

**BUNKER HILL COMMUNITY COLLEGE**  
**(an agency of the Commonwealth of Massachusetts)**

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

**JUNE 30, 2015**

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

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

**June 30, 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education of  
Bunker Hill Community College  
Boston, Massachusetts

### Report on the Financial Statements

We have audited the accompanying financial statements of Bunker Hill Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents. We also audited the financial statements of Bunker Hill Community College Foundation, Inc. (the "Foundation") as of June 30, 2015.

### 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, the financial statements referred to above present fairly, in all material respects, the financial position of Bunker Hill Community College as of June 30, 2015, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the financial statements, GASB Statement No. 68, *Accounting and financial Reporting for Pensions – an amendment of GASB Statement No. 27*, is effective for fiscal 2015 and required the College to restate net position as of June 30, 2014 to recognize its proportionate share of the net pension obligation determined for the Massachusetts State Employees' Retirement System. Our opinion is not modified with respect to this matter.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-25, the schedule of proportionate share of the net pension liability on page 58, the schedule of contributions on page 59, and the notes to the required supplementary information on page 60 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2015, on our consideration of Bunker Hill 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 Bunker Hill Community College's internal control over financial reporting and compliance.

*O'Connor and Drew, P.C.*  
Certified Public Accountants  
Braintree, Massachusetts

October 5, 2015

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis

June 30, 2015

(Unaudited)

The following discussion and analysis provides management's view of the financial position of Bunker Hill Community College (the College) as of June 30, 2015, and the changes in net position for the year 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.

The College is a public institution of higher education that served over 14,000 students in spring 2015 semester, with 151 full time faculty, 584 adjunct faculty, and 308 staff members for the year ended June 30, 2015. Campuses are located in Boston and Chelsea, Massachusetts. In addition, the College offers programs at four off campus locations throughout the greater Boston area. The College offers 59 programs leading to associate degrees including two concentrations that prepare students to enter technical programs and 49 certificate programs.

### Financial Highlights

- At June 30, 2015, the College's assets and deferred outflows were \$70,430,799 and its liabilities and deferred inflows were \$38,192,235 resulting in net position of \$32,238,564. This represents an increase in net position of \$3,199,769 for fiscal year 2015.

	June 30	
	2015	2014 (Restated)
Invested in capital assets, net of related liabilities	\$ 25,390,311	\$ 23,956,616
Restricted, expendable	—	—
Unrestricted	6,848,253	5,082,179
Total net position	\$ 32,238,564	\$ 29,038,795

- The College will use the unrestricted net assets for its plant fund, capital development plan, technology upgrades, instructional equipment needs and provide planned academic and support services to students.
- The increase in the College's net position of \$3,199,769 in fiscal year 2015 was due primarily to an increase in the direct unrestricted State appropriation that was driven by the performance based budget formula.

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Overview of the Financial Statements

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

Bunker Hill Community College Foundation (Foundation) is a legally separate tax exempt component unit of Bunker Hill 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 the Foundation is self-perpetuating and consists of business and civic leaders in the greater Boston area. Although the College does not control the timing or the amount of receipts from the Foundation, the 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.

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 comprise 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.

*The Statement of Revenues, Expenses, and Changes in Net Position* present information showing how the College's net position changed during the 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 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).

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Overview of the Financial Statements - Continued

*The Statement of Cash Flows* is reported on the direct method. The direct method of cash flows reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and other student fees) and disbursements (e.g., payments to employees). GASB Statement No. 34 and No. 35 require this method to be used. In accordance with GASB Statement No. 39, the Foundation is not required to present the statement of cash flows.

The financial statements can be found on pages 25-27 of this report.

The College reports its activity as a business type activity using the economic resources measurement focus and full accrual basis of accounting. The College is an agency of the Commonwealth of Massachusetts (the Commonwealth). Therefore, the results of the College's operations, its net assets and its cash flows are also summarized in the Commonwealth's 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 28-52 of this report.

### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. At the close of fiscal year 2015, assets and deferred outflows exceeded liabilities and deferred inflows by \$32,238,564 compared to \$29,038,795 in fiscal year 2014.

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

The College's FY 2015 net position of \$32,238,564 includes investment in capital assets of \$25,390,311 (e.g., land, buildings and improvements, and equipment), less any related liabilities such as capital leases used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related liabilities, it should be noted that the resources needed to repay these liabilities must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the liabilities noted above, which are reflected in the College's financial statements, the Commonwealth 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.

	Summary of the College's Net Position			
	June 30		Between 2015 and 2014	
	2015	2014 (Restated)	Dollar change	Change percentage
Current assets	\$ 28,510,612	\$ 23,980,011	\$ 4,530,601	19%
Noncurrent assets	39,485,145	37,680,100	1,805,045	5
Deferred outflows	2,436,053	1,913,913	522,140	27
Total assets and deferred outflows	70,431,810	63,574,024	6,857,786	11
Current liabilities	15,969,432	12,803,629	3,165,803	25
Noncurrent liabilities	20,636,000	21,731,600	(1,095,600)	(5)
Deferred inflows	1,587,814	—	1,587,814	—
Total liabilities and deferred inflows	38,193,246	34,535,229	2,070,203	6
Net position:				
Invested in capital assets, net of related debt	25,390,311	23,956,616	1,433,695	6
Unrestricted	6,848,253	5,082,179	1,766,074	35
Total net position	\$ 32,238,564	\$ 29,038,795	\$ 3,199,769	11%



# **BUNKER HILL COMMUNITY COLLEGE**

## **Management Discussion and Analysis - Continued**

**June 30, 2015**

**(Unaudited)**

### **Financial Analysis - Continued**

- As stated earlier, the increase in the College's net position of \$3,199,769 in fiscal year 2015 was due primarily to an increase in the direct unrestricted State appropriation that was driven by the performance based budget formula.

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

	<u>2015</u>	<u>2014 (Restated)</u>	<u>Change</u>	<u>percentage</u>
Operating:				
Tuition and fees, net of scholarship allowances	\$ 25,718,887	\$ 26,145,752	\$ (426,865)	(2)%
Grants and contracts	36,068,844	36,131,398	(62,554)	—
Other operating revenues	<u>2,652,068</u>	<u>2,075,385</u>	<u>576,683</u>	<u>28</u>
Total operating revenues	64,439,799	64,352,535	87,264	—
Total operating expenses	<u>92,252,715</u>	<u>91,807,723</u>	<u>444,992</u>	<u>—</u>
Operating loss	(27,812,916)	(27,455,188)	(357,728)	1
Nonoperating:				
Total state support	30,784,194	27,490,023	3,294,171	12
Net other nonoperating	<u>228,491</u>	<u>1,762,080</u>	<u>(1,533,589)</u>	<u>(87)</u>
Total change in net position	3,199,769	1,796,915	1,402,854	78
Net position, beginning of year	<u>29,038,795</u>	<u>27,241,880</u>	<u>1,796,915</u>	<u>7</u>
Net position, end of year	<u>\$ 32,238,564</u>	<u>\$ 29,038,795</u>	<u>\$ 3,199,769</u>	<u>11%</u>

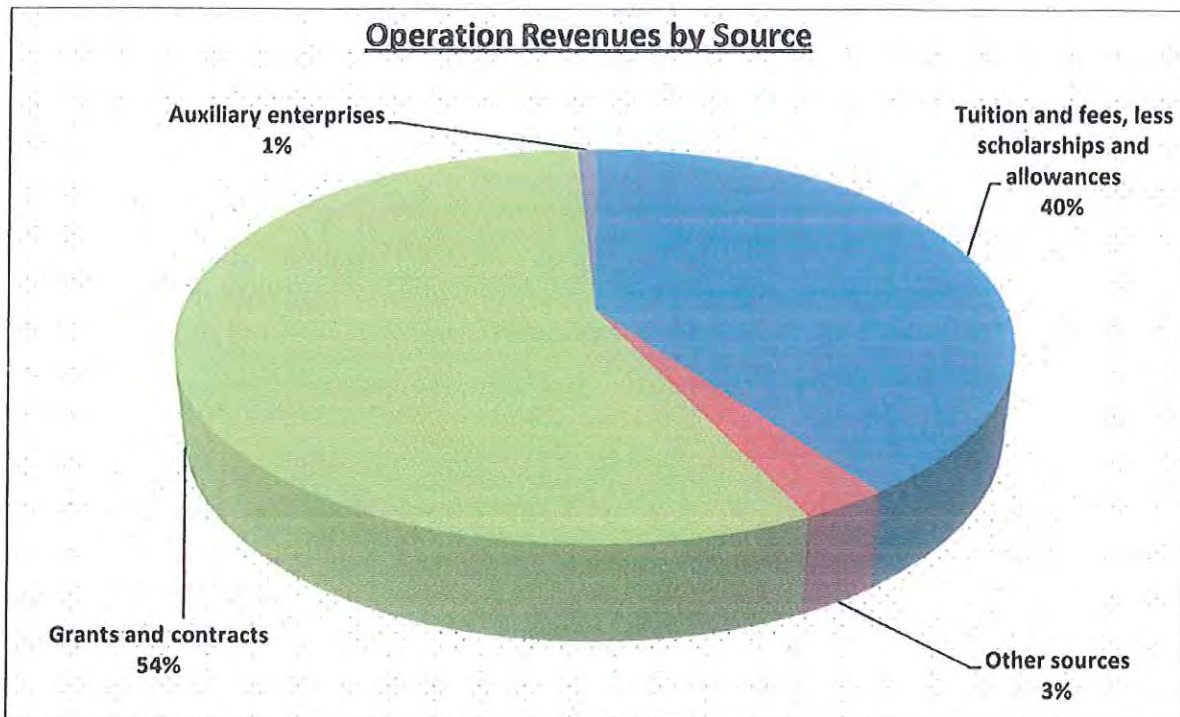
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



Tuition and fees, less scholarships and allowances, decreased by 2% in fiscal year 2015. Tuition and fees, less scholarship allowances were 40% of total operating revenue in fiscal year 2015. Federal, State, Local and Private Grants and contracts revenue remained at 56% of total operating revenues, in fiscal year 2015.

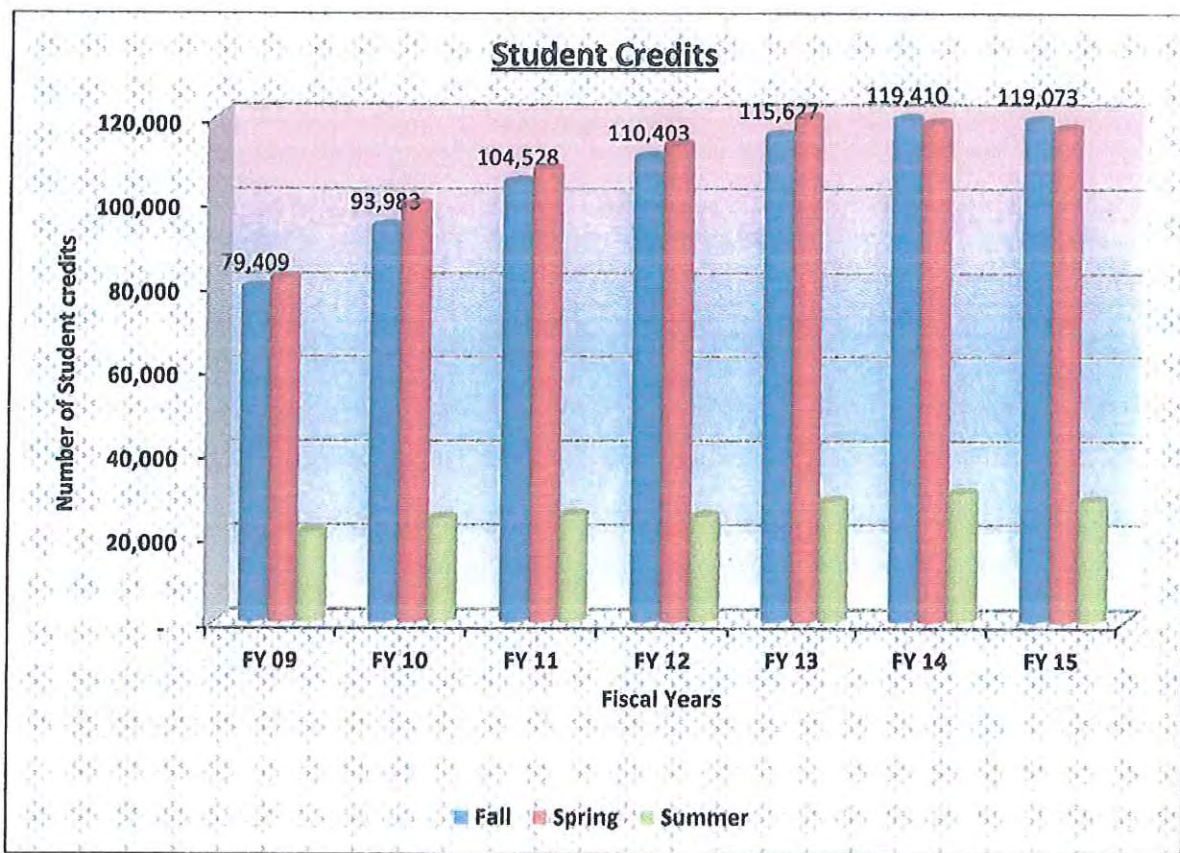
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



The growth in overall student enrollment solidifies the College's position as the largest of the fifteen Community Colleges in the Commonwealth of Massachusetts.

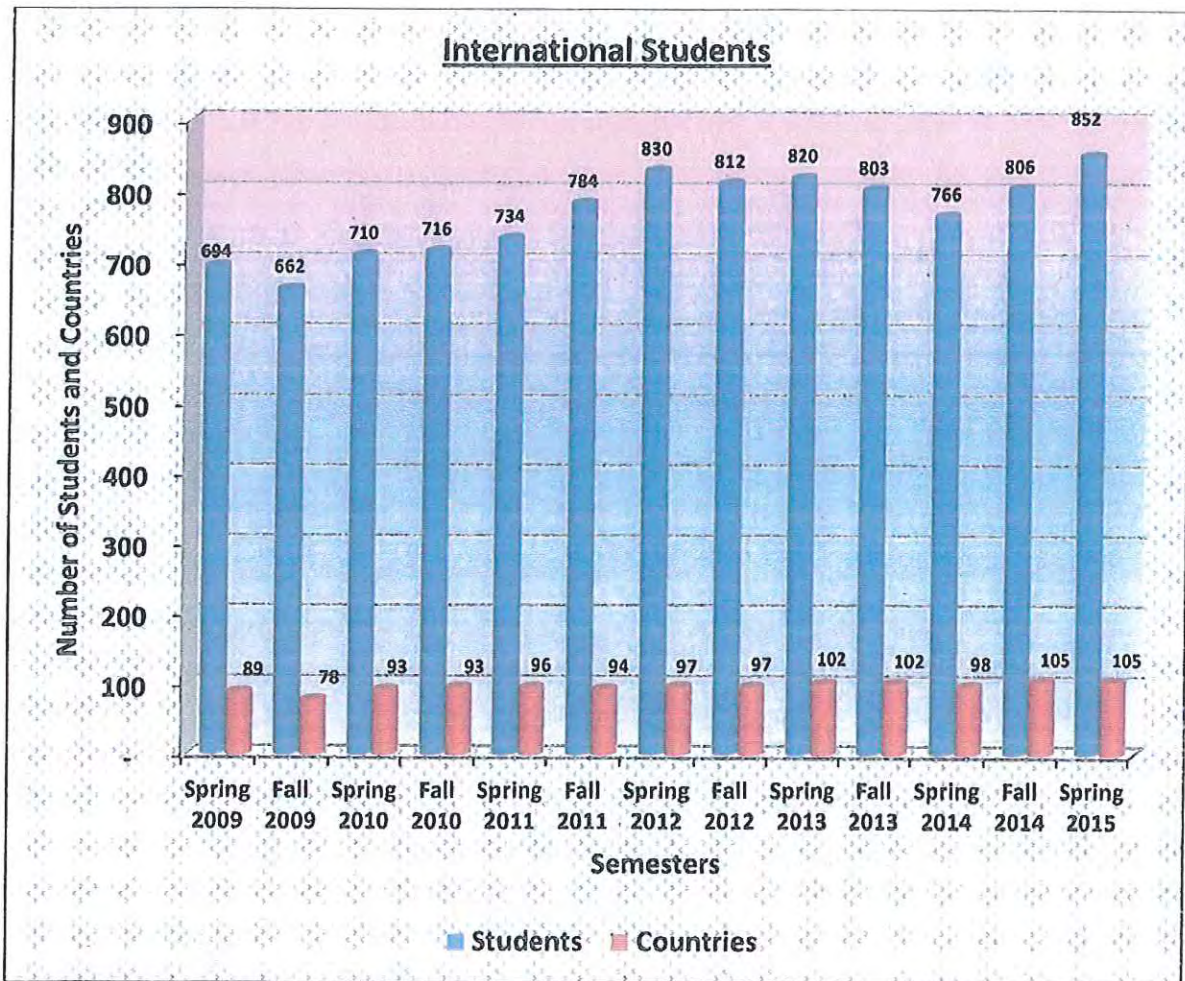
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



The College experienced an increase in international students' enrollment by 86 students in Spring 2015 compared to Spring 2014. This is the highest enrollment of international students in the history of the College at 852 students in Spring 2015.

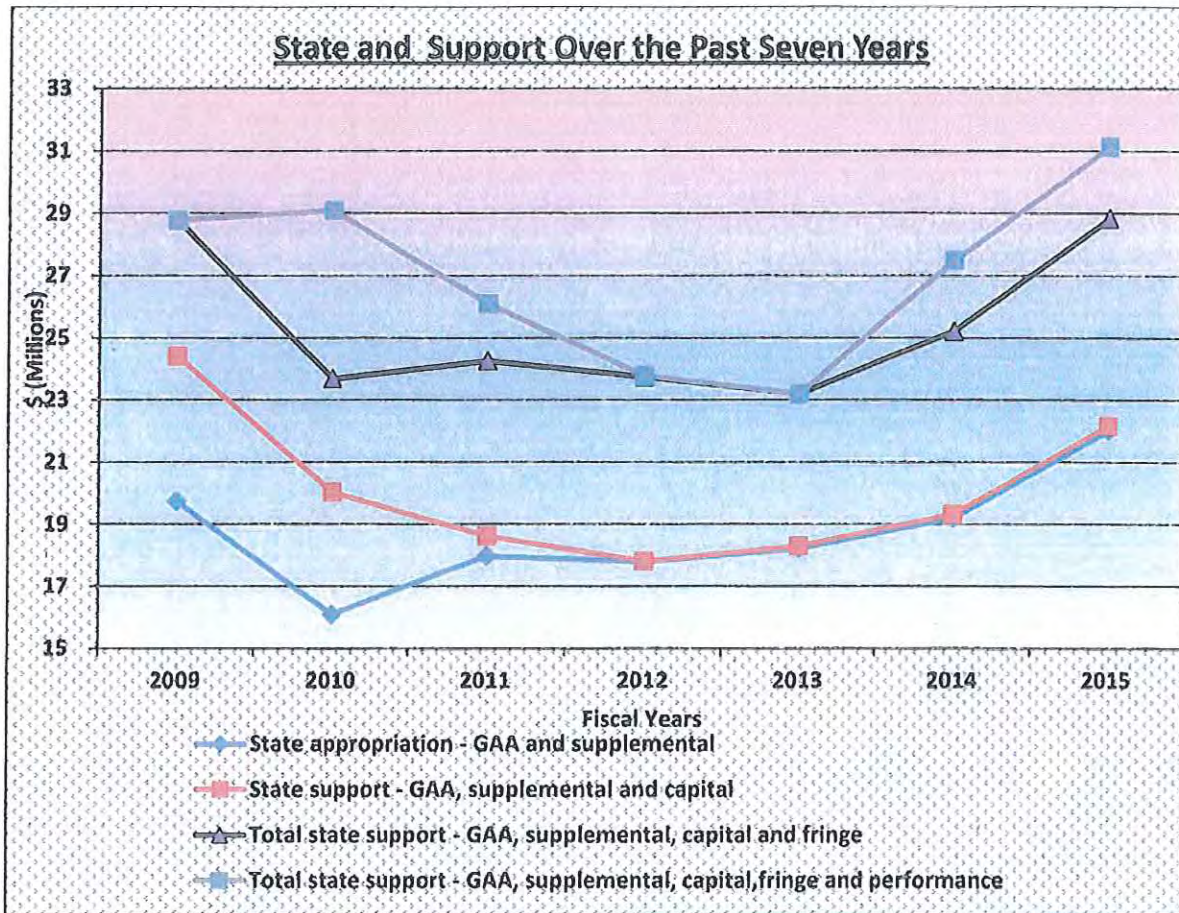
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



The seven-year trend analysis shows that for the year ended June 30, 2015, there has been an increase in general and supplemental state appropriation. The analysis also shows that there has been an increase in performance based funding.

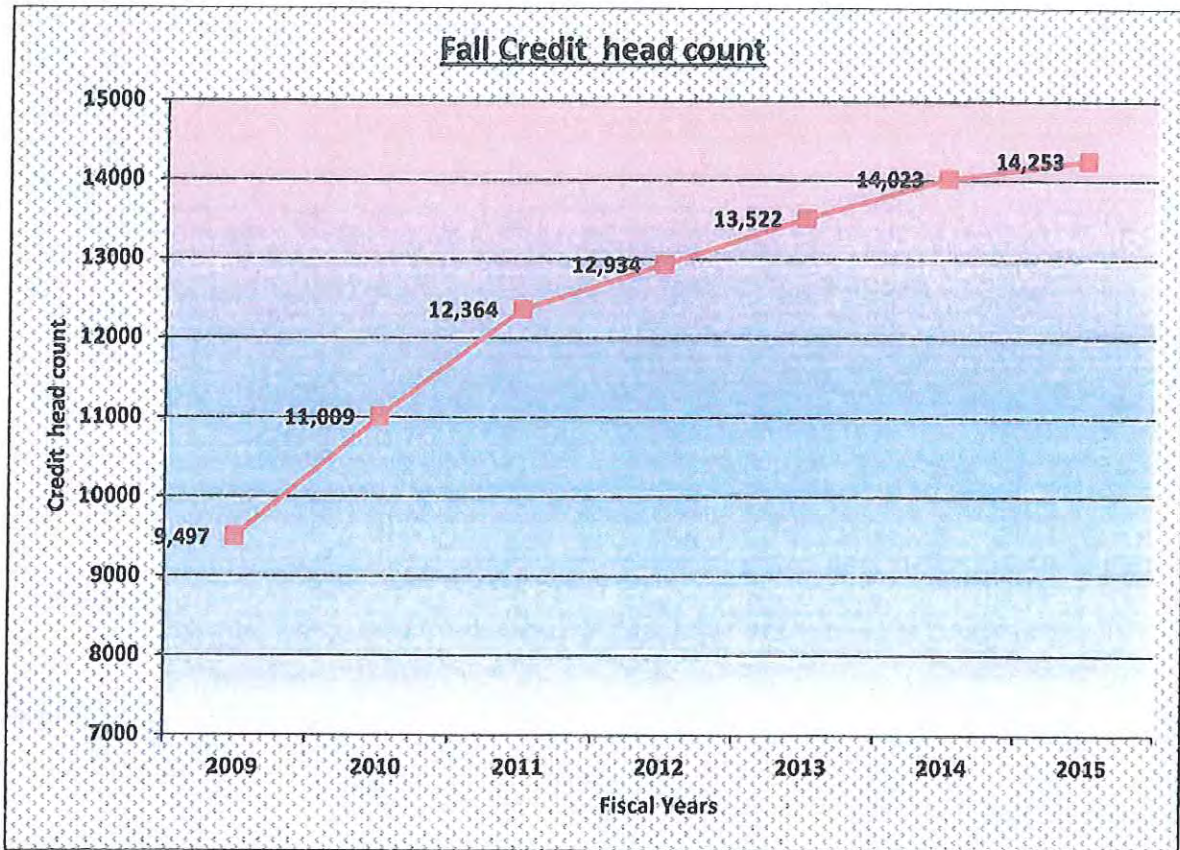
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



The College's head count has increased consistently over the years to over 14,000 students in spring 2015 semester.

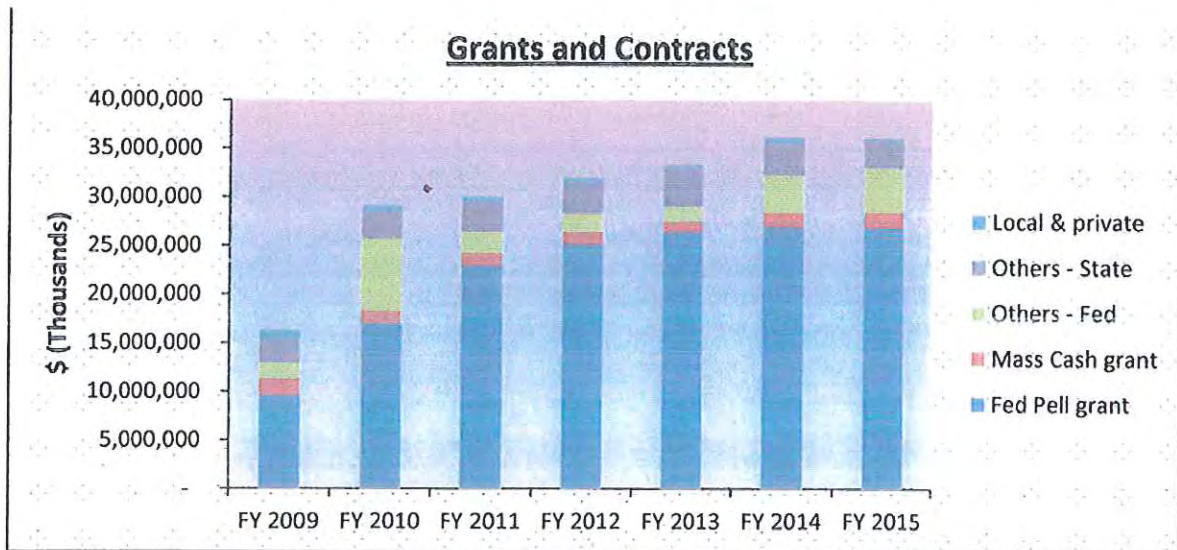
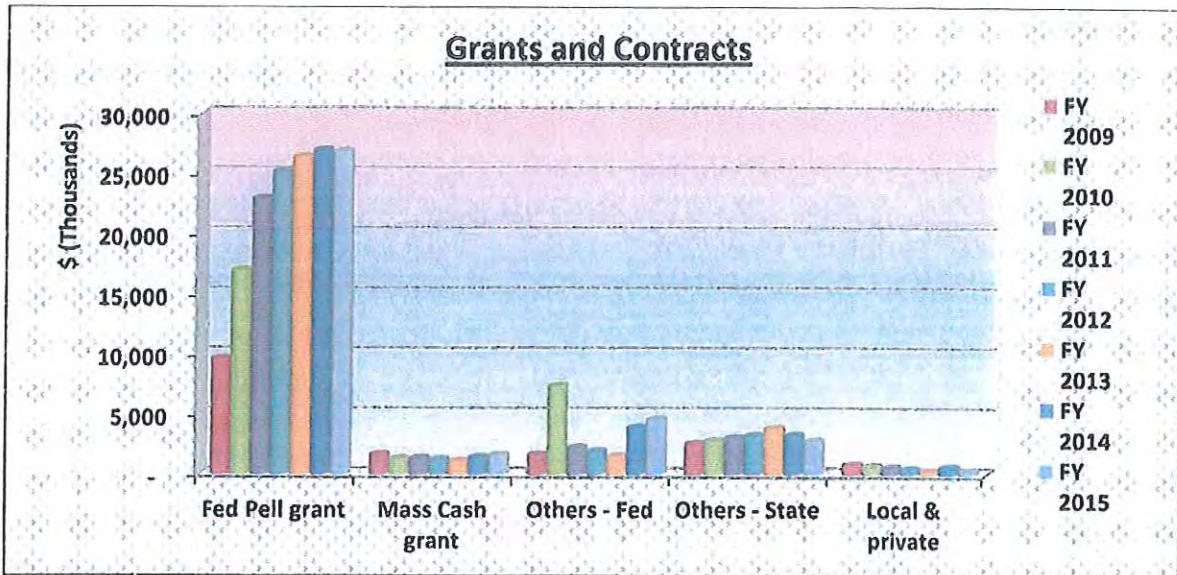
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued





# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

Major grants and contracts received by the College for 2015 included the following:

- PELL grant from US Department of Education in the amount of \$26,900,896 for student financial aid. This is a decrease of \$78,152 (0.29%) from 2014.
- SEOG grant from US Department of Education in the amount of \$480,806 for student financial aid. This is a decrease of \$83,789 from 2014.
- Nursing grant from US Department of Health and Human Services in the amount of \$268,740 for student financial aid. This is an increase of \$34,265 from 2014.
- MASS CASH grant from Massachusetts Board of Higher Education in the amount of \$1,580,970 for student financial aid. This is an increase of \$152,908 from 2014.
- MASS grant from Massachusetts Board of Higher Education in the amount of \$1,032,777 for student financial aid. This is a decrease of \$16,772 from 2014.
- TRIO grant from U.S. Department of Education of \$557,976. This is an increase of \$27,955 from 2014.
- Grants and contracts from other sources in the amount of \$5,246,679 for specific purposes. This is a decrease of \$302,954 from 2014:
  - State Appropriated grants received for MCAS of \$389,214.
  - Department of Higher Education grants received for Adult Basic Education of \$717,839, Perkins Vocational grant of \$415,007 and TITLE III grant of \$306,397.
  - Local grants received from the Center for Allied Health of \$29,884.
  - United States Department of Labor grants received: through Quinsigamond Community College of \$253,217; through Collin College, Texas of \$608,176; through Passaic Community College, of \$393,147 and for Connect program of \$156,709.

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

- Auxiliary enterprises (Workforce development contracts) revenue increased by 9% or \$47,244.

Tuition and fees received by the College included the following:

	Year Ended June 30		Between 2015 and 2014	
	2015	2014	Change	Change percentage
Tuition	\$ 12,374,889	\$ 11,978,411	\$ 396,478	3%
Student fees	32,179,969	31,343,193	836,776	3
Waivers	(1,068,833)	(537,320)	(531,513)	99
Tuition and fees, net	<u>\$ 43,486,025</u>	<u>\$ 42,784,284</u>	<u>\$ 701,741</u>	<u>2%</u>

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Comparison of Expenses by Function

	Year Ended June 30		Between 2015 and 2014	
	2015	2014	Change	Change percentage
Instruction	\$ 35,535,156	\$ 35,506,159	\$ 28,997	—%
Academic support	11,420,724	10,517,674	903,050	9
Student services	11,306,668	11,347,953	(41,285)	—
Scholarships and fellowships	14,014,278	15,058,596	(1,044,318)	(7)
Operation and maintenance of plant	7,364,155	7,122,799	241,356	3
Institutional support and other	10,678,764	10,693,460	(14,696)	—
Depreciation and amortization	1,932,970	1,561,082	371,888	24
	<u>\$ 92,252,715</u>	<u>\$ 91,807,723</u>	<u>\$ 444,992</u>	<u>—%</u>

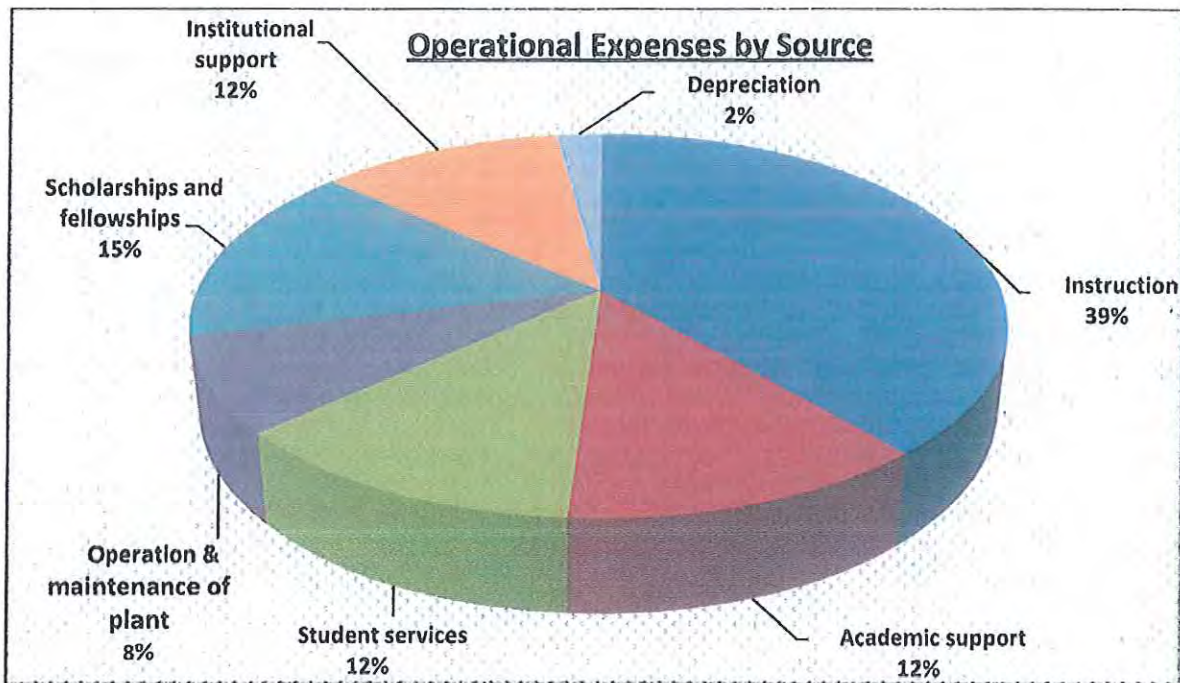
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



#### Highlights of operating expense activity:

- Of the total operating expenses in fiscal year 2015 of \$92,252,715, 78% relates to instruction, academic support, student services, and scholarship and fellowships. The expenditure on instruction in fiscal year 2015 remained the same as in fiscal year 2014.

The expenditure on scholarships and fellowships decreased by 7% or \$1,044,318 in fiscal year 2015 due to an overall decrease in grant aid other than those applied to tuition and fees.

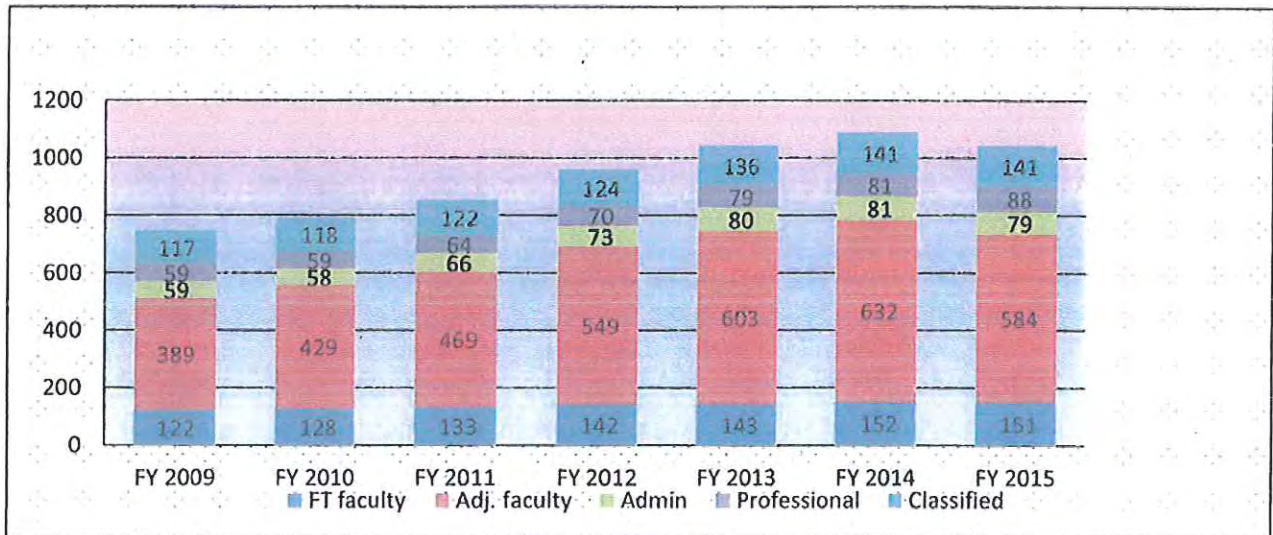
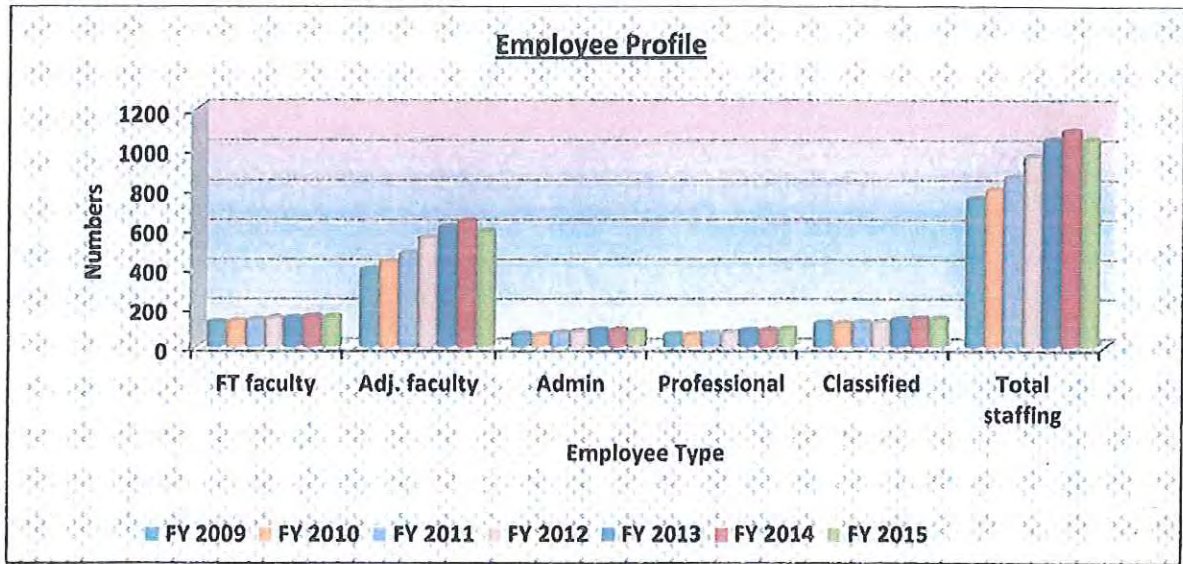
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued



# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

#### *Loss from Operations*

The following schedule presents the College's operating loss for the years ended June 30:

	Year Ended June 30		Between 2015 and 2014	
	2015	2014	Change	Change percentage
Tuition and fees	\$ 43,486,025	\$ 42,784,284	\$ 701,741	2%
Less scholarship allowances	(17,767,138)	(16,638,532)	(1,128,606)	7
Net tuition and fees	25,718,887	26,145,752	(426,865)	(2)
Grants and contracts	36,068,844	36,131,398	(62,554)	—
Other revenue	2,652,068	2,075,385	576,683	28
Operating expenses	(92,252,715)	(91,807,723)	(444,992)	—
Operating loss	\$ (27,812,916)	\$ (27,455,188)	\$ (357,728)	1%

Pursuant to Governmental Accounting Standards Board (GASB) Statements No. 34 and 35, the State appropriation is not classified as operating revenue. Therefore, institutions of public higher education generally incur a loss from operations. The Commonwealth's Department of Higher Education sets tuition while the College's Board of Trustees sets general course fees. Commonwealth appropriations and other state support to the College reduced the loss from operations. The College, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

#### *Non-Operating Revenues and Expenses*

	Year Ended June 30		Between 2015 and 2014	
	2015	2014	Change	Change percentage
Operating loss	\$ (27,812,916)	\$ (27,455,188)	\$ (357,728)	1%
Nonoperating:				
Total state support	30,784,194	27,490,023	3,294,171	12
Net other nonoperating	228,491	1,762,080	(1,533,589)	(87)
Increase (decrease) in net position	\$ 3,199,769	\$ 1,796,915	\$ 1,402,854	78%

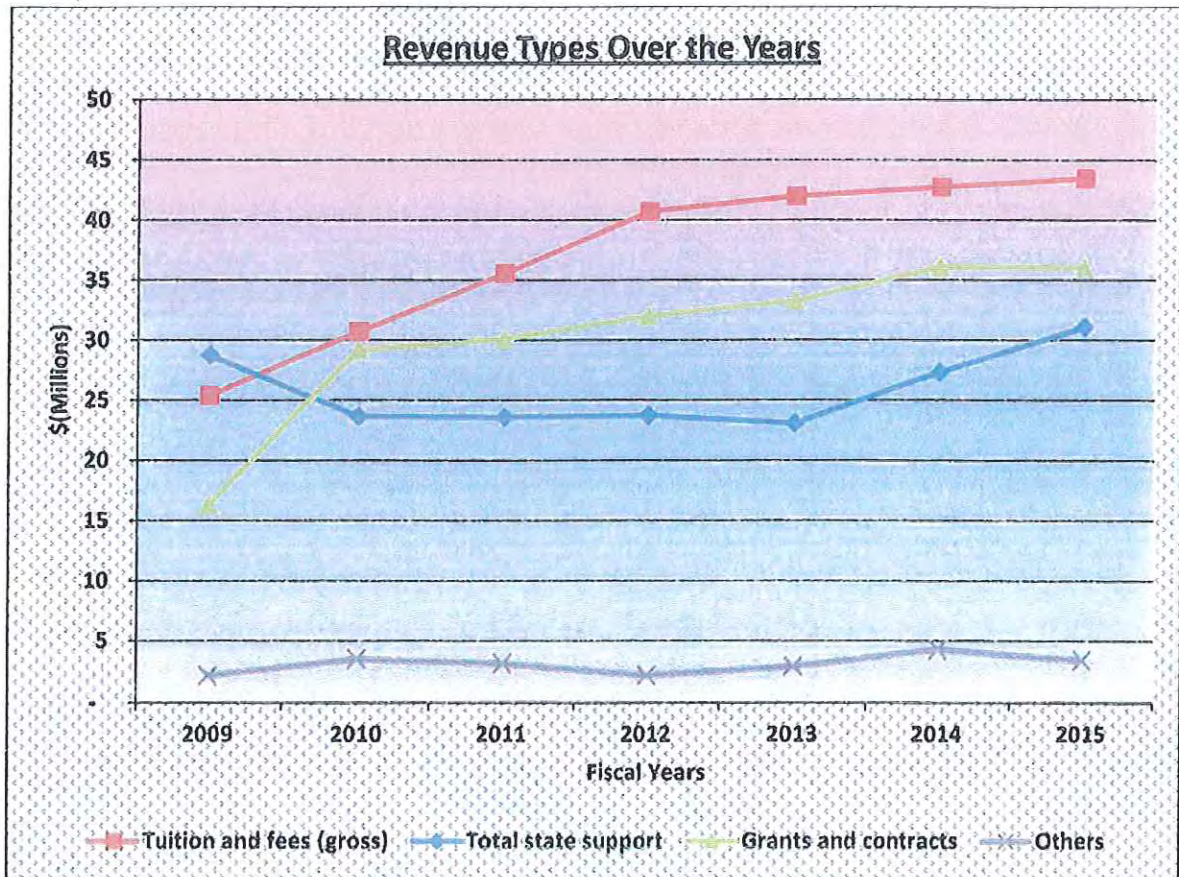
# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued





# BUNKER HILL COMMUNITY COLLEGE

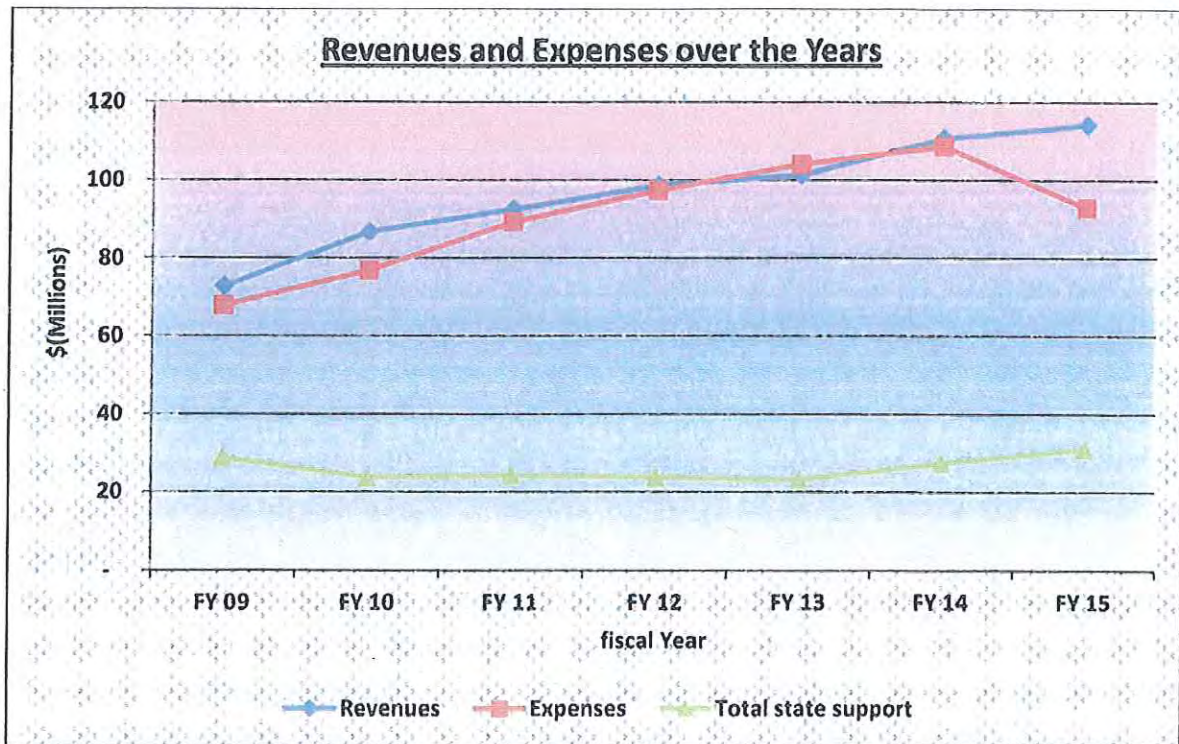
## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Financial Analysis - Continued

After fiscal year 2009, State appropriation ceased being the single largest source of funding to the College. Gross tuition and fees net of waivers was the largest source of revenue at \$43,486,025 or 38% followed by grants and contracts of \$36,068,811 or 32%.



The seven year trend analysis shows that from FY 2009 revenue exceeded expenditure each year except FY 2013, when reserves were utilized to fund planned operational expenditures.

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Capital Assets of the College

The College's capital assets as of June 30, 2015 amounted to \$35,131,051, net of accumulated depreciation. The capital assets include land, buildings and improvements, furnishings, and equipment. Capital assets increased from \$34.2 million in FY 2014 to 35.1 million in FY 2015 mainly due to improvements to buildings at a cost of \$748,511, purchase of equipment at a cost of \$1,245,537 and major enhancements to software at a cost of \$909,337. The total net addition to fixed assets during fiscal year 2015 was \$2,902,765 while the total depreciation amounted to \$1,932,970.

The Board of Trustees approves capital asset purchases. Additional information about the College's capital assets can be found in note 6 on page 41 of this report.

### Long-Term Liabilities of the College

During the fiscal year 2007, the College participated in a Pool M3-C Series, tax exempt, variable rate bond issued through Massachusetts Health and Educational Facilities Authority Capital Assets Program (HEFA) to finance the construction of the Health and Wellness Center. Of the Pool M3-C Series, tax exempt bond of \$8,000,000. A sum of \$67,602 is held as a debt service reserve fund at the Peoples United Bank.

The College also entered into an interest rate swap agreement with Citizens Bank to manage (hedge) cash flows associated with the variable rate bond. The terms of the swap transaction are as follows:

Original notional amount	\$	7,920,000
Trade date		February 9, 2007
Effective date		February 11, 2007
Termination date		June 15, 2031
Rate paid by College		4.18%
Rate paid by counterparty		SIFMA Swap Index
Fair value – liability at June 30, 2015	\$	1,463,189

# BUNKER HILL COMMUNITY COLLEGE

## Management Discussion and Analysis - Continued

June 30, 2015

(Unaudited)

### Long-Term Liabilities of the College - Continued

In November 2011, the College participated in a clean energy (savings) program which was administered by the Department of Capital Asset Management and Maintenance (DCAM). This project, DCAM project number BHC 1001-EC1 was funded in part by a loan from the Clean Energy Investment program (CEIP) funds and in part by a General Obligation Bond through DCAM. The status of the CEIP funds as June 30, 2015 is as follows:

Date of note	November 29, 2011
Original amount of note	\$3,330,488
Unpaid principal balance	\$2,981,357
Maturity date	January 01, 2032
Interest rate	4.00%
Date to which interest has been paid	January 01, 2015

There were no capital lease obligations at June 30, 2015.

### Economic Factors and Decisions Affecting Next Year's Tuition and Student Fee Revenues

The seasonally adjusted unemployment rate for the Commonwealth within which the College primarily draws students, decreased from 5.7 % in June 2014 to 4.6% in June 2015, according to the United States Department of Labor, Bureau of Labor Statistics. The seasonally adjusted unemployment rate on a national level decreased from 6.1% in June 2014 to 5.3% in June 2015. The trend is that unemployment will continue to decrease if the performance of the economy improves and vice versa. It is difficult for the College to predict the extent to which enrollment may vary in the current environment.

### Requests for Information

This financial report is designed to provide a general overview of the College's financial position 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, Administration and Finance, Bunker Hill Community College, 250 New Rutherford Avenue, Boston, Massachusetts 02129-2925.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

Statement of Net Position

June 30, 2015

Assets and Deferred Outflows of Resources

	<u>College</u>	<u>Foundation</u>
<b>Current Assets:</b>		
Cash and equivalents (Note 3)	\$ 1,599,104	\$ 82,818
Cash held by State Treasurer (Note 4)	301,976	-
Short-term investments (Note 3)	22,851,283	-
Deposits with bond trustee - restricted (Note 3)	67,602	-
Accounts receivable, net (Note 5)	3,379,415	17,428
Other assets	<u>311,232</u>	<u>-</u>
<b>Total Current Assets</b>	<u>28,510,612</u>	<u>100,246</u>
<b>Non-Current Assets:</b>		
Long-term investments (Note 3)	4,354,094	5,113,313
Capital assets, net of accumulated depreciation (Note 6)	<u>35,131,051</u>	<u>-</u>
<b>Total Non-Current Assets</b>	<u>39,485,145</u>	<u>5,113,313</u>
<b>Total Assets</b>	<u>67,995,757</u>	<u>5,213,559</u>
<b>Deferred Outflows of Resources:</b>		
Interest rate swap (Note 8)	1,463,189	-
Contributions made after the plan measurement date	572,632	-
Changes in plan actuarial assumptions	86,815	-
Changes in proportion	<u>313,417</u>	<u>-</u>
<b>Total Deferred Outflows of Resources</b>	<u>2,436,053</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 70,431,810</u>	<u>\$ 5,213,559</u>

Liabilities, Deferred Inflows of Resources, and Net Position

<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 4,289,938	\$ 17,928
Accrued payroll	1,705,275	-
Compensated absences and workers' compensation (Note 7)	2,741,377	-
Unearned revenues	711,949	-
Student deposits	5,147,646	-
Funds held for others	927,438	-
Current portion of bonds payable (Note 7)	220,000	-
Current portion of liability for energy project (Note 7)	<u>125,809</u>	<u>-</u>
<b>Total Current Liabilities</b>	<u>15,969,432</u>	<u>17,928</u>
<b>Non-Current Liabilities:</b>		
Bonds payable (Note 7)	6,607,602	-
Liability for derivative instrument (Note 8)	1,463,189	-
Liability for energy project (Note 7)	2,855,548	-
Compensated absences and workers compensation (Note 7)	1,986,648	-
Net pension liability (Note 7)	<u>7,723,013</u>	<u>-</u>
<b>Total Non-Current Liabilities</b>	<u>20,636,000</u>	<u>-</u>
<b>Total Liabilities</b>	<u>36,605,432</u>	<u>17,928</u>
<b>Deferred Inflows of Resources:</b>		
Differences between projected and actual earnings of plan investments	1,585,140	-
Changes in proportion	<u>2,674</u>	<u>-</u>
<b>Total Deferred Inflows of Resources</b>	<u>1,587,814</u>	<u>-</u>
<b>Net Position:</b>		
Investment in capital assets, net	25,390,311	-
Restricted:		
Expendable	-	2,820,733
Non-expendable	-	1,508,644
Unrestricted (Note 10)	<u>6,848,253</u>	<u>866,254</u>
<b>Total Net Position</b>	<u>32,238,564</u>	<u>5,195,631</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<u>\$ 70,431,810</u>	<u>\$ 5,213,559</u>

See accompanying notes to the financial statements.

# BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

## Statement of Revenues and Expenses

For the Year Ended June 30, 2015

	<u>College</u>	<u>Foundation</u>
<b>Operating Revenues:</b>		
Tuition and fees	\$ 43,486,025	\$ -
Less: scholarship allowance	<u>(17,767,138)</u>	<u>-</u>
Net tuition and fees	25,718,887	-
Federal, state, local and private grants and contracts	36,068,844	299,944
Other auxiliary enterprises	573,811	-
Other sources	<u>2,078,257</u>	<u>266,742</u>
<b>Total Operating Revenues</b>	<u>64,439,799</u>	<u>566,686</u>
<b>Operating Expenses (Note 12):</b>		
Instruction	35,535,156	-
Academic support	11,420,724	-
Student services	11,306,668	-
Scholarships	14,014,278	277,525
Operation and maintenance of plant	7,364,155	-
Institutional support	10,678,764	-
Depreciation and amortization	1,932,970	-
Other operating expenses	<u>-</u>	<u>141,514</u>
<b>Total Operating Expenses</b>	<u>92,252,715</u>	<u>419,039</u>
<b>Operating (Loss) Income</b>	<u>(27,812,916)</u>	<u>147,647</u>
<b>Non-Operating Revenues (Expenses):</b>		
State appropriations (Note 13)	30,604,240	-
Payments between Foundation and College	777,977	(777,977)
Net investment income	31,611	180,208
Other non-operating expense	-	-
Interest expense	<u>(581,097)</u>	<u>-</u>
<b>Net Non-Operating Revenues (Expenses)</b>	<u>30,832,731</u>	<u>(597,769)</u>
<b>Change in Net Position Before Capital Appropriations</b>	<b>3,019,815</b>	<b>(450,122)</b>
Capital appropriations (Note 13)	<u>179,954</u>	<u>-</u>
<b>Total Change in Net Position</b>	<u>\$ 3,199,769</u>	<u>\$ (450,122)</u>

See accompanying notes to the financial statements.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

Statement of Changes in Net Position

For the Year Ended June 30, 2015

	<u>College</u>				
	<u>Investment in capital assets, net</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2014, as previously reported	\$ 23,956,616	\$ -	\$ -	\$ 13,351,970	\$ 37,308,586
Prior period adjustment - Adoption of new accounting principle (Note 2)	-	-	-	(8,269,791)	(8,269,791)
Balance at June 30, 2014, as restated	23,956,616	-	-	5,082,179	29,038,795
Changes in net position	<u>1,433,695</u>	<u>-</u>	<u>-</u>	<u>1,766,074</u>	<u>3,199,769</u>
Balance at June 30, 2015	<u>\$ 25,390,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,848,253</u>	<u>\$ 32,238,564</u>

	<u>Foundation</u>				
	<u>Net investment in capital assets</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2014	\$ -	\$ 3,099,936	\$ 1,477,145	\$ 1,068,672	\$ 5,645,753
Changes in net assets	-	<u>(279,203)</u>	<u>31,499</u>	<u>(202,418)</u>	<u>(450,122)</u>
Balance at June 30, 2015	<u>\$ -</u>	<u>\$ 2,820,733</u>	<u>\$ 1,508,644</u>	<u>\$ 866,254</u>	<u>\$ 5,195,631</u>

See accompanying notes to the financial statements.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows  
For the Year Ended June 30, 2015

	<u>College</u>
<b>Cash Flows from Operating Activities:</b>	
Tuition, residence, dining and other student fees	\$ 45,199,178
Grants and contracts	37,280,074
Payments to suppliers	(34,354,386)
Payments to employees	(52,990,211)
Payments to students	(14,591,399)
Other cash receipts and payments	<u>2,325,272</u>
Net Cash Applied to Operating Activities	<u>(17,131,472)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
State appropriations	23,947,814
Other receipts/payments	<u>650,000</u>
Net Cash Provided by Non-Capital Financing Activities	<u>24,597,814</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Capital appropriations	179,954
Purchases of capital assets	(2,722,812)
Principal payments on capital debt	(333,070)
Interest payments on capital debt	<u>(580,302)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(3,456,230)</u>
<b>Cash Flows from Investing Activities:</b>	
Proceeds from sales and maturities of investments	62,246,113
Purchases of investments	(66,228,836)
Interest on investments	<u>69,057</u>
Net Cash Applied to Investing Activities	<u>(3,913,666)</u>
<b>Net Increase in Cash and Equivalents</b>	96,446
Cash and Equivalents, Beginning of the Year	<u>1,872,236</u>
<b>Cash and Equivalents, End of the Year</b>	<u>\$ 1,968,682</u>
<b>Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:</b>	
Net operating loss	\$ (27,812,916)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization	1,932,970
Fringe benefits provided by the State	6,656,426
Other noncash operating expenses	(1,342,497)
Changes in assets and liabilities:	
Accounts receivable, net	54,511
Other assets	(88,913)
Accounts payable and accrued liabilities	155,413
Accrued payroll, compensated absences, and workers' compensation	185,404
Student deposits	2,610,410
Funds held for others	156,278
Unearned revenues	293,270
Net pension activity	<u>68,172</u>
Net Cash Applied to Operating Activities	<u>\$ (17,131,472)</u>
<b>Non-Cash Transaction:</b>	
Fringe benefits provided by the State	<u>\$ 6,656,426</u>

See accompanying notes to the financial statements.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements**

**June 30, 2015**

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

**Organization**

Bunker Hill Community College (the "College") is the largest community college in Massachusetts and is accredited by the New England Association of Schools and Colleges. The College is located in Charlestown with a branch campus in Chelsea and four satellite campuses throughout Greater Boston providing instruction and training in a variety of liberal arts and sciences, allied health, engineering technologies, and business fields of study. Through the Division of Continuing Education, the College offers credit and non-credit courses as well as community service programs.

**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 U.S. 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 statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services and certain grants and contracts. 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, net investment income, gifts, and interest expense.



**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

Bunker Hill Community College Foundation, Inc. (the "Foundation") is a not-for-profit corporation established in July 1986. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. The Foundation is located at the College's Charlestown campus. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College and is therefore discretely presented in the College's financial statements. During the year ended June 30, 2015, the Foundation distributed \$777,977 to the College for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained from: Bunker Hill Community College Foundation, 250 New Rutherford Avenue, Boston, Massachusetts 02129.

Net Position

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

Invested in Capital Assets, Net of Related Debt – 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 that the College must maintain 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 amounts 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.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Cash and Equivalents*

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

*Investments*

Investments in marketable securities are stated at fair value. Dividends, interest, and net realized and unrealized gains or losses on investments are reported in the statements of revenues, expenses, and changes in net position. Gains and losses on the disposition of investments are determined based on specific identification of securities sold. Investment income is recognized when earned. The College has no donor restricted endowments.

*Capital Assets*

Real estate, including improvements, 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. 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 College does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation.

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.

*Pensions*

For purposes of measuring the net pension liability, deferred outflow 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.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 1 - Summary of Significant Accounting Policies - Continued

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation, sick leave, and compensatory time. Accrued vacation is the amount earned by all eligible employees through June 30, 2015. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2015. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Workers' Compensation

The Commonwealth provides workers' compensation coverage to its employees on a self-insured basis. The College records its portion of the workers' compensation in its records on an actuarially determined value provided by the Office of the State Comptroller.

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 deferred and are recorded as student deposits and unearned revenues.

Derivative Instruments

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), requires the fair value of a hedging derivative instrument be reported in the financial statements. Changes in the fair value of an effective hedging derivative instrument are deferred and reported as deferred outflows or deferred inflows on the statement of net position. In compliance with GASB Statement 53, the College has recorded a deferred outflow and corresponding liability on the Statement of Net Position.

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

Student 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 students and are generally reflected as expenses.

Tax Status

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

Use of Estimates

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

New Governmental Accounting Pronouncements

GASB 72, *Fair Value Measurement and Application*, is effective for periods beginning after June 15, 2015. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation methodologies should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value which are as follows: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable, directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumptions about certain factors affecting the value of the asset or liability. Management is in the process of evaluating the implementation of this Statement but does not expect any material effect to its financial position.

**BUNKER HILL COMMUNITY COLLEGE**  
**(an agency of the Commonwealth of Massachusetts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*New Governmental Accounting Pronouncements - Continued*

*GASB 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68;* The provisions of this Statement applicable to the College are effective for periods beginning after June 15, 2015. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 68 is effective for the fiscal year ended June 30, 2015. Management has not yet evaluated the effects of the implementation of GASB Statement 73.

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

*GASB 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - Continued

other event is not specified within a source of authoritative GAAP. Management is currently reviewing this pronouncement, implementation of which must be applied retroactively.

Note 2 - Implementation of Newly Effective Accounting Standard

As a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, the College has restated net position in the statement of net position by \$8,269,791 as of June 30, 2014. The prior period restatement of net position reflects the recognition of a net pension liability as of June 30, 2015, as required by the application of GASB 68.

	<u>As Previously Reported</u>	<u>Restated</u>
As of June 30, 2014:		
Deferred outflow	\$ 1,302,006	\$ 1,913,913
Net pension liability	\$ -	\$ 8,881,698
Unrestricted net position	\$ 13,351,970	\$ 5,082,179

**BUNKER HILL COMMUNITY COLLEGE**  
 (an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 3 - **Cash and Investments**

*Overall Deposits and Investments Descriptions*

Deposits and investments consist of the following at June 30, 2015:

<u>Investment type</u>	
Cash in bank	\$ 1,599,104
Proprietary money market funds - restricted	<u>67,602</u>
Total Deposits	<u>1,666,706</u>
Certificate of deposit	-
Money market funds	12,342,617
Massachusetts Municipal Depository Trust Funds	3,608,384
Corporate debt	4,921,456
Other bonds funds	-
Federal agency securities	1,501,689
Equity investments	<u>4,831,231</u>
Total Investments	<u>27,205,377</u>
Total Deposits and Investments	\$ <u>28,872,083</u>

The proprietary money market funds represent unspent proceeds of a Pool M3-C Series bond issue through Mass HEFA, which was converted to a MHEFA Pool 'O' Series bond.

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 3 - Cash and Investment - Continued

Concentration of Credit Risk

Investments representing more than 5% of the College's total investments at June 30, 2015 consist of:

<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage of the total</u>
Commonwealth of Massachusetts	Massachusetts Municipal Depository Trust Funds	\$ 3,608,384	13%
Citizens Bank	Money market funds	5,169,550	19
Sovereign Bank	Money market funds	4,173,067	15
Eaton Vance	Money market funds	3,000,000	11

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. Certain deposits are made in federally insured domestic banks and Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. In addition, certain investments are covered up to \$500,000 by the Securities Investor Protection Corporation (SIPC). The College's bank balances, including certificates of deposit and money market funds, as of June 30, 2015 were \$13,577,073. Of these balances, \$12,169,763 were 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 supports the investments of trust funds in a variety of vehicles, including bank instruments, equities, bonds, government and commercial paper of high quality and mutual funds holding in any or all of the above. The Board of Trustees may establish investment fund ceilings and broad asset allocation guidelines, but delegates to the President or her designee, the authority to determine exact dollar amounts to be invested within those established limits and guidelines.



**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 3 - Cash and Investment - Continued

Interest Rate Risk

Maturities of investments exposed to interest rate risk were as follows at June 30, 2015:

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 1,501,689	\$ 34,993	\$ 1,392,786	\$ 73,910	\$ -
Corporate bonds	4,921,456	2,034,059	1,916,702	103,570	867,125
	<u>6,423,145</u>	<u>\$ 2,069,052</u>	<u>\$ 3,309,488</u>	<u>\$ 177,480</u>	<u>\$ 867,125</u>
Cash in bank	1,599,104				
Money market funds	12,342,617				
Proprietary money market funds	67,602				
Massachusetts Municipal depository system	3,608,384				
Equity securities - domestic	3,427,410				
Equity securities - international	<u>1,403,821</u>				
	<u>\$ 28,872,083</u>				

The College's net investment income of \$31,611 for the year ended June 30, 2015 consisted of interest and dividend income and realized and unrealized gains and losses.

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

**Note 3 - Cash and Investment - Continued**

*Disclosure of Credit Risk of Debt Securities*

Credit risk disclosures of debt securities were as follows at June 30, 2015:

<u>Rated debt investments</u>	<u>Fair value</u>	<u>Quality ratings</u>				
		<u>Aaa</u>	<u>A</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>
U.S. agencies	\$ 1,501,689	\$ 1,501,689	\$ -	\$ -	\$ -	\$ -
Corporate debt	4,921,456	-	2,028,673	139,207	219,780	242,661
<b>Total</b>	<b>\$ 6,423,145</b>	<b>\$ 1,501,689</b>	<b>\$ 2,028,673</b>	<b>\$ 139,207</b>	<b>\$ 219,780</b>	<b>\$ 242,661</b>

<u>Rated debt investments</u>	<u>Fair value</u>	<u>Quality ratings</u>				
		<u>Aa1</u>	<u>Aa2</u>	<u>Aa3</u>	<u>Ba2</u>	<u>Baa1,2,3</u>
U.S. agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate debt	-	210,236	35,810	30,833	30,833	1,983,423
<b>Total</b>	<b>\$ -</b>	<b>\$ 210,236</b>	<b>\$ 35,810</b>	<b>\$ 30,833</b>	<b>\$ 30,833</b>	<b>\$ 1,983,423</b>

*Investments of the Foundation*

The Foundation's long-term investments consist of the following at June 30, 2015:

	<u>Fair value</u>
Mutual funds	\$ 4,069,274
Corporate bonds	1,044,039
	<b>\$ 5,113,313</b>

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 3 - **Cash and Investment - Continued**

*Investments of the Foundation - Continued*

The Foundation's investment income consists of the following for the years ended June 30, 2015:

Interest and dividend income	\$ 88,927
Realized gain	235,994
Unrealized gain (loss) on investments	<u>(144,713)</u>
	<u>\$ 180,208</u>

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

Accounts payable and accrued salaries to be funded from state appropriated funds totaled \$301,976 at June 30, 2015. 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, 2015:

Student accounts receivable	\$ 1,075,912
Grants receivable	702,441
Financial aid receivable	606,285
Other receivables	<u>1,266,985</u>
	3,651,623
Less: allowance for doubtful accounts	<u>(272,208)</u>
	<u>\$ 3,379,415</u>

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

**Note 6 - Capital Assets**

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

	<u>Estimated lives (in years)</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Ending balance</u>
Capital assets not depreciated:					
Land		\$ 208,827	\$ -	\$ -	\$ 208,827
Capital work in progress		<u>4,665,970</u>	<u>447,577</u>	<u>(4,665,970)</u>	<u>447,577</u>
Total not depreciated		<u>4,874,797</u>	<u>447,577</u>	<u>(4,665,970)</u>	<u>656,404</u>
Capital assets depreciated:					
Building, including improvements	20-40	49,521,527	304,255	4,665,970	54,491,752
Furnishings and equipment	3-10	4,675,202	1,245,537		5,920,739
Software	5	-	905,397		905,397
Motor vehicles	3-10	407,600	-		407,600
Books	5	614,858	-		614,858
Total depreciated		<u>55,219,187</u>	<u>2,455,189</u>	<u>4,665,970</u>	<u>62,340,346</u>
Less accumulated depreciation:					
Building, including improvements		(21,367,601)	(1,505,710)	-	(22,873,311)
Furnishings and equipment		(3,682,316)	(377,349)	-	(4,059,665)
Software		-	-	-	-
Motor vehicles		(267,954)	(49,911)	-	(317,865)
Books		<u>(614,858)</u>	<u>-</u>	<u>-</u>	<u>(614,858)</u>
Total accumulated depreciation		<u>(25,932,729)</u>	<u>(1,932,970)</u>	<u>-</u>	<u>(27,865,699)</u>
Capital assets, net		<u>\$ 34,161,255</u>	<u>\$ 969,796</u>	<u>\$ -</u>	<u>\$ 35,131,051</u>

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

**Note 7 - Long-Term Liabilities**

Long-term liabilities at June 30, 2015 consist of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Other long-term liabilities:					
Bonds payable	\$ 7,039,702	\$ -	\$ (212,100)	\$ 6,827,602	\$ 220,000
Energy project liability	3,102,327	-	(120,970)	2,981,357	125,809
Sick and vacation	4,042,773	2,514,940	(2,345,827)	4,211,886	2,597,920
Workers' compensation	426,451	290,166	(200,478)	516,139	143,457
Net pension liability	8,881,698	-	(1,158,685)	7,723,013	-
Total long-term liabilities	<u>\$ 23,492,951</u>	<u>\$ 2,805,106</u>	<u>\$ (4,038,060)</u>	<u>\$ 22,259,997</u>	<u>\$ 3,087,186</u>

**Operating Leases**

The College leases computer equipment, software and copiers for various departments, and also leases a motor vehicle. The College, acting through the Commissioner of the Division of Capital Asset Management and Maintenance (DCAMM), entered into an agreement with Hood Business Park LLC (f.k.a. Hood Park LLC) on October 1, 2014 to lease 25,284 square feet of building space for a term of seven years with annual payments ranging from \$706,600 in the first year to \$745,158 in the seventh year. The premises are used for classroom instruction, workforce training, meeting space and educational administration.

On March 17, 2015, the College, acting through DCAMM, entered into an agreement with Hood Park LLC to amend and extend the lease: to increase the usable area, to increase the number of unreserved parking spaces, to make landlord's improvements and to further modify the lease as follows.

- a) The term of the lease has been extended from January 22, 2020 to January 21, 2025.
- b) The usable area has been increased by 14,033 square feet to 39,317 square feet.
- c) The lease payment for the additional space to commence on occupancy of the space.

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

Operating Leases - Continued

The following schedule summarizes future minimum payments due under the non-cancelable operating leases as of June 30, 2015:

Years Ending June 30,:

2016	\$ 1,510,758
2017	1,386,340
2018	1,332,866
2019	1,334,758
2020	1,308,044
2021-2025	6,688,290
	<u>\$ 13,561,056</u>

Bonds

The following schedule summarizes future principal and interest payments on the College's February 2007 variable rate bond as of June 30, 2015:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap, net*</u>	<u>Total</u>
2016	\$ 220,000	\$ 3,146	\$ 271,163	\$ 494,309
2017	230,000	3,045	261,628	494,673
2018	240,000	2,939	251,678	494,617
2019	250,000	2,829	241,314	494,143
2020	260,000	2,714	230,535	493,249
2021 - 2025	1,490,000	11,655	972,335	2,473,990
2026 - 2030	1,820,000	7,929	619,600	2,447,529
2031 - 2032	2,317,602	1,072	-	2,318,674
	<u>\$ 6,827,602</u>	<u>\$ 35,329</u>	<u>\$ 2,848,253</u>	<u>\$ 9,711,184</u>

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 7 - Long-Term Liabilities - Continued

Bonds - Continued

- \* In conjunction with its February 2007 issuance of variable rate bonds, the College entered into an agreement with a financial institution counterparty to synthetically fix the interest rate on the bonds at 4.18%. This column represents the projected net amounts the College would have to pay the counterparty under the swap contract if interest rates were to remain unchanged from their value at June 30, 2015 during the remaining life of the swap. See Note 8 for more information. The variable rate on the bonds as of June 30, 2015 was 0.05%.

The bank provides credit enhancement in the form of a Direct Pay Letter of Credit on the tax exempt bonds issued under the MHEFA Pool O bond. The College is a Pool O borrower. The short-term rating of the bank was lowered by S&P in March 2009 to "A-2 status.". This downgrade resulted in the weekly interest rate on the pool bonds increasing by 200 – 300 basis points. In order to reduce the weekly interest rate on the pool bonds, the bank arranged to have the Federal Home Loan Bank of Boston provide a confirming Letter of Credit for the Pool O bonds. The Pool O bonds, with the bank's Letter of Credit and the FHLB confirming Letter of Credit are rated AA+/A-1+ by S&P. During the fiscal year 2015, the short-term rating of the bank remained at A-2 at status.

Clean Energy Investment Project

In fiscal year 2012, the College entered into an agreement with the Department of Capital Asset Management (DCAM) to participate in the Massachusetts Clean Energy Investment Program (CEIP). Under the program, DCAM was responsible for construction of specific energy conservation projects at the College funded by CEIP funds and proceeds of bonds issued by the Commonwealth. Upon completion of the construction, the College is responsible for reimbursing the Commonwealth for the CEIP funding of \$3.3 million plus interest. The interest rate on this obligation is 4% and semi-annual payments began in January 2013 and run through 2032.

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

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

*Clean Energy Investment Project - Continued*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Years Ending June 30:</u>			
2016	\$ 125,809	\$ 119,254	\$ 245,063
2017	130,841	114,222	245,063
2018	136,075	108,988	245,063
2019	141,518	103,545	245,063
2020	147,178	97,885	245,063
2021 – 2025	829,053	396,262	1,225,315
2026 – 2030	1,008,669	216,646	1,225,315
2031 – 2032	462,214	27,914	490,128
	<u>\$ 2,981,357</u>	<u>\$ 1,184,716</u>	<u>\$ 4,166,073</u>

**Note 8 - Interest Rate Swap**

*Objective and Terms*

As a means to manage cash flows and lower its borrowing costs, the College entered into a fixed interest rate swap agreement with Citizens Bank in connection with its Pool M3-C Series tax-exempt variable rate bond in February 2007. This bond was replaced during fiscal year 2010 with a MHEFA Pool 'O' Series bond. The purpose of the swap agreement was to synthetically create a fixed rate on the underlying debt, and not for any speculative purposes.

The swap agreement, as amended in October 2010, is scheduled to mature on June 15, 2031. The swap's notional amount at inception was \$7,920,000 and will amortize in line with each payment of principal on the bonds. The notional amount at June 30, 2015 was \$6,760,000. Under the swap agreement, on the first day of each month, the College pays the counterparty monthly payments based on the fixed rate of 4.18% and the counterparty pays the bond trustee the floating rate, which is the Securities Industry and Financial Markets Association (SIFMA), on the same day.



**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 8 - **Interest Rate Swap - Continued**

**Fair Value**

The fair value of the swap was estimated using the zero-coupon method. This method calculates the future net settlement payment required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The fair value of the College's interest rate swap at June 30, 2015 was a liability of \$1,463,189 compared to \$1,302,006 at June 30, 2014, which is recorded in the College's statement of net position. The change in the fair value of the interest rate swap was \$161,183 and \$17,047 for the years ending June 30, 2015 and 2014, respectively. The College has determined its interest rate swap to be an effective hedge and has recorded a corresponding deferred outflow in the statement of net position.

**Credit Risk**

The College is reliant upon the performance of the counterparty to perform according to the terms of the interest rate swap agreement. The College monitors the counterparty's (CBMA) credit rating, which is currently rated at A- by S&P. The College is not exposed to credit risk at June 30, 2015 or 2014 because the interest rate swap had a negative value. The Letter of Credit with the bank expires December 31, 2016.

**Basis Risk**

The College is exposed to basis risk on the interest rate swap because the floating rate received on the swap (SIFMA) has a different basis than the variable rate on the associated bonds. Should these rates differ, the College will not achieve the intended synthetic fixed rate.

**Termination Risk**

The College or the counterparty may terminate the interest rate swap if the other party fails to perform under the terms of the contract. If, at the time of termination, the interest rate swap is in a liability position, the College would be liable to the counterparty for a payment approximating the liability, subject to netting arrangements.

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - Pensions

Defined Benefit Plan Description

The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all nonstudent employees. The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. The College is charged for the cost of these fringe benefits by the Commonwealth. Such pension expense amounted to \$4,742,260 for the year ended June 30, 2015. The increase is due to the percentage increase in pension benefits from 7.93% in the year 2014 to 10.39% in the year 2015. Employees who contribute a percentage of their regular compensation fund the annuity portion of the Retirement System.

Annual covered payroll for the years ended June 30, 2015 was 66% of annual total payroll for the College.

Certain employees of the College participate in a cost-sharing multiple-employer defined benefit pension plan – the Massachusetts State Employees' Retirement System (SERS) – 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.

SERS does not issue stand-alone financial statements.

Benefit Provisions

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

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - **Pensions - Continued**

**Benefit Provisions - Continued**

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 prior to 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 – 6/30/1996	8% of regular compensation
7/1/1996 – present	9% of regular compensation except for State Police which is 12% of regular compensation
1979 – present	An additional 2% of regular compensation in excess of \$30,000

The College is required to contribute at an actuarially determined rate; the rate was 10.39% of annual covered payroll for the fiscal year ended June 30, 2015. The College contributed \$572,632 for the fiscal year ended June 30, 2015, equal to 100% of the required contributions for each year.

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - **Pensions - Continued**

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

At June 30, 2015, the College reported a liability of \$7,723,013 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability was measured as of June 30, 2014, the measurement date, and the total pension liability were used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts', including collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2014. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2014 relative to total contributions of all participating employers for that fiscal year. At June 30, 2014, the College's proportion was 0.104%.

For the year ended June 30, 2015, the College recognized pension expense of \$640,804. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources:

Contributions made after the plan measurement date	\$ 572,632
Changes in plan actuarial assumptions	86,815
Changes in proportion	<u>312,406</u>
Total	\$ <u>971,853</u>

Deferred Inflows of Resources:

Net differences between projected and actual earnings on plan investments	\$ 1,585,139
Changes in proportion	<u>1,664</u>
Total	\$ <u>1,586,803</u>

# BUNKER HILL COMMUNITY COLLEGE

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## Notes to the Financial Statements - Continued

June 30, 2015

### Note 9 - Pensions - Continued

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - Continued

Contributions of \$572,632 are reported as deferred outflows of resources related to pensions resulting from the College contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. 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>	
2016	\$ (307,939)
2017	(307,939)
2018	(307,939)
2019	(307,939)
2020	<u>44,174</u>
	\$ <u>(1,187,582)</u>

#### Actuarial Assumptions

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

Inflation	3.00%
Salary increases	3.50% to 9.00%
Investment rate of return	8.00%

Mortality rates were based on pre-retirement of RP-2000 Employees table projected 20 years with Scale AA (gender distinct) and post-retirement of Healthy Annuitant table projected 15 years with Scale AA (gender distinct).

The actuarial assumptions used in the January 1, 2014 valuation rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of actuarial experience study performed as of January 1, 2014.

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - **Pensions - Continued**

*Actuarial Assumptions - Continued*

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, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity	43%	7.20%
Core Fixed Income	13%	2.50%
Hedge Funds	10%	5.50%
Private Equity	10%	8.80%
Real Return	10%	6.30%
Value Added Fixed Income	10%	6.30%
Timber/Natural Resources	<u>4%</u>	5.00%
	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 9 - **Pensions - Continued**

*Discount Rate - Continued*

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 of 8.0 percent 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.

1.00% Decrease	Current Discount Rate	1.00% Increase
<u>(7.00%)</u>	<u>(8.00%)</u>	<u>(9.00%)</u>
\$ 11,180,734	\$ 7,723,013	\$ 4,755,037

Note 10 - **Unrestricted Net Position**

The College's unrestricted net assets at June 30, 2015 comprised the following:

Net assets designated by the College's Board of Trustees for the following purposes:

Capital repairs	\$ 327,997
Plant fund	3,513,413
Capital development plan	881,250
Technology upgrade	1,455,051
Instructional equipment	259,746
Academic programs	275,517
Student support services (Life map, Success Coaches, etc.)	85,279
SGA Health & Wellness Center	<u>50,000</u>
Total Unrestricted Net Assets	<u>\$ 6,848,253</u>

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 11 - Contingencies

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

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed 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"). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept as payment of tuition the amount determined by this Program without regard to the standard tuition rate in effect at the time of the individual's enrollment at the College. The effect of this program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the College.

The College has evaluated the requirements of GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), and has determined that asbestos containing material was used to fireproof some of its buildings. Currently, there are no obligating events, as defined within GASB 49 that require the College to measure and report this pollution remediation obligation. The College has implemented a program to remediate this pollutant.



**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

**Note 12 - Operating Expenses**

The College's operating expenses, on a natural classification basis, consist of the following for the years ended June 30, 2015:

Compensation and benefits	\$ 58,095,235
Supplies and services	18,210,232
Depreciation and amortization	1,932,970
Scholarships	<u>14,014,278</u>
	<u>\$ 92,252,715</u>

**Note 13 - State Appropriations**

The College's total state support is composed of the following for the years ended June 30, 2015:

Direct unrestricted appropriations	\$ 24,692,994
Add fringe benefits for benefited employees on the state payroll	6,656,426
Less 9(C) reduction	(327,832)
Less day school tuition remitted to the state and included in tuition and fee revenue	<u>(417,348)</u>
Total unrestricted state support	30,604,240
Capital appropriation	<u>179,954</u>
Total state support	<u>\$ 30,784,194</u>

The College was required to refund a sum of \$327,832 to the Commonwealth. This refund represented 1.5 % of the College's Direct Unrestricted appropriation and is classified as "9(C) reduction" above.

**BUNKER HILL COMMUNITY COLLEGE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 14 - **Fringe Benefit Program**

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

**Insurance**

The College participates in the various programs administered by the Commonwealth for property, general liability, automobile liability, workers' compensation, and health insurance. The Commonwealth is self-insured for employees' workers' compensation, casualty, theft, tort claims, and other losses. Such losses, including estimates of amounts incurred but not reported, are obligations of the Commonwealth. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers healthcare and other insurance for the Commonwealth's employees and retirees. The Commonwealth assesses the state agencies and departments a portion of the cost related to health insurance, and as such Government Accounting Standards Board No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, was appropriately implemented at the Commonwealth, not the College.

**Other Employee Benefits**

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

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**Notes to the Financial Statements - Continued**

**June 30, 2015**

Note 15 - Pass-Through Grants

The College distributed \$5,636,397 for student loans through the U.S. Department of Education Federal Direct Lending Program for the years ended June 30, 2015. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

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

Valuation was performed as of January 1, 2014 and adjusted through June 30, 2014 (measurement date)

Proportion of the net pension liability	0.104%
Proportionate share of the net pension liability	\$ 7,723,013
Covered-employee payroll	\$ 7,716,356
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	100.09%
Plan fiduciary net position as a percentage of the total pension liability	76.32%

Notes:

The Schedule is intended to show ten years. Information is only available for one year. The valuation was performed as of January 1, 2014 and adjusted through June 30, 2014.

*See accompanying notes to the required supplemental information.*

**BUNKER HILL COMMUNITY COLLEGE**  
(an agency of the Commonwealth of Massachusetts)

**Schedule of Contributions (Unaudited)**

**For the Year Ended June 30, 2015**

Contractually required contribution	\$ 572,632
Contributions in relation to the contractually required contribution	<u>(572,632)</u>
Contribution excess	<u>\$ -</u>
Covered-employee payroll	\$ 5,511,376
Contribution as a percentage of covered-employee payroll	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 one year.

*See accompanying notes to the required supplemental information.*

**BUNKER HILL COMMUNITY COLLEGE**  
**(an agency of the Commonwealth of Massachusetts)**

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

**For the Year Ended June 30, 2015**

**Note 1 - Change in Assumptions**

Changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statement of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is .104%, as shown on the Schedule of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

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

1. Changes in assumptions	\$ 106,107
2. Recognized in current year pension expense	19,292
3. Deferred outflow of resources	86,815

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Bunker Hill Community College  
Boston, Massachusetts

We have audited, in accordance with the 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 Bunker Hill Community College (the "College"), which comprise the statements of net position as of June 30, 2015, the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and we have issued our report thereon dated October 5, 2015.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Connor and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

October 5, 2015