total	<u>\$ 12,060,663</u>	<u>\$ 12,728,288</u>

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 \$708,541 and \$479,135 at June 30, 2016 and 2015, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - Accounts Receivable

Accounts receivable include the following at June 30:

	2016	2015
Student accounts receivable	\$ 5,692,816	\$ 4,999,758
Grants receivable	719,643	245,743
State receivables	1,991,609	730,097
Other receivables	783,031	673,728
	9,187,099	6,649,326
Less: allowance for doubtful accounts	(2,740,072)	(2,543,423)
	\$ 6,447,027	\$ 4,105,903

Note 5 - Capital Assets

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

		2016				
	Estimated lives (in years)	Beginning balance	Additions	Retirements	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

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 5 - Capital Assets - Continued

		2015				
	Estimated lives (in years)	Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not depreciated:						
Land		\$ 131,946	\$ -	\$ -	\$ -	\$ 131,946
Construction in progress		3,870,813	4,224,830	-	(443,815)	7,651,828
Total not depreciated		4,002,759	4,224,830	-	(443,815)	7,783,774
Capital assets depreciated:						
Buildings, including improvements	20-40	77,122,738	598,138	-	443,815	78,164,691
Furnishings and equipment (including cost of capital leases)	3-10	7,732,436	-	(27,177)	-	7,705,259
Books	5	1,216,331	-	-	-	1,216,331
Total depreciated		86,071,505	598,138	(27,177)	443,815	87,086,281
Less: accumulated depreciation:						
Building, including improvements		(49,209,458)	(1,788,025)	-	-	(50,997,483)
Furnishings and equipment		(6,477,370)	(540,364)	27,177	-	(6,990,557)
Books		(1,216,331)	-	-	-	(1,216,331)
Total accumulated depreciation		(56,903,159)	(2,328,389)	27,177	-	(59,204,371)
Capital assets, net		\$ 33,171,105	\$ 2,494,579	\$ -	\$ -	\$ 35,665,684

Note 6 - Long-Term Liabilities

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

		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 net	4,067,632	21,831	62,884	4,026,579	2,579,381	1,447,199
Workers' compensation, net	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

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 6 - Long-Term Liabilities - Continued

	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Notes payable:						
Bonds payable	\$ 9,785,000	\$ -	\$ 515,000	\$ 9,270,000	\$ 515,000	\$ 8,755,000
Liabilities for compensated absences and other:						
Accrued sick and vacation net	3,841,540	226,092	-	4,067,632	2,557,549	1,510,082
Workers' compensation, net	303,770	7,366	-	311,136	67,828	243,308
Net pension liability	7,083,129	-	2,054,368	5,028,761	-	5,028,761
Total liabilities	11,228,439	233,458	2,054,368	9,407,529	2,625,377	6,782,152
Total long-term liabilities	\$ 21,013,439	\$ 233,458	\$ 2,569,368	\$ 18,677,529	\$ 3,140,377	\$ 15,537,152

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 \$161,661 and \$159,011 for the years ended June 30, 2016 and 2015, respectively. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2016:

Years Ending June 30,	Operating Leases
2017	135,227
2018	116,910
2019	111,032
2020	101,113
2021	19,043

\$ 483,325

Bond Payable

In October 2012, the College borrowed \$10,300,000 in a bond issue (Series 2012) through the Massachusetts Development Finance Agency ("MDFFA"). The proceeds were used to finance the purchase and renovation of a new building; and to refund the remaining \$3,300,000 of the Series 2003 bond. 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. The refunding of the Series 2003 did not result in an economic gain or loss to the College.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

As of June 30, 2016, principal and interest payments on bonds payable for the next five years and in subsequent five-year periods are as follows:

	Principal	Interest*
Fiscal year ending June 30,:		
2017	\$ 515,000	\$ 265,424
2018	515,000	249,342
2019	515,000	233,260
2020	515,000	217,750
2021	515,000	201,095
2022-2026	2,575,000	764,636
2027-2031	2,575,000	362,402
2032-2033	1,030,000	32,341
	\$ 8,755,000	\$ 2,326,250

*Based on current 3.08% interest rate.

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, 2016 approximately \$132,000 has been expended, and the remaining balance is shown as deferred inflows of resources on the statement of net position.

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.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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:

	2016	2015
Long -term investment	\$ 1,818,764	\$ 1,753,391
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.	3,181,106	3,728,132
	\$ 5,499,870	\$ 5,981,523

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.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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:

	2016	2015
Compensation and benefits	\$ 44,830,696	\$ 42,702,491
Supplies and services	10,851,977	10,702,914
Depreciation and amortization	2,718,288	2,328,390
Scholarships	5,208,805	6,764,581
	\$ 63,609,766	\$ 62,498,376

Note 12 - **State Appropriation**

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

	2016	2015
Direct unrestricted appropriations:	\$ 19,807,113	\$ 19,594,147
Add: fringe benefits for benefited employees on the state payroll	5,488,604	5,095,920
Less: 9C Reduction	-	(283,175)
Less: day school tuition remitted to the state and included in tuition and fee revenue	(662,695)	(631,080)
Total unrestricted appropriations	24,633,022	23,775,812
Restricted appropriations:		
Workforce Development project	49,986	49,986
Other	76,805	173,464
Total restricted appropriations	126,791	223,450
Capital appropriations:		
Direct	88,435	44,068
Department of Capital Asset Management Allocation	1,215,835	533,495
Total capital appropriations	1,304,270	577,563
Total appropriations	\$ 26,064,083	\$ 24,576,825

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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 \$1,778,104 and \$1,941,570 for the years ended June 30, 2016 and 2015, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 75% and 77% of total related payroll for fiscal years end 2016 and 2015, respectively.

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

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

Benefit Provisions

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

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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:

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

The College is required to contribute at an actuarially determined rate; the rate was 9.45% and 10.39% of annual covered payroll for the fiscal years ended June 30, 2016 and 2015, respectively. The College contributed \$494,529 and \$504,616 for the fiscal year ended June 30, 2016 and 2015, 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, 2016 and 2015, the College reported a liability of \$9,174,886 and \$5,028,761 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability was measured as of June 30, 2015, 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 for reporting at June 30, 2016, the reporting date. The net pension liability was measured as of June 30, 2014, 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, 2014 rolled forward to June 30, 2014 for reporting at June 30, 2015, the reporting date. 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 2015 and 2014, respectively. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2015 and 2014 relative to total contributions of all participating employers for the fiscal years. At June 30, 2015 and 2014, the College's proportion was 0.081% and 0.068%, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 13 - **Pensions – Continued**

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

For the years ended June 30, 2016 and 2015, the College recognized a pension expense of \$1,052,320 and \$180,907, respectively. At June 30, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2016</u>	<u>2015</u>
<u>Deferred Outflows of Resources</u>		
Contributions subsequent to the measurement date	\$ 494,529	504,616
Changes in proportion	265,739	-
Change in plan investment assumptions	<u>1,588,901</u>	<u>56,529</u>
Total	<u>\$ 2,349,169</u>	<u>\$ 561,145</u>
<u>Deferred Inflows of Resources</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 82,292	\$ 1,032,147
Change in proportion	-	<u>861,220</u>
Total	<u>\$ 82,292</u>	<u>\$ 1,893,367</u>

Contributions of \$494,529 and \$504,616 are reported as deferred outflows of resources related to pensions resulting from the College contributions in fiscal years 2016 and 2015, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability for the years ended June 30, 2017 and 2016, 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 <u>June 30,</u>	
2017	\$ 323,484
2018	323,484
2019	323,484
2020	624,541
2021	<u>177,355</u>
Total	<u>\$ 1,772,348</u>

HOLYOKE COMMUNITY COLLEGE

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 13 - **Pensions – Continued**

Actuarial Assumptions

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

Measurement date	June 30, 2015	June 30, 2014
Inflation	3.00%	3.00%
Salary increases	3.50% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	8.00%
Interest rate credited to annuity savings fund	3.50%	3.50%

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

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

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

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 13 - **Pensions – Continued**

Actuarial Assumptions - Continued

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

Discount Rate

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

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 13 - **Pensions – Continued**

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, 2016		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 12,471,669	\$ 9,174,886	\$ 6,331,349
June 30, 2015		
Current		
1.00% Decrease (7.00%)	Discount Rate (8.00%)	1.00% Increase (9.00%)
\$ 7,280,221	\$ 5,028,761	\$ 3,096,194

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*.

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.

HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Fringe Benefits - Continued

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

Group Insurance Commission

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

The GIC administers a plan included within the State Retirement Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums 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, 2015, 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)

HOLYOKE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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

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

	<u>2016</u>	<u>2015</u>
Revenue per MMARS	<u>\$ 45,293,469</u>	<u>\$ 47,829,948</u>
Revenue per College	<u>\$ 45,293,469</u>	<u>\$ 47,829,948</u>

Note 16 - **Pass-Through Grants**

The College distributed \$6,865,592 and \$7,701,239 for the years ended June 30, 2016 and 2015, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

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

Schedule of the Proportionate Share of the Net Pension Liability

(Unaudited)

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

Notes:

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

See accompanying notes to the required supplemental information.

HOLYOKE COMMUNITY COLLEGE
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Schedule of Contributions

For the Year Ended June 30, 2016

(Unaudited)

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

Notes:

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

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

See accompanying notes to the required supplemental information.

HOLYOKE COMMUNITY COLLEGE
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Notes to the Required Supplementary Information

For the Year Ended June 30, 2016

(Unaudited)

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.00% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion to be charged to income over an amortization period of 5.5 years beginning 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 0.081% and 0.068% in fiscal years 2016 and 2015, 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:

Changes in assumptions	\$ 1,939,199	\$ 69,091
Accumulated amortization	<u>(350,298)</u>	<u>(12,562)</u>
Changes in assumptions, net	<u>\$ 1,588,901</u>	<u>\$ 56,529</u>



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

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, and 2015 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 OPEN.

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 10, 2016