



BUNKER HILL COMMUNITY COLLEGE

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

BUNKER HILL COMMUNITY COLLEGE

Table of Contents

	Page(s)
Management's Discussion and Analysis (Unaudited)	1 – 18
Independent Auditors' Report	19 – 20
Statements of Net Position	21
Statements of Revenues, Expenses, and Changes in Net Position	22
Statements of Cash Flows	23
Notes to Financial Statements	24 – 41
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 <i>Government Auditing Standards</i>	42 – 43

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(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, 2013 and 2012, 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 14,000 students in spring 2013 semester, with 143 full time faculty, 603 adjunct faculty, and 295 staff members for the year ended June 30, 2013. 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 60 programs leading to associate degrees including two concentrations that prepare students to enter technical programs and 46 certificate programs.

Financial Highlights

- At June 30, 2013, the College's assets and deferred outflows were \$58,275,296 and its liabilities were \$23,511,195 resulting in net position of \$34,764,101. This represents a decrease in net position of \$2,709,592 for fiscal year 2013. By contrast, at June 30, 2012, the College's assets and deferred outflows were \$60,357,645 and its liabilities were \$22,883,952 resulting in net position of \$37,473,693. This represents an increase in net position of \$1,326,630 for fiscal year 2012.

	June 30		
	2013	2012	2011
Invested in capital assets	\$ 23,386,220	23,175,930	23,926,443
Restricted, expendable	39,957	39,957	39,957
Unrestricted	11,337,924	14,257,806	12,180,663
Total net assets	\$ 34,764,101	37,473,693	36,147,063

- The College will use the unrestricted net position for its plant fund, capital development plan, technology upgrades, instructional equipment needs and provide planned academic and support services to students.
- The decrease in the College's net position by \$2,709,592 was due primarily to planned funding for furnishing of facilities and the newly leased H building. The increase in the College's net position by \$1,326,630 in fiscal year 2012 was due primarily to an increase in tuition and fees net of scholarship allowances.

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

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

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, and deferred inflows and outflows of resources with the residual amount being 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 presents 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).

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 21 – 23 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 a part of the Commonwealth of Massachusetts (the Commonwealth). Therefore, the results of the College's operations, its net position and its cash flows are also included in the Commonwealth's Annual Financial Report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 24 – 41 of this report.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

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 2013, assets and deferred outflows exceeded liabilities by \$34,764,101 compared to \$37,473,693 in fiscal year 2012.

At the close of fiscal year 2012, assets and deferred outflows exceeded liabilities by \$37,473,693 compared to \$36,147,063 in fiscal year 2011.

The College's FY 2013 net position of \$34,764,101 includes investment in capital assets of \$23,386,220 (e.g., land, buildings and improvements, and equipment), less any related liabilities such as capital leases used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related liabilities, it should be noted that the resources needed to repay these liabilities must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the liabilities noted above, which are reflected in the College's financial statements, the Commonwealth regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings by the Commonwealth are not reflected in these financial statements.

	Summary of the College's net position			
	June 30		Between 2013 and 2012	
	2013	2012	Dollar change	Change percentage
Current assets	\$ 16,009,616	23,963,906	(7,954,290)	(33)%
Noncurrent assets	40,980,721	34,396,907	6,583,814	19
Deferred outflows	1,284,959	1,996,832	(711,873)	(36)
Total assets and deferred outflows	\$ 58,275,296	60,357,645	(2,082,349)	(3)%
Current liabilities	\$ 13,120,489	11,810,387	1,310,102	11%
Noncurrent liabilities	10,390,706	11,073,565	(682,859)	(6)
Total liabilities	\$ 23,511,195	22,883,952	627,243	3%
Net position:				
Net investment in capital assets	\$ 23,386,220	23,175,930	210,290	1%
Restricted, expendable	39,957	39,957	—	—
Unrestricted	11,337,924	14,257,806	(2,919,882)	(20)
Total net position	\$ 34,764,101	37,473,693	(2,709,592)	(7)%

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

	Summary of the College's net position			
	June 30		Between 2012 and 2011	
	2012	2011	Dollar change	Change percentage
Current assets	\$ 23,963,906	21,421,076	2,542,830	12%
Noncurrent assets	34,396,907	34,855,664	(458,757)	(1)
Deferred outflows	1,996,832	981,406	1,015,426	103
Total assets and deferred outflows	\$ 60,357,645	57,258,146	3,099,499	5%
Current liabilities	\$ 11,810,387	10,790,176	1,020,211	9%
Noncurrent liabilities	11,073,565	10,320,907	752,658	7
Total liabilities	\$ 22,883,952	21,111,083	1,772,869	8%
Net position:				
Net investment in capital assets	\$ 23,175,930	23,926,443	(750,513)	3%
Restricted, expendable	39,957	39,957	—	—
Unrestricted	14,257,806	12,180,663	2,077,143	17
Total net position	\$ 37,473,693	36,147,063	1,326,630	4%

- As stated earlier, the decrease in the College's net position by \$2,709,592 was due primarily to planned funding for furnishing of facilities and the newly leased H building. The increase in the Colleges net position by \$1,326,630 in fiscal year 2012 was due primarily to an increase in tuition and fees net of scholarship allowances.

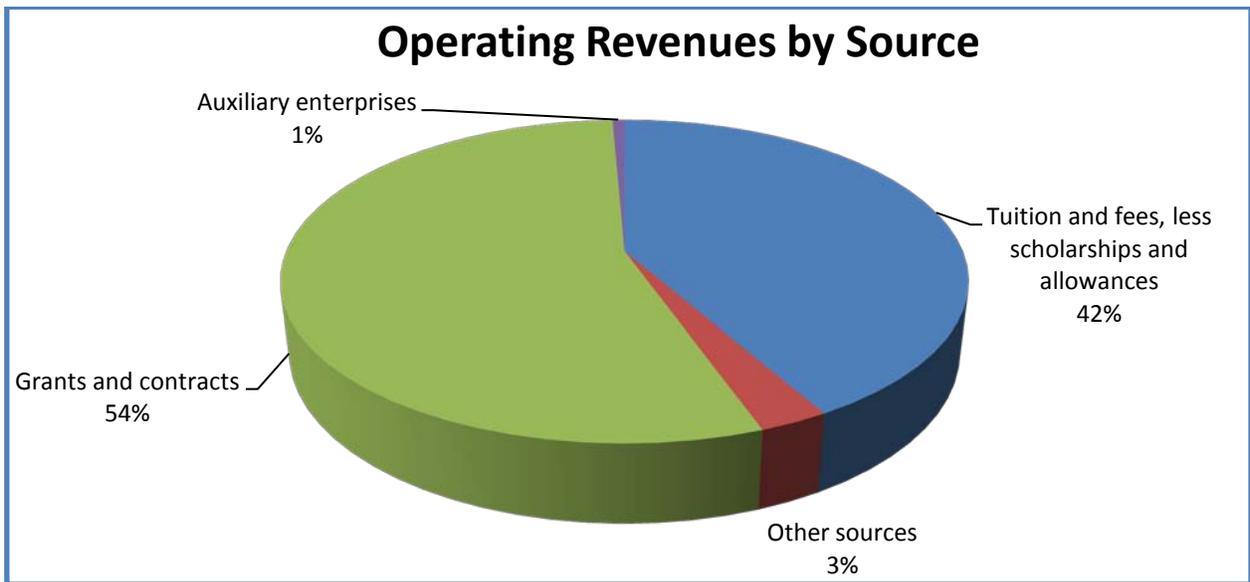
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

	Summary of changes in net position						
	Year ended June 30			Between 2013 and 2012		Between 2012 and 2011	
	2013	2012	2011	Change	Change percentage	Change	Change percentage
Operating:							
Tuition and fees, net of scholarship allowances	\$ 25,833,510	24,330,337	22,220,815	1,503,173	6%	2,109,522	9%
Grants and contracts	33,282,185	31,913,303	28,223,806	1,368,882	4	3,689,497	13
Other operating revenues	2,242,353	2,006,055	1,943,316	236,298	12	62,739	3
Total operating revenues	61,358,048	58,249,695	52,387,937	3,108,353	5	5,861,758	11
Total operating expenses	87,535,949	80,407,057	75,411,323	7,128,892	9	4,995,734	7
Operating loss	(26,177,901)	(22,157,362)	(23,023,386)	(4,020,539)	18	866,024	(4)
Nonoperating:							
Total state support	23,193,064	23,732,713	24,250,137	(539,649)	(2)	(517,424)	(2)
Federal grants (ARRA)	—	31,368	1,830,597	(31,368)	(100)	(1,799,229)	(98)
Net other nonoperating	275,245	(280,089)	713,056	555,334	(198)	(993,145)	(139)
Total change in net position	(2,709,592)	1,326,630	3,770,404	(4,036,222)	(304)	(2,443,774)	(65)
Net position, beginning of year	37,473,693	36,147,063	32,376,659	1,326,630	4	3,770,404	12
Net position, end of year	\$ 34,764,101	37,473,693	36,147,063	(2,709,592)	(7)%	1,326,630	(49)%



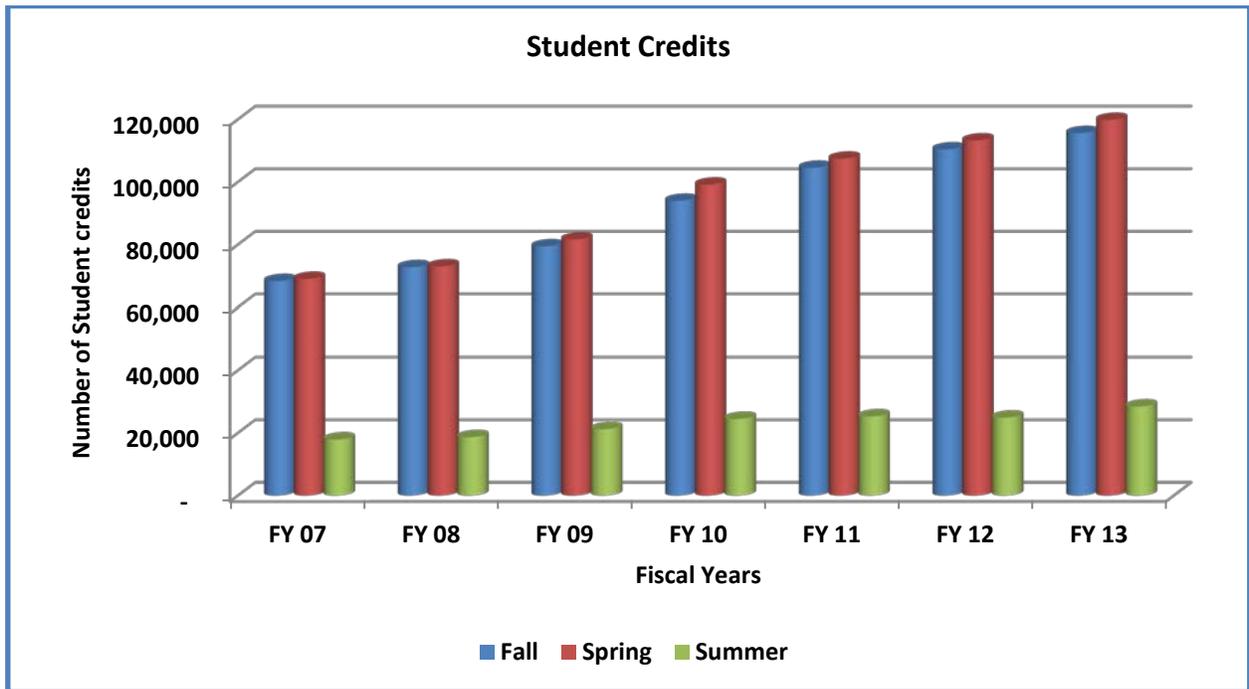
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Tuition and fees, less scholarships and allowances increased by 6% in fiscal year 2013 compared to 9% in fiscal year 2012 due to increased enrollment and fee increases. Tuition and fees, less scholarship allowances remained unchanged, at 42% of total operating revenue in fiscal year 2013 and in fiscal year 2012. Grants and contracts revenue remained unchanged, at 54% of total operating revenues, in fiscal year 2013, and in fiscal year 2012.



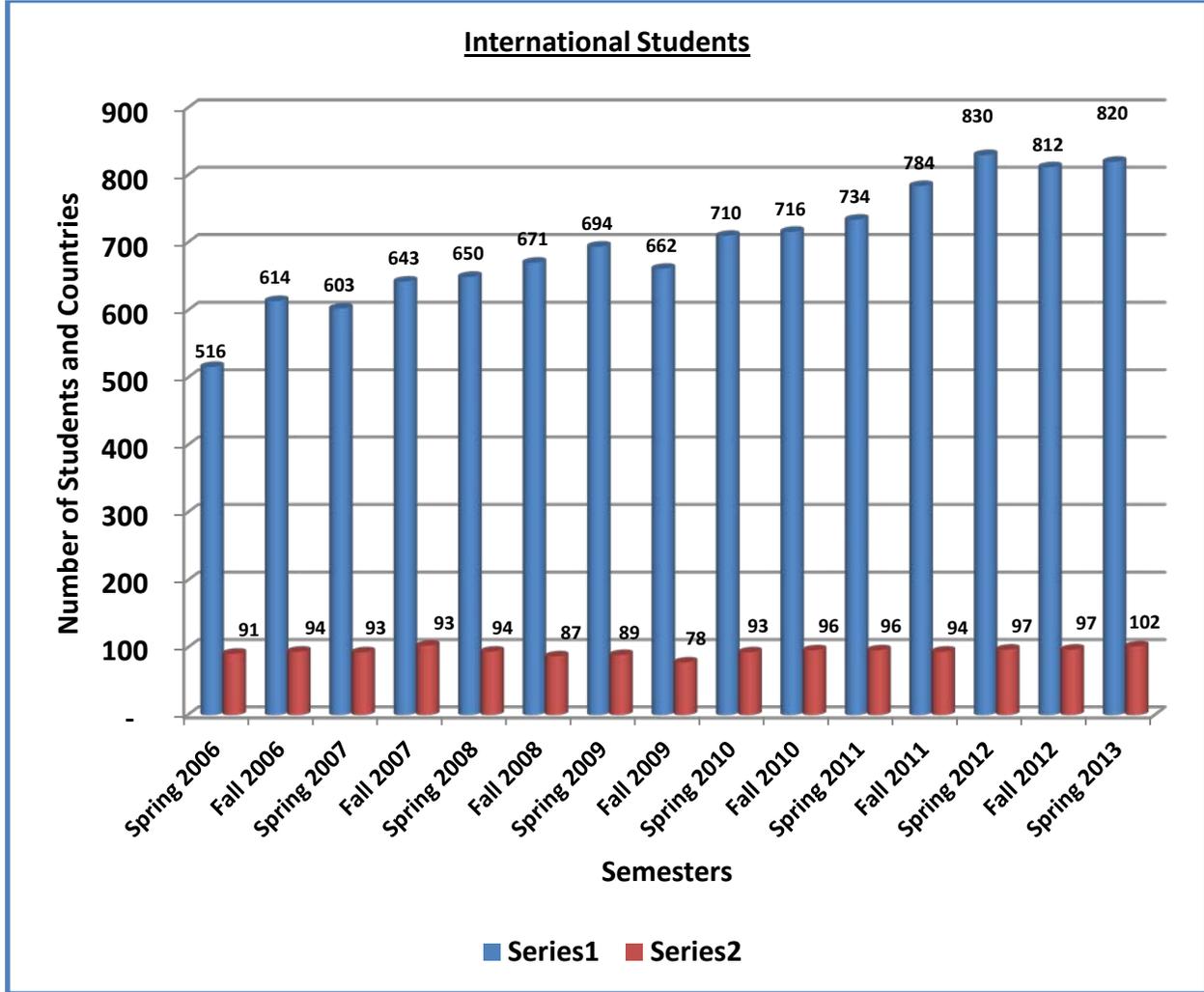
The growth in overall student enrollment solidifies the College's position as the largest of the fifteen Community Colleges in the Commonwealth of Massachusetts.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



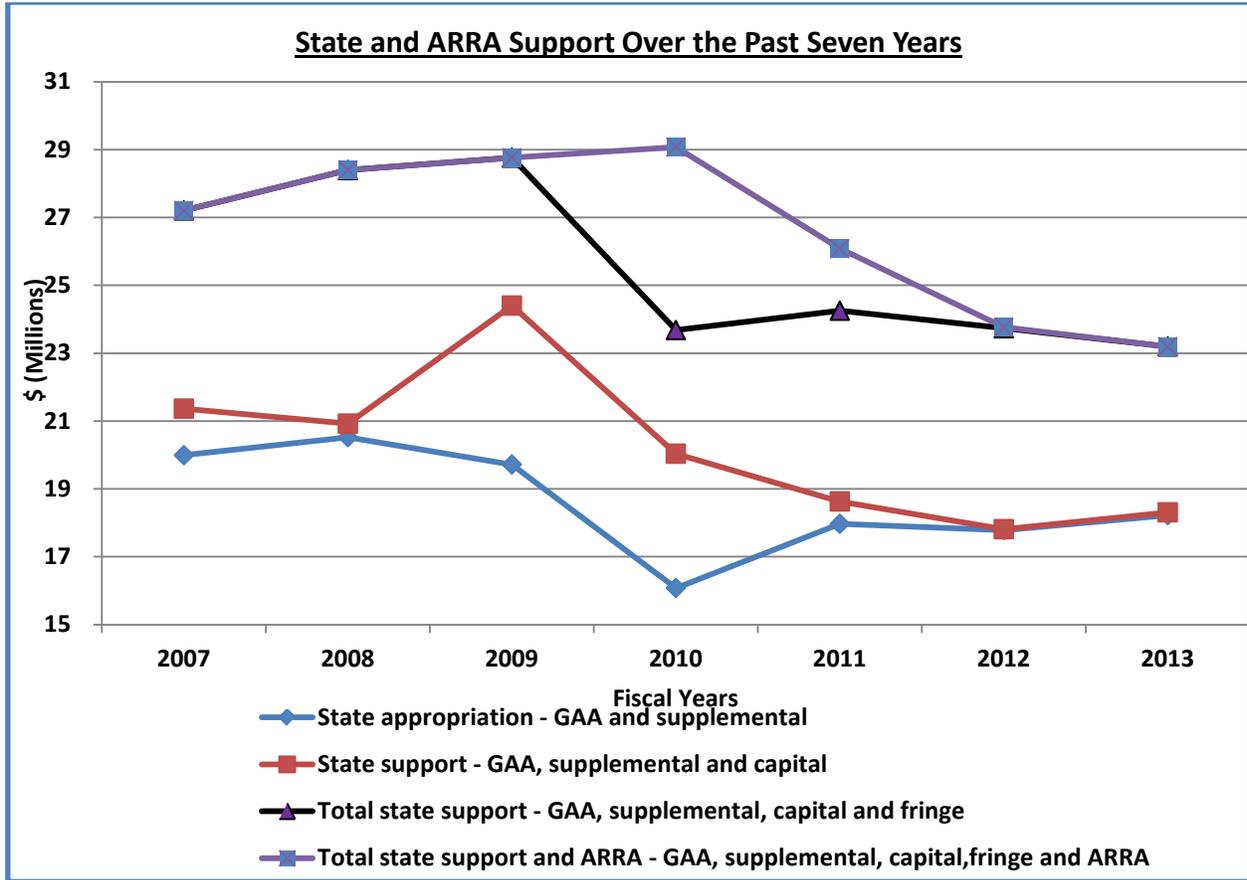
The College has sustained the growth in international students' enrollment by its participation in overseas recruitment tours and other marketing strategies.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



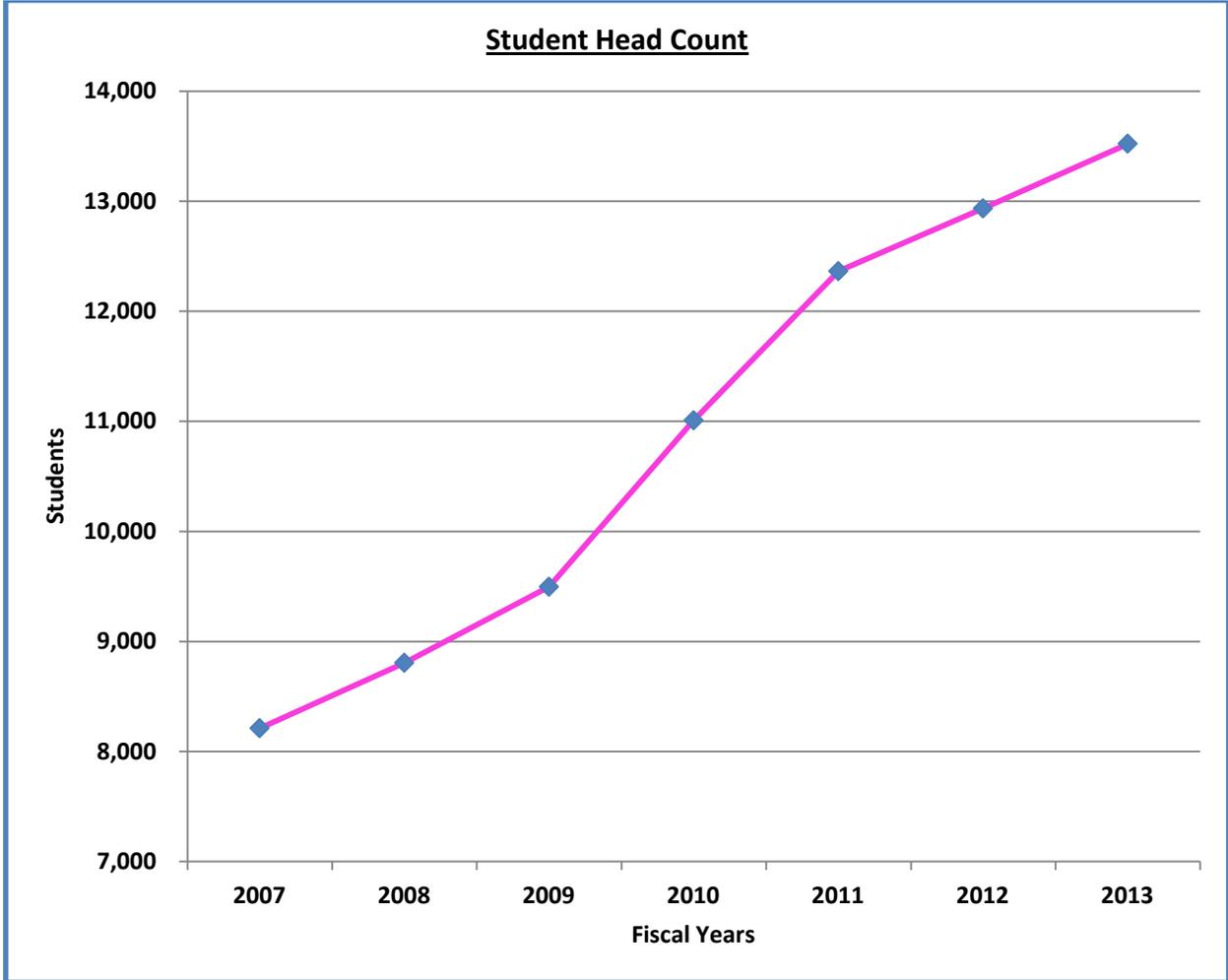
The seven-year trend analysis shows that for the year ended June 30, 2013, there has been a small decrease in general and supplemental state appropriation. The analysis also shows that there has been a decrease in capital appropriation from the State and ARRA funding.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



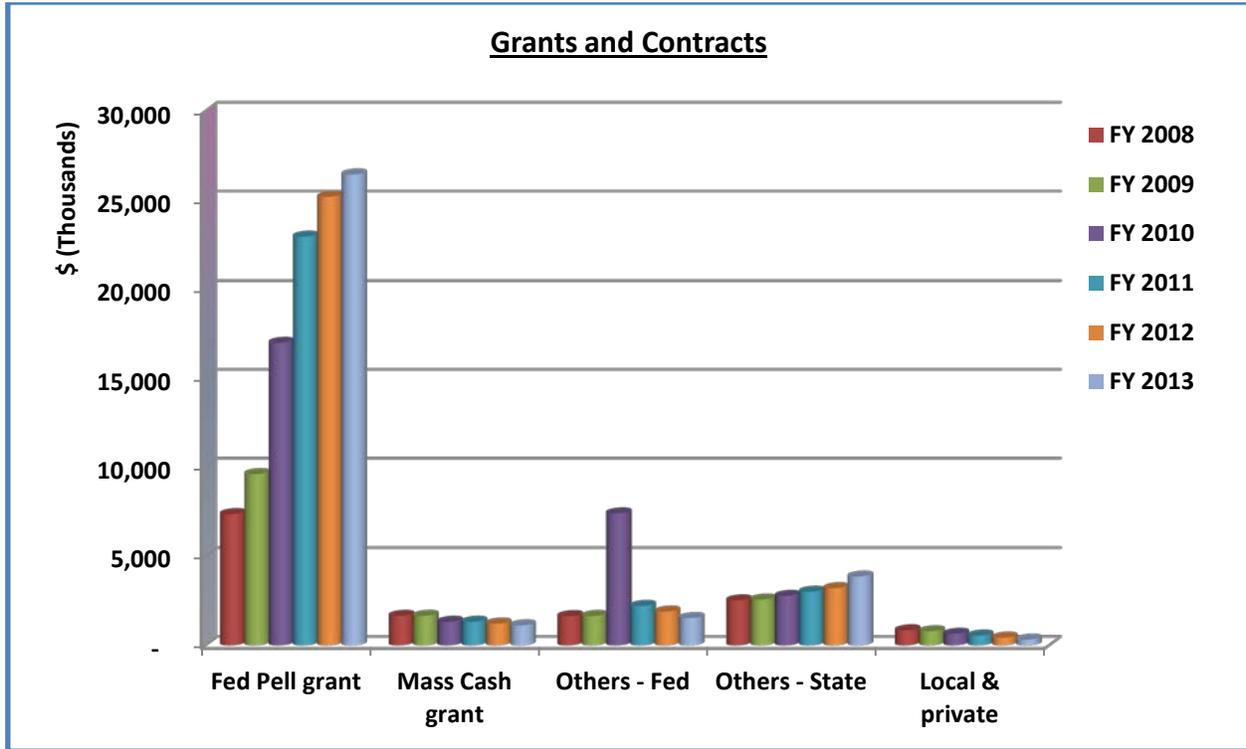
The College's head count has increased consistently over the years to over 14,000 students in spring 2013 semester.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



Major grants and contracts received by the College for 2013 included the following:

- PELL grant from US Department of Education in the amount of \$26,432,507 for student financial aid. This is an increase of \$904,910 (4%) from 2012 and \$4,401,604 (20%) from 2011.
- SEOG grant from US Department of Education in the amount of \$288,039 for student financial aid. This is a decrease of \$39,944 from 2012 and increase of \$1,255 from 2011.
- Nursing grant from US Department of Health and Human Services in the amount of \$225,000 for student financial aid. This is an increase of \$107,398 from 2012 and an increase of \$96,351 from 2011.
- MASS CASH grant from Massachusetts Board of Higher Education in the amount of \$1,121,402 for student financial aid. This is a decrease of \$103,365 from 2012 and decrease of \$206,723 from 2011.
- MASS grant from Massachusetts Board of Higher Education in the amount of \$969,312 for student financial aid. This is a decrease of \$5,008 from 2012 and an increase of \$154,031 from 2011.
- TRIO grant from U.S. Department of Education of \$476,222. This is an increase of \$160,298 from 2012 and \$202,472 from 2011.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

- Grants and contracts from other sources in the amount of \$3,806,970 for specific purposes. This is an increase of \$1,444,103 and decrease of \$336,192 from 2012 and 2011, respectively:
 - State Appropriated grants received for MCAS of \$346,007
 - Department of Higher Education grants received for Adult Basic Education of \$663,725, Perkins Vocational grant of \$434,226.
 - Local grants received for the Gear up in Boston program \$504; from Suffolk County Sheriff's Department \$8,440 and the Center for Allied Health \$70,723.
 - United States Department of Labor grants received through Quinsigamond Community College \$178,505 and through Collin College, Texas \$558,660.
- Auxiliary enterprises (Workforce development contracts) revenue increased by 29% or \$114,940.

Tuition and fees received by the College included the following:

	Year ended June 30		Between 2013 and 2012	
	2013	2012	Change	Change percentage
	Tuition	\$ 11,921,244	11,530,097	391,147
Student fees	30,562,905	29,657,534	905,371	3
Waivers	(482,111)	(465,524)	(16,587)	4
Tuition and fees, net	\$ 42,002,038	40,722,107	1,279,931	3%

	Year ended June 30		Between 2012 and 2011	
	2012	2011	Change	Change percentage
	Tuition	\$ 11,530,097	10,302,829	1,227,268
Student fees	29,657,534	25,947,763	3,709,771	14
Waivers	(465,524)	(694,702)	229,178	(33)
Tuition and fees, net	\$ 40,722,107	35,555,890	5,166,217	15%

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Comparison of Expenses by Function

	Year ended June 30		Between 2013 and 2012	
	2013	2012	Change	Change percentage
	Instruction	\$ 33,022,239	31,015,536	2,006,703
Academic support	10,444,746	9,234,875	1,209,871	13
Student services	11,548,402	10,493,636	1,054,766	10
Scholarships and fellowships	14,021,009	12,839,022	1,181,987	9
Operation and maintenance of plant	7,701,501	6,756,016	945,485	14
Institutional support and other	9,308,188	8,587,807	720,381	8
Depreciation and amortization	1,489,864	1,480,165	9,699	1
	<u>\$ 87,535,949</u>	<u>80,407,057</u>	<u>7,128,892</u>	<u>9%</u>

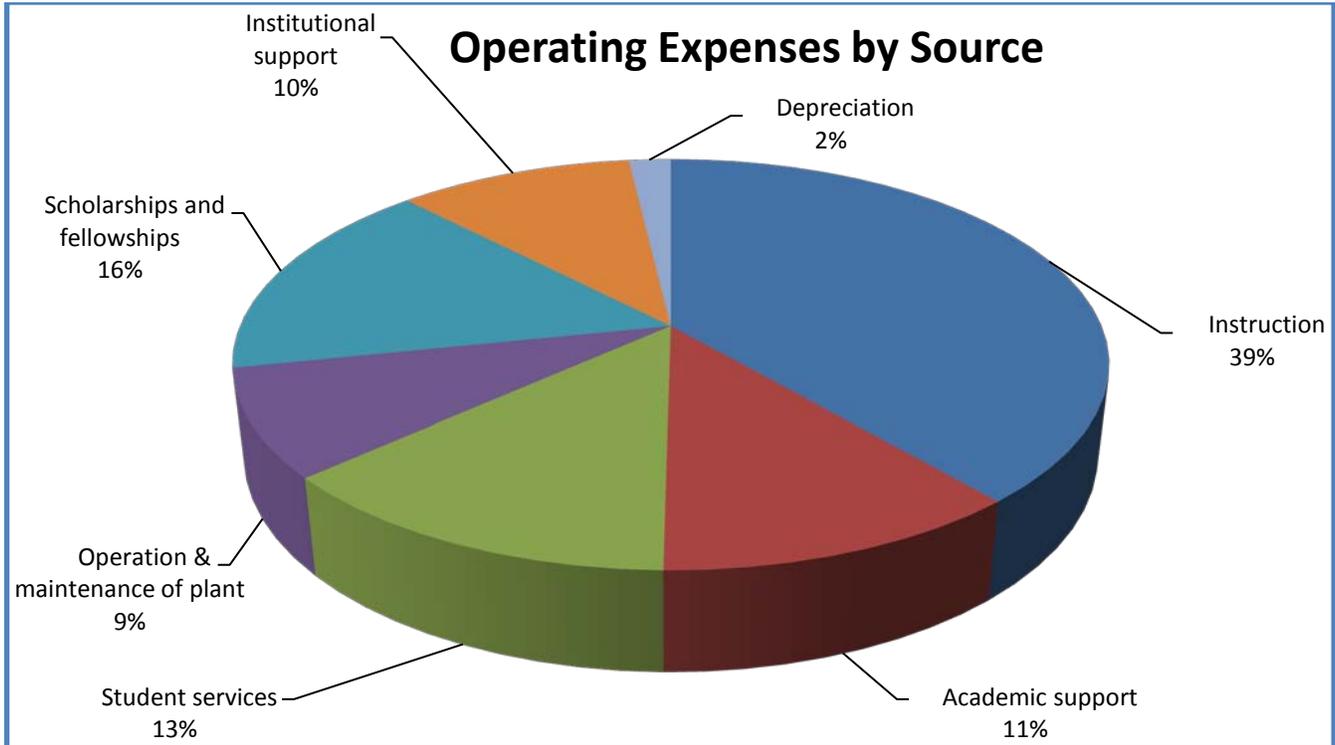
	Year ended June 30		Between 2012 and 2011	
	2012	2011	Change	Change percentage
	Instruction	\$ 31,015,536	29,092,796	1,922,740
Academic support	9,234,875	7,802,087	1,432,788	18
Student services	10,493,636	9,894,734	598,902	6
Scholarships and fellowships	12,839,022	12,167,897	671,125	6
Operation and maintenance of plant	6,756,016	6,710,943	45,073	1
Institutional support and other	8,587,807	8,320,200	267,607	3
Depreciation and amortization	1,480,165	1,422,666	57,499	4
	<u>\$ 80,407,057</u>	<u>75,411,323</u>	<u>4,995,734</u>	<u>7%</u>

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



Highlights of operating expense activity:

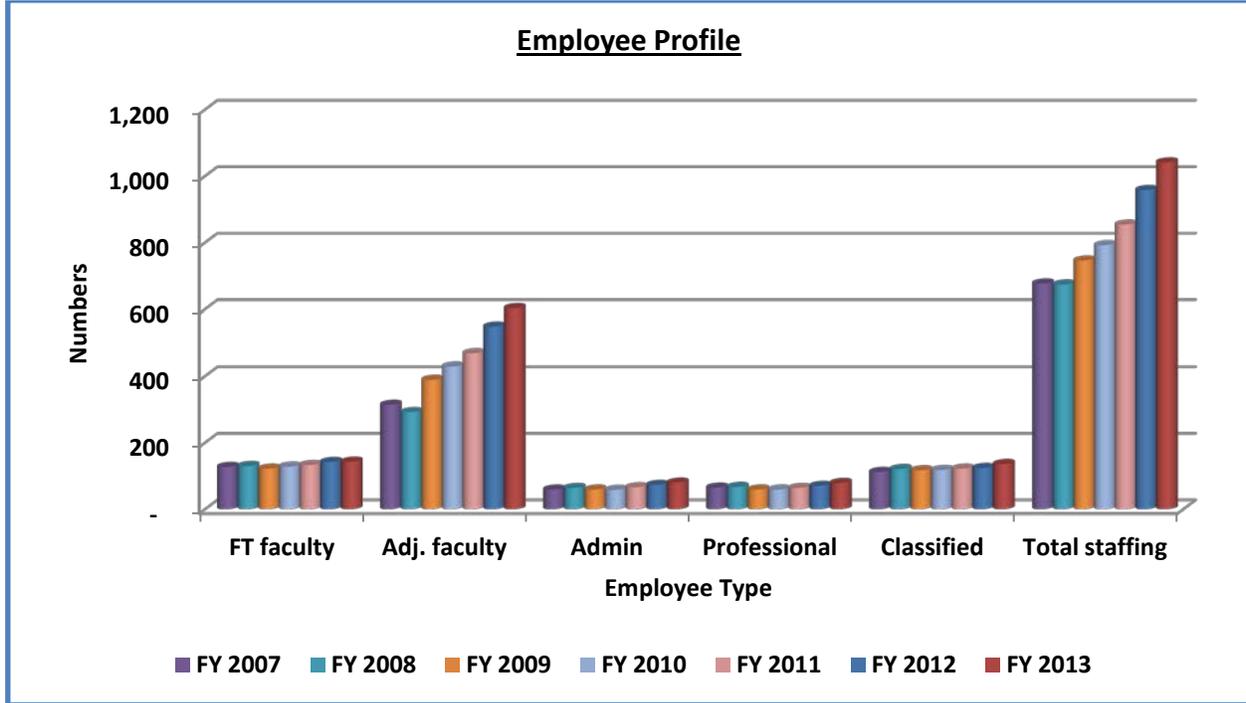
- Of the total operating expenses in fiscal year 2013 of \$87,535,949, 79% relates to instruction, academic support, student services, and scholarship and fellowships. Of the total operating expenses in fiscal year 2012 of \$80,407,057, 79% also relates to instruction, academic support, student services, and scholarship and fellowships.
- The expenditure on instruction increased by 6% or \$2,006,703 in fiscal year 2013 due to increased enrollment.
- The expenditure on academic support increased by 13% or \$1,209,871 in fiscal year 2013 due to increased enrollment.
- The expenditure on scholarships and fellowships increased by 9% or \$1,181,987 in fiscal year 2013, while in fiscal year 2012, the increase was 6% or \$671,125. This is mainly due to an increase in the award of Federal financial aid grants during FY 2013 and FY 2012.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



Loss from Operations

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

	Year ended June 30		Between 2013 and 2012	
	2013	2012	Change	Change percentage
Tuition and fees	\$ 42,002,038	40,722,107	1,279,931	3%
Less scholarship allowances	(16,168,528)	(16,391,770)	223,242	(1)
Net tuition and fees	25,833,510	24,330,337	1,503,173	6
Grants and contracts	33,282,185	31,913,303	1,368,882	4
Other revenue	2,242,353	2,006,055	236,298	12
Operating expenses	(87,535,949)	(80,407,057)	(7,128,892)	9
Operating loss	\$ (26,177,901)	(22,157,362)	(4,020,539)	18%

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

	Year ended June 30		Between 2012 and 2011	
	2012	2011	Change	Change percentage
Tuition and fees	\$ 40,722,107	35,555,890	5,166,217	15%
Less scholarship allowances	(16,391,770)	(13,335,075)	(3,056,695)	23
Net tuition and fees	24,330,337	22,220,815	2,109,522	9
Grants and contracts	31,913,303	28,223,806	3,689,497	13
Other revenue	2,006,055	1,943,316	62,739	3
Operating expenses	(80,407,057)	(75,411,323)	(4,995,734)	7
Operating loss	\$ (22,157,362)	(23,023,386)	866,024	(4)%

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.

Nonoperating Revenues and Expenses

	Year ended June 30		Between 2013 and 2012	
	2013	2012	Change	Change percentage
Operating loss	\$ (26,177,901)	(22,157,362)	(4,020,539)	18%
Nonoperating:				
Total state support	23,193,064	23,732,713	(539,649)	(2)
Federal grants (ARRA)	—	31,368	(31,368)	(100)
Net other nonoperating	275,245	(280,089)	555,334	(198)
Increase (decrease) in net position	\$ (2,709,592)	1,326,630	(4,036,222)	(304)%

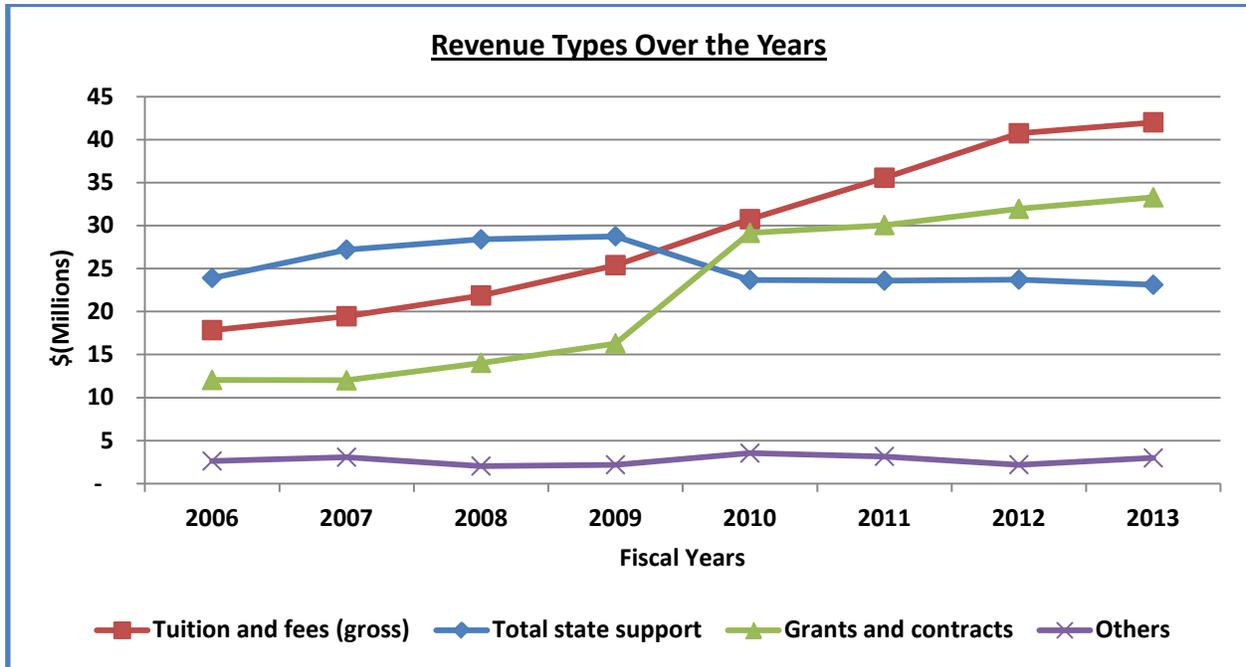
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

	Year ended June 30		Between 2012 and 2011	
	2012	2011	Change	Change percentage
Operating loss	\$ (22,157,362)	(23,023,386)	866,024	(4)%
Nonoperating:				
Total state support	23,732,713	24,250,137	(517,424)	(2)
Federal grants (ARRA)	31,368	1,830,597	(1,799,229)	(98)
Net other nonoperating	(280,089)	713,056	(993,145)	(139)
Increase (decrease) in net position	\$ 1,326,630	3,770,404	(2,443,774)	(65)%



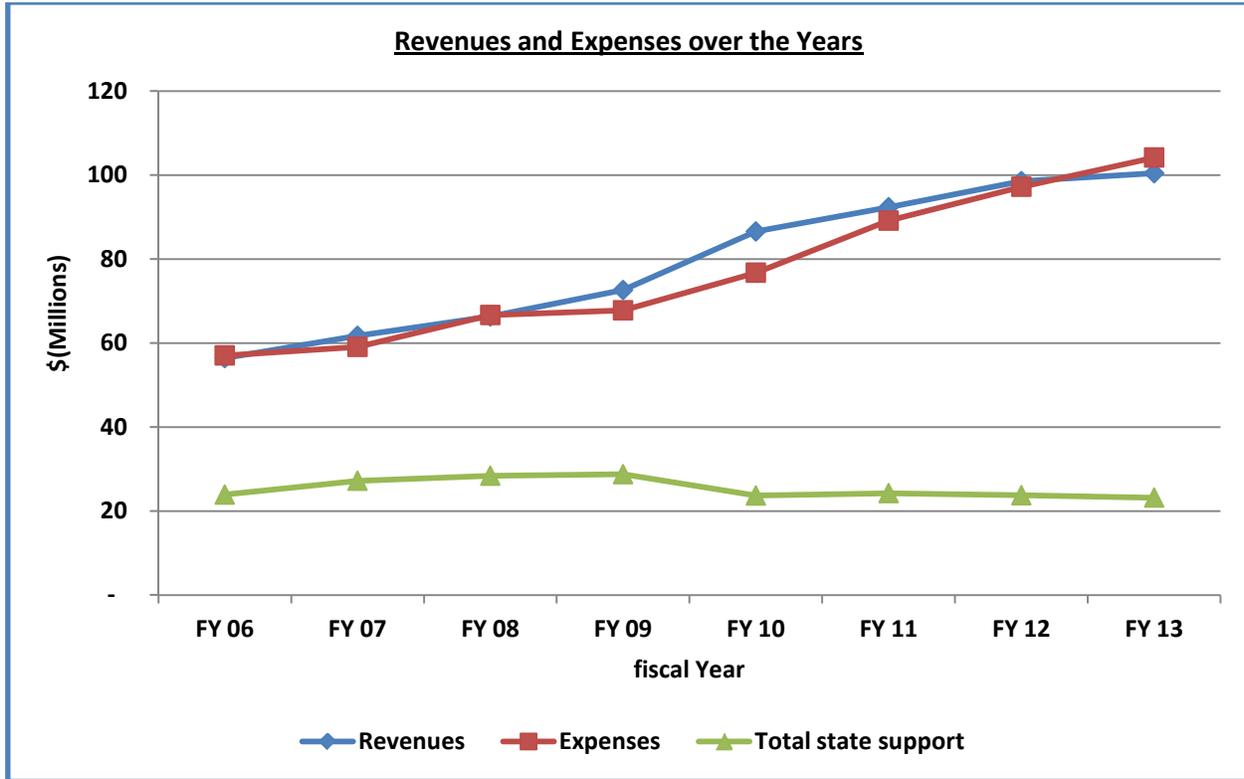
After fiscal year 2009, State appropriation ceased being the single largest source of funding to the College. Gross tuition and fees net of waivers was the largest source of revenue at \$42,002,038 or 41% followed by grants and contracts of \$33,282,185 or 33%.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)



The trend analysis above shows that from FY 2006 revenue exceeded expenditure each year except FY 2013

Capital Assets and Long-Term Liabilities of the College

Capital Assets – The College's capital assets as of June 30, 2013 amounted to \$30,566,222, net of accumulated depreciation. The capital assets include land, buildings and improvements, furnishings, and equipment. Capital assets increased slightly during the year due to offset of additions and depreciation. The total addition to fixed assets during fiscal 2013 was \$1,500,154 while the total depreciation amounted to \$1,489,864.

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

Long-Term Liabilities – 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. A sum of \$71,802 is held as a debt service reserve fund at the People's United Bank.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

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, 2013	\$	1,284,959

There were no capital lease obligations at June 30, 2013.

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, increased from 6.7% in June 2012 to 7.0% in June 2013, according to the United States Department of Labor, Bureau of Labor Statistics. The seasonally adjusted unemployment rate on a national level decreased from 8.2% in June 2012 to 7.6% in June 2013. The trend is that unemployment will continue to decrease if the performance of the economy improves and vice versa. It is difficult for the College to predict the extent to which enrollment may vary in the current environment.

Requests for Information

This financial report is designed to provide a general overview of the College's financial position for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Office of the Interim Chief Financial Officer, Bunker Hill Community College, 250 New Rutherford Avenue, Boston, Massachusetts 02129-2925.



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Bunker Hill Community College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Bunker Hill Community College (the College) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

The financial statements of the College are intended to present the financial position, the changes in financial position and cash flows that are attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1 – 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013 on our consideration of the 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 the College's internal control over financial reporting and compliance.

KPMG LLP

October 21, 2013

BUNKER HILL COMMUNITY COLLEGE

Statements of Net Position

June 30, 2013 and 2012

	Bunker Hill Community College 2013	Bunker Hill Community College 2012	Bunker Hill Community College Foundation 2013	Bunker Hill Community College Foundation 2012
Assets and Deferred Outflows				
Current assets:				
Cash and cash equivalents (note 2)	\$ 653,289	445,002	660,575	592,056
Cash held by State Treasurer (note 3)	240,422	20,084	—	—
Short-term investments (note 2)	12,330,787	20,968,061	—	—
Deposits with bond trustee – restricted (note 2)	71,802	74,565	—	—
Accounts receivable, net (note 4)	2,436,378	2,214,153	21,632	4,393
Inventory and other assets	276,938	242,041	—	—
Total current assets	<u>16,009,616</u>	<u>23,963,906</u>	<u>682,207</u>	<u>596,449</u>
Noncurrent assets:				
Cash and cash equivalents – restricted (note 2)	125,751	125,461	—	—
Long-term investments (note 2)	10,281,212	3,707,978	4,867,933	3,865,566
Loans receivable, net (note 8)	7,536	7,536	—	—
Capital assets, net of accumulated depreciation (note 5)	30,566,222	30,555,932	—	—
Total noncurrent assets	<u>40,980,721</u>	<u>34,396,907</u>	<u>4,867,933</u>	<u>3,865,566</u>
Total assets	<u>56,990,337</u>	<u>58,360,813</u>	<u>5,550,140</u>	<u>4,462,015</u>
Deferred outflows of resources (note 7)	<u>1,284,959</u>	<u>1,996,832</u>	<u>—</u>	<u>—</u>
Total assets and deferred outflows	<u>\$ 58,275,296</u>	<u>60,357,645</u>	<u>5,550,140</u>	<u>4,462,015</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities (note 3)	\$ 3,691,667	3,336,363	1,827	19,964
Accrued payroll (note 3)	1,678,383	1,541,808	—	—
Compensated absences and workers comp (note 7)	2,552,927	2,469,788	—	—
Unearned revenues	258,904	272,456	—	—
Students' deposits and unearned revenues	3,386,136	3,367,505	—	—
Funds held for others	1,004,079	529,427	—	—
Current portion of bonds payable (note 6)	210,000	200,000	—	—
Current portion of liability for energy project	245,063	—	—	—
Other liabilities	93,330	93,040	—	—
Total current liabilities	<u>13,120,489</u>	<u>11,810,387</u>	<u>1,827</u>	<u>19,964</u>
Noncurrent liabilities:				
Bonds payable (note 6)	7,041,802	7,254,565	—	—
Liability for derivative instrument (note 7)	1,284,959	1,996,832	—	—
Liability for energy project (notes 6 and 17)	260,448	—	—	—
Compensated absences and workers comp (note 6)	1,803,497	1,822,168	—	—
Total noncurrent liabilities	<u>10,390,706</u>	<u>11,073,565</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>\$ 23,511,195</u>	<u>22,883,952</u>	<u>1,827</u>	<u>19,964</u>
Net Position				
Net investment in capital assets	\$ 23,386,220	23,175,930	—	—
Restricted (note 9):				
Expendable	39,957	39,957	3,555,265	3,065,353
Nonexpendable	—	—	1,015,651	744,562
Unrestricted (note 10)	<u>11,337,924</u>	<u>14,257,806</u>	<u>977,397</u>	<u>632,136</u>
Total net position	<u>\$ 34,764,101</u>	<u>37,473,693</u>	<u>5,548,313</u>	<u>4,442,051</u>

See accompanying notes to financial statements.

BUNKER HILL COMMUNITY COLLEGE
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2013 and 2012

	Bunker Hill Community College 2013	Bunker Hill Community College 2012	Bunker Hill Community College Foundation 2013	Bunker Hill Community College Foundation 2012
Operating revenues:				
Tuition and fees	\$ 42,002,038	40,722,107	—	—
Less scholarship allowances	(16,168,528)	(16,391,770)	—	—
Net tuition and fees	25,833,510	24,330,337	—	—
Federal, state, local and private grants and contracts	33,282,185	31,913,303	738,903	518,767
Other auxiliary enterprises	506,982	392,042	—	—
Other sources	1,735,371	1,614,013	260,402	221,893
Total operating revenues	<u>61,358,048</u>	<u>58,249,695</u>	<u>999,305</u>	<u>740,660</u>
Operating expenses (note 12):				
Instruction	33,022,239	31,015,536	—	—
Academic support	10,444,746	9,234,875	—	—
Student services	11,548,402	10,493,636	—	—
Scholarships	14,021,009	12,839,022	140,039	89,657
Operation and maintenance of plant	7,701,501	6,756,016	—	—
Institutional support	9,172,062	8,356,123	—	—
Depreciation and amortization	1,489,864	1,480,165	—	—
Other operating expenses	136,126	231,684	105,113	85,327
Total operating expenses	<u>87,535,949</u>	<u>80,407,057</u>	<u>245,152</u>	<u>174,984</u>
Operating (loss) income	<u>(26,177,901)</u>	<u>(22,157,362)</u>	<u>754,153</u>	<u>565,676</u>
Nonoperating revenues (expenses):				
Total state support (note 13)	23,110,219	23,707,867	—	—
Federal grants (ARRA)	—	31,368	—	—
Payments between Foundation and College	97,610	132,640	(97,610)	(132,640)
Net investment income (loss)	638,259	56,247	449,719	(126,039)
Interest expense	(460,624)	(468,976)	—	—
Net nonoperating revenues	<u>23,385,464</u>	<u>23,459,146</u>	<u>352,109</u>	<u>(258,679)</u>
Change in net position before capital appropriations	(2,792,437)	1,301,784	1,106,262	306,997
Capital appropriations (note 13)	82,845	24,846	—	—
Total change in net position	(2,709,592)	1,326,630	1,106,262	306,997
Net position, beginning of year	<u>37,473,693</u>	<u>36,147,063</u>	<u>4,442,051</u>	<u>4,135,054</u>
Net position, end of year	<u>\$ 34,764,101</u>	<u>37,473,693</u>	<u>5,548,313</u>	<u>4,442,051</u>

See accompanying notes to financial statements.

BUNKER HILL COMMUNITY COLLEGE

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	Bunker Hill Community College 2013	Bunker Hill Community College 2012
Cash flows from operating activities:		
Tuition, residence, dining and other student fees	\$ 42,009,512	40,429,801
Grants and contracts	33,009,431	32,333,094
Payments to suppliers	(35,662,244)	(31,004,028)
Payments to employees	(46,530,947)	(44,199,194)
Payments to students	(14,021,009)	(12,839,022)
Other cash receipts and payments	2,204,116	2,033,759
Net cash used in operating activities	<u>(18,991,141)</u>	<u>(13,245,590)</u>
Cash flows from noncapital financing activities:		
State appropriations	18,223,543	17,784,512
Federal grants (ARRA)	—	31,368
Other receipts/payments	88,858	(43,039)
Net cash provided by noncapital financing activities	<u>18,312,401</u>	<u>17,772,841</u>
Cash flows from capital and related financing activities:		
Capital appropriations	82,845	24,846
Purchases of capital assets	(749,580)	(507,183)
Principal payments on capital debt and leases	(200,000)	(222,470)
Interest payments on capital debt and leases	(467,664)	(476,033)
Net cash used in capital financing activities	<u>(1,334,399)</u>	<u>(1,180,840)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	71,412,038	59,442,507
Purchases of investments	(69,058,461)	(62,808,526)
Interest on investments	88,477	107,964
Net cash provided by investing activities	<u>2,442,054</u>	<u>(3,258,055)</u>
Net increase in cash and cash equivalents	428,915	88,356
Cash and cash equivalents (including cash held by State Treasurer) beginning of year	590,547	502,191
Cash and cash equivalents (including cash held by State Treasurer) end of year	\$ <u>1,019,462</u>	\$ <u>590,547</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (26,177,901)	(22,157,362)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,489,864	1,480,165
Fringe benefits provided by the State	4,886,676	5,923,355
Other non cash operating expenses	233,736	671,331
Changes in assets and liabilities:		
Accounts receivable, net	(222,225)	87,848
Inventory and other assets	(34,897)	(8,370)
Accounts payable and accrued liabilities	355,303	523,403
Accrued payroll and compensated absences	201,044	307,973
Student deposits and unearned revenues	18,632	550,027
Deferred revenues and other	258,627	(623,960)
Net cash used in operating activities	\$ <u>(18,991,141)</u>	\$ <u>(13,245,590)</u>
Noncash transactions:		
Fringe benefits provided by the State	\$ 4,886,676	5,923,355

See accompanying notes to financial statements.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) Organization

Bunker Hill Community College (the College) is the largest community college in Massachusetts. The College's main campus is located in Charlestown and it has a branch campus in Chelsea. In addition, it has four satellite campuses located in the Greater Boston area. The College provides instruction and training in a variety of liberal arts and sciences, allied health, engineering technologies and business fields of study. The College also offers, through the Division of Continuing Education, credit and noncredit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

(b) Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services and certain grants and contracts. Certain other transactions are reported as nonoperating activities. These nonoperating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts, and interest expense.

During 2013, the College implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which resulted in no material changes to the accompanying financial statements.

Bunker Hill Community College Foundation, Inc. (the Foundation) is a not for profit corporation established in July 1986. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. The Foundation is located at the College's Charlestown campus. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College as of June 30, 2013 and 2012 and is therefore discretely presented in the College's financial statements. During the years ended June 30, 2013 and 2012, the Foundation distributed \$97,610 and \$132,640, 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, 250 New Rutherford Avenue, Boston, Massachusetts 02129.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(c) ***Net Position***

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

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

Restricted – Nonexpendable: Net position subject to externally imposed conditions 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.

(d) ***Cash Equivalents***

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

(e) ***Investments***

Investments in marketable securities are stated at fair value.

The College has no donor restricted endowments.

(f) ***Capital Assets***

Real estate, including improvements, furnishings, equipment, and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period. College capital assets, with the exception of land and construction in progress, are depreciated on a straight line basis over their estimated useful lives, which range from 3 to 40 years.

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

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

(g) ***Fringe Benefits***

The College participates in the Commonwealth's Fringe Benefit programs, including health insurance, unemployment, pension, worker's compensation and certain postretirement benefits.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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

(h) *Compensated Absences*

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2013 and 2012. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2013 and 2012. Upon retirement, these employees are entitled to receive payment for this accrued balance.

(i) *Workers' Compensation*

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

(j) *Students' Deposits and Unearned Revenue*

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

(k) *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 inflow of resources on the statement of net position. In compliance with GASB Statement 53, the College has recorded a deferred outflow of resources and corresponding liability on both the 2013 and 2012 Statement of Net Position.

(l) *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, the student and are generally reflected as expenses.

(m) *Tax Status*

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

(n) *Use of Estimates*

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

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(2) **Cash and Investments**

(a) ***Overall Deposits and Investments Descriptions***

Deposits and investments consist of the following at June 30:

<u>Investment type</u>	<u>2013</u>	<u>2012</u>
Cash in bank	\$ 653,289	445,002
Cash in bank – restricted	125,751	125,461
Certificate of deposit	4,396,314	5,399,330
Proprietary money market funds – restricted	71,802	74,565
Money market funds	3,605,523	9,747,048
Massachusetts Municipal Depository Trust Funds	4,104,619	2,516,766
Corporate and municipal debt	2,831,566	2,422,840
Pioneer Floating Rate Fund	—	277,815
Mutual funds	3,423,596	893,083
Absolute return funds (hedge funds)	389,433	—
Federal agency securities	1,438,455	288,778
Equity investments	2,422,493	3,130,379
Total cash and investments	\$ <u>23,462,841</u>	<u>25,321,067</u>

The proprietary money market funds of \$71,802 represent unspent proceeds of a Pool M3-C Series bond issues through Mass HEFA which was converted to a MHEFA Pool ‘O’ Series bond.

(b) ***Concentration of Credit Risk***

Investments representing more than 5% of the College’s total cash and investments at June 30 consist of:

<u>2013</u>			
<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage of the total</u>
Commonwealth of Massachusetts	Massachusetts Municipal Depository Trust Funds	\$ 4,084,531	17%
Citizens Bank	Certificate of deposit	1,357,551	6
Sovereign Bank	Money market funds	3,105,894	13
TD Bank	Certificate of deposit	1,013,140	4
Peoples United Bank	Certificate of deposit	2,025,623	7

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

2012			
Issuer	Investment type	Fair value	Percentage of the total
Commonwealth of Massachusetts	Massachusetts Municipal Depository Trust Funds	\$ 2,516,766	10%
Citizens Bank	Certificate of deposit	1,354,125	5
Citizens Bank	Money market funds	3,553,319	14
Sovereign Bank	Certificate of deposit	1,029,580	4
Sovereign Bank	Money market funds	6,054,686	24
TD Bank	Certificate of deposit	1,010,056	4
Peoples United Bank	Certificate of deposit	2,005,569	8

(c) 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. Deposits are made in domestic banks that are federally insured and in some banks that are Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. The College's bank balances, including certificates of deposit, as of June 30, 2013 and 2012 were \$8,959,208 and \$15,628,683, respectively. Of these balances, \$7,878,766 and \$14,475,899, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

(d) Investment Policy

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

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(e) **Interest Rate Risk**

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

Investment type	Fair value	2013			
		Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
U.S. Treasury securities	\$ 692,469	—	692,469	—	—
Federal Agencies securities	745,986	—	745,986	—	—
Municipal bonds	89,336	30,045	31,311	27,980	—
Corporate bonds	<u>2,742,230</u>	<u>122,485</u>	<u>1,735,345</u>	<u>653,292</u>	<u>231,108</u>
	4,270,021	\$ <u>152,530</u>	<u>3,205,111</u>	<u>681,272</u>	<u>231,108</u>
Other cash and investments:					
Cash in bank	779,040				
Certificate of deposit	4,396,314				
Proprietary money market funds	71,802				
Equity securities					
Domestic	2,113,671				
International	308,823				
Mutual funds	3,423,596				
Massachusetts Municipal Depository Account	4,104,619				
Money market funds	3,605,523				
Hedge fund	<u>389,433</u>				
Total	\$ <u>23,462,842</u>				

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

The College's net investment income of \$638,259 for the year ended June 30, 2013 consisted of interest and dividend income and realized and unrealized gains and losses.

Investment type	2012				
	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 288,778	—	288,778	—	—
Corporate bonds	2,422,840	174,537	107,038	1,501,072	640,193
Pioneer Floating Rate Fund	277,815	277,815	—	—	—
Delaware Diversified Inc.	591,738	—	—	591,738	—
Legg Mason GLB Bond	301,345	—	301,345	—	—
	3,882,516	\$ 452,352	697,161	2,092,810	640,193
Other cash and investments:					
Cash in bank	570,463				
Certificate of deposits	5,399,330				
Equity securities – domestic	2,319,611				
Equity securities – international	810,768				
Money market funds	9,606,134				
Proprietary money market funds	215,479				
Massachusetts Municipal Depository Account	2,516,766				
Total	\$ 25,321,067				

The College's net investment income of \$56,247 for the year ended June 30, 2012 consisted of interest and dividend income and realized and unrealized gains and losses.

(f) Disclosure of Credit Risk of Debt Securities

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

Rated debt investments	2013					
	Fair value	Quality ratings				
		Aaa	A1	A2	A3	Aa2
U.S. Treasury securities	\$ 692,469	692,469	—	—	—	—
Federal agencies securities	745,986	745,986	—	—	—	—
Municipal bonds	89,336	—	—	31,311	—	—
Corporate bonds	2,742,230	—	326,532	186,846	585,764	36,758
Total	\$ 4,270,021	1,438,455	326,532	218,157	585,764	36,758

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

Rated debt investments	2013			
	Quality ratings			
	Aa3	Baa	BBB-	Unrated
U.S. Treasury securities	\$ —	—	—	—
Federal agencies securities	—	—	—	—
Municipal bonds	27,980	30,045	—	—
Corporate bonds	—	725,535	243,485	637,310
	<u>\$ 27,980</u>	<u>755,580</u>	<u>243,485</u>	<u>637,310</u>

Rated debt investments	Fair value	2012				
		Quality ratings				
		AAA	AA+	AA	A	A3
U.S. Treasury securities	\$ 288,778	288,778	—	—	—	—
Corporate debt	2,422,840	—	654,841	174,537	340,554	320,271
Pioneer Floating Rate Fund	277,815	—	—	—	—	—
Other Funds	893,083	—	—	—	893,083	—
Total	<u>\$ 3,882,516</u>	<u>288,778</u>	<u>654,841</u>	<u>174,537</u>	<u>1,233,637</u>	<u>320,271</u>

Rated debt investments	Fair value	2012		
		Quality ratings		
		BAA1	BAA2	Unrated
U.S. agencies	\$ 288,778	—	—	—
Corporate debt	2,422,840	403,865	396,328	132,444
Pioneer Floating Rate Fund	277,815	—	—	277,815
Other Funds	893,083	—	—	—
Total	<u>\$ 3,882,516</u>	<u>403,865</u>	<u>396,328</u>	<u>410,259</u>

(g) **Investments of the Foundation**

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

	Fair value	
	2013	2012
Mutual funds	\$ 3,612,685	2,908,809
Corporate bonds	1,254,440	955,868
Mortgage agency bonds	808	889
	<u>\$ 4,867,933</u>	<u>3,865,566</u>

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income, net of amortization	\$ 86,383	73,775
Realized gain (loss)	51,048	77,351
Unrealized gain (loss) on investments	312,288	(277,165)
	<u>\$ 449,719</u>	<u>(126,039)</u>

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from State appropriated funds totaled \$240,422 and \$20,084 at June 30, 2013 and 2012, 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.

(4) Accounts Receivable

Accounts receivable include the following at June 30:

	<u>2013</u>	<u>2012</u>
Student accounts receivable	\$ 414,737	576,454
Grants receivable	653,607	427,418
Financial aid receivable	599,688	566,675
Other receivables	873,454	758,228
	2,541,486	2,328,775
Less allowance for doubtful accounts	<u>(105,108)</u>	<u>(114,622)</u>
	<u>\$ 2,436,378</u>	<u>2,214,153</u>

The College has determined that the net amount of accounts receivable will be collected within one year.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(5) Capital Assets

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

	Estimated lives (in years)	2013			Ending balance 2013
		Beginning balance 2012	Additions	Deductions or transfers	
Capital assets not being depreciated:					
Land	—	\$ 208,827	—	—	208,827
Capital work in progress	—	132,584	772,676	—	905,260
Total not being depreciated		341,411	772,676	—	1,114,087
Capital assets being depreciated:					
Building, including improvements	20 – 40	47,993,024	500,498	—	48,493,522
Furnishings and equipment (including assets under capital leases)	3 – 10	4,251,208	56,594	—	4,307,802
Motor vehicles	3 – 10	237,214	170,386	—	407,600
Books	5	614,858	—	—	614,858
Total being depreciated		53,096,304	727,478	—	53,823,782
Less accumulated depreciation:					
Building, including improvements	—	(18,918,399)	(1,206,442)	—	(20,124,841)
Furnishings and equipment	—	(3,161,694)	(253,650)	—	(3,415,344)
Motor vehicles	—	(186,832)	(29,772)	—	(216,604)
Books	—	(614,858)	—	—	(614,858)
Total accumulated depreciation		(22,881,783)	(1,489,864)	—	(24,371,647)
Capital assets, net		\$ 30,555,932	10,290	—	30,566,222

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

	Estimated lives (in years)	2012			Ending balance 2012
		Beginning balance 2011	Additions	Deductions or transfers	
Capital assets not being depreciated:					
Land	—	\$ 208,827	—	—	208,827
Capital work in progress	—	98,823	33,761	—	132,584
Total not being depreciated		307,650	33,761	—	341,411
Capital assets being depreciated:					
Building, including improvements	20 – 40	47,584,445	408,579	—	47,993,024
Furnishings and equipment (including assets under capital leases)	3 – 10	4,186,363	64,845	—	4,251,208
Motor vehicles	3 – 10	260,852	—	(23,638)	237,214
Books	5	614,858	—	—	614,858
Total being depreciated		52,646,518	473,424	(23,638)	53,096,304
Less accumulated depreciation:					
Building, including improvements	—	(17,729,679)	(1,188,720)	—	(18,918,399)
Furnishings and equipment	—	(2,887,522)	(274,172)	—	(3,161,694)
Motor vehicles	—	(193,197)	(17,273)	23,638	(186,832)
Books	—	(614,858)	—	—	(614,858)
Total accumulated depreciation		(21,425,256)	(1,480,165)	23,638	(22,881,783)
Capital assets, net		\$ 31,528,912	(972,980)	—	30,555,932

Interest expense in the amount of \$460,624 for FY 2013 and \$468,976 for FY 2012 is shown as nonoperating expenses.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(6) Long-Term Liabilities

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

	2013				
	Beginning balance 2012	Additions	Reductions	Ending balance 2013	Current portion
Other long-term liabilities:					
Bonds payable	\$ 7,454,565	—	(202,763)	7,251,802	210,000
Note payable – energy project	—	750,574	(245,063)	505,511	245,063
Grant refundable	93,040	291	—	93,331	—
Sick and vacation	3,819,913	1,914,849	(1,809,461)	3,925,301	2,435,579
Workers' compensation	472,043	45,944	(86,864)	431,123	117,348
Total long-term liabilities	\$ 11,839,561	2,711,658	(2,344,151)	12,207,068	3,007,990
	2012				
	Beginning balance 2011	Additions	Reductions	Ending balance 2012	Current portion
Leases:					
Capital lease obligations (a)	\$ 32,470	—	(32,470)	—	—
Other long-term liabilities:					
Bonds payable	7,646,465	—	(191,900)	7,454,565	200,000
Grant refundable	92,727	313	—	93,040	—
Sick and vacation	3,597,968	1,908,603	(1,686,658)	3,819,913	2,358,671
Workers' compensation	439,941	195,083	(162,981)	472,043	111,117
Total long-term liabilities	\$ 11,809,571	2,103,999	(2,074,009)	11,839,561	2,669,788

(a) Operating Leases

The College leases computer equipment, software and copiers for various departments. Additionally, the College has leased one vehicle. On June 5, 2012, the College, acting through the commissioner of the Division of Capital Asset Management and Maintenance, entered into an agreement with Hood Business Park LLC to lease 25,284 square feet of building space for a term of seven years with annual payments ranging from \$706,600 in the first year to \$745,158 in the seventh year. The premises are being used for classroom instruction, workforce training, meeting space and educational administration with rental payments commencing from the date of occupancy – January 2013.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

The following schedule summarizes future minimum payments due under the noncancelable operating leases as of June 30, 2013:

	Operating leases	
	<hr/>	
Year ending June 30:		
2014	\$	897,513
2015		856,005
2016		826,526
2017		731,475
2018		738,171
2019		745,158
		<hr/>
	\$	4,794,848
		<hr/> <hr/>

Rental expense for operating leases was \$581,295 and \$289,558 for the years ended June 30, 2013 and 2012, respectively.

The following schedule summarizes future principal and interest payments on the College's February 2007 variable rate bond as of June 30, 2013:

	Principal	Interest	Interest rate swap, net*	Total
	<hr/>	<hr/>	<hr/>	<hr/>
Year ending June 30:				
2014	\$ 210,000	4,356	288,736	503,092
2015	210,000	4,230	280,037	494,267
2016	220,000	4,104	270,925	495,029
2017	230,000	3,972	261,398	495,370
2018	240,000	3,834	251,457	495,291
2019 – 2023	1,370,000	16,884	1,096,536	2,483,420
2024 – 2028	1,680,000	12,402	776,784	2,469,186
2029 – 2032	3,091,802	3,492	330,989	3,426,283
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 7,251,802	53,274	3,556,862	10,861,938
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* In conjunction with its February 2007 issuance of variable rate bonds, the College entered into an agreement with a financial institution counterparty to synthetically fix the interest rate on the bonds at 4.18%. This column represents the projected net amounts the College would have to pay the counterparty under the swap contract if interest rates were to remain unchanged from their value at June 30, 2013 during the remaining life of the swap. See note 7 for more information. The variable rate on the bonds as of June 30, 2013 was 0.06%.

RBS Citizens, N.A. (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," at

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

which it remained as of June 30, 2011. 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 Standards and Poors. During the fiscal year 2013, the short-term rating of the Bank remains at A-1 at status.

The Letter of Credit with the bank expired on August 31, 2012 and has been extended to December 31, 2014.

(7) Interest Rate Swap

(a) *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 (CBMA) in connection with its Pool M3-C Series tax-exempt variable rate bond in February 2007. This bond was replaced during fiscal year 2010 with a MHEFA Pool 'O' Series bond. The purpose of the swap agreement was to synthetically create a fixed rate on the underlying debt, and not for any speculative purposes.

The swap agreement, as amended in October 2010, is scheduled to mature on June 15, 2031. The swap's notional amount at inception was \$7,920,000 and will amortize in line with each payment of principal on the bonds. The notional amount at June 30, 2013 was \$7,180,000. Under the swap agreement, on the first day of each month, the College pays the counterparty monthly payments based on the fixed rate of 4.18% and the counterparty pays the bond trustee the floating rate, which is the Securities Industry and Financial Markets Association (SIFMA), on the same day.

(b) *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, 2013 was a liability of \$1,284,959 compared to \$1,996,832 at June 30, 2012, which is recorded in the College's statement of net position. The change in the fair value of the interest rate swap was \$711,873 and \$1,015,426 for the periods ending June 30, 2013 and 2012, respectively. The College has determined its interest rate swap to be an effective hedge and has recorded a corresponding deferred outflow of resources in the statement of net position.

(c) *Credit Risk*

The College is reliant upon the performance of the counterparty to perform according to the terms of the interest rate swap agreement. The College monitors the counterparty's (CBMA) credit rating, which is currently rated at A- by Standard and Poors. The College is not exposed to credit risk at June 30, 2013 or 2012 because the interest rate swap had a negative value.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(d) 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.

(e) 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.

(8) Restricted Net Position

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are composed of the following at June 30:

	<u>2013</u>	<u>2012</u>
Restricted – expendable:		
Loans	\$ 39,957	39,957

(9) Unrestricted Net Position

The College’s unrestricted net position at June 30 comprised the following:

	<u>2013</u>	<u>2012</u>
Net position designated by the College’s Board of Trustees for the following purposes:		
Capital repairs	\$ 1,250,000	1,400,000
Plant fund	2,427,349	2,000,000
Capital development plan	3,590,920	3,209,918
Technology upgrade	1,241,905	2,353,940
Instructional equipment	1,402,750	2,246,942
Academic programs	1,050,000	1,997,006
Student support services (Life map, Success Coaches, etc.)	325,000	1,000,000
SGA Health & Wellness Center	50,000	50,000
Total unrestricted net assets	\$ <u>11,337,924</u>	<u>14,257,806</u>

(10) 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.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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

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

(11) Operating Expenses

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

	<u>2013</u>	<u>2012</u>
Compensation and benefits	\$ 53,656,486	50,471,115
Supplies and services	18,368,590	15,616,755
Depreciation and amortization	1,489,864	1,480,165
Scholarships	14,021,009	12,839,022
	<u>\$ 87,535,949</u>	<u>80,407,057</u>

(12) State Appropriations

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

	<u>2013</u>	<u>2012</u>
Direct unrestricted appropriations	\$ 18,393,373	17,784,512
Add fringe benefits for benefited employees on the state payroll	4,886,676	5,923,355
Less day school tuition remitted to the state and included in tuition and fee revenue	(169,830)	—
Total unrestricted state support	<u>23,110,219</u>	<u>23,707,867</u>
Capital appropriation	<u>82,845</u>	<u>24,846</u>
Total state support	<u>\$ 23,193,064</u>	<u>23,732,713</u>

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(13) Fringe Benefit Program

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

(a) *Retirement Plan*

The Commonwealth is statutorily responsible for the pension benefits of College employees who participate in the Massachusetts State Employees' Retirement System (the Retirement System). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all nonstudent employees. The College is charged for the cost of these fringe benefits by the Commonwealth. Such pension expense amounted to \$1,834,079 and \$2,242,782 for the years ended June 30, 2013 and 2012, respectively. The decrease is due to the percentage decrease in pension benefits from 8.98% to 6.76% in the year 2013. Employees who contribute a percentage of their regular compensation fund the annuity portion of the Retirement System. Annual covered payroll for FY 2013 was 61% of annual total payroll for the College and for FY 2012 it was 62%.

(b) *Insurance*

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

(c) *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.

BUNKER HILL COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(14) Pass Through Grants

The College distributed \$6,497,456 and \$5,956,803 for student loans through the U.S. Department of Education Federal Direct Lending Program for the years ended June 30, 2013 and 2012, 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.

(15) Clean Energy Investment Program

In fiscal 2012, the College entered into an agreement with DCAM to participate in the Massachusetts Clean Energy Investment Program (CEIP). Under the program, DCAM is 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 will be responsible for reimbursing the Commonwealth for the CEIP funding of \$3.2 million plus interest. The interest rate on this obligation is 4% and semi-annual payments are expected to begin in January 2013 and run through 2032.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2014	\$ 115,351	129,712	245,063
2015	119,933	125,130	245,063
2016	124,703	120,360	245,063
2017	129,665	115,398	245,063
2018	134,831	110,232	245,063
2019 – 2023	759,311	466,004	1,225,315
2024 – 2028	923,937	301,378	1,225,315
2029 – 2032	879,479	100,775	980,254
	<u>\$ 3,187,210</u>	<u>1,468,989</u>	<u>4,656,199</u>

As the project is not yet completed, the amount owed by the College as of June 30, 2013 only reflects the amount of construction costs incurred through June 30, 2013 of \$750,574. The College made the first payment totaling \$245,063 on this note in 2013.



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**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***

The Board of Trustees
Bunker Hill Community College:

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 the business-type activities and the discretely presented component unit of Bunker Hill Community College (the College) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 21, 2013. Our report includes a reference to other auditors who audited the financial statements of Bunker Hill Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

KPMG LLP

October 21, 2013