

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

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

JUNE 30, 2017

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

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

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees 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 "Commonwealth") (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, 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, 2017 and 2016, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-29, the schedules of proportionate share of the net pension liability on page 70, the schedules of contributions of page 71 and the notes to the required supplementary information on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide and assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, 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 Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 20, 2017

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis

June 30, 2017 and 2016

(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, 2017 and 2016, and the changes in net position for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereto, which are also presented in this document.

The College is a public institution of higher education that served over 13,300 students in spring 2017 semester, with 156 full time faculty, 612 adjunct faculty, and 325 staff members for the year ended June 30, 2016. 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 69 programs leading to associate degrees including two concentrations that prepare students to enter technical programs and 51 certificate programs.

Financial Highlights

- At June 30, 2017, the College's assets and deferred outflows were \$77,228,129 and its liabilities and deferred inflows were \$38,287,594 resulting in net position of \$38,940,535. This represents an increase in net position of \$4,213,709 for fiscal year 2017. By contrast, at June 30, 2016, the College's assets and deferred outflows were \$72,968,225 and its liabilities and deferred inflows were \$38,241,399 resulting in net position of \$34,726,826. This represents an increase in net position of \$2,488,262 for fiscal year 2016.

	June 30		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Invested in capital assets, net of related liabilities	\$ 30,548,047	\$ 27,277,967	\$ 25,390,311
Unrestricted	8,392,488	7,448,859	6,848,253
Total net position	\$ 38,940,535	\$ 34,726,826	\$ 32,238,564

- 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 \$4,213,709 in fiscal year 2017 and \$2,488,262 in fiscal year 2016 was primarily due to capitalization of capital assets and software projects completed during the year.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Overview of the Financial Statements

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

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

June 30, 2017 and 2016

(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 30-33 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 34-69 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 2017, assets exceeded liabilities by \$38,940,535 compared to \$34,726,826 in fiscal year 2016.

The College's FY 2017 net position of \$38,940,535 includes investment in capital assets of \$30,548,047 (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.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Financial Analysis - Continued

	Summary of the College's Net Position			
	June 30		Between 2017 and 2016	
	2017	2016	Dollar change	Change percentage
Current assets	\$ 26,309,405	\$ 24,349,918	\$ 1,959,487	8%
Noncurrent assets	46,620,143	44,179,951	2,440,192	6%
Deferred outflows	4,298,581	4,438,356	(139,775)	-3%
Total assets and deferred outflows	77,228,129	72,968,225	4,259,904	6%
Current liabilities	14,109,305	13,325,278	784,027	6%
Noncurrent liabilities	22,111,087	23,950,384	(1,839,297)	-8%
Deferred inflows	2,067,202	965,737	1,101,465	114%
Total liabilities	38,287,594	38,241,399	46,195	0%
Net position:				
Invested in capital assets, net of related debt	30,548,047	27,277,967	3,270,080	12%
Unrestricted	8,392,488	7,448,859	943,629	13%
Total net position	\$ 38,940,535	\$ 34,726,826	\$ 4,213,709	12%

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

Financial Analysis - Continued

	Summary of the College's net assets			
	June 30		Between 2016 and 2015	
	2016	2015	Dollar change	Change percentage
Current assets	\$ 24,349,918	\$ 28,510,612	\$ (4,160,694)	-15%
Noncurrent assets	44,179,951	39,485,145	4,694,806	12%
Deferred outflows	4,438,356	2,436,053	2,002,303	82%
Total assets and deferred outflows	72,968,225	70,431,810	2,536,415	4%
Current liabilities	13,325,278	15,969,432	(2,644,154)	-17%
Noncurrent liabilities	23,950,384	20,636,000	3,314,384	16%
Deferred inflows	965,737	1,587,814	(622,077)	
Total liabilities	38,241,399	38,193,246	48,153	0%
Net position:				
Invested in capital assets, net of related debt	27,277,967	25,390,311	1,887,656	7%
Unrestricted	7,448,859	6,848,253	600,606	9%
Total net position	\$ 34,726,826	\$ 32,238,564	\$ 2,488,262	8%

- As stated earlier, the increase in the College's net position of \$4,213,709 in fiscal year 2017 and \$2,488,262 in fiscal year 2016 was primarily due to capitalization of assets and software projects completed during the fiscal year.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued

	Summary of Changes in Net Position			
	Year Ended June 30		Between 2017 and 2016	
	2017	2016	Change	Change percentage
Operating:				
Tuition and fees, net of scholarship allowances	\$ 30,954,658	\$ 27,741,884	\$ 3,212,774	12%
Grants and contracts	32,374,544	33,234,443	(859,899)	(3)
Other operating revenues	2,561,305	2,363,992	197,313	8
Total operating revenues	65,890,507	63,340,319	2,550,188	4
Total operating expenses	98,222,250	95,353,544	2,868,706	3
Operating loss	(32,331,743)	(32,013,225)	(318,518)	1
Nonoperating:				
Total state support	35,231,433	34,945,847	285,586	1
Net other nonoperating	1,314,019	(444,360)	1,758,379	(396)
Total change in net position	4,213,709	2,488,262	1,725,447	69
Net position, beginning of year	34,726,826	32,238,564	2,488,262	8
Net position, end of year	\$ 38,940,535	\$ 34,726,826	\$ 4,213,709	12%

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued

	Summary of Changes in Net Position			
	Year Ended June 30		Between 2016 and 2015	
	2016	2015	Change	Change percentage
Operating:				
Tuition and fees, net of scholarship allowances	\$ 27,741,884	\$ 25,718,887	\$ 2,022,997	8%
Grants and contracts	33,234,443	36,068,844	(2,834,401)	(8)
Other operating revenues	<u>2,363,992</u>	<u>2,652,068</u>	<u>(288,076)</u>	<u>(11)</u>
Total operating revenues	63,340,319	64,439,799	(1,099,480)	(2)
Total operating expenses	<u>95,353,544</u>	<u>92,252,715</u>	<u>3,100,829</u>	<u>3</u>
Operating loss	(32,013,225)	(27,812,916)	(4,200,309)	15
Nonoperating:				
Total state support	34,945,847	30,784,194	4,161,653	14
Net other nonoperating	<u>(444,360)</u>	<u>228,491</u>	<u>(672,851)</u>	<u>(294)</u>
Total change in net position	2,488,262	3,199,769	(711,507)	(22)
Net position, beginning of year	<u>32,238,564</u>	<u>29,038,795</u>	<u>3,199,769</u>	<u>11</u>
Net position, end of year	<u>\$ 34,726,826</u>	<u>\$ 32,238,564</u>	<u>\$ 2,488,262</u>	<u>8%</u>

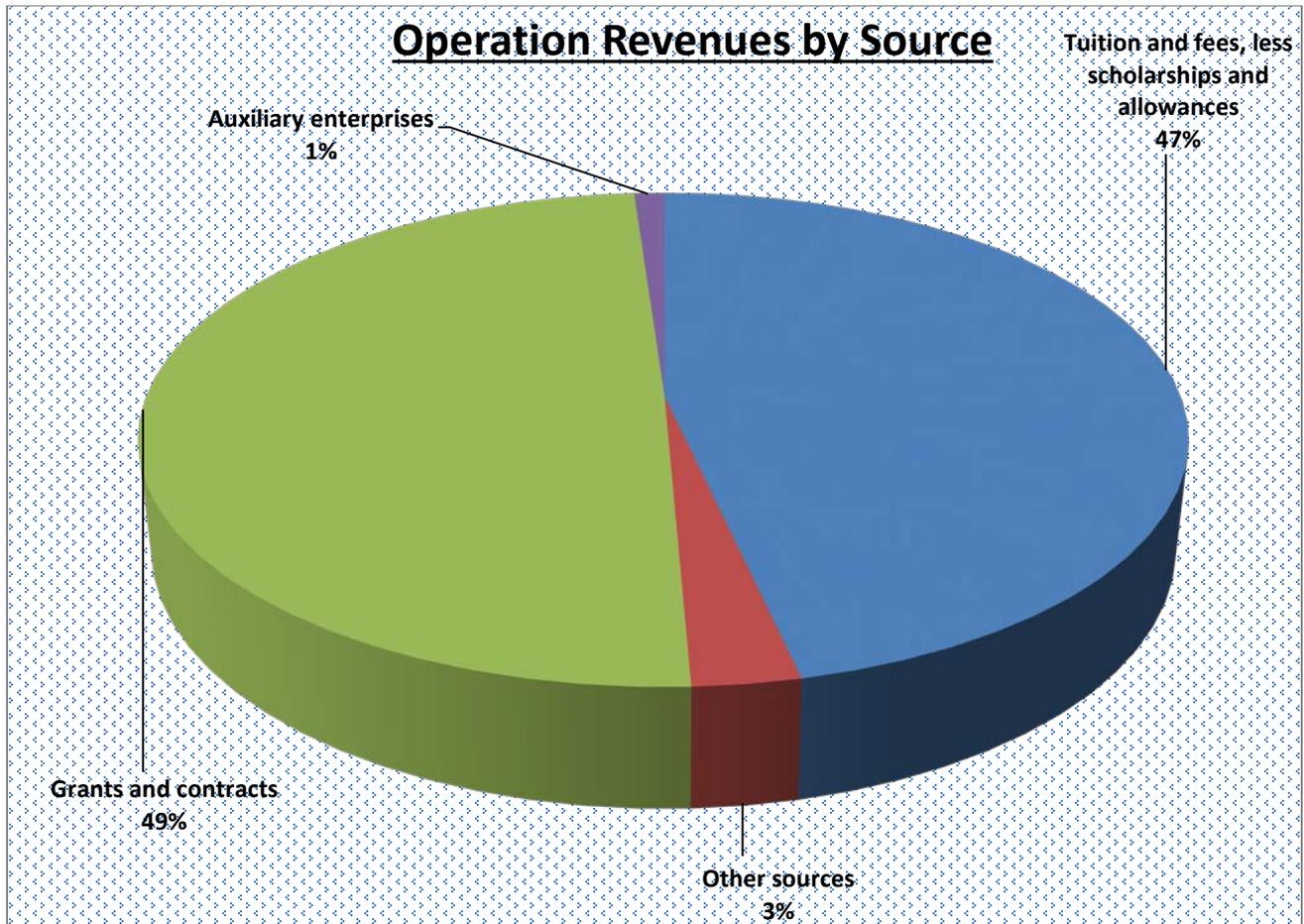
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis - Continued



Tuition and fees, less scholarships and allowances increased by 12% in fiscal year 2017 compared to an increase of 8% in fiscal year 2016. Tuition and fees, less scholarship allowances were 47% of total operating revenue in fiscal year 2017 compared to 44% in fiscal year 2016. Federal, State, Local and Private Grants and contracts revenue decreased by 3% compared to fiscal year 2016 and was 49% of total operating revenue in fiscal year 2017.

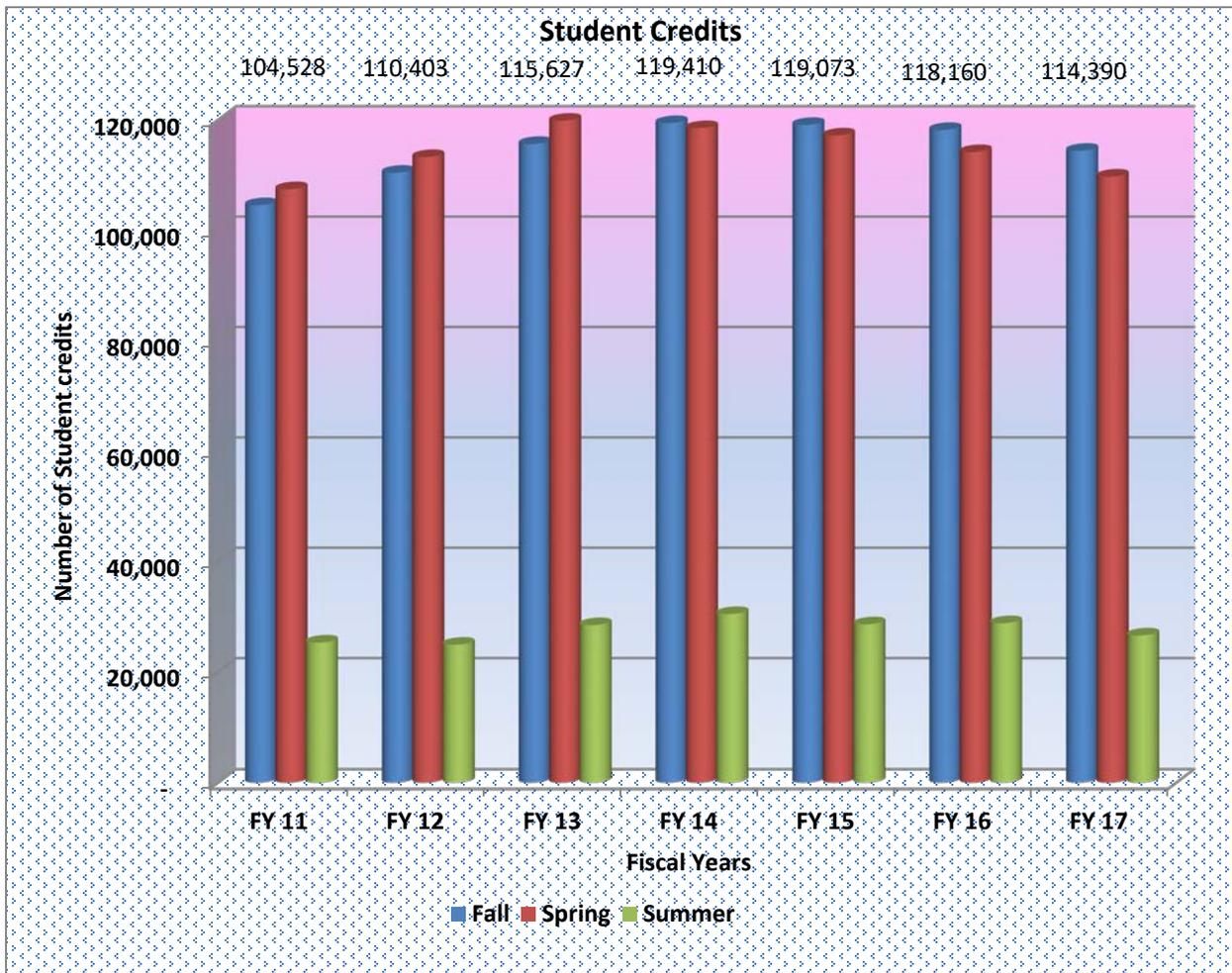
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



The growth in overall student enrollment since FY 2011 solidifies the College's position as the largest of the fifteen Community Colleges in the Commonwealth of Massachusetts.

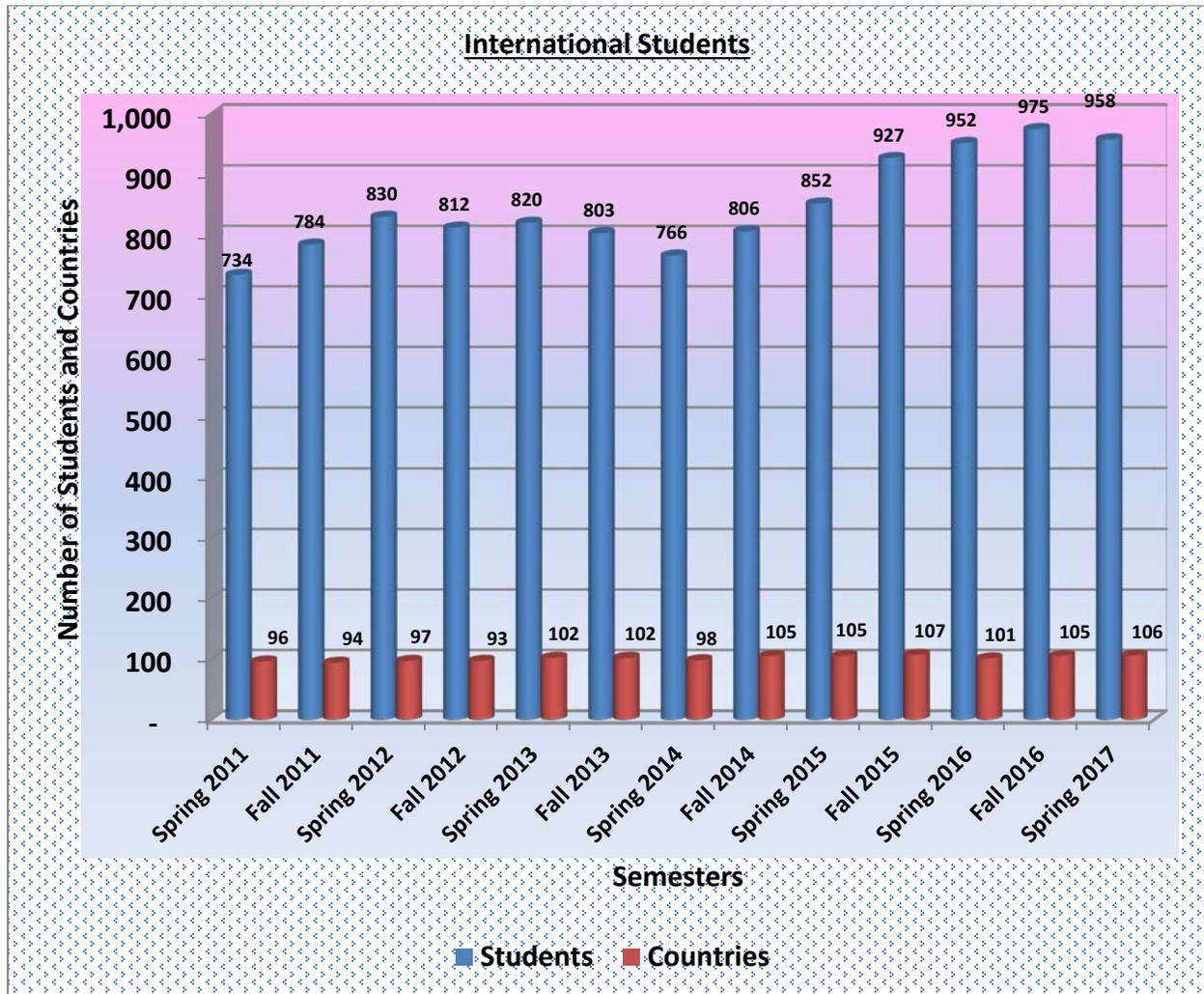
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



The College anticipates the growth in international student enrollments to be steady.

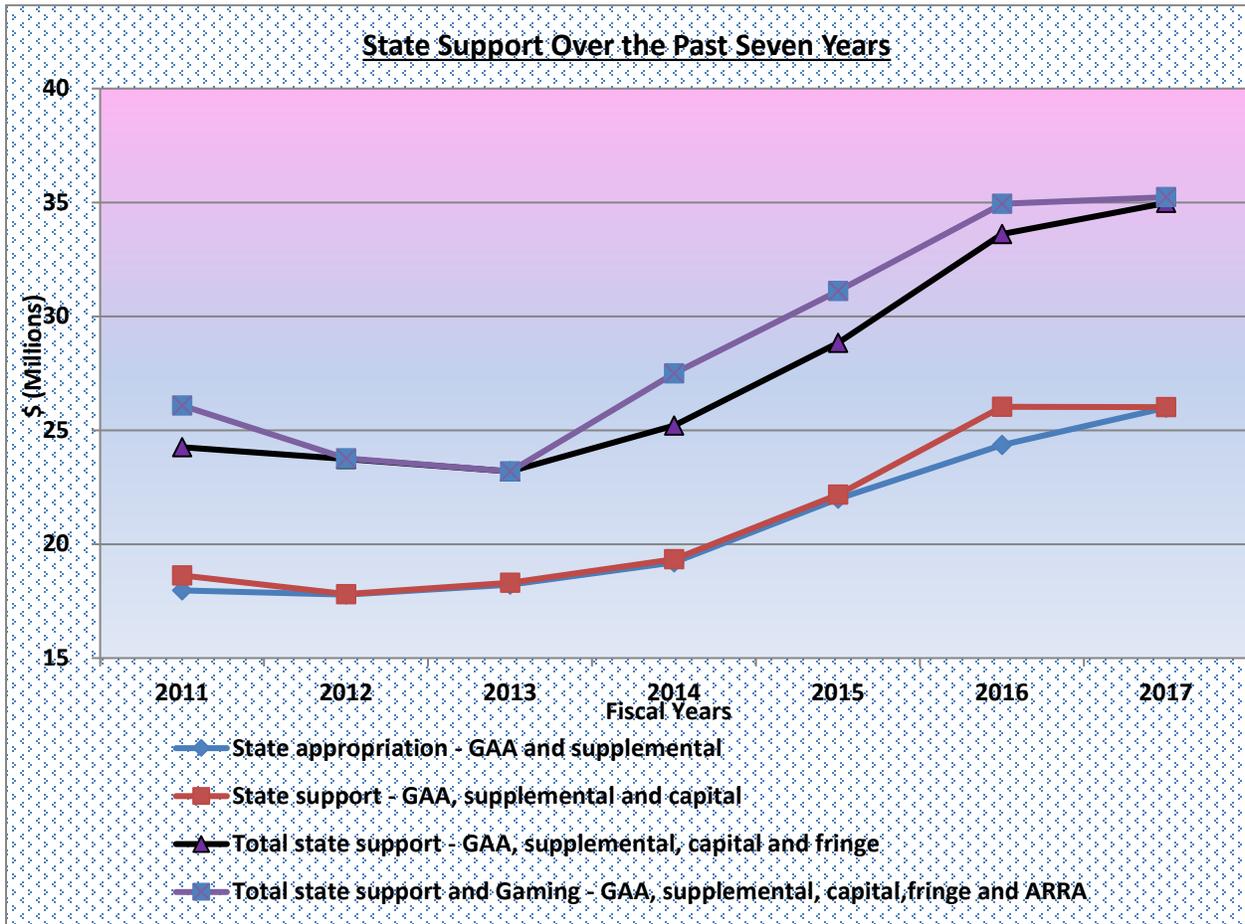
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



The seven-year trend analysis shows that for the year ended June 30, 2017, 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.

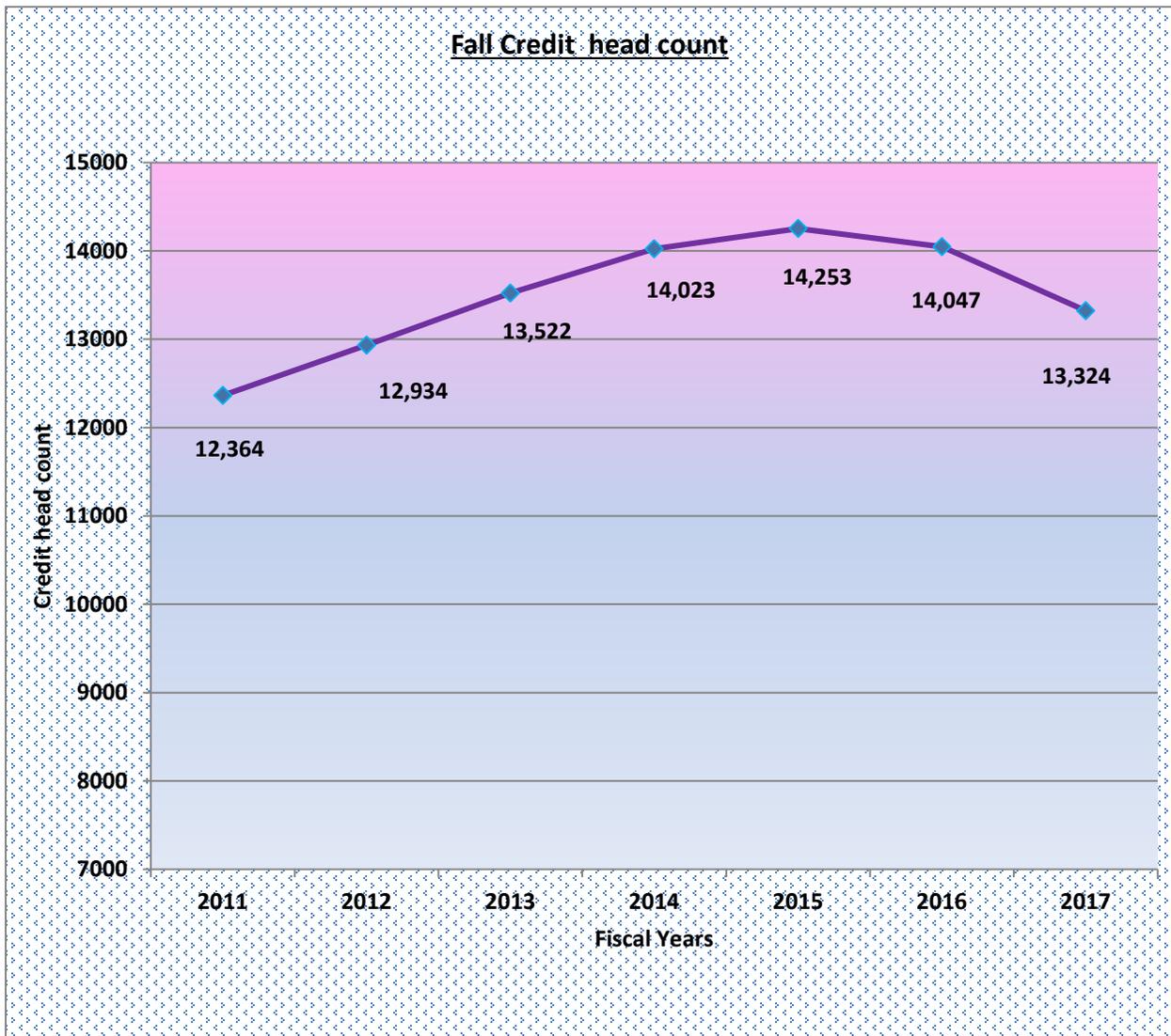
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis - Continued



The College's head count has increased consistently over the years to over 14,000 students in spring 2016 semester and declined marginally by 723 students in spring 2017 to 13,324 students.

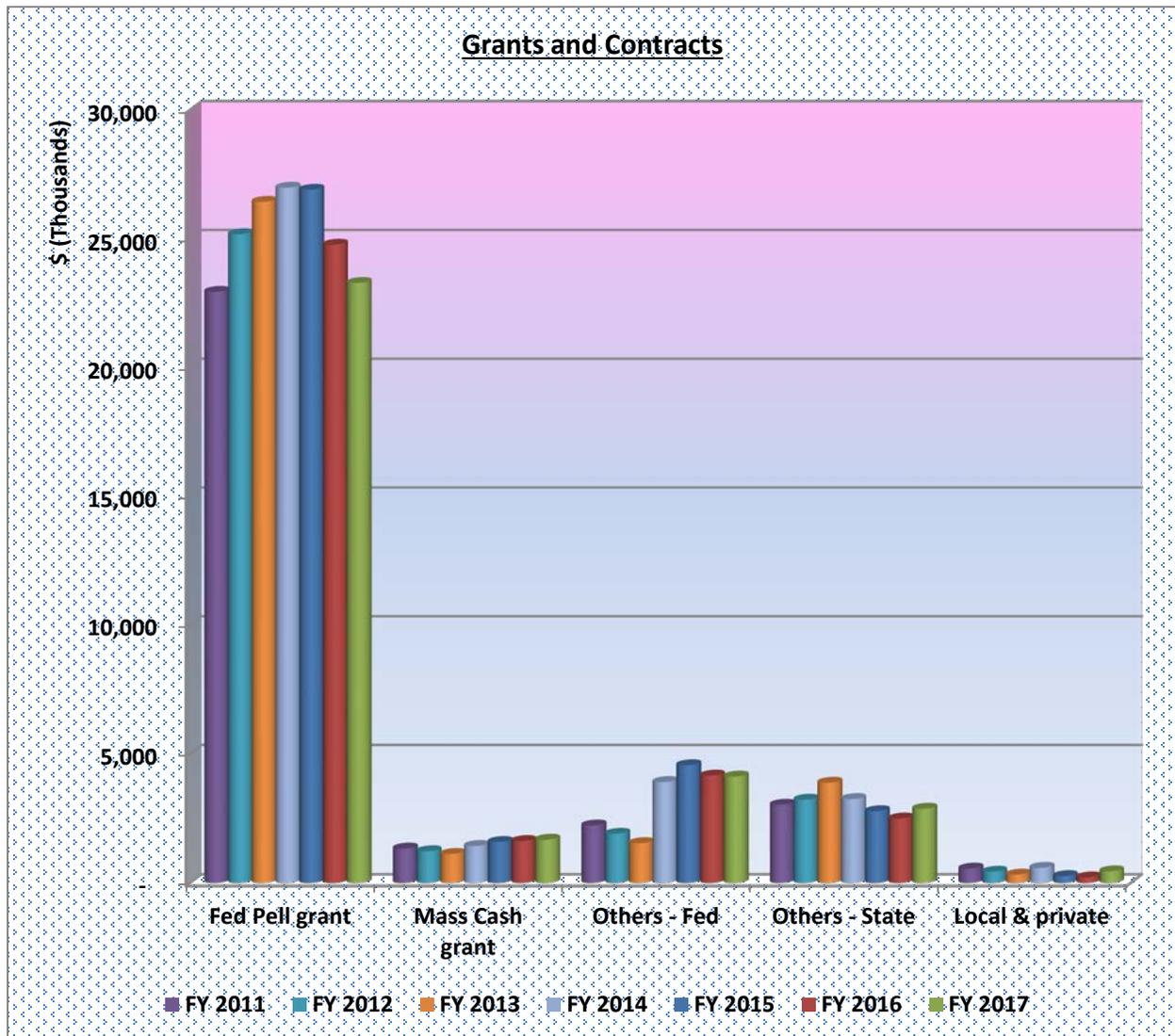
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



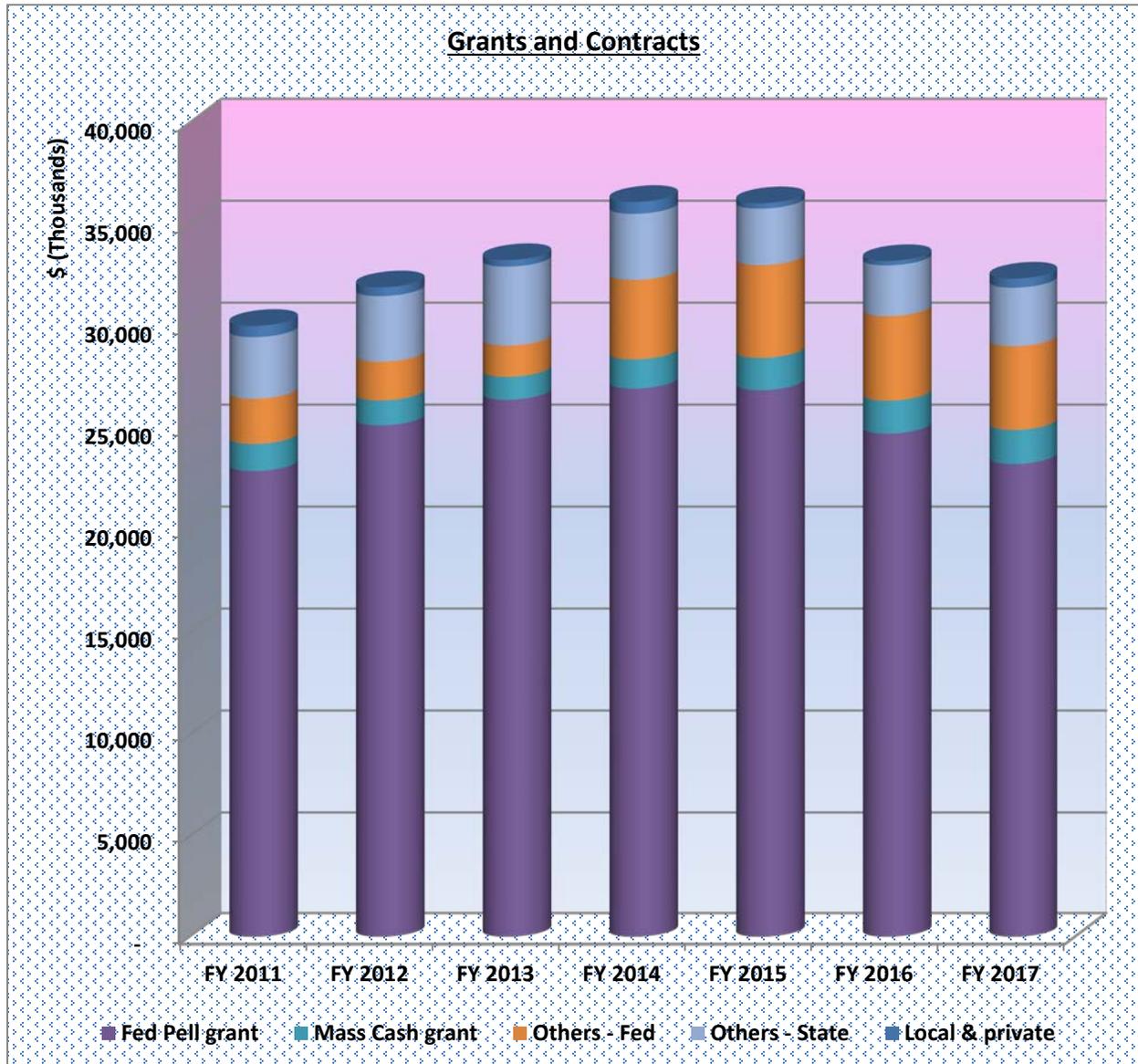
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued

Major grants and contracts received by the College for 2017 included the following:

- PELL grant from US Department of Education in the amount of \$23,280,673 for student financial aid. This is a decrease of \$1,486,504 (6%) from 2016 and a decrease of \$3,620,223 (14%) from 2015.
- SEOG grant from US Department of Education in the amount of \$543,591 for student financial aid. This is an increase of \$70,733 from 2016 and an increase of \$62,785 from 2015.
- Nursing grant from US Department of Health and Human Services in the amount of \$300,000 for student financial aid. Same amount was received in the fiscal year 2016. This is an increase of \$31,260 from 2015.
- MASS CASH grant from Massachusetts Board of Higher Education in the amount of \$1,669,017 for student financial aid. This is an increase of \$50,686 from 2016 and an increase of \$88,047 from 2015.
- MASS grant from Massachusetts Board of Higher Education in the amount of \$1,125,683 for student financial aid. This is an increase of \$106,871 from 2016 and an increase of \$92,906 from 2015.
- TRIO grant from U.S. Department of Education of \$500,470. This is a decrease of \$7,885 from 2016 and \$57,506 from 2015.
- Grants and contracts from other sources in the amount of \$5,172,743 for specific purposes. This is a decrease of \$722,866 from 2016 and a decrease of \$73,936 from 2015. Grants were received for following specific purposes:
 - State Appropriated grants received for MCAS of \$265,910.
 - Department of Higher Education grants received for Adult Basic Education of \$441,964, Perkins Vocational grant of \$527,040 and TITLE III grant of \$643,059.
 - Local grants received from the Center for Allied Health of \$19,713.
 - United States Department of Labor grants received: through Passaic Community College, of \$532,504.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued

- Auxiliary enterprises (Workforce development contracts) revenue increased by 44% or \$218,452 in fiscal year 2017. Mainly due to increase in contracts with Metro North Regional Employment Board, Merrimack Valley Workforce Investment Board and EverSource Utility.

Tuition and fees received by the College included the following:

	Year Ended June 30		Between 2017 and 2016	
	2017	2016	Change	Change percentage
Tuition	\$ 11,001,891	\$ 12,492,913	\$ (1,491,022)	(12)%
Student fees	38,883,897	33,924,949	4,958,948	15
Waivers	(1,327,332)	(1,603,955)	276,623	(17)
Tuition and fees, net	\$ 48,558,456	\$ 44,813,907	\$ 3,744,549	8%

	Year Ended June 30		Between 2016 and 2015	
	2016	2015	Change	Change percentage
Tuition	\$ 12,492,913	\$ 12,374,889	\$ 118,024	1%
Student fees	33,924,949	32,179,969	1,744,980	5
Waivers	(1,603,955)	(1,068,833)	(535,122)	50
Tuition and fees, net	\$ 44,813,907	\$ 43,486,025	\$ 1,327,882	3%

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued

Comparison of Expenses by Function

	Year Ended June 30		Between 2017 and 2016	
	2017	2016	Change	Change percentage
Instruction	\$ 38,688,617	\$ 37,331,673	\$ 1,356,944	4%
Academic support	12,738,332	11,956,651	781,681	7
Student services	11,927,800	11,951,175	(23,375)	—
Scholarships and fellowships	10,784,082	12,511,212	(1,727,130)	(14)
Operation and maintenance of plant	9,398,390	7,883,555	1,514,835	19
Institutional support and other	11,666,138	11,297,093	369,045	3
Depreciation and amortization	3,018,891	2,422,185	596,706	25
	<u>\$ 98,222,250</u>	<u>\$ 95,353,544</u>	<u>\$ 2,868,706</u>	<u>3%</u>

	Year Ended June 30		Between 2016 and 2015	
	2016	2015	Change	Change percentage
Instruction	\$ 37,331,673	\$ 35,535,156	\$ 1,796,517	5%
Academic support	11,956,651	11,420,724	535,927	5
Student services	11,951,175	11,306,668	644,507	6
Scholarships and fellowships	12,511,212	14,014,278	(1,503,066)	(11)
Operation and maintenance of plant	7,883,555	7,364,155	519,400	7
Institutional support and other	11,297,093	10,678,764	618,329	6
Depreciation and amortization	2,422,185	1,932,970	489,215	25
	<u>\$ 95,353,544</u>	<u>\$ 92,252,715</u>	<u>\$ 3,100,829</u>	<u>3%</u>

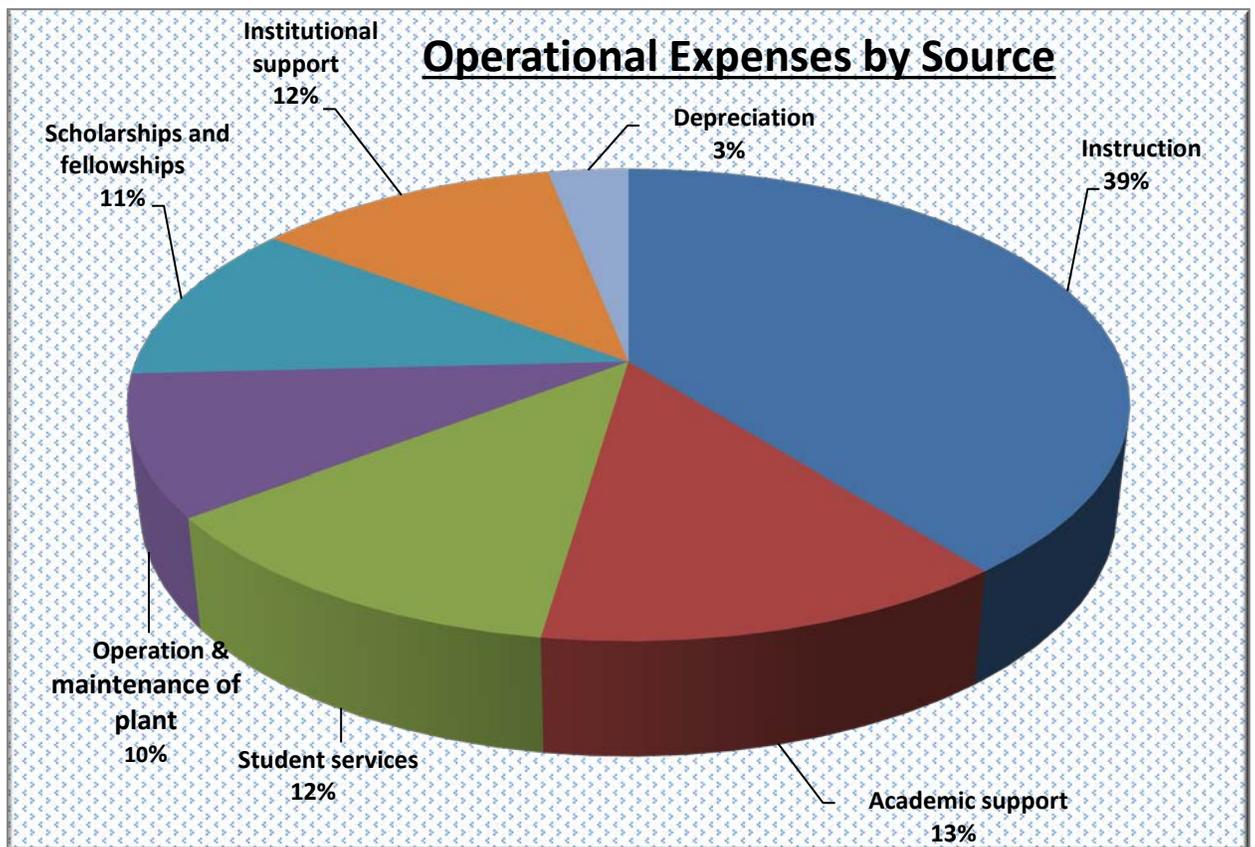
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



Highlights of operating expense activity:

- Of the total operating expenses in fiscal year 2017 of \$98,222,250, 75% relates to instruction, academic support, student services, and scholarship and fellowships. Of the total operating expenses in fiscal year 2016 of \$95,353,544, 77% relates to instruction, academic support, student services, and scholarship and fellowships.

BUNKER HILL COMMUNITY COLLEGE

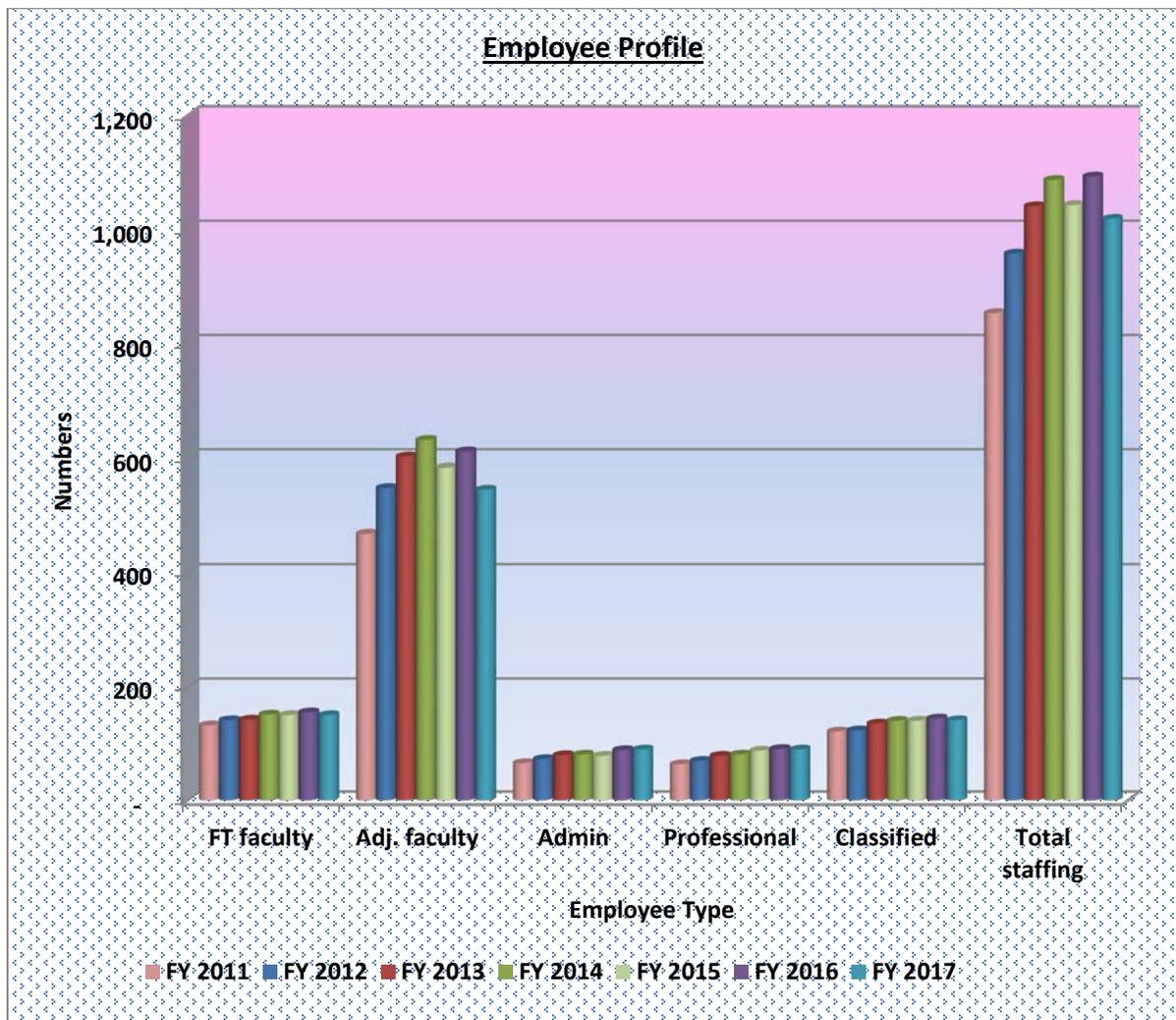
Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued

The expenditure on scholarships and fellowships decreased by 14% or \$1,727,130 in fiscal year 2017 due to an overall decrease in grant aid other than those applied to tuition and fees. In fiscal year 2016, the decrease was 11% or \$1,503,066.



BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(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 2017 and 2016	
	2017	2016	Change	Change percentage
Tuition and fees	\$ 48,558,456	\$ 44,813,907	\$ 3,744,549	8%
Less scholarship allowances	(17,603,798)	(17,072,023)	(531,775)	3
Net tuition and fees	30,954,658	27,741,884	3,212,774	12
Grants and contracts	32,374,544	33,234,439	(859,895)	(3)
Other revenue	2,561,305	2,363,996	197,309	8
Operating expenses	(98,222,250)	(95,353,544)	(2,868,706)	3
Operating loss	\$ (32,331,743)	\$ (32,013,225)	\$ (318,518)	1%

	Year Ended June 30		Between 2016 and 2015	
	2016	2015	Change	Change percentage
Tuition and fees	\$ 44,813,907	\$ 43,486,025	\$ 1,327,882	3%
Less scholarship allowances	(17,072,023)	(17,767,138)	695,115	(4)
Net tuition and fees	27,741,884	25,718,887	2,022,997	8
Grants and contracts	33,234,439	36,068,844	(2,834,405)	(8)
Other revenue	2,363,996	2,652,068	(288,072)	(11)
Operating expenses	(95,353,544)	(92,252,715)	(3,100,829)	3
Operating loss	\$ (32,013,225)	\$ (27,812,916)	\$ (4,200,309)	15%

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis - Continued

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.

Non-Operating Revenues and Expenses

	Year Ended June 30		Between 2017 and 2016	
	2017	2016	Change	Change percentage
Operating loss	\$ (32,331,743)	\$ (32,013,225)	\$ (318,518)	1%
Nonoperating:				
Total state support	35,231,433	34,945,847	285,586	1
Net other nonoperating	1,314,019	(444,360)	1,758,379	(396)
Increase (decrease) in net position	\$ 4,213,709	\$ 2,488,262	\$ 1,725,447	69%

	Year Ended June 30		Between 2016 and 2015	
	2016	2015	Change	Change percentage
Operating loss	\$ (32,013,225)	\$ (27,812,916)	\$ (4,200,309)	15%
Nonoperating:				
Total state support	34,945,847	30,784,194	4,161,653	14
Net other nonoperating	(444,360)	228,491	(672,851)	(294)
Increase (decrease) in net position	\$ 2,488,262	\$ 3,199,769	\$ (711,507)	(22)%

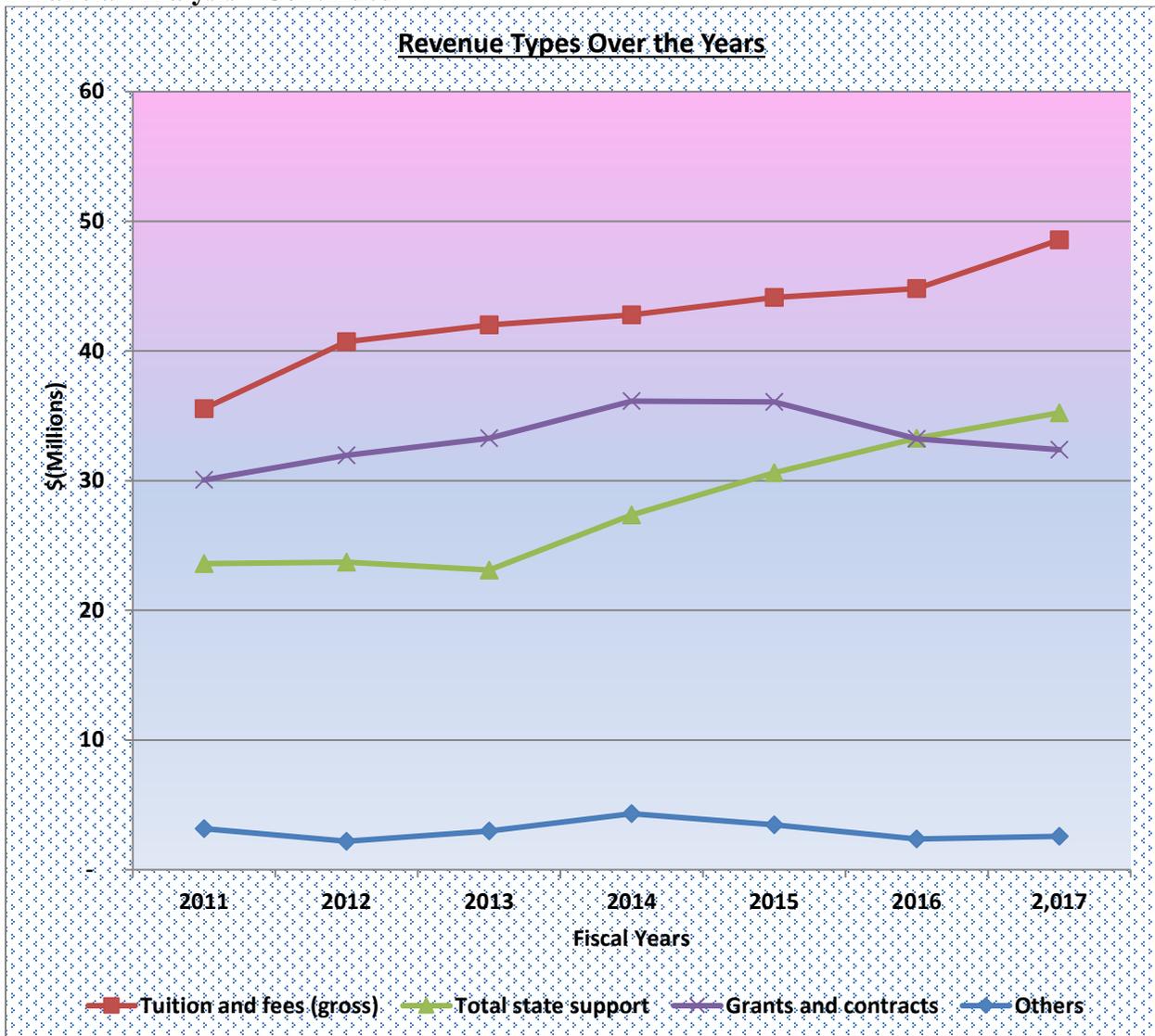
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis - Continued



Gross tuition and fees net of waivers for FY 2017 was the largest single source of revenue at \$48,558,456 or 40% followed by State appropriation of \$35,231,433 or 29% and Grants and Contracts at \$32,374,544 or 27%

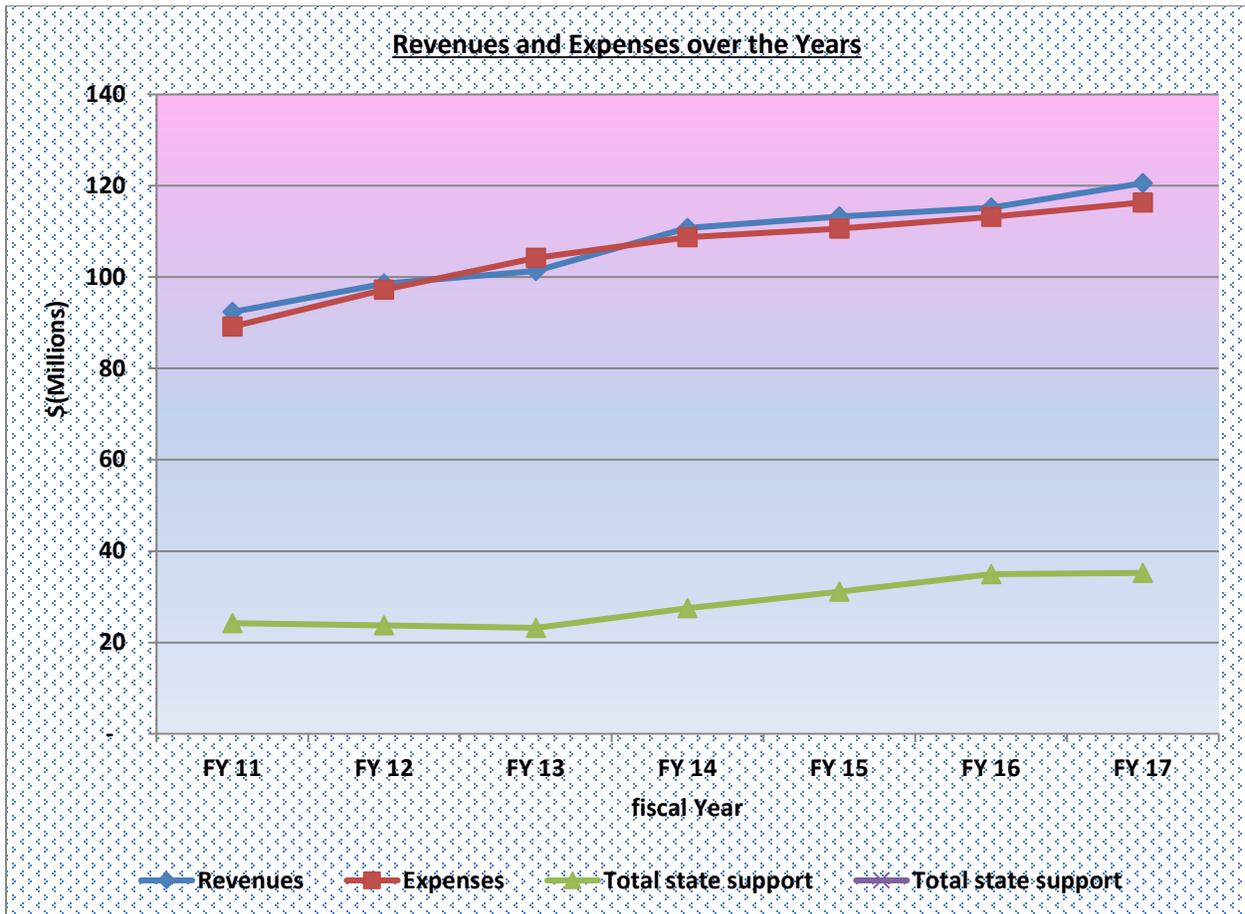
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

Financial Analysis – Continued



The seven year trend analysis shows that from FY 2011 revenue has gradually 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, 2017 and 2016

(Unaudited)

Capital Assets of the College

The College's capital assets as of June 30, 2017 amounted to \$40,283,337, net of accumulated depreciation. The capital assets include land, buildings and improvements, furnishings, and equipment. Capital assets increased from \$37.6 million in FY 2016 to 40.3 million in FY 2017 mainly due to major enhancements to software at a cost of \$1,862,163 and improvements to buildings at a cost of \$3,804,528. The total net addition to fixed assets during fiscal year 2017 was \$6,045,804 while the total depreciation amounted to \$3,018,891.

The Board of Trustees approves capital asset purchases. Additional information about the College's capital assets can be found in note 5.

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 \$65,402 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, 2017	\$	1,303,920

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(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, 2017 is as follows:

Date of note	November 29, 2011
Original amount of note	\$3,330,488
Unpaid principal balance	\$2,724,707
Maturity date	January 01, 2032
Interest rate	4.00%
Date to which interest has been paid	January 01, 2017

During fiscal year 2016, the College leased equipment which was funded through Key Finance Government to upgrade Colleges computer network infrastructure. The capital lease obligations at June 30, 2017 are as follows.

Asset value	\$1,160,596
Interest	\$ 69,101
Period of the lease	60 months
Annual payment	\$ 245,939
Lease obligation at June 30, 2017	\$700,583

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 4.6% in June 2016 to 4.3% in June 2017, according to the United States Department of Labor, Bureau of Labor Statistics. The seasonally adjusted unemployment rate on a national level decreased from 5.3% in June 2016 to 4.4% in June 2017. 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.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

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

Statements of Net Position

June 30, 2017 and 2016

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

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2017 College</u>	<u>2016 College</u>	<u>2017 Foundation</u>	<u>2016 Foundation</u>
Current Assets:				
Cash and equivalents	\$ 1,924,904	\$ 905,087	\$ 240,094	\$ 264,969
Deposits held by State Treasurer	2,508,159	1,635,761	-	-
Cash held by State Treasurer	55,040	1,628,071	-	-
Restricted cash	744,268	-	-	-
Short-term investments	16,524,276	16,835,123	-	-
Deposits with bond trustee - restricted	63,102	65,402	-	-
Accounts receivable, net	3,932,716	2,936,127	60,769	62,668
Other assets	<u>556,940</u>	<u>344,347</u>	<u>-</u>	<u>-</u>
Total Current Assets	<u>26,309,405</u>	<u>24,349,918</u>	<u>300,863</u>	<u>327,637</u>
Non-Current Assets:				
Long-term investments	6,336,806	6,584,214	5,209,583	4,798,264
Capital assets, net of accumulated depreciation	<u>40,283,337</u>	<u>37,595,737</u>	<u>-</u>	<u>-</u>
Total Non-Current Assets	<u>46,620,143</u>	<u>44,179,951</u>	<u>5,209,583</u>	<u>4,798,264</u>
Total Assets	<u>72,929,548</u>	<u>68,529,869</u>	<u>5,510,446</u>	<u>5,125,901</u>
Deferred Outflows of Resources				
Interest rate swap	1,303,920	1,913,125	-	-
Pension related, net	<u>2,994,661</u>	<u>2,525,231</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>4,298,581</u>	<u>4,438,356</u>	<u>-</u>	<u>-</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 77,228,129</u>	 <u>\$ 72,968,225</u>	 <u>\$ 5,510,446</u>	 <u>\$ 5,125,901</u>

The accompanying notes are an integral part of the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2017</u>	2016	<u>2017</u>	2016
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 3,527,217	\$ 3,255,665	\$ 537	\$ 27,673
Accrued payroll	1,729,938	1,923,862	-	-
Compensated absences and workers' compensation	3,315,480	2,707,438	-	-
Unearned revenues	360,133	454,091	-	-
Students' deposits	3,123,998	3,617,116	-	-
Funds held for others	1,448,982	784,622	-	-
Current portion of capital lease obligations	227,482	221,643	-	-
Current portion of bonds payable	240,000	230,000	-	-
Current portion of liability for energy project	<u>136,075</u>	<u>130,841</u>	-	-
Total Current Liabilities	<u>14,109,305</u>	<u>13,325,278</u>	<u>537</u>	<u>27,673</u>
Non-Current Liabilities:				
Compensated absences and workers compensation	1,696,730	1,825,031	-	-
Net pension liability	9,915,602	10,411,537	-	-
Capital lease obligations	473,101	700,583	-	-
Bonds payable	6,133,102	6,375,402	-	-
Liability for energy project	2,588,632	2,724,706	-	-
Liability for derivative instrument	<u>1,303,920</u>	<u>1,913,125</u>	-	-
Total Non-Current Liabilities	<u>22,111,087</u>	<u>23,950,384</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>36,220,392</u>	<u>37,275,662</u>	<u>537</u>	<u>27,673</u>
Deferred Inflows of Resources				
Pension related, net	<u>2,067,202</u>	<u>965,737</u>	-	-
Net Position:				
Investment in capital assets, net	30,548,047	27,277,967	-	-
Restricted:				
Expendable	-	-	2,884,628	2,778,891
Non-expendable	-	-	1,681,409	1,525,050
Unrestricted	<u>8,392,488</u>	<u>7,448,859</u>	<u>943,872</u>	<u>794,287</u>
Total Net Position	<u>38,940,535</u>	<u>34,726,826</u>	<u>5,509,909</u>	<u>5,098,228</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 77,228,129</u>	<u>\$ 72,968,225</u>	<u>\$ 5,510,446</u>	<u>\$ 5,125,901</u>

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues , Expenses and Changes in Net Position

For the Years Ended June 30,

	<u>Primary</u> <u>Government</u>		<u>Component</u> <u>Unit</u>	
	<u>2017</u> <u>College</u>	2016 <u>College</u>	<u>2017</u> <u>Foundation</u>	2016 <u>Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 48,558,456	\$ 44,813,907	\$ -	\$ -
Less: scholarship allowance	<u>(17,603,798)</u>	<u>(17,072,023)</u>	<u>-</u>	<u>-</u>
Net tuition and fees	30,954,658	27,741,884	-	-
Federal, state, local and private grants and contracts	32,374,544	33,234,443	391,171	263,609
Other auxiliary enterprises	719,041	500,589	-	-
Other sources	<u>1,842,264</u>	<u>1,863,403</u>	<u>282,716</u>	<u>271,871</u>
Total Operating Revenues	<u>65,890,507</u>	<u>63,340,319</u>	<u>673,887</u>	<u>535,480</u>
Operating Expenses:				
Instruction	38,688,617	37,331,673	-	-
Academic support	12,738,332	11,956,651	-	-
Student services	11,927,800	11,951,175	-	-
Scholarships	10,784,082	12,511,212	361,878	376,660
Operation and maintenance of plant	9,398,390	7,883,555	-	-
Institutional support	11,666,138	11,297,093	-	-
Depreciation and amortization	3,018,891	2,422,185	-	-
Other operating expenses	<u>-</u>	<u>-</u>	<u>128,556</u>	<u>136,368</u>
Total Operating Expenses	<u>98,222,250</u>	<u>95,353,544</u>	<u>490,434</u>	<u>513,028</u>
Operating Income (Loss)	<u>(32,331,743)</u>	<u>(32,013,225)</u>	<u>183,453</u>	<u>22,452</u>
Non-Operating Revenues (Expenses):				
State appropriations	35,211,743	33,271,274	-	-
Payments between Foundation and College	348,345	54,935	(348,345)	(54,935)
Net investment income (loss)	1,493,361	38,475	576,573	(64,920)
Gain on sale of capital assets	9,256	-	-	-
Interest expense	<u>(536,943)</u>	<u>(537,770)</u>	<u>-</u>	<u>-</u>
Net Non-Operating Revenues (Expenses)	<u>36,525,762</u>	<u>32,826,914</u>	<u>228,228</u>	<u>(119,855)</u>
Change in Net Position Before Capital Appropriation	4,194,019	813,689	411,681	(97,403)
Capital appropriations	<u>19,690</u>	<u>1,674,573</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>4,213,709</u>	<u>2,488,262</u>	<u>411,681</u>	<u>(97,403)</u>
Net Position, Beginning of Year	<u>\$ 34,726,826</u>	<u>\$ 32,238,564</u>	<u>\$ 5,098,228</u>	<u>\$ 5,195,631</u>
Net Position, End of Year	<u>\$ 38,940,535</u>	<u>\$ 34,726,826</u>	<u>\$ 5,509,909</u>	<u>\$ 5,098,228</u>

The accompanying notes are an integral part of the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

	<u>Primary Government</u>	
	<u>2017 College</u>	<u>2016 College</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 29,489,313	\$ 26,354,586
Grants and contracts	32,204,872	33,211,711
Payments to suppliers	(14,950,146)	(19,210,957)
Payments to students	(10,784,082)	(12,511,212)
Payments to employees	(60,021,090)	(54,163,713)
Other operating revenues	<u>2,612,657</u>	<u>2,328,924</u>
Net Cash Applied to Operating Activities	<u>(21,448,476)</u>	<u>(23,990,661)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	26,271,314	25,695,520
Tuition remitted to state	(26,736)	-
Funds held for others	664,360	(142,816)
Contributions from Foundation	<u>348,345</u>	<u>54,935</u>
Net Cash Provided by Non-Capital Financing Activities	<u>27,257,283</u>	<u>25,607,639</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(5,703,842)	(2,051,704)
Proceeds on sale of capital assets	26,297	-
Principal payments on capital debt	(584,783)	(586,380)
Interest paid on capital debt	<u>(536,943)</u>	<u>(537,770)</u>
Net Cash Applied to Capital Financing Activities	<u>(6,799,271)</u>	<u>(3,175,854)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	79,533,933	60,471,218
Interest and dividends on investments, net	43,283	52,183
Purchases of investments	<u>(77,525,600)</u>	<u>(60,307,270)</u>
Net Cash Provided by Investing Activities	<u>2,051,616</u>	<u>216,131</u>
Net Increase (Decrease) in Cash and Equivalents	1,061,152	(1,342,745)
Cash and Equivalents, Beginning of Year	<u>4,234,321</u>	<u>5,577,066</u>
Cash and Equivalents, End of Year	<u>\$ 5,295,473</u>	<u>\$ 4,234,321</u>

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>Primary</u>	
	<u>Government</u>	
	<u>2017</u>	<u>2016</u>
	<u>College</u>	<u>College</u>
Reconciliation of Net Operating Loss to		
Net Cash Applied to Operating Activities:		
Net operating loss	\$ (32,331,743)	\$ (32,013,223)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	3,018,891	2,422,185
Net pension activity	136,100	514,080
Fringe benefits paid by state	8,967,165	7,575,754
Changes in assets and liabilities:		
Accounts receivable	(996,589)	443,288
Other current assets	(212,593)	(33,115)
Accounts payable and accrued expenses	271,552	(1,034,273)
Accrued salaries and wages	(193,924)	218,587
Accrued compensated absences and workers' compensation	479,741	(195,556)
Student deposits	(493,118)	(1,630,530)
Unearned revenues	<u>(93,958)</u>	<u>(257,858)</u>
Net Cash Applied to Operating Activities	<u>\$ (21,448,476)</u>	<u>\$ (23,990,661)</u>
Reconciliation of Cash and Equivalents Balance to the Statements of Net Position:		
Cash and equivalents	\$ 1,924,904	\$ 905,087
Deposits held by State Treasurer	2,508,159	1,635,761
Cash held by State Treasurer	55,040	1,628,071
Restricted cash	744,268	-
Deposits with bond trustee - restricted	<u>63,102</u>	<u>65,402</u>
Cash and Equivalents, End of Year	<u>\$ 5,295,473</u>	<u>\$ 4,234,321</u>
Non-Cash Transactions:		
Fringe benefits provided by the state	<u>\$ 8,967,165</u>	<u>\$ 7,575,754</u>
Capital appropriations	<u>\$ 19,690</u>	<u>\$ 1,674,573</u>
Construction in progress funded with capital appropriations	<u>\$ -</u>	<u>\$ 303,849</u>
Capital assets acquired through capital leases	<u>\$ -</u>	<u>\$ 1,160,596</u>

The accompanying notes are an integral part of the financial statements.

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2017 and 2016

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, Massachusetts with a branch campus in Chelsea, Massachusetts and three 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 accounting principles generally accepted in the United States of America, 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 Foundation, Inc. (the “Foundation”) is a legally separate tax-exempt organization established in July 1986. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. 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 as of June 30, 2017 and 2016 and is therefore discretely presented in the College’s financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation - Continued

During the years ended June 30, 2017 and 2016, the Foundation distributed \$348,345 and \$54,935, respectively, to the College for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained from Bunker Hill Community College Foundation at 250 New Rutherford Avenue, Suite H150, Charlestown, Massachusetts 02129.

Net Position

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

Investment in Capital Assets, Net: 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.

Cash and Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less, cash and deposits held by state agencies on behalf of the College, cash held by the College on behalf of another agency and deposits with bond trustee to be cash equivalents.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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 and expenses. 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 as of June 30, 2017 and 2016.

Allowance for Doubtful Accounts

Provisions for losses on receivables are determined on the basis of less experience, known and inherent risks and current economic conditions.

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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The College does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation.

Capital assets are controlled, but not owned by the College. The College is not able to sell or otherwise pledge its assets since they are owned by the Commonwealth.

Students' Deposits and Unearned Revenues

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 related services are provided.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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 post-retirement benefits. Health insurance, unemployment and pension costs are billed through a fringe-benefit rate charged to the College.

Workers' Compensation

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

Compensated Absences

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

Pensions

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employee's Retirement System ("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.

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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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 Statements of Net Position.

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

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements

GASB Statement 75 – *Accounting and Financial Reporting for Post-Employment 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 Post-Employment 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 post-employment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined-benefit OPEB. As discussed in Note 12, management anticipates that implementation of this standard will require the restatement of balances as of July 1, 2017.

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements - Continued

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Investments**

Overall Deposits and Investments Descriptions

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

<u>Investment type</u>	<u>2017</u>	<u>2016</u>
Cash in bank	\$ 1,924,904	\$ 905,087
Cash in bank - restricted	744,268	-
Proprietary money market funds - restricted	63,102	65,402
Total Deposits	<u>2,732,274</u>	<u>970,489</u>
Money market funds	2,257,228	9,158,849
Corporate bonds	3,270,914	4,862,362
Mutual funds	741,912	86,912
Federal agencies	1,171,764	2,149,041
Equity securities	15,419,264	7,162,173
Total Investments	<u>22,861,082</u>	<u>23,419,337</u>
Total Deposits and Investments	<u>\$ 25,593,356</u>	<u>\$ 24,389,826</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.

Restricted Cash

During the year ended June 30, 2017, the College overtook the management of the Massachusetts Community College Executive Office (the "Executive Office"). The College accepts funds and makes payments on behalf of the Executive Office. The cash balance that belongs to the Executive Office has been classified as restricted on the statement of net position.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Concentration of Credit Risk

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

2017			
Issuer	Investment type	Fair value	Percentage of the total
Citizens Bank	Money market funds	\$ 2,257,228	10%
2016			
Issuer	Investment type	Fair value	Percentage of the total
Citizens Bank	Money market funds	\$ 3,946,617	17%
Santander Bank	Money market funds	5,212,232	22%

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. The College's bank balances, including money market funds, as of June 30, 2017 and 2016 were \$5,070,507 and \$10,164,835, respectively. Of these balances, \$4,292,878 and \$9,399,413 were exposed to custodial credit risk as uninsured and uncollateralized as of June 30, 2017 and 2016, respectively.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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.

Fair Value Hierarchy

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Fair Value Hierarchy - Continued

Following is a description of the valuation methodologies used for assets measured at fair value. With the adoption of GASB Statement 72, there have been no changes in the methodologies used to measure fair value.

Federal agencies, corporate bonds and equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at daily closing prices as reported by the fund. Mutual funds held by the College are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the College are deemed to be actively traded.

Money market funds: Valued based on the net asset value per share.

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Investment - Continued**

Interest Rate Risk

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

Investment type	Fair value	2017 Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 1,171,764	\$ 279,570	\$ 892,194	\$ -	\$ -
Corporate bonds	3,270,914	140,292	1,271,025	1,546,404	313,193
	<u>4,442,678</u>	<u>\$ 419,862</u>	<u>\$ 2,163,219</u>	<u>\$ 1,546,404</u>	<u>\$ 313,193</u>
Cash in bank	2,669,172				
Money market funds	2,257,228				
Proprietary money market funds	63,102				
Mutual funds	741,912				
Equity securities	15,419,264				
	<u>\$ 25,593,356</u>				
Investment type	Fair value	2016 Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 2,149,041	\$ 315,404	\$ 1,802,435	\$ 31,202	\$ -
Corporate bonds	4,862,362	198,697	1,841,416	1,963,487	858,762
	<u>7,011,403</u>	<u>\$ 514,101</u>	<u>\$ 3,643,851</u>	<u>\$ 1,994,689</u>	<u>\$ 858,762</u>
Cash in bank	905,087				
Money market funds	9,158,849				
Proprietary money market funds	65,402				
Mutual Funds	86,912				
Equity securities	7,162,173				
	<u>\$ 24,389,826</u>				

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Investment - Continued**

Interest Rate Risk - Continued

The College's net investment income of \$1,493,361 and \$38,475 for the years ended June 30, 2017 and 2016, respectively, consisted of interest and dividend income and realized and unrealized gains and losses.

Disclosure of Credit Risk of Debt Securities

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

<u>Rated debt investments</u>	<u>Fair value</u>	2017 Quality ratings				
		<u>Aaa</u>	<u>A</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>
Federal agencies	\$ 1,171,764	\$ 1,171,764	\$ -	\$ -	\$ -	\$ -
Corporate bonds	3,270,914	-	-	321,757	146,882	857,220
Total	\$ 4,442,678	\$ 1,171,764	\$ -	\$ 321,757	\$ 146,882	\$ 857,220

<u>Rated debt investments</u>	2017 Quality ratings				
	<u>Aa1</u>	<u>Aa3</u>	<u>Ba2</u>	<u>Baa1,2,3</u>	<u>Unrated</u>
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	65,706	55,779	29,832	1,761,936	31,802
Total	\$ 65,706	\$ 55,779	\$ 29,832	\$ 1,761,936	\$ 31,802

<u>Rated debt investments</u>	<u>Fair value</u>	2016 Quality ratings				
		<u>Aaa</u>	<u>A</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>
Federal agencies	\$ 2,149,041	\$ 2,149,041	\$ -	\$ -	\$ -	\$ -
Corporate bonds	4,862,362	284,813	75,452	351,401	312,107	969,650
Total	\$ 7,011,403	\$ 2,433,854	\$ 75,452	\$ 351,401	\$ 312,107	\$ 969,650

<u>Rated debt investments</u>	2016 Quality ratings				
	<u>Aa1</u>	<u>Aa2</u>	<u>Aa3</u>	<u>Baa1,2,3</u>	<u>Unrated</u>
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	70,967	77,917	105,747	2,614,308	-
Total	\$ 70,967	\$ 77,917	\$ 105,747	\$ 2,614,308	\$ -

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Investment - Continued**

Investments of the Foundation

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

	<u>Fair value</u>	
	<u>2017</u>	<u>2016</u>
Corporate equities	\$ 2,434,135	\$ -
Mutual funds	1,564,691	3,756,907
Corporate and other bonds	<u>1,210,757</u>	<u>1,041,357</u>
	<u>\$ 5,209,583</u>	<u>\$ 4,798,264</u>

The Foundation's investment income consisted of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 104,995	\$ 74,308
Realized gain	631,008	144,545
Unrealized loss on investment	<u>(159,430)</u>	<u>(283,773)</u>
	<u>\$ 576,573</u>	<u>\$ (64,920)</u>

Note 3 - **Deposits and Cash Held by State Treasurer**

Accounts payable and accrued salaries to be funded by cash forwarded by the College to, and held by, the State Treasurer for payment of so-called 'non-appropriated' liabilities at June 30, 2017 and 2016 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sum of \$2,508,159 and \$1,635,761, respectively.

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$55,040 and \$1,628,071 at June 30, 2017 and 2016, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Accounts Receivable**

Accounts receivable include the following at June 30:

	<u>2017</u>	<u>2016</u>
Student accounts receivable	\$ 812,735	\$ 494,249
Grants receivable	543,029	467,316
Financial aid receivable	1,181,545	788,214
Other receivables	<u>1,542,143</u>	<u>1,302,052</u>
	4,079,452	3,051,831
Less: allowance for doubtful accounts	<u>(146,736)</u>	<u>(115,704)</u>
	<u>\$ 3,932,716</u>	<u>\$ 2,936,127</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 5 - **Capital Assets**

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

		<u>2017</u>				
	Estimated lives <u>(in years)</u>	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	Ending <u>Balance</u>
Capital assets not depreciated:						
Land		\$ 208,827	\$ -	\$ -	\$ -	\$ 208,827
Capital work in progress		<u>1,090,398</u>	<u>5,344,419</u>	-	<u>(5,666,691)</u>	<u>768,126</u>
Total not depreciated		<u>1,299,225</u>	<u>5,344,419</u>	-	<u>(5,666,691)</u>	<u>976,953</u>
Capital assets depreciated:						
Building, including						
improvements	20-40	55,257,983	-	-	3,804,528	59,062,511
Furnishings and equipment	3-10	7,943,219	379,113	-	-	8,322,332
Software	5	2,282,794	-	-	1,862,163	4,144,957
Motor vehicles	3-10	485,544	-	(313,368)	-	172,176
Books	5	614,858	-	-	-	614,858
Total depreciated		<u>66,584,398</u>	<u>379,113</u>	<u>(313,368)</u>	<u>5,666,691</u>	<u>72,316,834</u>
Less accumulated depreciation:						
Building, including						
improvements		(24,424,824)	(1,579,807)	-	-	(26,004,631)
Furnishings and equipment		(4,707,387)	(939,776)	-	-	(5,647,163)
Software		(181,080)	(456,559)	-	-	(637,639)
Motor vehicles		(359,737)	(42,749)	296,327	-	(106,159)
Books		<u>(614,858)</u>	-	-	-	<u>(614,858)</u>
Total accumulated depreciation		<u>(30,287,886)</u>	<u>(3,018,891)</u>	<u>296,327</u>	-	<u>(33,010,450)</u>
Capital assets, net		<u>\$ 37,595,737</u>	<u>\$ 2,704,641</u>	<u>\$ (17,041)</u>	\$ -	<u>\$ 40,283,337</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 5 - **Capital Assets - Continued**

		<u>2016</u>				
	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not depreciated:						
Land		\$ 208,827	\$ -	\$ -	\$ -	\$ 208,827
Capital work in progress		<u>447,577</u>	<u>1,090,398</u>	<u>-</u>	<u>(447,577)</u>	<u>1,090,398</u>
Total not depreciated		<u>656,404</u>	<u>1,090,398</u>	<u>-</u>	<u>(447,577)</u>	<u>1,299,225</u>
Capital assets depreciated:						
Building, including improvements	20-40	54,491,752	531,122	-	235,109	55,257,983
Furnishings and equipment	3-10	5,920,739	2,022,480	-	-	7,943,219
Software	5	905,397	1,164,929	-	212,468	2,282,794
Motor vehicles	3-10	407,600	77,944	-	-	485,544
Books	5	<u>614,858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,858</u>
Total depreciated		<u>62,340,346</u>	<u>3,796,475</u>	<u>-</u>	<u>447,577</u>	<u>66,584,398</u>
Less accumulated depreciation:						
Building, including improvements		(22,873,311)	(1,551,513)	-	-	(24,424,824)
Furnishings and equipment		(4,059,665)	(647,722)	-	-	(4,707,387)
Software		-	(181,080)	-	-	(181,080)
Motor vehicles		(317,865)	(41,872)	-	-	(359,737)
Books		<u>(614,858)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(614,858)</u>
Total accumulated depreciation		<u>(27,865,699)</u>	<u>(2,422,187)</u>	<u>-</u>	<u>-</u>	<u>(30,287,886)</u>
Capital assets, net		<u>\$ 35,131,051</u>	<u>\$ 2,464,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,595,737</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 6 - **Long-Term Liabilities**

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

	2017				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Other long-term liabilities:					
Compensated absences	\$ 4,120,762	\$ 481,179	\$ -	\$ 4,601,941	\$ 3,160,657
Workers' compensation	411,707	-	(1,438)	410,269	154,823
Net pension liability	10,411,537	-	(495,935)	9,915,602	-
Capital lease obligations	922,226	-	(221,643)	700,583	227,482
Bonds payable	6,605,402	-	(232,300)	6,373,102	240,000
Energy project liability	2,855,547	-	(130,840)	2,724,707	136,075
Derivative instrument	1,913,125	-	(609,205)	1,303,920	-
Total long-term liabilities	\$ 27,240,306	\$ 481,179	\$(1,691,361)	\$ 26,030,124	\$ 3,919,037
			2016		
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Other long-term liabilities:					
Compensated absences	\$ 4,211,886	\$ 2,352,943	\$(2,444,067)	\$ 4,120,762	\$ 2,560,293
Workers' compensation	516,139	-	(104,432)	411,707	147,145
Net pension liability	7,723,013	2,688,524	-	10,411,537	-
Capital lease obligations	-	1,160,596	(238,370)	922,226	221,643
Bonds payable	6,827,602	-	(222,200)	6,605,402	230,000
Energy project liability	2,981,357	-	(125,810)	2,855,547	130,841
Derivative instrument	1,463,189	449,936	-	1,913,125	-
Total long-term liabilities	\$ 23,723,186	\$ 6,651,999	\$(3,134,879)	\$ 27,240,306	\$ 3,289,922

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Capital leases

The College leased Cisco network server equipment from Presidio Networked Solutions at a cost of \$1,160,596 during the fiscal year 2016. The five-year lease was financed by Key Government Finance, Inc.

The following reports the cost and accumulated depreciation for equipment under lease agreements at June 30,:

	<u>2017</u>	<u>2016</u>
Cost	\$ 1,160,596	\$ 1,160,596
Less: Accumulated depreciation	<u>348,179</u>	<u>116,060</u>
	<u>\$ 812,417</u>	<u>\$ 1,044,536</u>

The following schedule summarizes future minimum payments due under the non-cancelable capital lease as of June 30, 2017:

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 227,482	\$ 18,457	\$ 245,939
2019	233,475	12,464	245,939
2020	<u>239,626</u>	<u>6,313</u>	<u>245,939</u>
	<u>\$ 700,583</u>	<u>\$ 37,234</u>	<u>\$ 737,817</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Operating Leases

The College has multiple leases for building space to be used for classrooms, workforce training, meeting space and educational administration under agreements expiring through January 2027. Each of these leases have varying payment terms, including graduated payments over the term of the lease. In addition, the College leases computer equipment, software and copiers for various departments and has a three-year lease agreement for a vehicle expiring in 2019. Rent expense under these operating leases was \$1,897,957 and \$1,503,597 for the years ended June 30, 2017 and 2016, respectively.

Future minimum rental payments due under operating leases as of June 30, 2017 is as follows:

Years Ending June 30,	
2018	2,561,300
2019	2,472,102
2020	2,440,357
2021	2,441,525
2022	1,605,330
2023-2025	<u>9,291,286</u>
	<u>\$20,811,900</u>

Bonds Payable

During fiscal year 2010, the College issued Pool O-1 Series bonds through the Massachusetts Health and Educational Facilities Authority (“MHEFA”) to refinance the Pool M3-C Series tax-exempt variable rate bond that was previously issued by the College to finance the construction of the Health and Wellness Center and other projects.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Bonds Payable - Continued

The bonds are payable in annual installments and are due July 2031. The following schedule summarizes future principal and interest payments on bonds payable as of June 30, 2017:

Years Ending June 30,	Principal	Interest	Interest rate swap, net*	Total
2018	\$ 240,000	\$ 45,955	\$ 200,500	\$ 486,455
2019	250,000	44,229	192,243	486,472
2020	260,000	42,431	183,656	486,087
2021	270,000	40,561	174,739	485,300
2022	290,000	38,619	165,161	493,780
2023 – 2027	1,620,000	160,302	669,588	2,449,890
2028 – 2032	<u>3,443,102</u>	<u>83,495</u>	<u>258,732</u>	<u>3,785,329</u>
	<u>\$ 6,373,102</u>	<u>\$ 455,592</u>	<u>\$ 1,844,619</u>	<u>\$ 8,673,313</u>

* 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% (see note 7). 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, 2017 during the remaining life of the swap. The variable rate on the bonds as of June 30, 2017 and 2016 was 0.9% and 0.4%, respectively.

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 2016, the short-term rating of the bank improved from A-2 status to A- status.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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.

Years Ending June 30,	Principal	Interest	Total
2018	\$ 136,075	\$ 108,988	\$ 245,063
2019	141,518	103,545	245,063
2020	147,178	97,885	245,063
2021	153,066	91,997	245,063
2022	159,188	85,875	245,063
2023 – 2027	896,703	328,612	1,225,315
2028 – 2032	<u>1,090,979</u>	<u>134,338</u>	<u>1,470,378</u>
	<u>\$ 2,724,707</u>	<u>\$ 951,240</u>	<u>\$ 3,921,008</u>

Note 7 - **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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Interest Rate Swap - Continued**

Objective and Terms - Continued

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, 2017 and 2016 was \$6,373,102 and \$6,605,402, respectively. 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 Swap Index ("SIFMA"), on the same day.

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, 2017 was a liability of \$1,303,920 compared to \$1,913,125 at June 30, 2016, which is recorded in the College's statement of net position. The change in the fair value of the interest rate swap was (\$609,205) and \$449,936 for the years ending June 30, 2017 and 2016, 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 (Citizens Bank N.A.) credit rating, which is currently rated at A- by S&P. The College is not exposed to credit risk at June 30, 2017 or 2016 because the interest rate swap had a negative value. As discussed further in Note 7, the counterparty has guaranteed the debt with a Letter of Credit that expires July 1, 2020.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Interest Rate Swap - Continued**

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.

Note 8 - **Pensions**

Defined-Benefit Plan Description

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

The Massachusetts State Employees’ Retirement System (“SERS”) does not issue a stand-alone financial statement.

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$2,663,382 and \$2,454,264 for the years ended June 30, 2017 and 2016, respectively. Employees who contribute a percentage of their regular compensation fund the annuity portion of the retirement system. Annual covered payroll was approximately 63% and 68% of total related payroll for years ended June 30, 2017 and 2016, respectively.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

Benefit Provisions

SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (“MGL”) establish 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 Commonwealth of Massachusetts Legislature (“Legislature”).

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

Contributions - Continued

The College is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the years ended June 30, 2017 and 2016, respectively. The College contributed \$741,193 and \$516,365 for the years ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

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

At June 30, 2017 and 2016, the College reported a liability of \$9,915,602 and \$10,411,537, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe-benefit charges assessed to the College for the fiscal years 2016 and 2015, respectively. The College's proportionate share was based on actual employer contributions to the SERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for the fiscal years. At June 30, 2016 and 2015, the College's proportion was 0.072% and 0.091%, respectively.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

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

For the years ended June 30, 2017 and 2016, the College recognized pension expense of \$884,714 and \$1,042,511, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

	<u>2017</u>	<u>2016</u>
<u>Deferred Outflows of Resources</u>		
Difference between expected and actual experience	\$ 470,965	\$ 205,801
Differences between projected and actual investment earnings on pension plan investments	665,616	-
Change in plan actuarial assumptions	1,099,574	1,803,065
Changes in proportion from Commonwealth	17,313	-
Contributions made after the plan measurement date	<u>741,193</u>	<u>516,365</u>
Total	<u>\$ 2,994,661</u>	<u>\$ 2,525,231</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

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

	<u>2017</u>	<u>2016</u>
<u>Deferred Inflows of Resources</u>		
Differences between projected and actual earnings on plan investments	\$ -	\$ 299,184
Change in proportion due to internal allocation	2,067,202	658,560
Changes in proportion from Commonwealth	<u>-</u>	<u>7,993</u>
Total	<u>\$ 2,067,202</u>	<u>\$ 965,737</u>

The College's contributions of \$741,193 and \$516,365 made during the fiscal years ending June 30, 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases in pension expense as follows:

Years Ending <u>June 30,</u>	
2018	\$ (18,338)
2019	(18,338)
2020	248,934
2021	(74,681)
2022	<u>48,689</u>
	<u>\$ 186,266</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

Actuarial Assumptions

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

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

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

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

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>2017</u>		<u>2016</u>	
	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity	40%	6.90%	40%	6.90%
Core Fixed Income	13%	1.60%	13%	2.40%
Hedge Funds	9%	4.00%	9%	5.80%
Private Equity	10%	8.70%	10%	8.50%
Real Return	10%	4.60%	10%	6.50%
Portfolio Completion Strategies	4%	3.60%	4%	5.50%
Value Added Fixed Income	10%	4.80%	10%	5.80%
Timber/Natural Resources	4%	5.40%	4%	6.60%
	<u>100%</u>		<u>100%</u>	

Discount Rate

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Pensions - Continued**

Sensitivity of the Net Pension Liability to changes in the Discount Rate

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

June 30, 2017		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
(6.50%)	(7.50%)	(8.50%)
\$ 12,921,566	\$ 9,915,602	\$ 7,367,932
June 30, 2016		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
(6.50%)	(7.50%)	(8.50%)

Note 9 - **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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 9 - **Contingencies - Continued**

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.

Note 10 - **Operating Expenses**

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

	<u>2017</u>	<u>2016</u>
Compensation and benefits	\$ 69,373,321	\$ 61,762,498
Supplies and services	15,045,956	18,657,649
Depreciation and amortization	3,018,891	2,422,185
Scholarships	10,784,082	12,511,212
	<u>\$ 98,222,250</u>	<u>\$ 95,353,544</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **State Appropriations**

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

	<u>2017</u>	<u>2016</u>
Direct unrestricted appropriations	\$ 26,271,314	\$25,399,870
Add fringe benefits for benefited employees on the state payroll	8,967,165	7,575,754
Add supplemental appropriation for MCCC	-	295,650
Less day school tuition remitted to the state and included in tuition and fee revenue	<u>(26,736)</u>	<u>-</u>
Total unrestricted state support	35,211,743	33,271,274
Capital appropriation	<u>19,690</u>	<u>1,674,573</u>
Total state support	<u>\$ 35,231,433</u>	<u>\$34,945,847</u>

The College received \$295,650 in appropriation to fund fiscal year 2016 dues to be paid to Massachusetts Community College Council staff arising from the new contract agreement.

Note 12 - **Fringe Benefit Program**

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension, and workers' compensation benefits. Health insurance for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net position and the results of current year operations, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's fringe benefited employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Fringe Benefit Program - Continued**

Eligible retirees are required to contribute a specified percentage of health care benefit costs, which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

Group Insurance Commission

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

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

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2017 and 2016, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Fringe Benefit Program - Continued**

New Accounting Guidance Effective for Fiscal 2018

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

Insurance

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

Other Employee Benefits

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

Note 13 - **Pass-Through Loans**

The College distributed \$5,203,175 and \$5,414,006 for student loans through the U.S. Department of Education Federal Direct Lending Program for the years ended June 30, 2017 and 2016, respectively. 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 SUPPLEMENTAL INFORMATION

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

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Year ended	June 30, 2017	June 30, 2016	June 30, 2015
Valuation date	1/1/2016	1/1/2015	1/1/2014
Measurement date	6/30/2016	6/30/2015	6/30/2014
Proportion of the collective net pension liability	0.072%	0.091%	0.104%
Proportionate share of the collective net pension liability	\$ 9,915,602	\$ 10,411,537	\$ 7,723,013
College's covered-employee payroll	\$ 5,464,180	\$ 5,511,376	\$ 7,716,356
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
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Schedule of Contributions (Unaudited)

For the Years Ended June 30,

	2017	2016	2015
Contractually required contribution	\$ 741,193	\$ 516,365	\$ 572,632
Contributions in relation to the contractually required contribution	<u>(741,193)</u>	<u>(516,365)</u>	<u>(572,632)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 7,449,176	\$ 5,464,180	\$ 5,511,376
Contribution as a percentage of covered- employee payroll	9.95%	9.45%	10.39%

Notes:

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

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Required Supplementary Information (Unaudited)

June 30, 2017 and 2016

Note 1 - **Changes in Assumptions**

Changes in assumptions about the discount rate from 8.00% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan-wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions are 0.072%, 0.091%, and 0.104%, respectively, as shown on the Schedules 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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Changes in assumptions	\$ 2,217,997	\$ 2,217,997	\$ 106,107
Accumulated amortization	<u>(1,118,423)</u>	<u>(414,932)</u>	<u>(19,292)</u>
Changes in assumptions, net	<u>\$ 1,099,574</u>	<u>\$ 1,803,065</u>	<u>\$ 86,815</u>

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



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2017 and 2016, the related statements of revenues and expenses, changes in net position and cash flows for the years 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 November 20, 2017.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 20, 2017