MASSACHUSETTS BAY COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 and 2015

COHN REZNICK

ACCOUNTING • TAX • ADVISORY

MASSACHUSETTS BAY COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Financial Statements

June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Trustees
Massachusetts Bay Community College

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Massachusetts Bay Community College (the "College") (an agency of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Massachusetts Bay Community College as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Massachusetts Bay Community College and its discretely presented component unit are intended to present the respective financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Massachusetts Bay Community College and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Financial Statements as of June 30, 2015

The financial statements of Massachusetts Bay Community College as of June 30, 2015, were audited by other auditors whose report dated October 27, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension benefit schedules on pages 5 to 20 and 54 to 56, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 22, 2016, on our consideration of Massachusetts Bay Community College's internal control over financial reporting and 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 Massachusetts Bay Community College's internal control over financial reporting and compliance.

CohnReznick LLP

Boston, Massachusetts
November 22, 2016

MASSACHUSETTS BAY COMMUNITY COLLEGE
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Management's Discussion & Analysis
Unaudited

Introduction

The following unaudited Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of Massachusetts Bay Community College (the "College") for the fiscal years ended June 30, 2016, 2015 and 2014. This overview has been prepared by management and should be read in conjunction with the College's financial statements and the accompanying notes. The purpose of this document is to give some background to the financial statements, and foster an understanding of how these statements relate to the mission and activities of the College.

Reporting Entity

The College is one of fifteen comprehensive, open-enrollment public two-year community colleges in the Commonwealth of Massachusetts (the "State" or the "Commonwealth"). The College was established in 1961 and its primary mission is to foster educational excellence and student success, prepare students for local and global citizenship, anticipate and respond to the needs of surrounding communities and contribute to evolving regional economic development. Its vision is to aspire to be a catalyst for transformation - calling for the best in students, preparing them as engaged citizens and enabling them to realize their dreams.

The College operates two campuses and one satellite facility in the MetroWest area outside Boston that enrolled 4,976 students (unduplicated headcount) in Fall 2015. The College offers a diverse range of associate and certificate programs as well as an array of non-credit offerings. The College is governed by an eleven member Board of Trustees who are appointed by the governor of the Commonwealth. The governor also appoints the Chairperson of the Board. The College is accredited by the New England Association of Schools and Colleges ("NEASC") and many of the College's programs are accredited by program-specific accrediting bodies.

The Massachusetts Bay Community College Foundation, Inc. (the "Foundation") was formed in 1984 to render financial assistance and support of educational programs and development of the College. The Foundation is legally separate from the College and the College is not financially accountable to the Foundation, but due to the nature and significance of its relationship with the College, it is included as a discretely presented component unit in the College's financial statements.

Using the Financial Statements

Massachusetts Bay Community College reports its activity as a business type entity using the full accrual basis of accounting. The accrual basis of accounting ensures that all amounts owed to the College and pending obligations of the College are accounted for in the appropriate period, thus giving a clear picture of the College's financial position. The College is an agency of the Commonwealth of Massachusetts. A summary of the College's financial statements is incorporated in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements. The College's basic financial statements include the Statement of Net Position, the Statement of

Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

The College has implemented GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, beginning with the year ended June 30, 2015. The primary objective of this Statement is to increase transparency of accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As part of this implementation it was required that the Commonwealth of Massachusetts allocate to state-funded institutions of higher education, including the College, their proportionate share of the Commonwealth's collective net pension liability, deferrals and pension expense, including special funding amounts, with the collective pension amounts allocated on the basis of actual fringe benefit charges assessed to each institution. As part of this implementation, certain defined transactions that were required by GASB 68 did not qualify for accounting treatment as either assets or liabilities. GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, requires that such defined transactions that do not qualify for treatment as either assets or liabilities be accounted for and reported as either deferred outflows of resources (a separate subheading following assets but before liabilities) or deferred inflows of resources (a separate subheading following liabilities but before net position). As such, both deferred outflows of resources and deferred inflows of resources will be presented on the College's Statement of Net Position.

The Statement of Net Position provides information about the College at a moment in time, at year end. The Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows provide information about operations and activities over a period of time. Together, these three statements, along with the accompanying notes, provide a comprehensive way to assess the College's financial health as a whole. The full scope of the College's activities is considered to be a single business-type activity and accordingly is reported within a single column in the basic financial statements, with the Foundation reported as a discretely presented component unit.

MASSACHUSETTS BAY COMMUNITY COLLEGE
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Management's Discussion & Analysis
Unaudited

The Statement of Net Position:

The Statement of Net Position reflects the financial position of the College as of June 30. It shows the various assets owned or controlled, outflows of resources and inflows of resources applicable to future reporting periods, liabilities and other obligations, and various categories of net position. Net position is the accounting concept defined as total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, and as such, represents institutional equity or ownership in the College's total assets. 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. A condensed comparison of the Statements of Net Position is as follows:

Condensed Statements of Net Position

As of June 30,	2016	2015	2014
Assets:			
Current assets	$ 12,520,139	$ 9,849,160	$ 6,981,887
Capital assets, net	9,365,362	10,353,224	12,329,354
Total Assets	21,885,501	20,202,384	19,311,241
Deferred Outflows of Resources	581,271	168,603	195,692
Liabilities			
Current Liabilities	6,067,523	5,666,521	4,957,723
Non-Current Liabilities	3,441,974	4,098,687	6,809,816
Total Liabilities	9,509,497	9,765,208	11,767,539
Deferred Inflows of Resources	1,793,634	1,714,783	-
Net position			
Net investment in capital assets	8,457,021	8,795,384	9,991,730
Restricted for			
Expendable	347,430	441,495	304,288
Non-expendable	-	-	-
Unrestricted	2,359,190	(345,883)	(2,556,624)
Total Net Position	$ 11,163,641	$ 8,890,996	$ 7,739,394

Current assets consist primarily of cash, cash equivalents and student and grant receivables. The majority of the current assets for the three years presented represented cash and cash equivalents.

Non-current assets are primarily comprised of capital assets (e.g. land, buildings, machinery and equipment). The College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the College's net 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. Non-current assets decreased over the three years due to

depreciation expense that exceeds assets purchased during each year. Capital asset additions totaled $662K, $424K and $262K and depreciation expense totaled $1.65M, $2.40M and $2.53M for the years ended June 30, 2016, 2015 and 2014, respectively.

Deferred outflows of resources is required to be presented after the assets section but before the liabilities section of the Statement of Net Position.

Current liabilities consist of amounts payable to suppliers for goods and services, accrued payroll and related liabilities, unearned tuition and student deposits, the value of vacation, sick leave and compensation time earned but not yet used and is expected to be used within the next year, and the current portion of the College's capital lease obligations.

Non-current liabilities primarily consist of the value of vacation, sick leave and compensation time earned but not yet used and not expected to be used within the next year, and the long-term portion of capital lease obligations.

Deferred inflows of resources is required to be presented after the liabilities section but before the net position (equity) section of the Statement of Net Position.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows are deducted. The College is required by accounting standards to report its net position in three categories:

Investment in Capital Assets, net - the College's total investment in property, plant, equipment and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted:

Expendable - This category includes resources the College is legally or contractually obligated to spend in accordance with restrictions placed by State, donor, and/or external parties who have placed time or purpose restrictions on the use of the asset. These funds are comprised of $347K, $441K and $304K at June 30, 2016, 2015 and 2014, respectively. The Foundation's restricted-expendable net position consists of funds whose income is used mainly for student scholarships and grant awards for eligible College students.

Non-Expendable - the College has no restricted non-expendable net position resources or assets as of June 30, 2016, 2015 and 2014. The Foundation's restricted non-expendable net position consists of endowed scholarship funds to be held in perpetuity.

Unrestricted - includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent unrestricted fund balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the College's management.

Statement of Revenues, Expenses and Changes in Net Position:

The Statement of Revenues, Expenses and Changes in Net Position reflects the results of operations and other changes for the year ended June 30. The objective of the statement is to present the revenues earned, both operating and non-operating, and the expenses incurred by the College, along with any other revenues, expenses, gains or losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition, fees, grants and contracts are included in this category. In contrast, non-operating revenue includes support the College receives from another government entity without directly giving equal value to the government entity in return. Accounting standards require that the College categorize state operating appropriations as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation expense on property and equipment assets.

The operating loss in the three years presented represents the State mandate to keep tuition lower than the cost of the education and community services provided.

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The condensed Statements of Revenues, Expenses and Changes in Net Position are presented below:

Condensed Statements of Revenues, Expenses and Changes in Net Position

For the Year ended June 30,	2016	2015	2014
Operating revenues			
Tuition and fees (net)	$ 12,689,408	$ 12,585,404	$ 11,820,866
Grants	10,480,713	11,945,442	14,220,533
Gifts and contributions	217,533	117,365	641,286
Other operating revenue	341,581	272,580	317,500
Total operating revenue	23,729,235	24,920,791	27,000,185
Operating expenses			
Instruction	17,288,073	16,580,104	16,822,126
Academic support	3,750,542	4,110,276	5,532,057
Student services	4,847,184	4,996,952	5,335,637
Scholarships and fellowships	2,133,941	2,687,307	2,896,437
Institutional support	6,045,843	7,042,112	6,497,848
Public service	75,231	84,675	179,109
Operations and maintenance of plant	5,665,544	5,272,190	4,954,780
Charge off of donated software	-	-	498,036
Depreciation	1,650,000	2,400,140	2,528,296
Total operating expenses	41,456,358	43,173,756	45,244,326
Operating income (loss)	(17,727,123)	(18,252,965)	(18,244,141)
Net non-operating revenues			
State appropriations, net	20,017,016	19,187,007	18,967,354
Investment income	22,336	6,595	4,309
Interest expense	(45,253)	(65,703)	(93,238)
Capital appropriations received (refunded)	(66,631)	276,668	37,400
Capital grants	72,300	-	-
Total non-operating revenue	19,999,768	19,404,567	18,915,825
Increase (decrease) in net position	2,272,645	1,151,602	671,684
Net position, beginning of the year	8,890,996	7,739,394	11,310,162
Restatement	-	-	(4,242,452)
Net position, end of the year	$ 11,163,641	$ 8,890,996	$ 7,739,394

Revenues

The Commonwealth of Massachusetts, through the Board of Higher Education, appropriates funds to the community college segment as a whole and then the Board of Higher Education allocates monies to support day-to-day operations of the Colleges. Partially due to the performance funding model, the College's direct unrestricted appropriations from the Commonwealth totaled $15.8M, $15.6M and $14.7M for FY2016, 2015 and 2014, respectively.

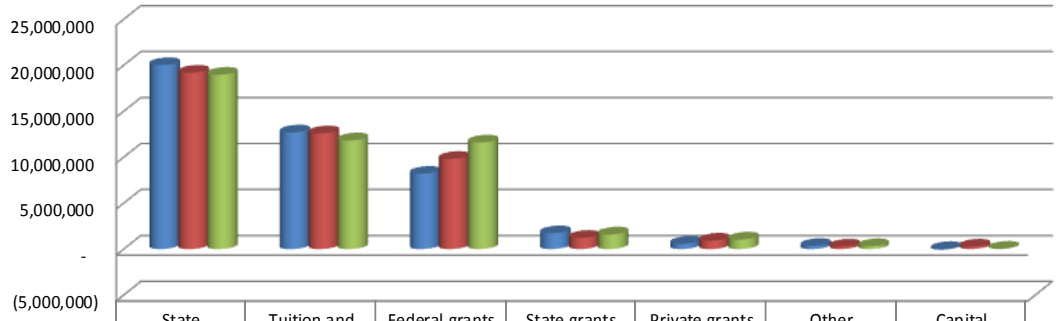
Although the Commonwealth dictates the tuition rate, $24 per credit hour for in state tuition for the three years under comparison, the course and administrative student services fees are set by the Board of Trustees of the College. In FY2016, at the request of management, the Board of Trustees of the College approved an increase to the All College fee by $10 per credit hour, increasing the fee from $130 per credit hour to $140 per credit hour. There were no fee increases in FY2015 & FY2014.

Scholarship allowances represent funds received by the College on behalf of students and applied directly to students' accounts as defined by GASB Statement No. 33. For the years ended June 30, 2016, 2015 and 2014, student financial aid and other scholarships, tuition waivers and awards totaled $9.6M, $10.3M and $11.9M, respectively. The amounts received in excess of amounts billed by the College that were subsequently refunded to students totaled $2.1M, $2.7M and $2.9M for the years ended June 30, 2016, 2015 and 2014, respectively.

Federal grants and contracts annual revenues decreased by $1.6M and $1.8M or 16% and 15% when compared with the prior years in FY2016 and FY2015, respectively. For both years, the decrease was a result of lower student participation in the Federal Pell and National Student Loan programs. This decrease was mitigated by an overall increase in Federal institutional grants in FY2016. The larger grants in FY2016 included: National Science Foundation, iCREAT: A pathway to middle-skill positions through the Introduction to Coding, Robotics, Electronics, and Technology grant which was new for the College in FY2016 and the Department of Labor Trade Adjustment Assistance Community College and Career Training Grants Program ("TAACCCT"), Massachusetts College Consortium - Guided Pathways to Success in STEM (science, technology, engineering and math) grants and funding from the Department of Education for a Title III - Student Success Initiatives grant. In FY2015, there was a decrease in Federal institutional grants over FY2014, primarily due to the winding down of the four year Department of Labor Trade Adjustment Assistance Community College and Career Training Grants - Community College Consortium Workforce Development Transformation grant.

State grants and contracts annual revenues increased by $496K or 41% in FY2016 over the prior year and decreased by $368K or 23% in FY2015 over the prior year. These changes were primarily due to level funding in State grant initiatives and lower student participation in the Massachusetts Tuition Waiver program. The State grant initiatives appropriated for the three years included: The STEM Starter Academy, the Performance Initiative Grant and Perkins Grant Awards Program.

Private grants, contracts and other operating revenue decreased by $283K, or 24% in FY2016 and $162K or 12% in FY2015 over the prior year. For FY2016 over FY2015, the decrease was primarily the result of a decline in the College's non-credit offerings, mitigated by an increase in commission income due to more favorable bookstore and food service contract negotiations. For FY2015 over FY2014, the decrease was primarily related to a drop in student participation in private student loan programs.



	State appropriations, net	Tuition and fees, net	Federal grants and contracts	State grants and contracts	Private grants and contracts	Other operating revenues	Capital appropriations
2016	20,017,016	12,689,408	8,196,417	1,718,496	565,800	341,581	(66,631)
2015	19,187,007	12,585,404	9,804,815	1,222,880	917,747	272,580	276,668
2014	18,967,354	11,820,866	11,594,651	1,590,771	1,035,111	317,500	37,400

The College receives capital appropriations from the Commonwealth that can span multiple fiscal years. In accordance with accounting standards, the amount shown as capital appropriations revenue on the financial statements is the amount expended during the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization requirements are not shown as an expense in the current period and are instead recognized as depreciation expense over the expected useful life of the asset.

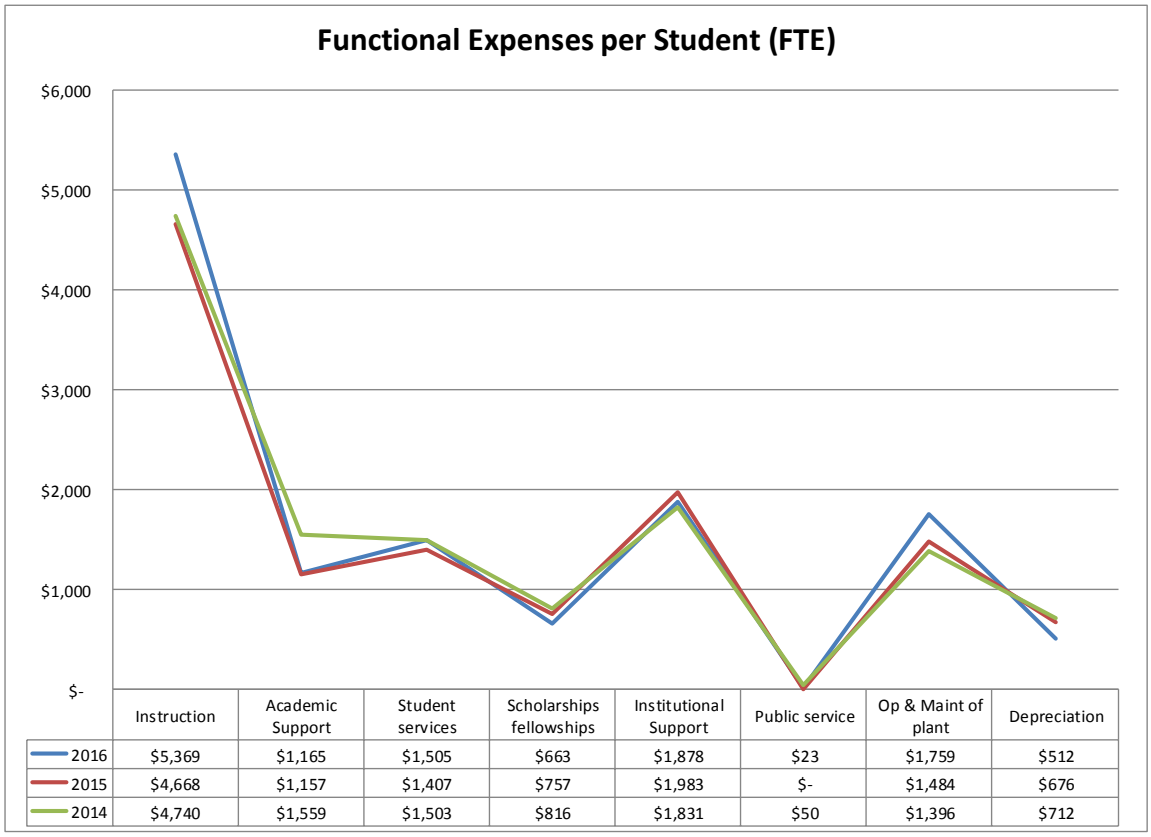
Expenses

Faced with declining enrollment over the past four years, the College has continuously sought opportunities to identify savings and efficiencies. Over the last three years, the College has restructured its budget to decrease spending with the goal of increasing financial strength to meet the predicted trend of declining enrollment due to declining population projections for Massachusetts.

Overall the College's operating expenses decreased by 4% and 4.5% when compared with the prior years in FY2016 and FY2015, respectively. This was due to a concerted effort by management to reduce costs to meet the reality of current operating resources. In FY2015, the majority of the savings was due to retrenchment efforts in the non-unit professional employee class during FY2014 and FY2015 and selected non-personnel budget cuts. Savings in FY2016 were primarily the result of budget initiatives to delay hiring of selected open positions and to reduce costs in the areas of conference and travel costs, printing and postage and catering expenses across the College.

Instruction increased by 4% in FY2016 over the prior year and decreased by 1.4% in FY2015 over the prior year. The increase in FY2016 was the result of increases in union contracts and grant supported activities. Scholarships and Fellowships decreased by 21% and 7.2% when compared with the prior years in FY2016 and FY2015, respectively. This was primarily due to decreased student participation in Subsidized and Unsubsidized Stafford Loans as the College's enrollment decreased. Institutional Support decreased by 14% in FY2016 over the prior year and increased by 8.4% in FY2015 over the prior year. Management was able to reduce this category through strategic budget cuts in this area over the last budget cycle. Depreciation expense for FY2016 was lower by 31% over the prior year and 5% lower in FY2015 over the prior year. This decrease was due to the purchase of computer assets for an upgrade to the College's ERP system and significant network infrastructure put into place in FY2014 and depreciated over 2 years in FY2014 and FY2015.

The following chart illustrates the operating expenses by National Association of College and University Business Officers ("NACUBO") functional category per full-time equivalent ("FTE") student.



	Instruction	Academic Support	Student services	Scholarships fellowships	Institutional Support	Public service	Op & Maint of plant	Depreciation
2016	$5,369	$1,165	$1,505	$663	$1,878	$23	$1,759	$512
2015	$4,668	$1,157	$1,407	$757	$1,983	$-	$1,484	$676
2014	$4,740	$1,559	$1,503	$816	$1,831	$50	$1,396	$712

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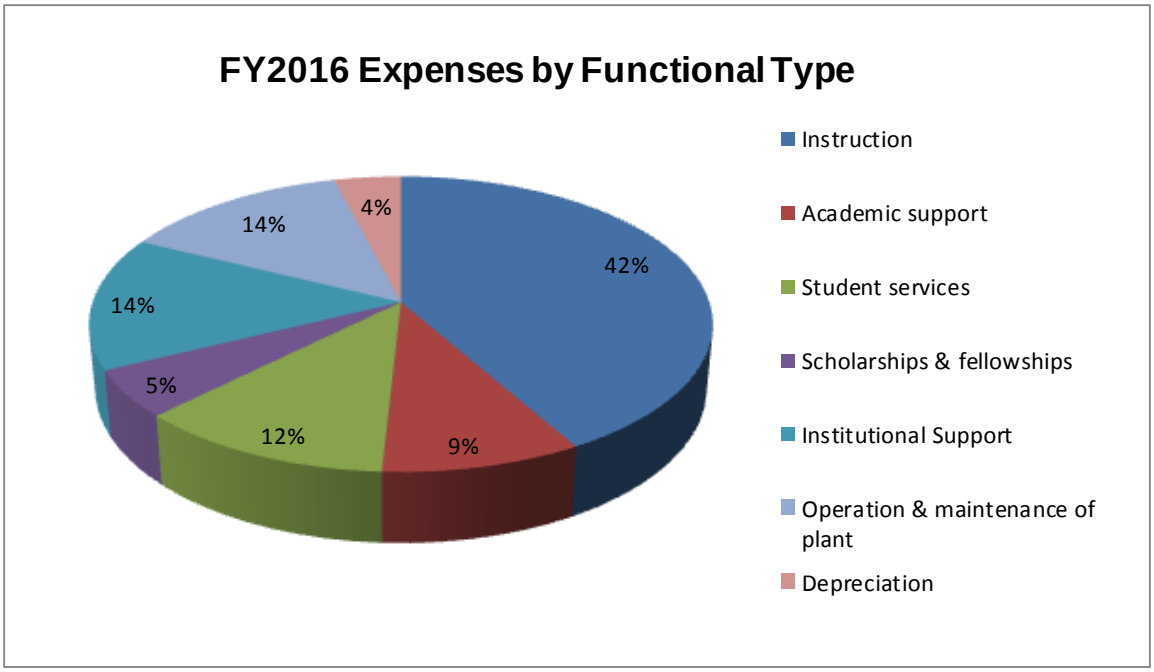
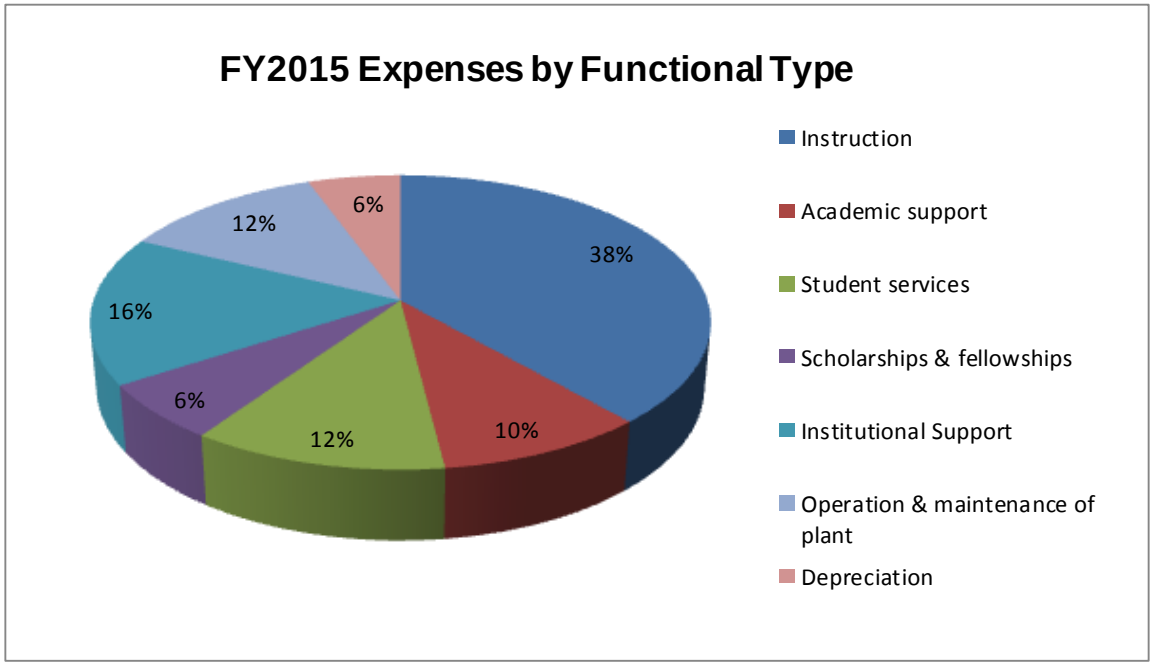
Unaudited

The following are graphic illustrations of total expenses by functional categories including depreciation expense for the fiscal years ended June 30, 2016 and 2015:





The Statement of Cash Flows:

The Statement of Cash Flows gives a general picture of where the College obtains and spends its cash and cash equivalents during the fiscal year. The statement gives detailed information about cash flows related to four different types of activities within the institution.

The first section, Cash Flows from Operating Activities, shows cash received and spent on the operations of the College. Since tuition and fees and other operating revenues alone do not normally cover the operating costs of a public higher education institution, this section can be expected to show more cash used than provided.

The second section, Cash Flows from Non-Capital Financing Activities, shows cash received and spent on non-capital financing activities of the College. Here the College reports cash from state appropriations. Tuition required to be remitted to the state for day courses is also included in this section.

The third section, Cash Flows from Capital and Related Financing Activities, shows cash received and spent on capital and related financing activities. This includes state capital appropriations for major projects, minor works and repairs. It also includes principal and interest paid on capital leases. Since the College also uses local funds to supplement these sources, it is not unusual for this section to show more cash used than provided.

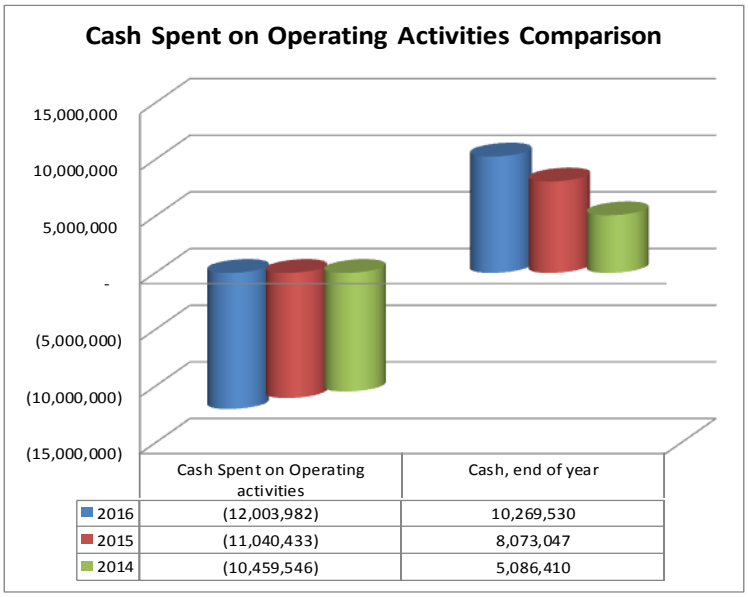
The fourth section, Cash Flows from Investing Activities, shows cash received and spent on investing activities, including the purchase and sale of investment instruments, interest earnings and realized gains and losses from investments.

Next, the statement shows how the current year's change in cash and cash equivalents combined with the prior year's cash and cash equivalents balance results in the ending cash and cash equivalents balance shown on the College's Statement of Net Position. Finally, the statement includes a detailed reconciliation of operating activity only, between the operating loss shown as a subtotal on the Statement of Revenues, Expenses and Changes in Net Position and the net cash used in operating activities as shown on the Statement of Cash Flows.

The condensed statements of cash flows are presented below:

Condensed Statements of Cash Flows			
For the Year ended June 30,	**2016**	**2015**	**2014**
Operating activities	$ (12,003,982)	$ (11,040,433)	$ (10,459,546)
Non-capital financing activities	15,529,350	14,970,054	14,486,973
Capital financing activities	(1,351,221)	(949,579)	(1,109,033)
Investing activities	22,336	6,595	4,309
Net change in cash	2,196,483	2,986,637	2,922,703
Cash and cash equivalents, beginning of year	8,073,047	5,086,410	2,163,707
Cash and cash equivalents, end of year	$ 10,269,530	$ 8,073,047	$ 5,086,410

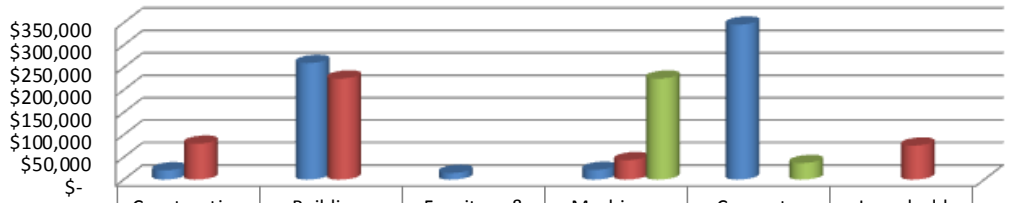
The College's cash and cash equivalents as of June 30, 2016 increased by approximately $2.2M over the balance at June 30, 2015. Similarly, the cash and cash equivalents balance increased by approximately $3.0M from June 30, 2014 to June 30, 2015. Primary contributing factors included adoption and implementation of a balanced budget supported by conservative enrollment projections and on-going conservative management of resources. Other factors that contributed to the increase included: increases in State appropriations and improved receivable collection practices. The following schedule summarizes the increase in cash spent to support operating activities for FY2016, 2015 and 2014 while maintaining a strong cash balance reserve:



Capital Assets and Long-Term Debt Activities

The College submits a prioritized request for capital funding to the Commonwealth's Division of Capital Asset Management ("DCAM") on an annual basis, which includes major projects. The primary funding source for capital projects is state general obligation bonds. In recent years, the Commonwealth's debt capacity has impacted the number of new and major repair projects that can be funded.

As of June 30, 2016, the College had invested more than $9M in capital assets, net of accumulated depreciation. Major asset types are as follows:



	Construction In Progress	Buildings	Furniture & Fixtures	Machinery and Equipment	Computer Assets	Leasehold Improvements
2016	$20,526	$259,718	$14,685	$21,610	$345,599	
2015	$79,874	$225,159		$43,250		$75,727
2014				$225,072	$36,870	

The decrease in net capital assets can be attributed to limited funds available to invest in new capital assets while existing capital assets were further being depreciated in FY2016.

The majority of the capital assets purchased over the last three years related to necessary building improvement projects. Beginning in FY2015 and completed in FY2016, the College replaced a roof on the Annex building on the Wellesley Hills campus. In addition, several building maintenance projects were undertaken to address deferred maintenance needs. There are two remaining projects in the construction in progress category in FY2016 that were State supported studies. The first, a feasibility study for a new campus and second, a study to assess a project related to air conditioning in certain Wellesley Hills campus classrooms. During FY2016, the College entered into an agreement to lease computer equipment for administrative and faculty use.

During FY2015, the College completed the following building improvement projects: a cooling tower overhaul and stair renovations and associated lift in the Veteran's "Bunker" on the Wellesley Hills campus and installing safety sensors outside the buildings. A leasehold improvement project to install security cameras on the Framingham campus was also completed during the year.

The majority of the capital assets purchased in FY2014 were teaching equipment. The College received a large donation of biotechnology equipment and several vehicles to add to the training fleet.

At June 30, 2016, the College had $908K in outstanding capital lease obligations. The majority of these obligations were incurred in prior years to fund an upgrade to the College's ERP system and will be paid in full by the end of FY2018. The remaining portion relates to leased administrative computer equipment.

Factors Impacting Future Periods

The College's financial operations are directly impacted by a number of issues of College-wide importance. The College's Strategic Plan for 2012-2017 sets forth six strategic directions - dynamic learning environment, focused student success, expanding partnerships, collaborative college community, improved systems and financial strength - that are the focus of the Board of Trustees ("Board") and the College leadership team when planning and implementing the College budget each year.

The College's fifth president, Dr. John O'Donnell, retired in August 2015. At this time, the Board of Trustees appointed Dr. Yves Salomon-Fernandez as interim President. At the beginning of May 2016, Dr. Salomon-Fernandez resigned to take another position and the Board of Trustees appointed Dr. Lynn Hunter as interim president for the remainder of the fiscal year while the College conducted a search for the College's next President. The Board conducted a search in accordance with the Massachusetts' Board of Higher Education's *Guidelines and Procedures for the Search, Selection, Appointment and Removal of State University and Community College Presidents* and hired a search firm to assist it in the search process. The search resulted in Dr. David Podell being appointed as the college's sixth President, with a start date of July 1, 2016.

The College's ability to meet its core mission and ongoing operational needs, as well as plan for new strategic initiatives and investments as set forth in the Strategic Plan, is limited by the level of state support and enrollment.

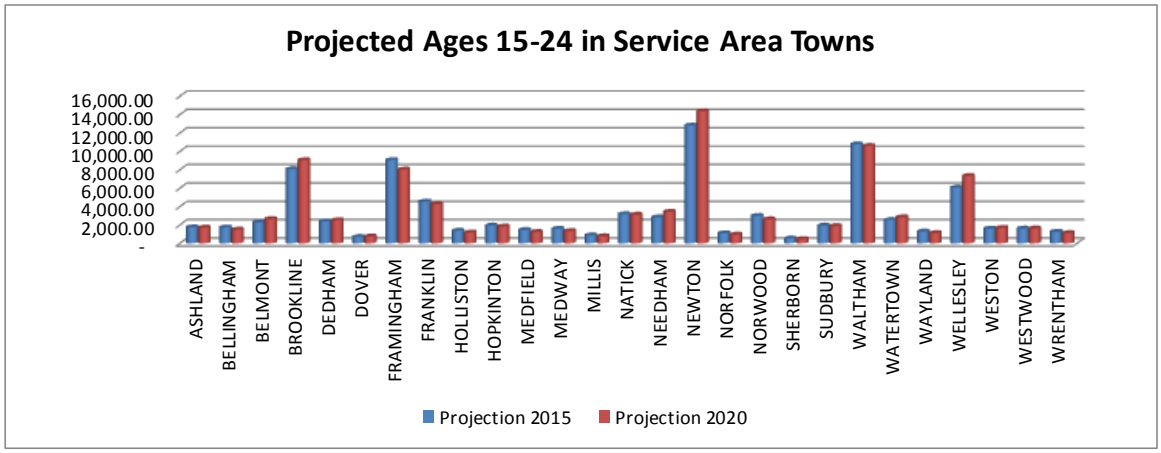
The Commonwealth's operating appropriations for community colleges was increased by 3% for FY2017; however, collective bargaining agreements negotiated by the Commonwealth covering the College's AFSCME and MCCC employees, imposed additional labor costs not fully funded by the Commonwealth.

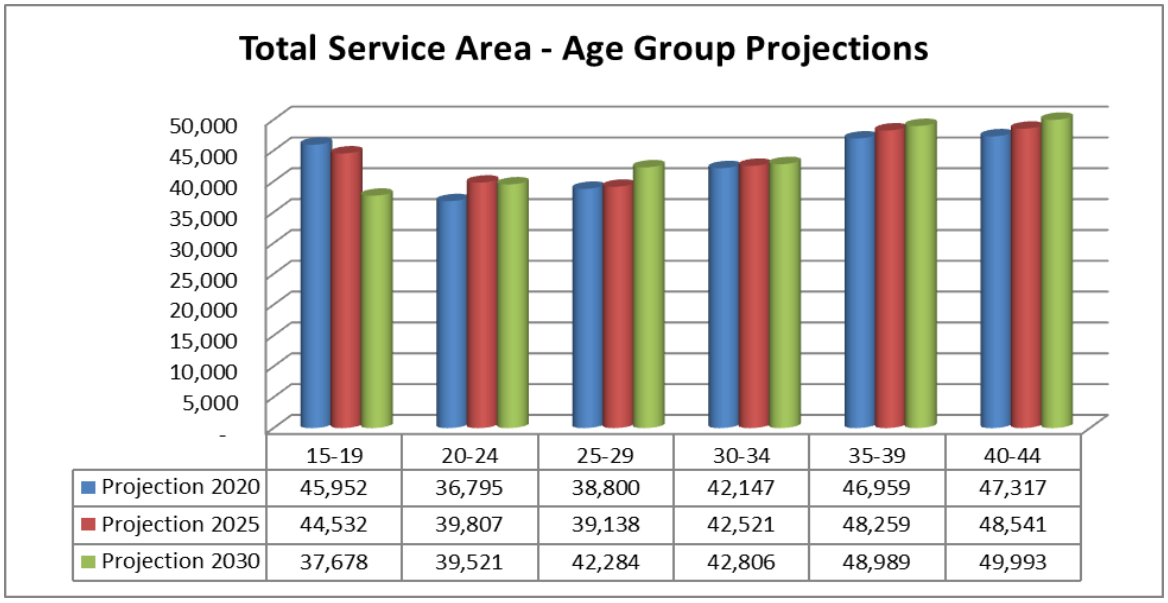
As noted in the College's 2015 NEASC Self-Study, enrollment continues to be a key challenge for the College. It has struggled with declining enrollment for several years, and has experienced actual declines in enrollment each year since FY2013.

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Management's Discussion & Analysis
Unaudited

The following charts identify the enrollment challenges facing the College, and the projected general declines in the majority of the College's service area towns in the short-term horizon for traditional College age students:





	15-19	20-24	25-29	30-34	35-39	40-44
Projection 2020	45,952	36,795	38,800	42,147	46,959	47,317
Projection 2025	44,532	39,807	39,138	42,521	48,259	48,541
Projection 2030	37,678	39,521	42,284	42,806	48,989	49,993

The FY2016 and FY2015 budgets were both structured with a 4% enrollment decrease to plan for the enrollment decline. The FY2016 and FY2015 budgets were structured to include a reserve amount in an effort to increase the College's cash reserve and mitigate the financial effect of any enrollment declines in excess of the budget. However, fall enrollment for FY2016 was down over 10% in headcount and full time students, well in excess of the budgeted 4% decline. Additional adjustments to the FY2016 budget were made mid-year to address the shortfall.

The budget for FY2017 was structured at an enrollment estimate level with the FY2016 results. As such, the Board of Trustees voted to increase the All-College fee by $11 per credit hour and a $2 increase in the technology fee beginning in Fall 2016 to help mitigate some of the effects of the enrollment decline and to continue investment in the College's operations.

The ability to address priority capital needs for new construction, deferred maintenance, and technology is a challenge for the College. The College presently leases its Framingham and Ashland campuses, which equate to 49% of its space. The lease for the Framingham campus expires as of August 31, 2019 and the lease for the Ashland campus expires as of January 31, 2021.

The College has been working with the Commonwealth to secure funding for a new Framingham campus, most recently planned at a cost of $59M. This project was put on hold by the Commonwealth for FY2016 so that several community college building projects in the existing state capital plan can be reviewed. It is anticipated that additional information will be known about the next steps in this project as the College plans its FY2018 budget.

The Wellesley Hills campus has suffered from deferred maintenance. Declining enrollment and consequently revenue from fees limits the College's capacity to supplement state funding with the needed capital to invest in physical infrastructure. The campus currently does not have an air conditioning system for many of its classrooms and labs, which limits its ability to offer a complete offering of summer courses. The College is continuing its partnership with DCAM in FY2017 to continue the design and installation of an HVAC system to provide air conditioning to those classrooms and labs presently without it.

The College has a Strategic Technology Plan for the years FY2014-2019 that outlines a five-year plan for technology at the College and proposes initiatives to aid the College in the achievement of its larger strategic plan. This plan provides for a systematic review of all current technology throughout the College and a move to managed services whenever possible. All solutions will be validated on cost, reliability, and value to the College and security.

A major investment in the campuses' technological infrastructure and an upgrade to the College's PeopleSoft system has been implemented in the last two years. The upgrade was designed to upgrade the system to the most current version, improve operations, accuracy, and business processes in the areas of student information systems, human resources, student financial aid, and finance and administration. Additional work is expected to continue to further configure and leverage the system in FY2017 to improve operations for students and staff.

Requests for Information

This financial report is designed to provide the College, the Commonwealth, the public and other interested parties with an overview of the financial results of the College and an explanation of the College's financial condition. If you have questions about this report or requests for additional information, please contact Eileen Gerenz, AVP for Finance & Administration at 781-239-3000 or by email at egerenz@massbay.edu.

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position
June 30, 2016 and 2015

Assets and Deferred Outflows of Resources

	2016 College	**2016 Foundation**	2015 College	2015 Foundation
Current Assets				
Cash and cash equivalents (Note 2)	**$ 10,125,463**	**$ 252,534**	$ 7,471,329	$ 362,643
Deposits held by State Treasurer (Note 3)	**144,067**	**-**	601,718	-
Accounts, grants and loans receivable, net (Note 4)	**1,926,035**	**-**	1,594,536	-
Pledges receivable, net (Note 5)	**-**	**14,100**	-	14,400
Investments (Note 6)	**-**	**4,674,976**	-	4,631,437
Prepaid expenses and other current assets	**324,574**	**-**	181,577	-
Total Current Assets	**12,520,139**	**4,941,610**	9,849,160	5,008,480
Noncurrent Assets				
Capital assets, net (Note 7)	**9,365,362**	**-**	10,353,224	-
Pledges receivable, net (Note 5)	**-**	**13,597**	-	23,914
Total Noncurrent Assets	**9,365,362**	**13,597**	10,353,224	23,914
Total Assets	**21,885,501**	**4,955,207**	20,202,384	5,032,394
Deferred Outflows of Resources				
Deferred outflows for pensions (Note 11)	**581,271**	**-**	168,603	-
Total Deferred Outflows of Resources	**581,271**	**-**	168,603	-

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position
June 30, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position

	2016 College	**2016 Foundation**	2015 College	2015 Foundation
Current Liabilities				
Accounts payable and accrued expenses (Note 8)	**$ 1,277,610**	**$ 20,016**	$ 1,231,706	$ 5,468
Accrued salaries and wages (Note 10)	**1,013,026**	**-**	790,130	-
Accrued compensated absences and worker's compensation (Note 9)	**1,579,862**	**-**	1,563,671	-
Unearned tuition and student deposits	**1,164,183**	**-**	1,134,560	-
Unearned grant and contract revenue	**203,363**	**-**	140,107	-
Current portion of capital lease obligations (Note 9)	**829,479**	**-**	806,347	-
Total Current Liabilities	**6,067,523**	**20,016**	5,666,521	5,468
Noncurrent Liabilities				
Accrued compensated absences and workers' compensation (Note 9)	**802,386**	**-**	877,322	-
Capital lease obligations (Note 9)	**78,862**	**-**	751,493	-
Net pension liability (Note 11)	**2,560,726**	**-**	2,469,872	-
Total Noncurrent Liabilities	**3,441,974**	**-**	4,098,687	-
Total Liabilities	**9,509,497**	**20,016**	9,765,208	5,468
Deferred Inflows of Resources				
Deferred inflows for pensions (Note 11)	**1,793,634**	**-**	1,714,783	-
Total Deferred Inflows of Resources	**1,793,634**	**-**	1,714,783	-
Net Position				
Net investment in capital assets	**8,457,021**	**-**	8,795,384	-
Restricted for:				
Expendable (Note 12)	**347,430**	**1,176,470**	441,495	1,319,068
Non-expendable (Note 12)	**-**	**1,297,120**	-	1,239,993
Unrestricted	**2,359,190**	**2,461,601**	(345,883)	2,467,865
Total Net Position	**$ 11,163,641**	**$ 4,935,191**	$ 8,890,996	$ 5,026,926

See notes to the financial statements.

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016 College	**2016 Foundation**	2015 College	2015 Foundation
Operating Revenues				
Tuition and fees	**$ 20,197,912**	**$ -**	$ 20,253,248	$ -
Less: Scholarship allowances	**(7,508,504)**	**-**	(7,667,844)	-
Net student fees	**12,689,408**	**-**	12,585,404	-
Gifts and contributions	**217,533**	**234,138**	117,365	325,093
Federal grants and contracts	**8,196,417**	**-**	9,804,815	-
State grants and contracts	**1,718,496**	**-**	1,222,880	-
Private grants and contracts	**565,800**	**-**	917,747	-
Other operating revenues	**341,581**	**-**	272,580	-
Total Operating Revenues	**23,729,235**	**234,138**	24,920,791	325,093
Operating Expenses (Note 14):				
Instruction	**17,288,073**	**-**	16,580,104	-
Academic support	**3,750,542**	**-**	4,110,276	-
Student services	**4,847,184**	**-**	4,996,952	-
Scholarships and fellowships	**2,133,941**	**218,666**	2,687,307	238,535
Institutional support	**6,045,843**	**122,422**	7,042,112	73,739
Public service	**75,231**	**33,706**	84,675	35,967
Operations and maintenance of plant	**5,665,544**	**-**	5,272,190	-
Equipment donations	**-**	**13,700**	-	54,745
Depreciation	**1,650,000**	**-**	2,400,140	-
Total Operating Expenses	**41,456,358**	**388,494**	43,173,756	402,986
Operating Loss	**(17,727,123)**	**(154,356)**	(18,252,965)	(77,893)

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016 College	**2016 Foundation**	2015 College	2015 Foundation
Non-Operating Revenues (Expenses)				
State appropriations, net (Note 16)	**20,017,016**	**-**	19,187,007	-
Investment income	**22,336**	**62,621**	6,595	226,841
Interest expense	**(45,253)**	**-**	(65,703)	-
Net Non-Operating Revenues	**19,994,099**	**62,621**	19,127,899	226,841
Income (Loss) Before Capital Additions	**2,266,976**	**(91,735)**	874,934	148,948
Capital appropriations received (refunded)	**(66,631)**	**-**	276,668	-
Capital grants	**72,300**	**-**	-	-
Total Capital Additions	**5,669**	**-**	276,668	-
Increase (Decrease) in Net Position	**2,272,645**	**(91,735)**	1,151,602	148,948
Net Position, Beginning of Year	**8,890,996**	**5,026,926**	7,739,394	4,877,978
Net Position, End of Year	**$ 11,163,641**	**$ 4,935,191**	$ 8,890,996	$ 5,026,926

See notes to the financial statements.

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Tuition and student fees	**$ 12,696,630**	$ 12,709,148
Grants and contracts	**10,275,940**	12,068,970
Payments to suppliers	**(8,150,728)**	(8,699,389)
Payments to employees	**(25,196,228)**	(24,768,483)
Payments to students	**(2,133,941)**	(2,687,307)
Other operating revenues	**504,345**	336,628
Net Cash Used in Operating Activities	**(12,003,982)**	(11,040,433)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**15,937,927**	15,903,601
Tuition remitted to State	**(408,577)**	(710,624)
Special payments to State (9c reduction)	**-**	(222,923)
Net Cash Provided by Non-Capital Financing Activities	**15,529,350**	14,970,054
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations received (refunded)	**(66,631)**	276,668
Purchases of capital assets	**(279,608)**	(380,760)
Principal paid on capital leases	**(959,729)**	(779,784)
Interest paid on capital leases	**(45,253)**	(65,703)
Net Cash Used in Capital and Related Financing Activities	**(1,351,221)**	(949,579)
Cash Flows from Investing Activity:		
Investment income	**22,336**	6,595
Net Cash Provided by Investing Activity	**22,336**	6,595
Net increase in Cash and Cash Equivalents	**2,196,483**	2,986,637
Cash and Cash Equivalents, Beginning of Year	**8,073,047**	5,086,410
Cash and Cash Equivalents, End of Year	**$ 10,269,530**	$ 8,073,047

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	**$ (17,727,123)**	$ (18,252,965)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	**1,650,000**	2,400,140
Bad debts	**15,923**	663,901
Fringe benefits provided by the State	**4,487,666**	4,216,952
Noncash gifts of equipment included in capital assets	**-**	(43,250)
Changes in assets and liabilities:		
Receivables	**(347,422)**	(460,477)
Prepaid expenses and other current assets	**(142,997)**	(83,054)
Accounts payable and accrued liabilities	**45,904**	796,644
Accrued salaries, wages, compensated absences and workers' compensation	**164,151**	(86,710)
Unearned grant and contract revenue	**63,256**	34,786
Unearned tuition and student deposits	**29,623**	-
Net pension activity	**(242,963)**	(226,400)
Net Cash Used in Operating Activities	**$ (12,003,982)**	$ (11,040,433)
Noncash Investing and Financing Activities		
Fringe benefits provided by the State	**$ 4,487,666**	$ 4,216,952
Purchases of capital assets funded by capital lease obligations	**$ 310,230**	$ -
Purchases of capital assets funded by state appropriations	**$ 72,300**	$ -
Donated equipment	**$ -**	$ 43,250
Reconciliation of Cash and Cash Equivalents, end of year		
Cash and cash equivalents	**$ 10,125,463**	$ 7,471,329
Deposits held by State Treasurer	**144,067**	601,718
Cash and cash equivalents, end of year	**$ 10,269,530**	$ 8,073,047

See notes to the financial statements.

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

Organization

Massachusetts Bay Community College (the "College") is a state-supported comprehensive two-year college that offers a quality education leading to an associate degree in the arts and sciences as well as one-year certificate programs. The College's primary campus is located in Wellesley Hills, Massachusetts, along with another campus in Framingham and a satellite facility in Ashland. The College provides instruction and training in a variety of liberal arts, allied health and business fields of study. The College also offers, through corporate and community education, credit and noncredit courses. The College is accredited by the New England Association of Schools and Colleges.

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

Basis of Presentation and Accounting

The accompanying financial statements, including the College's discretely presented component unit, the Massachusetts Bay Community College Foundation, Inc. (the "Foundation") and required supplementary information, have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB").

The Foundation, a component unit of the College, was formed in 1984 to render financial assistance and support to the educational programs and development of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included because of the nature and significance of its relationship with the College. Complete financial statements can be obtained from the Foundation's administrative offices in Wellesley Hills, Massachusetts.

The Foundation, as a nonprofit organization, reports under Financial Accounting Standards Board ("FASB") guidance on financial reporting for Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than the reclassification of certain items, no modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2016, the Foundation distributed scholarships in the amount of $218,666 directly to students of the College. During the year ended June 30, 2015, the Foundation distributed scholarships in the amount of $238,535 directly to students of the College.

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The accompanying statements of revenues, expenses and changes in net position demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

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

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

Net Position

The College has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds. Resources are classified for accounting purposes into the following three 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:

Non-expendable: Net position subject to externally imposed conditions that the College must maintain in perpetuity.

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.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Cash and Cash Equivalents and Investments

The College has defined cash and cash equivalents to include cash on hand, demand deposits, and cash and deposits held by state agencies on behalf of the College with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable are stated at the amount the College expects to collect from outstanding balances. The College provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the College has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value at date of donation. It is the College's policy to capitalize items with a unit cost of more than $1,000 and with a useful life of greater than one year. The College's 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 2 to 40 years.

It is the College's policy to expense educational reference materials when purchased. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Interest Expense and Capitalization

The College follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2016 and 2015, total interest costs incurred and expensed were $45,253 and $65,703, respectively. There were no interest costs capitalized in either year.

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.

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, each year. Employees with 10 or more years of service are entitled to carry forward 20% of unused sick time. Upon retirement, the employee is entitled to receive payment for the unused balance.

At the end of fiscal year 2016, the Board of Higher Education ("BHE") voted to adopt a set of changes that affect existing leave policies for Non-Unit Professional ("NUP") employees. The policies under BHE motion FAAP 16-32, set forth a plan to gradually reduce existing balances and accrual rates for vacation balance carryforwards. The new policy is effective July 1, 2016.

Workers' Compensation

The Commonwealth provides workers' compensation coverage to its employees on a self-insured basis. The Commonwealth requires the College to record its portion of the workers' compensation in its records. Workers' compensation is assessed separately to the College based on the College's actual experience.

Unearned Revenues

Unearned revenues consist of student deposits, fees and tuition payments for summer programs and the next academic year, and grant revenues. Revenues are recognized as the related services are performed and completed.

Student Fees

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

Investments

The Foundation carries investments in marketable securities with readily determinable fair values, and all investments in debt securities, at their fair market values, in the statements of net position. Realized and unrealized gains and losses are included in non-operating revenues (expenses) in the accompanying statements of revenues, expenses and changes in net position. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets.

The Foundation's investments consist of mutual funds and other equity investments. In order to minimize excessive risk in geographical, industry and market sectors, the Board of Directors meets periodically with its investment advisors and reviews the portfolio for such concentrations and other matters.

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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no impact on net position.

New Governmental Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. The primary objective of GASB Statement No. 72 is to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB Statement No. 72 are effective for financial statements for periods beginning after June 15, 2015 with earlier application encouraged. The College adopted this standard in fiscal year 2016.

The impact of implementing GASB Statement No. 72 on the College's financial statements is further discussed in Note 6.

Note 2 - Cash and Cash Equivalents

The College is required to comply with the Commonwealth's deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. State Statutes permit investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The College manages surplus cash and cash equivalents in bank deposit accounts and MMDT investment holdings, as further discussed on the next page.

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the College would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The College does not have a formal deposit policy for custodial credit risk. The College monitors the exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2016 and 2015, the carrying amount of the College's cash and cash equivalents was $10,269,530 and $8,073,047, respectively. At June 30, 2016, the College had uninsured cash balances totaling $2,368,607, not including the MMDT cash balance discussed in the following paragraph.

Of the carrying amounts at June 30, 2016 and 2015, $8,268,603 and $3,246,267, respectively, was held by the Massachusetts Municipal Depository Trust ("MMDT"). The MMDT is an instrumentality of the Office of the Treasurer of the Commonwealth, and therefore not subject to FDIC insurance. At June 30, 2016, the approximate percentage of the College's deposits held at the MMDT and the respective investment maturities in days were as follows: 54% at 30 days or less; 29% at 31-90 days; 11% at 91-180 days; and 6% at 181 days or more. At June 30, 2016, approximately 97% of the MMDT's cash portfolio had a credit quality rating of P1 and the remaining 3% had a credit quality rating of P2.

MMDT is an investment vehicle for political subdivisions of the Commonwealth and was designed as a legal means to invest temporarily available cash in safe, liquid and high-yield investment vehicles by offering participation in a diversified portfolio of high quality money market instruments. The MMDT is not a bank, savings institution, or financial institution.

Note 3 - **Cash and Deposits Held By State Agencies on Behalf of the College**

Accounts payable and accrued salaries to be funded by cash forwarded by the College to and held by the State Treasurer for payment of so-called "non-appropriated" liabilities through MMARS (see Note 16) were recorded in the amounts of $144,067 and $601,718, respectively, at June 30, 2016 and 2015.

Note 4 - **Accounts, Grants, and Loans Receivable**

Accounts, grants, and loans receivable include the following at June 30:

	2016	2015
Student accounts receivable	**$ 2,123,740**	$ 2,729,075
Grants receivable	**500,203**	232,174
Other receivables	**167,814**	127,750
	2,791,757	3,088,999
Less: allowance for doubtful accounts	**(865,722)**	(1,494,463)
	$ 1,926,035	$ 1,594,536

Note 5 - **Pledges Receivable**

Unconditional promises to give due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 1.51% and 2.13% at June 30, 2016 and 2015, respectively.

Pledges receivable of the Foundation are as follows at June 30:

	2016	2015
Receivables in less than one year	**$ 14,100**	$ 14,400
Receivables in one to five years	**13,233**	24,433
Receivables after five years	**1,000**	1,000
Total unconditional promises	**28,333**	39,833
Less: discounts to net present value	**(636)**	(1,519)
Net contributions receivable	**27,697**	38,314
Contributions receivable current	**14,100**	14,400
Contributions receivable, net of current	**$ 13,597**	$ 23,914

Note 6 - **Investments**

The College has no investments which would be categorized based upon the fair value hierarchy in accordance with GASB 72 below. The Foundation follows similar guidance to GASB 72 in accordance with Financial Accounting Standards Codification ASC 820-10, which prioritizes the inputs to valuation techniques used to measure fair value of investment assets into three levels.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the College can access at measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for an asset or liability.

The asset or liability'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used from the prior year.

Common stocks, 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 management of the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. At June 30, 2016 and 2015, all investments of the Foundation are classified as Level 1 assets within the fair value hierarchy.

The Foundation invests in equity and bond funds; including a variety of high-quality and medium-quality fixed income securities, corporate bonds and obligations and investment-grade investment securities. Corporate debt investments are required to have a minimum rating at time of purchase of A or better by Moody's or Standard & Poor's.

Investments of the Foundation are stated at fair value and consist of the following at June 30:

	2016	2015
Equity funds	**$ 3,262,114**	$ 3,987,015
Bond funds	**1,096,594**	300,711
Cash restricted for investments	**316,268**	343,711
	$ 4,674,976	$ 4,631,437

The Foundation's investments in equity and bond funds are held by the counter party's trust department or agent but not in the Foundation's name and, therefore, are subject to custodial credit risk.

Bond funds include $1,096,594 invested in Vanguard Intermediate-Term Investment-Grade Fund ("VFIDX"), Vanguard Short-Term Investment Grade Fund ("VFSUX"), and Vanguard Total Bond Market Index Fund ("VBTLX") and had fair values of $329,204, $217,388, and $550,002, respectively, at June 30, 2016. The VFIDX Fund's objective is to provide a moderate and sustainable level of current income by investing in a variety of high-quality and, to a lesser extent, medium-quality fixed income securities. The VFSUX Fund's objective is to provide current income while maintaining limited price volatility by investing primarily in short-term corporate bonds, but generally has some exposure to intermediate-term corporate obligations. The VBTLX Fund's objective is to track the performance of a broad, market-weighted bond index by investing in investment-grade corporate, U.S. Treasury, mortgage-backed, and asset-backed securities with short, intermediate, and long maturities in excess of one year, resulting in a portfolio of intermediate duration.

At June 30, 2016, the VFIDX, VFSUX, and VBTLX fund's investment securities had a weighted average life of 6.3, 3.1, and 8 years and an effective duration of 5.5, 2.6, and 5.8 years, respectively. The VFIDX, VFSUX, and VBTLX funds had an average credit quality rating of A, A, and AA, respectively, as of June 30, 2016.

At June 30, 2016, the College's bond funds along with their investment maturities are as follows:

		Investment maturities (in years)			
Investment type	Fair value	Less than 1	1-5	6-10	Greater than 10
Vanguard Intermediate-term (VFIDX)	$ 329,204	$ 7,572	$ 98,432	$ 217,604	$ 5,596
Vanguard Short-term (VFSUX)	217,388	35,652	147,824	33,043	869
Vanguard Total Bond Market (VBTLX)	550,002	9,900	287,651	157,851	94,600
Total	$ 1,096,594	$ 53,124	$ 533,907	$ 408,498	$ 101,065

Equity funds include a domestic stock fund (Vanguard Total Stock Market Index Fund - "VTSAX") and an international stock fund (Vanguard Total International Stock Index - "VTIAX") with fair values of $2,943,708 and $318,406, respectively, at June 30, 2016. The VTSAX Fund's objective is to provide a low-cost way to gain broad exposure to the U.S. stock market by investing in a broadly diversified collection of securities that, in the aggregate, approximates the full CRSP US Total Market Index in terms of key characteristics. The VTIAX Fund's objective is to provide a low cost way to gain equity exposure to both developed and emerging international economies by investing substantially all of its assets in the common stocks included in the FTSE Global All Cap ex US Index.

The following schedule summarizes the investment return in the statements of revenues, expenses and changes in net position for the years ended June 30:

	2016	2015
Realized gains	**$ 82,609**	$ 106,341
Unrealized gains (losses)	**(88,250)**	74,175
Interest and dividends	**80,069**	69,433
Less: investment fees	**(11,807)**	(23,108)
	$ 62,621	$ 226,841

During the years ended June 30, 2016 and 2015, the Foundation realized a net gain of $82,609 and $106,341, respectively, from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase (decrease) in the fair values of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase (decrease) in the fair value of the investments reported in the prior year. The net increase (decrease) in the fair value of investments during the years ended June 30, 2016 and 2015 was $(5,641) and $180,516, respectively. This amount takes into account all changes in fair value (including purchases and

sales) that occurred during each year. The unrealized gain (loss) on investments held at year-end was $(88,250) and $74,175, respectively, at June 30, 2016 and 2015.

Note 7 - **Capital Assets**

Capital assets consist of the following at June 30, 2016:

	Estimated lives (in years)	Beginning Balance	Additions	Reclassifications & Reductions	Ending Balance
Capital assets, not depreciated:					
Land	-	$ 103,368	$ -	$ -	$ 103,368
Construction-in-progress	-	99,874	235,417	(214,891)	120,400
Total not depreciated		203,242	235,417	(214,891)	223,768
Capital assets, depreciated:					
Buildings, including improvements	11-40	21,230,931	64,827	194,891	21,490,649
Furnishings and equipment (including the cost of capital leases)	2-10	6,587,108	361,894	20,000	6,969,002
Total depreciated		27,818,039	426,721	214,891	28,459,651
Less accumulated depreciation:					
Buildings, including improvements		(12,680,036)	(795,618)	-	(13,475,654)
Furnishings and equipment		(4,988,021)	(854,382)	-	(5,842,403)
Total accumulated depreciation		(17,668,057)	(1,650,000)	-	(19,318,057)
Net depreciable assets		10,149,982	(1,223,279)	214,891	9,141,594
Capital assets, net		$ 10,353,224	$ (987,862)	$ -	$ 9,365,362

Capital assets consist of the following at June 30, 2015:

	Estimated lives (in years)	Beginning Balance	Additions	Reclassifications & Reductions	Ending Balance
Capital assets, not depreciated:					
Land	-	$ 103,368	$ -	$ -	$ 103,368
Construction-in-progress	-	20,000	79,874	-	99,874
Total not depreciated		123,368	79,874	-	203,242
Capital assets, depreciated:					
Buildings, including improvements	11-40	20,930,045	300,886	-	21,230,931
Furnishings and equipment (including the cost of capital leases)	2-10	6,543,858	43,250	-	6,587,108
Total depreciated		27,473,903	344,136	-	27,818,039
Less accumulated depreciation:					
Buildings, including improvements		(11,854,750)	(825,286)	-	(12,680,036)
Furnishings and equipment		(3,413,167)	(1,574,854)	-	(4,988,021)
Total accumulated depreciation		(15,267,917)	(2,400,140)	-	(17,668,057)
Net depreciable assets		12,205,986	(2,056,004)	-	10,149,982
Capital assets, net		$ 12,329,354	$ (1,976,130)	$ -	$ 10,353,224

Note 8 - **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses include the following at June 30:

	2016	2015
Accounts payable - trade	$ 676,275	$ 802,659
Accrued expenses	487,146	315,520
Other current liabilities	114,189	113,527
	$ 1,277,610	$ 1,231,706

Note 9 - **Non-Current Liabilities**

Non-current liabilities at June 30, 2016 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease obligations	$ 1,557,840	$ 310,230	$ 959,729	$ 908,341	$ 829,479
Other non-current liabilities:					
Compensated absences	$ 2,281,698	$ 2,157,743	$ 2,281,698	$ 2,157,743	$ 1,532,469
Workers' compensation	159,295	224,505	159,295	224,505	47,393
Net pension liability	2,469,872	90,854	-	2,560,726	-
Total other non-current liabilities	4,910,865	2,473,102	2,440,993	4,942,974	1,579,862
Total Non-Current Liabilities	$ 6,468,705	$ 2,783,332	$ 3,400,722	$ 5,851,315	$ 2,409,341

Non-current liabilities at June 30, 2015 consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease obligations	$ 2,337,624	$ -	$ 779,784	$ 1,557,840	$ 806,347
Other non-current liabilities:					
Compensated absences	$ 2,307,450	$ 2,281,698	$ 2,307,450	$ 2,281,698	$ 1,528,945
Workers' compensation	174,556	159,295	174,556	159,295	34,726
Net pension liability	4,438,144	-	1,968,272	2,469,872	-
Total other non-current liabilities	6,920,150	2,440,993	4,450,278	4,910,865	1,563,671
Total Non-Current Liabilities	$ 9,257,774	$ 2,440,993	$ 5,230,062	$ 6,468,705	$ 2,370,018

Capital Leases and Operating Leases

The College leases equipment under various capital leases maturing in June 2018 consisting mainly of computer hardware, software and systems. The College also leases classroom space, vehicles, and office equipment under various non-cancelable operating leases through June 2021.

The Division of Capital Asset Management and Maintenance ("DCAM") entered into a lease agreement on behalf of the College (the "User Agency") to lease classroom and office space in Framingham from the Town of Framingham ("Landlord"). The lease, with various extensions from inception, expires on June 30, 2019. Monthly rent payments total $66,667 over the remaining lease term. The College is also responsible for the payment of normal operating, maintenance and repair costs associated with the leased premises.

DCAM also entered into a lease agreement on behalf of the College (the "User Agency") to lease classroom and office space in Ashland from a third party landlord. The lease, with various extensions from inception, expires on January 31, 2021. Monthly rent payments range from $34,267 to $36,271 over the remaining lease term. The College is also responsible for the payment of normal operating, maintenance and repair costs associated with the leased premises.

The College has entered into various operating leases for vehicles and office equipment. Such leases require monthly payments in level amounts though the latest lease expiration date in June 2021. Certain of the lease agreements contain purchase options at the end of the lease term.

The following schedule summarizes future minimum payments under capital and operating leases for the years ending subsequent to June 30, 2016:

	Capital Leases - Equipment		**Operating Leases**	**Operating Leases**	**Operating Leases**
Years Ending June 30,	Principal	Interest	Classroom Space	Vehicles & Office Equipment	Total
2017	$ 829,479	$ 12,911	$ 1,211,207	$ 122,455	$ 1,333,662
2018	78,862	886	1,173,708	87,028	1,260,736
2019	-	-	1,171,348	84,166	1,255,514
2020	-	-	428,421	84,166	512,587
2021	-	-	253,896	25,353	279,249
	$ 908,341	$ 13,797	$ 4,238,580	$ 403,168	$ 4,641,748

The following is a summary of capital assets held under capital leases as of June 30:

	2016	2015
Equipment	**$ 3,794,484**	$ 3,484,254
Less: accumulated depreciation	**(3,143,661)**	(2,530,381)
	$ 650,823	$ 953,873

Amortization of capital assets held under capital leases is included in depreciation expense.

Rent expense on operating leases was $1,298,869 and $1,266,022, respectively, for the years ended June 30, 2016 and 2015.

Note 10 - **Faculty Payroll Accrual**

The contract for full time faculty begins on September 1 and ends on May 31, of any given academic year. The Commonwealth of Massachusetts and the College pay all faculty over the 12-month period from September through August. Consequently, on June 30 of each year there is a balance due on each faculty contract which is to be paid from the subsequent year's State appropriations. The total amount due at June 30, 2016 of $1,013,026 will be paid from the College's fiscal 2017 State appropriations. The total amount due at June 30, 2015 of $790,130 was paid from the College's fiscal 2016 State appropriations.

Note 11 - **Pensions**

Substantially all of the College's full-time employees are covered by the Massachusetts State Employees' Retirement System ("SERS"). SERS, a public employee retirement system ("PERS"), is a cost-sharing multi-employer defined benefit plan that is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. The Commonwealth does not issue separately audited financial statements for the plan. The financial position and results of operations of the plan are incorporated into the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

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 on the basis of 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 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 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.

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

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

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 to 1983	7% of regular compensation
1984 to June 30, 1996	8% of regular compensation
July 1, 1996 to present	9% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of $30,000

The College is not required to contribute from its appropriation allocation or other College funds to SERS for employees compensated from State appropriations. For College employees covered by SERS but compensated from a trust fund or other source, the College is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of current funding by the State related to the College's employees during 2016, 2015 and 2014 was $1,670,535, $1,847,614 and $1,460,519, respectively. Annual covered payroll was approximately 67%, 68% and 68% of annual total payroll for the College in 2016, 2015 and 2014, respectively.

At June 30, 2016 and 2015, the College reported a liability of $2,560,726 and $2,469,872, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2015 and 2014, respectively, and the State's total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The College's proportion of the net pension liability was based on an effective contribution methodology which allocates total contributions amongst the employers in a consistent manner based on an employer's share of total covered payroll. At June 30, 2016, the College's proportion was 0.0225%, which was a decrease of 0.0108% from its proportion measured as of June 30, 2015. At June 30, 2015, the College's proportion was 0.0333%, which was a decrease of 0.0166% from its proportion measured as of June 30, 2014.

For the years ended June 30, 2016 and 2015, the College recognized pension expense of $242,963 and $226,400, respectively. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of	Deferred Inflows of Resources
Changes of assumptions	$ 443,465	$ -
Net difference between projected and actual earnings on pension plan investments	-	73,585
Differences between expected and actual experience	50,617	-
Changes in proportion due to internal allocation	-	1,718,083
Changes in proportion from Commonwealth	-	1,966
College contributions subsequent to the measurement	87,189	-
Total	$ 581,271	$ 1,793,634

The $87,189 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ (310,887)
2018	(310,887)
2019	(310,887)
2020	(227,265)
2021	(139,626)
Total	$ (1,299,552)

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return (8.0% for the year ended June 30, 2014), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.

2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.

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

4. Mortality rates were as follows:

   (i) Pre-retirement - reflects RP-2000 Employees Table projected generationally with Scale BB and a base year of 2009 (gender distinct) which is a change from RP-2000 Employees Table projected 20 years with Scale AA (gender distinct).

   (ii) Post-retirement - reflects RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2009 (gender distinct) which is a change from Healthy Annuitant Table projected 15 years with Scale AA (gender distinct).

   (iii) Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct) which is a change from the mortality rate assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

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 and 2014 are summarized in the following table:

		Long-term Expected Real Rate of Return	
Asset Class	Target Allocation	2015	2014
Global equity	40.00%	6.90%	7.20%
Core fixed income	13.00%	2.40%	2.50%
Hedge funds	9.00%	5.80%	5.50%
Private equity	10.00%	8.50%	8.80%
Real estate	10.00%	6.50%	6.30%
Value added fixed income	10.00%	5.80%	6.30%
Portfolio completion strategies	4.00%	5.50%	N/A
Timber/natural resources	4.00%	6.60%	5.00%
Total	100.00%		

The discount rate used to measure the total pension liability for the measurement years ended June 30, 2015 and 2014 was 7.5% and 8.0%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the College's contributions will be made at rates equal to the difference between actuarially determined contribution 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.

The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.5% and 8.0%, respectively, for the measurement years ended June 30, 2015 and 2014, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5% and 7.0%) or 1-percentage-point higher (8.5% and 9.0%) than the current rate:

Measurement Year Ended	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
June 30, 2014	$ 3,576,987	$ 2,469,872	$ 1,521,251
June 30, 2015	3,481,212	2,560,726	1,767,267

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth's financial statements

Note 12 - **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. These funds are comprised of $347,430 and $441,495, respectively, at June 30, 2016 and 2015. The funds are to be used for student grants.

The Foundation's restricted-expendable net assets consist of funds whose income is mainly used for scholarships and grants. The Foundation's restricted non-expendable net assets consist of endowment funds to be held indefinitely.

Note 13 - **Contingencies**

The College is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; and natural disasters for which the Commonwealth is self-insured. In addition, the College maintains commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. The separate insurance policies maintained by the College consist of Educator's Legal Liability, commercial crime, general liability, automobile liability, excess liability, and a foreign package policy. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims have not exceeded policy coverages in any of the past three years.

The College also participates in the Commonwealth's self-insured programs for employees workers' compensation, health care and other insurance. The Commonwealth assesses the costs of workers' compensation and unemployment insurance to the College based on the College's actual experience (see Note 15). The Commonwealth manages workers'

compensation as part of its general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. The Commonwealth assesses the costs of health care insurance to the College through a fringe benefit rate and the liability for such coverage is borne by the Commonwealth. The Commonwealth's Group Insurance Commission manages health insurance and other benefits for the Commonwealth's active and retired employees (see Note 15).

Massachusetts General Laws limit the risk assumed by the Commonwealth for claims of personal injury or property damages to $100,000 per occurrence, in most circumstances.

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

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditure resulting from such audits becomes 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"). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept 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 the Program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the College.

Note 14 - **Operating Expenses**

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

	2016	2015
Compensation and benefits	**$ 29,605,083**	$ 28,672,325
Supplies and services	**8,067,334**	9,413,984
Depreciation	**1,650,000**	2,400,140
Scholarships and fellowships	**2,133,941**	2,687,307
	$ 41,456,358	$ 43,173,756

Note 15 - **Fringe Benefits Programs**

The College participates in the Commonwealth's Fringe Benefits programs, including active employee and post-employment health insurance, unemployment, and workers' compensation benefits. Health insurance costs for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, 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*.

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 does not issue separately audited financial statements. The financial position and results of operations of the plan are incorporated in the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02018.

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 years ended June 30, 2016 and 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).

The amount of funding by the College related to benefits other than pensions for the years ended June 30, 2016, 2015 and 2014 were $588,796, $449,150 and $659,828, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

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

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

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

	2016	2015
Direct Unrestricted Appropriations	**$ 15,823,504**	$ 15,591,055
Add:		
Fringe benefits for benefited employees on the state payroll	**4,487,666**	4,216,952
Less:		
Appropriation reduction (9C)	**-**	(222,923)
Day school tuition remitted to the State and included in tuition and fee revenues	**(408,577)**	(710,624)
Total unrestricted appropriations	**19,902,593**	18,874,460
Restricted appropriations		
Performance Incentive Fund	**64,423**	261,475
Workforce training	**50,000**	51,072
State Facilities *	**(66,631)**	275,000
Other	**-**	1,668
Total Appropriations	**$ 19,950,385**	$ 19,463,675

* 2016 represents amount not used and returned to the State.

A timing difference occurred in 2016 where the State reflected additional revenue in the amount of $45,595 that was recorded after June 30, 2016, reconciled as follows (**unaudited**):

	2016	2015
Revenue per MMARS	**$ 46,840,689**	$ 48,064,869
Revenue per College	**46,795,094**	47,841,946
Difference	**$ (45,595)**	$ (222,923)

The difference in 2015 represents the appropriation reduction due to 9C cuts.

Note 17 - **Pass-Through Federal Loans**

The College provides student loans through the William D. Ford Federal Direct Lending Program which provides Subsidized and Unsubsidized Stafford Loans at the same rates to students. The U.S. Government is the lender in the Direct Loan program. The College distributed $2,639,043 and $3,458,302, respectively, for student loans through the Direct Loan Program for the years ended June 30, 2016 and 2015. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

Supplementary Information

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of the College's Proportionate Share of the Net Pension Liability and Schedule of College Contributions

June 30, 2016 and 2015

Schedule of the College's Proportionate Share of the Net Pension Liability

	2016	2015	2014
College's proportion of the net pension liability (asset)	0.0225%	0.0333%	0.0499%
College's proportionate share of the net pension liability (asset)	$ 2,560,726	$ 2,469,872	$ 4,438,144
College's covered-employee payroll	$ 16,062,839	$ 16,336,106	$ 16,672,593
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	15.94%	15.12%	26.62%
Plan fiduciary net position as a percentage of the total pension liability	67.87%	76.32%	70.31%

* The amounts presented for each fiscal year were determined as of 6/30.

MASSACHUSETTS BAY COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of the College's Proportionate Share of the Net Pension Liability and Schedule of College Contributions

June 30, 2016 and 2015

Schedule of College Contributions

	2016	2015	2014
Contractually required contribution	$ 1,670,535	$ 1,847,614	$ 1,460,519
Contributions in relation to the contractually required contribution	(1,670,535)	(1,847,614)	(1,460,519)
Contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll	$ 16,062,839	$ 16,336,106	$ 16,672,593
Contributions as a percentage of covered-employee payroll	10.40%	11.31%	8.76%

Note: These schedules are intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report.

Note 1 - **Changes in benefit terms and assumptions**

Changes in benefit terms

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

Changes in assumptions

The investment rate of return changed to 7.5% from 8%.

The mortality assumptions changed as follows:

- Pre-retirement - was changed to reflect the RP-2000 Employees Table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP-2000 Employees Table projected 20 years with Scale AA (gender distinct).

- Post-retirement - was changed to reflect the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2009 (gender distinct) from Healthy Annuitant Table projected 15 years with Scale AA (gender distinct).

- Disability - was changed to the mortality rate assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct) from the mortality rate assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

The discount rate used to measure the total pension liability changed to 7.5% from 8%.

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