

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

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

**JUNE 30, 2018**

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

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

**June 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Holyoke Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statement of net position as of June 30, 2018 and the related statements of revenues and expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of Holyoke Community College as of June 30, 2018 and the respective changes in net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matters**

As discussed in Note 2 to the financial statements, GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal year 2018 and required the College to restate beginning net position at July 1, 2017 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the State Retirees' Benefit Trust.

As discussed in Note 2 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated November 27, 2018. Subsequent to the issuance of the financial statements, it was discovered that the calculation of postemployment benefits other than pensions as of June 30, 2018 and July 1, 2017 was misstated.

Our opinion is not modified with respect to these matters.

### **Required Supplementary Information**

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of Holyoke Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holyoke Community College's internal control over financial reporting and compliance.

*O'Connell and Duen, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

November 27, 2018 (except for Management's Discussion and Analysis, Note 2, Note 7, Note 11, Note 14, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is February 26, 2019).

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Management's Discussion and Analysis

**June 30, 2018**

(Unaudited)

The following discussion and analysis provides management's view of the financial position of Holyoke Community College (the College) as of June 30, 2018 and 2017, and the results of operations for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereto which are also presented in this document.

GASB Statement No. 68 of the Governmental Accounting Standard Board (GASB), Accounting and Reporting for Pensions establishes new standards for how governmental employers that contribute to pension plans report liabilities and plan details on their financial statements. GASB 68 requires that the Commonwealth report its unfunded pension liability on its statements of net position. As permitted by GASB 68, the Commonwealth will report its net pension liability as of 06/30/17 on the FY 2018 statements. The pension plan is a cost sharing multiple-employer plan that pools retirement assets to pay benefits to any participating plan members. GASB 68 requires that pension liabilities and costs must be allocated to participating employers including Holyoke Community College. Holyoke Community College's FY 18 statements reflect the implementation of GASB 68. Please see footnote 13, on page 42.

GASB Statement No. 75 of the Governmental Accounting Standard Board (GASB), Accounting and Reporting for Postemployment Benefits Other Than Pensions completes the previously implemented GASB No. 68 (for pensions) standard for reporting the Commonwealth's unfunded postemployment liabilities on its statements of net position. Please see footnote 14, on page 48.

The College is a public institution of higher education serving approximately 10,749 students, with 124 faculty and 277 staff, as well as part-time faculty and employees. The campus is located in Holyoke, Massachusetts. The College offers more than 80 programs of study leading to an associate's degree, certificate programs and noncredit programs.

### Financial Highlights

- At June 30, 2018, the College's assets of \$81,613,298 and deferred outflows of resources of \$4,703,835, totaling \$86,317,133 exceeded its liabilities of \$45,200,88 and deferred inflows of resources of \$4,584,961 by \$36,531,284. At June 30, 2017, the College's assets of \$72,471,652 and deferred outflows of resources of \$3,140,013, totaling \$75,611,665 exceeded its liabilities of \$47,280,198 and deferred inflows of resources of \$4,189,970 by \$24,141,497. These resulting net position are summarized into the following categories:

	<u>2018</u>	<u>2017</u>
Net invested in capital assets	\$ 49,533,521	\$ 35,120,301
Restricted, expendable	836,839	639,835
Unrestricted	<u>(13,839,076)</u>	<u>(11,618,639)</u>
Total net position	<u>\$ 36,531,284</u>	<u>\$ 24,141,497</u>

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**(an agency of the Commonwealth of Massachusetts)**

## **Management's Discussion and Analysis**

**June 30, 2018 and 2017**

**(Unaudited)**

- The Restricted, expendable net position may be expended at the discretion of the Board of Trustees, but only for the purposes for which the donor or grantor intended.
- Total Net Position reflects the impact of the College's portion of the Commonwealth's unfunded pension liability of \$8,931,979 in FY18, and \$9,496,282 in FY17. Significantly impacting the College's net position in FY 2018 is the recognition of unfunded postemployment benefits other than pensions in the amount of \$17,372,753. The College's Beginning Net Position was restated and reduced by \$16,458,761 in Fiscal 2018 for the prior year restatement.
- The FY18 increase is attributable to a capital appropriation of \$12,525,294. The increase was negatively impacted by unfunded liabilities expenses (net) of \$245,156 for pensions and \$824,666 for postemployment benefits other than pensions, totaling \$1,069,822. The impact of the current year's postemployment benefits was offset by \$1,088,178 of investment gains. These combined impacts delivered an increase in the College's Net Position of \$12,389,787. The FY17 increase is the result of a \$5.3 million increase in capital appropriations due ongoing capital projects – the energy project and the renovation of the Marieb building – as well as the positive impact of net investment income of \$1.5 million. More information can be found in the capital assets discussion in this report and footnote 6 on page 37.
- The Holyoke Community College Life Sciences Grant contributed \$3.2 million towards the increase in capital as part of the Marieb Building renovations and the “Clean Room” training facility. The project will be completed for occupancy in the fall of 2018.
- The Holyoke Community College Campus Center is undergoing a major renovation. The project is expected to be completed in the spring of 2019 for occupancy in the fall of 2019. The entire project is budgeted at \$43.5 million dollars with project-to-date expenditures of \$12.5 million in fiscal 2018 and \$2.8 million in fiscal 2017.
- The Holyoke Community College/MGM Culinary Arts Institute in downtown Holyoke opened in the fall 2017. The Institute is supported by a combination of state, federal and private funding estimated at approximately \$6.7 million. The total project cost is supported by \$1.55 million construction grant to the Foundation from the U.S. Department of Commerce, a \$1.75 million equipment grant from the Massachusetts Executive Office of Housing and Economic Development, \$400,000 from the City of Holyoke through the City's surrounding communities agreement with MGM, \$100,000 directly from MGM, and \$2.9 million from HCC and the HCC Foundation. The College will lease the space, approximately 19,888 square feet in a former industrial building in the Holyoke Innovation

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District, from the HCC Foundation. During the first two years of occupancy, the rent will include the College's financial contribution of \$1.9 million to the construction of the space, paid as supplemental rent. The facility includes a production kitchen, demonstration kitchen, bakery lab, hot lab, dining room, and laundry area, along with classrooms, offices, conference space and various support spaces.

### **Overview of the Financial Statements**

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

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

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

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

### ***The Financial Statements***

The financial statements are designed to provide readers with a broad overview of the College's finances and are comprised of three basic statements.

*The Statement of Net Position* presents information on all of the College's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**

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*The Statement of Revenues and Expenses* presents information showing how the College's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

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

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

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

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted, as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 24-55 of this report.

# **HOLYOKE COMMUNITY COLLEGE**

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## **Management's Discussion and Analysis**

**June 30, 2018 and 2017**

**(Unaudited)**

### **Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. The College's assets exceeded liabilities by and \$36,531,284 and \$24,141,497 at the close of FY18 and FY17, respectively. There was a restatement of FY17 to reflect the Postemployment Other than Pensions unfunded liability reducing the excess by \$16,458,761 to \$24,141,497.

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

The largest portion of the College's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. In FY18, investment in capital assets totaled \$49,533,521 or 57.22% of total assets. The College uses these capital assets to provide services to students, faculty, administration, and the community. Consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the College's financial statements, the Commonwealth of Massachusetts regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings by the Commonwealth are not reflected in these financial statements.

The restricted portion of the College's net position represents resources that are subject to external restrictions on how they must be used. In FY18, restricted net position totaled \$836,839 or 1.0% of total assets. In FY17, restricted net position totaled \$639,835 or 0.9% of total assets.

Unrestricted net position reflects the impact of unfunded pension and postemployment benefits totaling \$26,304,732. The accumulated impact of the GASB 68 and 75 postemployment benefit accounting on net position is \$8.9 million for pensions and \$17.3 million for other postemployment benefits for a total of \$26.2 million. In FY18, unrestricted net position is a negative \$13,839,076 and FY17 is restated from \$4,840,122 to a negative \$11,618,639.

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

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**

(Unaudited)

The schedule below provides a summary of Changes in Net Position.

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

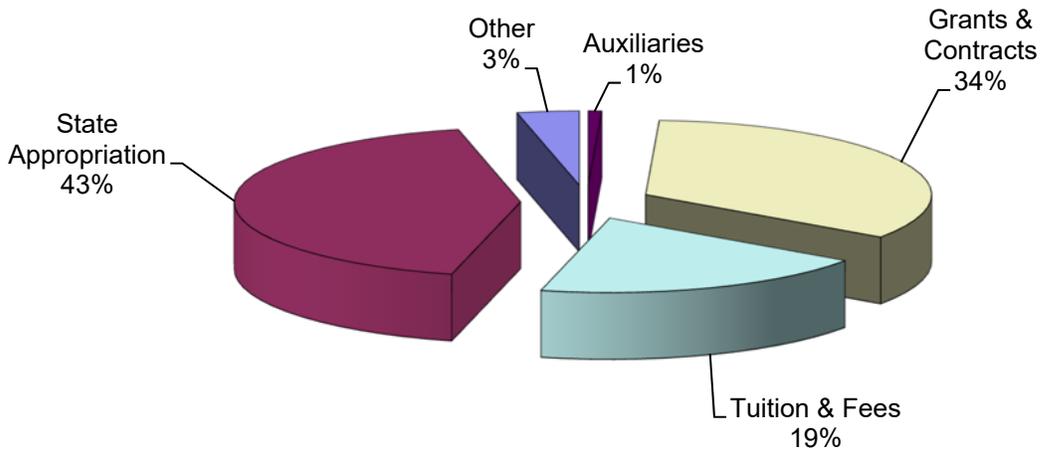
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**Management's Discussion and Analysis**

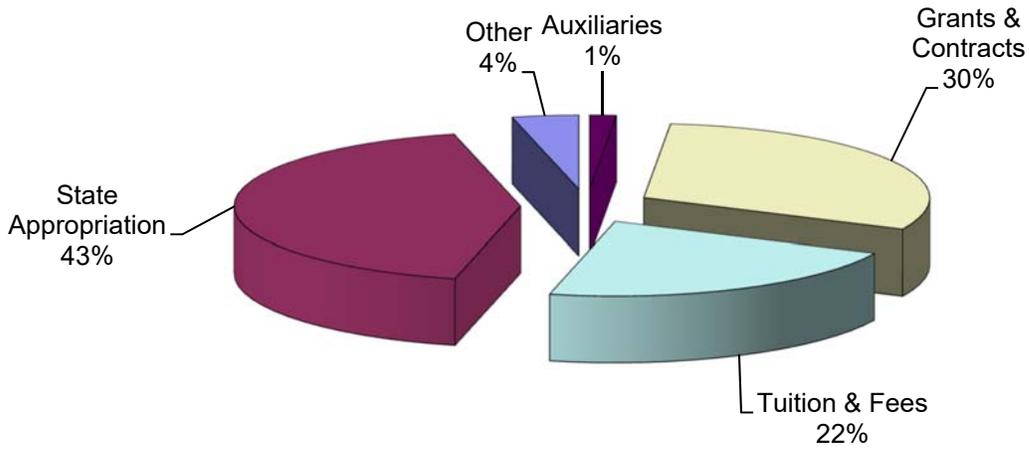
**June 30, 2018 and 2017**

(Unaudited)

**Sources of Revenue - FY18**



**Sources of Revenue - FY17**



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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**

**(Unaudited)**

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

Highlights of revenue include:

- State appropriations, which include the cost of fringe benefits (excluding capital appropriations), totaled \$26,611,846 and \$26,693,503 in FY18 and FY17, respectively, and amount to 42.6% of all revenue in FY18 and FY17. In FY18, the State Appropriation decreased \$81,657 or 0.31% from prior year. In FY17, the appropriation increased \$1,933,690 or 7.8% from prior year.
- The category tuition and fees represents approximately 50% of our unrestricted revenue and totaled \$23,328,820 and \$23,681,147 in FY18 and FY17, respectively. Of this amount, \$11,370,193 and \$10,108,440 are tuition and fees paid by various financial aid programs including local funds designated by the College. In FY18, tuition and fees per credit hour were increased \$5 or 2.8%; this increase was substantially offset by a 5.1% decline in credit hours enrollment, resulting in a net 1.5% decrease before allowances and discounts. In FY17, tuition and fees per credit hour were increased \$14 or 10.2%; this increase was substantially offset by a 7.1% decline in credit enrollment, resulting in a net 1.5% increase before allowances and discounts.
- A 6% decline in enrollment is anticipated for the coming year and the decline is expected to be offset by a \$10 per credit hour Tuition and Fee increase.
- The category Grants and Contracts totaled \$21,170,284 and \$19,132,374 in FY18 and FY17 respectively, of which \$12,717,168 and \$11,492,940 was state and federal student financial aid. Grants and contracts for college programs were \$8,453,116 in FY18 and \$7,639,434 in FY17. In FY18, the increase is attributable to recognition of \$3.2 million in grant income from MA Life Sciences Center for the renovation of Marieb that exceeded the culinary equipment grant in the prior year. The increase in FY17 is due to a state grant for culinary equipment for \$1.5 million and an HCC Foundation gift to the college of \$1.1 million of which \$750K is for the Marieb Building Life Sciences project equipment.

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**

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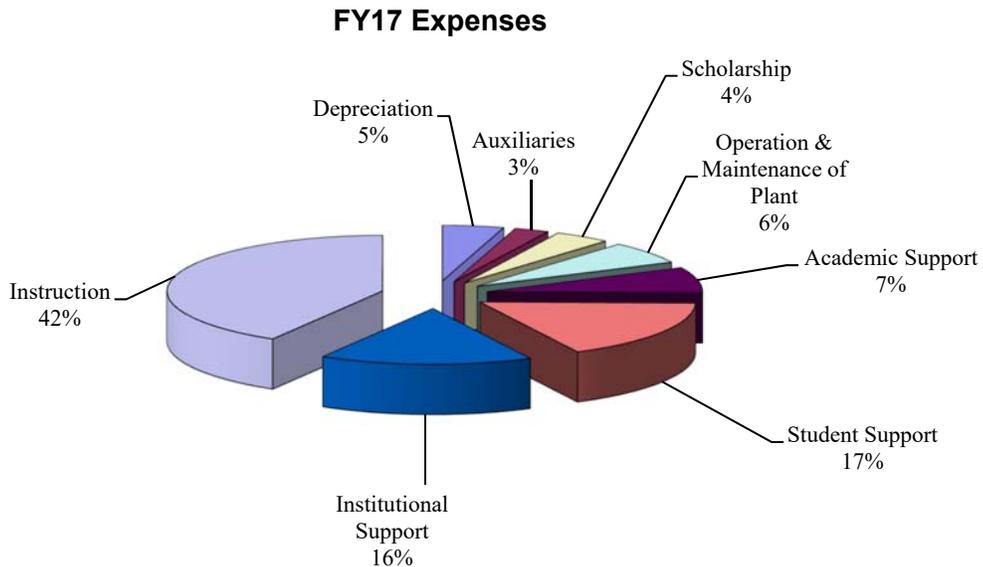
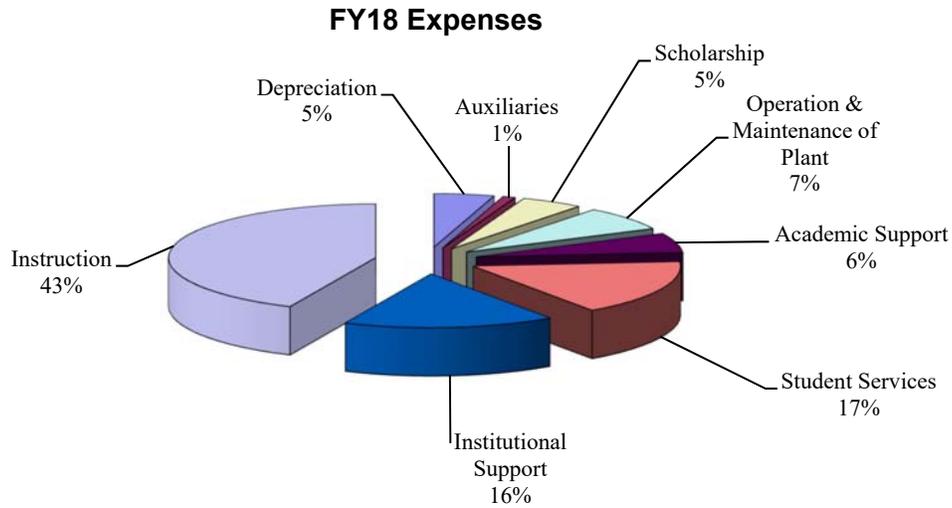
- Auxiliary enterprises revenue is comprised principally of College bookstore operation, and is reported net of sales that are paid by financial aid. Auxiliary revenue totaled \$476,340, and \$938,152 in FY18 and FY17, respectively. Not included in these amounts are sales paid by financial aid of \$191,124 in FY18 and \$718,265 in FY17 in sales paid by financial aid. Half-way through FY17, the College Store model changed from on-ground book sales to on-line book sales through a bookseller. This was primarily driven by the relocation of the College Store to temporary space while the renovation of the Campus Center takes place through the spring of 2019. The change in model will substantially decrease Auxiliary enterprises revenue, as the revenue received from online book sales will be limited to commissions from those sales, plus the sales of educational supplies, incidentals and convenience items at the on-ground store. Sales decreased by \$461,812 and \$401,509 in FY18 & FY17.
- Other sources of revenues in this discussion include the Other Sources reported under Operating Revenues, in the Statement of Revenues and Expenses, and represents Sales and Services of Educational Departments and Commissions. Other operating revenues amounted to \$1,095,196 and \$824,220 in FY18 and FY17, respectively.

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## Management's Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)



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(Unaudited)

Highlights of expenditures include:

In the current year, the College had a postemployment benefit expense of \$1,376,937, resulting from the College's allocation of the Commonwealth's Net Pension and Other Postemployment Benefit Liability impacting all expense categories except Scholarships and Depreciation. The following program expense category results are as follows:

- ***Instruction and Academic Support*** in the current year costs increased \$371,207 was due to increased Postemployment Other than Pensions Benefit costs of \$490,178.
- ***Scholarships*** (payments directly to students) in the current year increased \$425,527. The is principally due to Pell federal grant increasing \$901,119 with approximately half of the increase being applied to tuition and fees. In FY17, the amount decreased by \$328,382 primarily due to Pell awards decreasing \$1.4 million. This reduction was offset by other federal local aid, and the amount applied towards tuition and fees increasing by \$659,829 compared to last year.
- ***Operation and maintenance of plant*** increased by \$530,950 in the current year, primarily due to higher energy and construction costs. In FY17, this category decreased by \$162,212, primarily due to open positions.
- ***Institutional support*** increased by \$415,125 in the current year principally due to amortized rent for the new Culinary Arts Institute totaling \$235,848 and postemployment benefit costs other than pensions of \$125,684. In FY17, this category increased by \$755,261 due to workers compensation charges increasing by \$303,298, fringe benefit costs increasing by \$172,267, Campus Center project expenses, maintenance and public safety overtime, collective bargaining increases, and student account write-offs accounted for the balance of the increase.

Expenditure classifications are defined below:

- ***Instruction***—costs directly related to the classroom, i.e., faculty salaries, instructional supplies, and equipment.
- ***Academic support***—academic computing, library, academic administration.

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(Unaudited)

- *Student services*—Admissions, Registrar, and Financial Aid offices, as well as counseling, tutoring, interpreters and athletics.
- *Scholarships*—all student aid including federal, state, and private grants, i.e., Pell, S.E.O.G., Mass State Cash Grants and Mass State Scholarship which was not used to pay tuition and fees.
- *Public services*—includes funds expended for activities established primarily to provide non-instructional service programs to individuals and groups external to the institution.
- *Operation and maintenance of plant*—all costs of operating and direct maintenance of the physical plant and grounds.
- *Institutional support*—President's office, business operations, development office, and all other administrative functions including campus police.
- *Auxiliary*—Bookstore. Because dining services is operated by a private contractor, any expenses related to this activity are categorized under Institutional Support.

### Non-operating Revenues and Expenses

For non-operating revenues and expenses, the Commonwealth's unrestricted appropriation decreased \$104,892, or 0.4% in FY18, and increased \$1,747,245, or 7.1% in FY17. The unrestricted state appropriation is the primary funding provided by the Commonwealth to support the operation of the College.

Investment gains were \$1,088,178, and \$1,523,301 in FY18 and FY17, respectively.

### Loss from Operations

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

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**

(Unaudited)

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

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

**Capital Assets and Debts of the College**

***Capital Assets***

The College's investment in capital assets as of June 30, 2018 and 2017 amounts to \$49,533,521 and \$35,120,301, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings (including improvements), furnishings, and equipment (including the cost of capital leases). Investment in capital assets increased by \$14,413,220 or 41.0% in FY18 and by \$6,561,964 or 22.9% in FY17.

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

The College has been awarded a \$3,800,000 grant from Massachusetts Center for Life Sciences to renovate 13,000 square feet of space in the Marieb building to create a Center for Life Sciences. The Center for Life Sciences is a \$4,550,000 project that will include the only clean room in Western Massachusetts to support training for students, faculty, and industry partners. The schematic design of the project began during the summer of 2015, construction started in the third calendar quarter of 2017 with occupancy fall 2018.

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**June 30, 2018 and 2017**

**(Unaudited)**

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

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

All capital asset purchases are budgeted in the College's annual spending plan, which is approved by the board of trustees. Additional information about the College's capital assets can be found in note 6 on page 36 of this report.

### ***Long-Term Liabilities***

In preparation for the acquisition and renovation of the new Center for Health Education, the College borrowed \$7 million in October 2012 through the Massachusetts Development Finance Agency (MDFA). The bonds will be paid over a twenty-year period.

The College retired in FY13 the 2003 Series Bond balance of \$3,600,000 with the proceeds from the 2012 MDFA Revenue Bonds. The College carries debt balances of \$7,725,000 for the 2012 series MDFA Revenue Bond, and \$4,540,368 for compensated absences and workers compensation. The accrual for compensated absences consists of the long-term portion of sick and vacation pay relating to employees on the College's payroll.

Finally, the college will be paying off the \$3.0 million energy improvements loan from the Commonwealth over the next 20 years at 4.0% interest beginning in FY19.

# **HOLYOKE COMMUNITY COLLEGE**

**(an agency of the Commonwealth of Massachusetts)**

## **Management's Discussion and Analysis**

**June 30, 2018 and 2017**

**(Unaudited)**

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

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

For fiscal year 2019, the Board of increased the Educational Service Fee by \$10 to \$193 per credit hour maintaining the Colleges position among Massachusetts Community Colleges. For FY17, the Board of Trustees made a strategic decision to move the college out of the lowest-cost quartile of the Massachusetts Community College system by increasing the Educational Service Fee by \$14 to \$150 per credit hour. The College will continue to strive to make educational opportunities affordable to all who seek them while simultaneously working to raise sufficient revenues to support the mission of the institution.

### **Requests for Information**

This financial report is designed to provide a general overview of the College's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Vice President for Administration and Finance, Holyoke Community College, 303 Homestead Avenue, Holyoke, Massachusetts 01040.

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

Statement of Net Position

June 30, 2018

**Assets and Deferred Outflows of Resources**

	Primary Government	Component Unit
	2018	2018
	College	Foundation
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and equivalents	\$ 1,541,649	\$ 1,183,535
Cash held by State Treasurer	405,450	-
Cash held by DCAMM	1,369,164	-
Short-term investments	75,572	-
Accounts receivable, net	4,190,518	179,865
Due from Foundation	859,569	-
Prepaid expenses and other current assets	191,641	6,582
<b>Total Current Assets</b>	<b>8,633,563</b>	<b>1,369,982</b>
<b>Non-Current Assets:</b>		
Long-term investments	12,307,217	13,381,778
Prepaid rent	600,743	-
Pledges receivable	-	26,588
Capital assets, net of accumulated depreciation	60,071,775	5,451,954
<b>Total Non-Current Assets</b>	<b>72,979,735</b>	<b>18,860,320</b>
<b>Deferred Outflows of Resources:</b>		
Pension related, net	2,575,227	-
OPEB related, net	2,128,608	-
<b>Total Deferred Outflows of Resources</b>	<b>4,703,835</b>	<b>-</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 86,317,133</b>	<b>\$ 20,230,302</b>

**Liabilities, Deferred Inflows of Resources and Net Position**

<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Line of credit	\$ -	\$ 2,500,000
Accounts payable and accrued liabilities	923,019	8,260
Accrued payroll	2,192,381	-
Compensated absences and other	2,796,194	-
Accrued interest payable	40,536	-
Student deposits and unearned revenues	413,070	-
Due to College	-	859,569
Funds held for others	66,075	-
Current portion of note payable	100,601	-
Current portion of bonds payable	515,000	-
<b>Total Current Liabilities</b>	<b>7,046,876</b>	<b>3,367,829</b>
<b>Non-Current Liabilities:</b>		
Compensated absences and other	1,744,174	-
Unearned rent revenue	-	600,743
Net pension liability	8,931,979	-
Net OPEB liability	17,372,753	-
Long-term portion of note payable	2,895,106	-
Long-term portion of bonds payable	7,210,000	-
<b>Total Non-Current Liabilities</b>	<b>38,154,012</b>	<b>600,743</b>
<b>Total Liabilities</b>	<b>45,200,888</b>	<b>3,968,572</b>
<b>Deferred Inflows of Resources:</b>		
Pension related, net	1,358,968	-
OPEB related, net	2,039,282	-
Governmental voluntary nonexchange transaction	1,186,711	-
<b>Total Deferred Inflows of Resources</b>	<b>4,584,961</b>	<b>-</b>
<b>Net Position:</b>		
Net investment in capital assets	49,533,521	2,951,954
Restricted:		
Nonexpendable	-	5,628,743
Expendable	836,839	5,683,159
Unrestricted	(13,839,076)	1,997,874
<b>Total Net Position</b>	<b>36,531,284</b>	<b>16,261,730</b>
<b>Total Liabilities, Deferred Inflow of Resources and Net Position</b>	<b>\$ 86,317,133</b>	<b>\$ 20,230,302</b>

See accompanying notes to the financial statements.

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

**Statement of Revenues and Expenses**

**For the Year Ended June 30, 2018**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>2018 College</u>	<u>2018 Foundation</u>
<b>Operating Revenues:</b>		
Tuition and fees	\$ 23,328,820	\$ -
Less: scholarship allowances	<u>(11,370,193)</u>	<u>-</u>
Net student fees	11,958,627	
Federal, state, local and private grants and contracts	21,170,284	1,735,879
Auxiliary enterprises, net	476,340	-
Other operating revenues	<u>1,095,196</u>	<u>66,411</u>
<b>Total Operating Revenues</b>	<u>34,700,447</u>	<u>1,802,290</u>
<b>Operating Expenses:</b>		
Instruction	26,929,058	229,665
Academic support	3,661,044	-
Student services	10,352,829	-
Scholarships	3,024,101	348,683
Operation and maintenance of plant	4,529,545	-
Institutional support	10,254,300	663,889
Depreciation and amortization	2,928,206	284,616
Auxiliary enterprises	<u>610,256</u>	<u>-</u>
<b>Total Operating Expenses</b>	<u>62,289,339</u>	<u>1,526,853</u>
<b>Net Operating Loss</b>	<u>(27,588,892)</u>	<u>275,437</u>
<b>Non-Operating Revenues (Expenses):</b>		
State appropriations - unrestricted	26,485,159	-
State appropriations - restricted	126,687	-
Net investment income	1,088,178	1,299,135
Interest expense	(246,639)	-
Gifts and contributions	<u>-</u>	<u>722,088</u>
<b>Net Non-Operating Revenues</b>	<u>27,453,385</u>	<u>2,021,223</u>
<b>Change in Net Position Before Capital Appropriations</b>	(135,507)	2,296,660
Capital appropriations	<u>12,525,294</u>	<u>-</u>
<b>Total Change in Net Position</b>	<u>\$ 12,389,787</u>	<u>\$ 2,296,660</u>

See accompanying notes to the financial statements.

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

**Statement of Changes in Net Position**

**For the Year Ended June 30, 2018**

	<u>College</u>				
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
<b>Balance at June 30, 2017, as previously stated</b>	\$ 35,120,301	\$ -	\$ 639,835	\$ 4,840,122	\$ 40,600,258
Prior period adjustment - See Note 2	-	-	-	(16,458,761)	(16,458,761)
<b>Balance, June 30, 2017 as restated</b>	35,120,301	-	639,835	(11,618,639)	24,141,497
Change in net position for 2018	14,413,220	-	197,004	(2,220,437)	12,389,787
<b>Balance, June 30, 2018</b>	<u>\$ 49,533,521</u>	<u>\$ -</u>	<u>\$ 836,839</u>	<u>\$ (13,839,076)</u>	<u>\$ 36,531,284</u>

	<u>Foundation</u>				
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
<b>Balance at June 30, 2017, as previously stated</b>	\$ 546,572	\$ 5,474,094	\$ 5,192,436	\$ 1,769,621	\$ 12,982,723
Prior period adjustment - See Note 2	982,347	-	-	-	982,347
<b>Balance, June 30, 2017 as restated</b>	1,528,919	5,474,094	5,192,436	1,769,621	\$ 13,965,070
Change in net position for 2018	1,423,035	154,649	490,723	228,253	2,296,660
<b>Balance, June 30, 2018</b>	<u>\$ 2,951,954</u>	<u>\$ 5,628,743</u>	<u>\$ 5,683,159</u>	<u>\$ 1,997,874</u>	<u>\$ 16,261,730</u>

*See accompanying notes to the financial statements.*

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

**Statements of Cash Flows**

**For the Year Ended June 30, 2018**

	<b>2018</b> <b><u>College</u></b>
<b>Cash Flows from Operating Activities:</b>	
Tuition and fees	\$ 12,166,648
Grants and contracts	18,961,312
Payments to suppliers	(10,126,411)
Payments to employees	(38,837,987)
Payments to students	(3,024,101)
Other cash receipts	<u>719,425</u>
Net Cash Applied to Operating Activities	<u>(20,141,114)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
State appropriations	20,335,596
Tuition remitted to the State	<u>(630,413)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>19,705,183</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Purchases of capital assets	(4,889,102)
Principal paid on debt	(515,000)
Interest on debt	<u>(249,342)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(5,653,444)</u>
<b>Cash Flows from Investing Activities:</b>	
Proceeds from sales and maturities of investments	2,571,320
Purchases of investments	(305,967)
Interest on investments	<u>232,217</u>
Net Cash Provided by Investing Activities	<u>2,497,570</u>
<b>Net Decrease in Cash and Equivalents</b>	<b>(3,591,805)</b>
Cash and Equivalents, Beginning of Year	<u>6,908,068</u>
<b>Cash and Equivalents, End of Year</b>	<b><u>\$ 3,316,263</u></b>

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

**Statements of Cash Flows - Continued**

**For the Year Ended June 30, 2018**

**2018**  
**College**

**Reconciliation of Net Operating Loss to Net Cash**

**Applied to Operating Activities:**

Net operating loss	\$ (27,588,892)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	2,928,206
Fringe benefits provided by the State	6,906,662
Net pension activity	245,156
Net OPEB activity	824,666
Governmental voluntary nonexchange transaction	(2,326,297)
Bad debts	275,925
Changes in assets and liabilities:	
Accounts receivable, net	5,364
Due from Foundation	296,237
Prepaid expenses and other current assets	366,564
Prepaid rent	(600,743)
Accounts payable and accrued liabilities	(365,493)
Accrued employee compensation and benefits	(4,177)
Funds held for others	1,346
Students' deposits and unearned revenues	<u>(1,105,638)</u>
Net Cash Applied to Operating Activities	<u>\$ (20,141,114)</u>

**Reconciliation Cash and Equivalents to the Statement of Net Position, End of Year**

Cash and equivalents	\$ 1,541,649
Cash held by State Treasurer	405,450
Cash held by DCAMM	<u>1,369,164</u>
Total Cash and Equivalents	<u>\$ 3,316,263</u>

**Non-Cash Transactions:**

Fringe benefits provided by the State	\$ <u>6,906,662</u>
Capital appropriation	<u>\$ 12,525,294</u>

*See accompanying notes to the financial statements.*

# **HOLYOKE COMMUNITY COLLEGE**

**(an agency of the Commonwealth of Massachusetts)**

## **Notes to the Financial Statements**

**June 30, 2018**

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

**Organization**

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

**Basis of Presentation**

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

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

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - continued

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

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

Net Position

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

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

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

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

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

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

Trust Funds

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

Cash and Equivalents

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

Note 1 - Summary of Significant Accounting Policies - Continued

Cash held by DCAMM

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

Investments

Investments in marketable securities are stated at fair value.

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

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

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

Prepaid Expenses and Other Current Assets

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

Allowance for Doubtful Accounts

Accounts receivable are periodically evaluated for collectability based on past history with students. Provisions for losses on receivables are determined on the basis of less experience, known and inherent risks and current economic conditions.

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

Note 1 - Summary of Significant Accounting Policies - Continued

Capital Assets

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

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

Tax Status

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

Fringe Benefits

The College participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the College. Workers' compensation costs are assessed separately based on the College's actual experience.

Compensated Absences

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

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

*Pensions*

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

*Postemployment Benefits Other Than Pensions ("OPEB")*

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

*Workers' Compensation*

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

*Student Deposits and Unearned Revenue*

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

*Student Tuition and Fees*

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

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

Use of Estimates

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

New Governmental Accounting Pronouncements

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

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

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

*New Governmental Accounting Pronouncements - continued*

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

GASB Statement 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Placements* is effective for years beginning after June 15, 2018. Implementation of this standard will require additional disclosures in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management has not completed its review of the requirements of this standard and its applicability.

Note 2 – **Implementation of Newly Effective Accounting Standard, Restatement of Previously Issued Financial Statements, and Prior Period Adjustment**

The College implemented GASB Statement Number 75 (“GASB 75”), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017.

Subsequent to the original issuance of these financial statements, management was advised of an error in the calculation of OPEB pertaining to projected pay increases for employees in the allocation of the actuarial present value of projected benefit payments to past and future services as of June 30, 2018 and July 1, 2017.

The table below presents the effects of implementing GASB 75 and the correction to the previously issued financial statements.

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

**June 30, 2018**

Note 2 – **Implementation of Newly Effective Accounting Standard, Restatement of Previously Issued Financial Statements, and Prior Period Adjustment - Continued**

	<u>As Previously Reported at June 30, 2017</u>	<u>Implementation of GASB 75</u>	<u>As Previously Reported at July 1, 2017</u>	<u>Correction of the Error</u>	<u>As Restated at July 1, 2017</u>
Statement of Net Position:					
Deferred outflows related to OPEB	\$ -	437,335	437,335	-	\$ 437,335
Net OPEB liability	\$ -	19,465,645	19,465,645	(2,569,549)	\$ 16,896,096
Unrestricted net position	\$ 4,840,122	(19,028,310)	(14,188,188)	2,569,549	\$ (11,618,639)
	<u>As Previously Reported at June 30, 2018</u>	<u>Correction of the Error</u>	<u>As Restated at June 30, 2018</u>		
Statement of Net Position:					
Deferred outflows related to OPEB	\$ 2,372,480	(243,872)	\$ 2,128,608		
Net OPEB liability	\$ 19,648,543	(2,275,790)	\$ 17,372,753		
Deferred inflows related to OPEB	\$ 2,615,270	(575,988)	\$ 2,039,282		
Unrestricted net position	\$ (16,446,982)	2,607,906	\$ (13,839,076)		
Statement of Revenues and Expenses:					
Operating expenses	\$ 62,327,696	(38,357)	\$ 62,289,339		

**Foundation**

During the year-ended June 30, 2018, the Foundation determined that it should have capitalized leasehold improvement that were previously expensed. As a result at June 30, 2017, the Foundation increased leasehold improvements and net investments in capital assets by \$982,347.

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 3 - **Cash and Investments**

Deposits and investments consist of the following at June 30:

<b>Deposits and investments</b>	<b>2018</b>
Cash on deposit	\$ 1,516,568
Money market funds	25,081
Total deposits	1,541,649
 Debt securities	 4,412,739
Equity investments	7,970,050
Total investments	12,382,789
Total deposits and investments	\$ 13,924,438

**Concentration of Credit Risk**

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

	<b>2018</b>
Common Fund:	
Multi-Strategy Bond Fund	32.7%
Multi-Strategy Equity Fund	22.6%
Core Equity Fund	30.7%
 Eaton Vance	
Equities	8.4%

**Custodial Credit Risk**

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investments - Continued**

*Custodial Credit Risk - Continued*

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. Some banking institutions that hold the College's funds, obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured limits. At June 30, 2018, the bank balance of the College's deposits of \$1,529,654 was not exposed to custodial credit risk as uninsured and uncollateralized.

*Investment Policy*

In accordance with Chapter 15A of the Massachusetts General Laws, the Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the state legislature or derived from federal allocations. The principal objectives of the investment policy are: (1) preservation of capital and safety of principal, (2) minimizing price volatility, (3) liquidity, (4) return on investment, and (5) diversification. The Board of Trustees will support the investment of trust funds in a variety of domestic and international vehicles, including bank instruments, equities, bonds, government and commercial paper of high quality and mutual funds holding any or all of the above. The Board will, from time to time, establish investment fund ceilings and broad asset allocation guidelines, and delegates to the President or his designee the authority to determine the exact dollar amounts to be invested within those established limits and guidelines.

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

Debt investments	Fair Value	Quality ratings				
		AAA	AA/AA-	A/A-	BBB-+&-	Unrated
U.S. Treasury Notes and Government securities 1.0% to 2.38%	\$ 195,393	\$ 195,393	\$ -	\$ -	\$ -	\$ -
Corporate Debt securities 2.25% to 6.75%	114,182	4,921	54,552	49,819	4,890	-
Fixed Income Mutual Funds	60,528	-	-	60,528	-	-
Foreign Assets - Corporate	-	-	-	-	-	-
Common Fund: Multi-Strategy Bond Fund	4,042,636	-	4,042,636	-	-	-
	<u>\$ 4,412,739</u>	<u>\$ 200,314</u>	<u>\$ 4,097,188</u>	<u>\$ 110,347</u>	<u>\$ 4,890</u>	<u>\$ -</u>

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investments - Continued**

*Maturities of Debt Securities*

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

Investment type	Fair value	Investment maturities (in years)		
		Less than 1	1 to 5	6 to 10
Debt securities				
U.S. Treasury Notes and Government Securities 1.0% to 2.375%	\$ 195,393	\$ -	\$ 195,393	\$ -
Corporate Debt Securities 1.0% to 6.75%	114,182	15,044	79,423	19,715
Fixed Income Mutual Funds	60,528	60,528	-	-
Common Fund:				
Multi-Strategy Bond Fund	4,042,636	-	-	4,042,636
	<u>4,412,739</u>	<u>75,572</u>	<u>274,816</u>	<u>4,062,351</u>
Other Investments				
Equity Investments				
Common Fund:				
Multi-Strategy Equity Fund	2,799,844			
Core Equity Fund	3,803,488			
Equities	1,114,253			
Foreign Preferred Stock	-			
Foreign Mutual Funds	252,465			
	<u>7,970,050</u>			
Total	<u>\$ 12,382,789</u>			

*Fair Value Hierarchy*

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

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

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 3 - **Cash and Investments - Continued**

*Fair Value Hierarchy - continued*

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

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

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

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

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

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

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

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 3 - **Cash and Investments - Continued**

*Investments of the Foundation*

	Fair Value at June 30, 2018
Community Foundation of Western Massachusetts - Global Growth Profile	\$ 20,887
Eaton Vance Trust Company:	
Money Market Fund	178,376
Fixed Income	3,067,890
Equities	7,593,982
Foreign Assets	
Equities	612,801
Mutual Funds	1,907,842
Total	\$ 13,381,778

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

Note 4 - **Cash Held by State Treasurer**

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

Note 5 - **Accounts Receivable**

Accounts receivable include the following at June 30:

	<b>2018</b>
Student accounts receivable	\$ 4,511,899
Grants receivable	287,308
State receivables	1,077,170
Other receivables	581,663
Less allowance for doubtful accounts	(2,267,522)
	\$ 4,190,518

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

**Note 6 - Capital Assets**

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

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

**June 30, 2018**

**Note 7 - Long-Term Liabilities**

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

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

**Operating Leases**

The College leases classrooms and office space for its Ludlow and Intermodal campuses and also leases office equipment under operating leases. Rental expense for operating leases was \$370,776 for the year ended June 30, 2018, respectively. The following schedule summarizes future minimum payments under non-cancelable leases as of June 30, 2018:

Years Ending <u>June 30,</u>	<u>Operating Leases</u>
2019	\$ 1,313,446
2020	833,007
2021	283,007
2022	272,539
2023	280,714
2024-2028	<u>1,369,947</u>
	<u>\$ 4,352,660</u>

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 7 - **Long-Term Liabilities - Continued**

*Operating Leases - continued*

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

*Bond Payable*

In October 2012, the College borrowed \$10,300,000 in a bond issue (Series 2012) through the Massachusetts Development Finance Agency (“MDFA”). The bonds are payable annually commencing on November 1, 2013 through 2032 in principal repayment amounts of \$515,000. Interest is payable semi-annually (November 1 and May 1) at a predetermined fixed rate of 3.08% through 2022, at which time a recalculation, based on the Federal Home Loan Bank Rate, will fix the rate for the remainder of the term of the bond.

*Note Payable*

In January 2016, the College executed a Memorandum of Understanding with Massachusetts Division of Capital Asset Management and Maintenance (“DCAMM”) to undertake an Energy Equipment Design-Build Project at the College with the goal of making the facility more energy efficient, thus reducing utility expenses. The project was partially financed by Commonwealth General Obligation bond funds and utility incentives, with the balance being loaned to the College from the Clean Energy Investment Program (“CEIP”) Fund. The total value of the project was \$6,100,208, with the CEIP loan to the College totaling \$2,995,707, at a fixed interest rate of 4%, to be repaid over 20 years after DCAMM closes the project. The project was finalized during 2018, with payments commencing in 2019.

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 7 - **Long-Term Liabilities - Continued**

As of June 30, 2018, principal and interest payments on the bond and loan payable for the next five years and in subsequent five-year periods are as follows:

Fiscal year ending June 30:	<u>Principal</u>	<u>Interest*</u>
2019	\$ 615,601	\$ 353,088
2020	619,625	333,554
2021	623,810	312,714
2022	628,163	292,279
2023	632,689	271,671
2024-2028	3,237,939	1,043,241
2029-2033	3,381,567	496,983
2034-2038	<u>981,313</u>	<u>120,834</u>
	<u>\$ 10,720,707</u>	<u>\$ 3,224,364</u>

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

Note 8 - **Deferred Inflows of Resources**

The College received grants of \$3,800,000 from the Massachusetts Life Science Center, a state-funded investment agency, to assist with the construction costs of the College's new Center for Health Sciences. At June 30, 2018 approximately \$2,600,000 has been recognized for construction costs paid on the project.

Note 9 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time and are restricted for instructional, department and scholarship purposes.

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

Note 10 - **Contingencies**

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

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 10 - **Contingencies - Continued**

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

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

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

Note 11 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, are composed of the following for the year ended June 30, 2018:

Compensation and benefits	\$47,732,484
Supplies and services	8,604,548
Depreciation and amortization	2,928,206
Scholarships	<u>3,024,101</u>
	<u>\$62,289,339</u>

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 12 - **State Appropriation**

The College's state appropriations are composed of the following for the year ended June 30, 2018:

Direct unrestricted appropriations:	<b>\$ 20,208,910</b>
Add: fringe benefits for benefited employees on the state payroll	<b>6,906,662</b>
Less: day school tuition remitted to the state and include in tuition and fee revenue	<b><u>(630,413)</u></b>
Total unrestricted appropriations	<b><u>26,485,159</u></b>
Restricted appropriations:	
Workforce development project	<b>50,000</b>
Other	<b><u>76,687</u></b>
Total restricted appropriations	<b><u>126,687</u></b>
Capital appropriations	
Department of Capital Asset Management Allocation	<b><u>\$ 12,525,294</u></b>
Total appropriations	<b><u>\$ 39,137,140</u></b>

Note 13 - **Pensions**

*Defined Benefit Plan Description*

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

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

# HOLYOKE COMMUNITY COLLEGE

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## Notes to the Financial Statements - Continued

June 30, 2018

Note 13 - **Pensions - Continued**

*Benefit Provisions*

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

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

*Contributions*

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

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

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

The Commonwealth does not require the College to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$2,333,921, \$1,945,199 and \$1,778,104 for the years ended June 30, 2018, 2017 and 2016, respectively.

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

**June 30, 2018**

Note 13 - **Pensions - Continued**

*Contributions - continued*

For employees covered by SERS but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 11.78%, 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2018, 2017, and 2016, respectively. The College contributed \$693,458, \$544,504 and \$494,529 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 75% for fiscal years ended 2018, 2017 and 2016, respectively.

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

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

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2017, the College's proportion was 0.07%.

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

Deferred Outflows of Resources Related to Pension

Contributions subsequent to the measurement date	\$ 693,458
Differences between expected and actual experience	345,347
Changes in proportions from Commonwealth	30,592
Changes in plan actuarial assumptions	929,510
Changes in proportions due to internal allocation	<u>576,320</u>
 Total	 <u>\$ 2,575,227</u>

**HOLYOKE COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 13 - **Pensions - Continued**

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

Deferred Inflows of Resources Related to Pension

Changes in proportions from Commonwealth	\$	3,184
Changes in proportions due to internal allocation		1,006,342
Differences between expected and actual experience		243,017
Differences between projected and actual investment earnings		<u>106,425</u>
Total	\$	<u>1,358,968</u>

The College's contributions of \$693,458 made during the fiscal year ending 2018, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>		
2019	\$	194,299
2020		453,133
2021		139,734
2022		(258,042)
2023		<u>(6,323)</u>
	\$	<u>522,801</u>

# HOLYOKE COMMUNITY COLLEGE

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## Notes to the Financial Statements - Continued

June 30, 2018

Note 13 - **Pensions - Continued**

*Actuarial Assumptions*

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

Measurement date	June 30, 2017
Inflation	3.00%
Salary Increases	4.00% to 9.00%
Investment rate of return	7.50%
Interest rate credited to annuity savings fund	3.50%

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

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

The 2018 pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 and rolled forward to June 30, 2017.

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 13 - **Pensions - Continued**

*Actuarial Assumptions - continued*

Asset Class	Target Allocation	2018 Long-term expected real rate of return
Global Equity	40%	5.00%
Core Fixed Income	12%	1.10%
Hedge Funds	0%	3.60%
Private Equity	11%	6.60%
Real Estate	10%	3.60%
Portfolio Completion Strategies	13%	3.60%
Value Added Fixed Income	10%	3.80%
Timber/Natural Resources	4%	3.20%
	100%	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.5% at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

<b>June 30, 2018</b>		
<b>1.0% Decrease</b>	<b>Current Discount Rate</b>	<b>1.00% Increase</b>
<b>(6.50%)</b>	<b>(7.50%)</b>	<b>(8.50%)</b>
\$12,164,997	\$8,931,979	\$6,327,724

# **HOLYOKE COMMUNITY COLLEGE**

**(an agency of the Commonwealth of Massachusetts)**

## **Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 14 - **OPEB**

*Plan Description*

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

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

Management of the SRBT is vested with the board of trustees, which consists of 7 members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (or their designee), the State Treasurer (or their designee), the Comptroller (or a designee), 1 person appointed by the Governor and 1 person appointed by the State Treasurer. These members elect 1 person to serve as chair of the board.

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

*Benefits Provided*

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

# HOLYOKE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Notes to the Financial Statements - Continued

June 30, 2018

Note 14 - **OPEB - Continued**

Contributions

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

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

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

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

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 14 - **OPEB - Continued**

Contributions - continued

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

Deferred Outflows of Resources Related to OPEB

Contributions subsequent to the measurement date	\$ 525,030
Changes in proportion from Commonwealth	36,359
Changes in proportion due to internal allocation	<u>1,567,219</u>
Total deferred outflows related to OPEB	<u>\$2,128,608</u>

Deferred Inflows of Resources Related to OPEB

Net differences between projected and actual earnings on OPEB plan investments	\$ 31,696
Differences between expected and actual experience	39,943
Changes in OPEB plan actuarial assumptions	<u>1,967,643</u>
Total deferred inflows related to OPEB	<u>\$2,039,282</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 14 - **OPEB - Continued**

*Contributions - continued*

The College's contribution of \$525,030 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended <u>June 30,</u>	
2019	\$ (92,269)
2020	(92,269)
2021	(92,269)
2022	(92,269)
2023	(66,628)
	<u>\$ (435,704)</u>

*Actuarial Assumptions*

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

Measurement date	June 30, 2017
Inflation	3.00%
Salary increases	4.5% per year
Investment rate of return	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for Medical; 5.0% for EGQP; 5.0% for administrative costs

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 14 - **OPEB - Continued**

*Actuarial Assumptions - continued*

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

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 85% of current and future contingent eligible participants will elect health care benefits at age 65, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

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

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the periods ranging July 1, 2015 through December 31, 2016, depending upon the criteria being evaluated. As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2017 actuarial valuation to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 14 - **OPEB - Continued**

*Actuarial Assumptions - continued*

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

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2018, are the same as discussed in the Pension footnote number 12.

*Discount Rate*

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

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

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

	1.00% Decrease	Current Discount Rate	1.00% Increase
	2.63%	3.63%	4.63%
Net OPEB liability	\$ 20,622,847	\$ 17,372,753	\$ 14,788,675

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

Note 14 - **OPEB - Continued**

*Actuarial Assumptions - continued*

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

	1.00% Decrease (B)	Current Healthcare Cost Trend Rate (A)	1.00% Increase (C)
Net OPEB liability	\$ 14,373,744	\$ 17,372,753	\$ 21,319,268

(A) - The current healthcare cost trend rates are as follows:

9.0% for Medicare, 5.0% for EGWP and 5.0% for administration costs.

(B) - The healthcare cost trend rates after a 1% decrease are as follows:

8.0% for Medicare, 4.0% for EGWP and 4.0% for administrative costs.

(C) - The Healthcare cost trend rates after a 1% increase are as follows:

10.0% for Medicare, 6.0% for EGWP and 6.0% for administrative costs.

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

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2018**

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

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

	<u><b>2018</b></u>
Revenue per MMARS	<u><b>\$ 42,869,381</b></u>
Revenue per College	<u><b>\$ 42,869,381</b></u>

Note 16 - **Pass-Through Grants**

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

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

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

**Massachusetts State Employees' Retirement System**

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

Notes:

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

*See accompanying notes to the required supplemental information.*

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

**Schedule of Contributions (Unaudited)**

**Massachusetts State Employees' Retirement System**

**For the Year Ended June 30, 2017**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 693,458	\$ 544,504	\$ 494,529	\$ 504,616
Contributions in relation to the contractually required contribution	<u>(693,458)</u>	<u>(554,504)</u>	<u>(494,529)</u>	<u>(504,616)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,886,740	\$ 5,472,402	\$ 5,233,111	\$ 4,856,747
Contribution as a percentage of covered-employee payroll	11.78%	9.95%	9.45%	10.39%

Notes:

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

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

*See accompanying notes to the required supplemental information.*

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

**Notes to the Required Supplementary Information - SERS (Unaudited)**

**June 30, 2018**

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

**Fiscal year June 30, 2018**

**Change of Benefits:**

Chapter 79 of the Acts of 2014 established an early retirement (“ERI”) program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately \$10 million as of June 30, 2017.

**Assumptions:**

The mortality rates were changed as follows:

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

These mortality rate changes resulted in an increase of approximately \$304 million in the total pension liability of SERS as of June 30, 2017.

**Fiscal year June 30, 2017**

**Change of Benefits:**

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

*See Independent Auditor’s Report.*

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

**Notes to the Required Supplementary Information - SERS (Unaudited)**

**June 30, 2018**

**Fiscal year June 30, 2016**

Change of Benefits:

Chapter 19 of the Acts of 2015 established an ERI program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

Assumptions:

The discount rate to calculate the pension liability decreased from 7.75% to 7.5%. This change resulted in an increase of approximately \$933 million in the total pension liability of SERS as of June 30, 2015.

The mortality rates were changed as follows:

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

These mortality changes resulted in an increase of approximately \$1.397 billion in the total pension liability of SERS as of June 30, 2015.

**Fiscal year June 30, 2015**

Assumptions:

An updated experience study encompassed the period January 1, 2006 to December 31, 2011. The study reviewed salary increases and rates of retirement, disability, turnover and mortality. This study adjusted the mortality assumption which resulted in an increase of approximately \$102 million in the total pension liability as of June 30, 2014.

*See Independent Auditor's Report.*

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

**Schedule of Proportionate Share of Net OPEB Liability (Unaudited)**

**State Retirees' Benefit Trust**

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

Notes:

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

*See accompanying notes to the required supplementary information.*

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

**Schedule of Contributions - OPEB (Unaudited)**

**State Retirees' Benefit Trust**

**For the Years Ended June 30,**

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

Notes:

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

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

*See accompanying notes to the required supplementary information.*

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

**Notes to the Required Supplementary Information – SRBT (Unaudited)**

**June 30, 2018**

Note 1 - **Change in Plan Assumptions**

**Fiscal year June 30, 2018**

**Assumptions:**

The discount rate was increased to 3.63% based upon a blend of the Bond Buyer Index rate as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%. This increase in the discount rate resulted in a decrease in the net OPEB liability of approximately \$3.08 billion as of June 30, 2017.

*See Independent Auditor's Report.*



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Holyoke Community College (the "College"), which comprise the statement of net position as of June 30, 2018 and the related statement of revenues and expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Holyoke Community College's basic financial statements and have issued our report thereon with a dual date of November 27, 2018 and February 26, 2019.

### **Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*O'Connell and Duen, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

November 27, 2018 (except for Management's Discussion and Analysis, Note 2, Note 7, Note 11, Note 14, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is February 26, 2019).