

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

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

JUNE 30, 2016

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

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

June 30, 2016 and 2015

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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 "College"), which comprise the statements of net position as of and for the years ended June 30, 2016 and 2015 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, 2016 and 2015, and the related statements of revenues, expenses, and 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bunker Hill Community College as of June 30, 2016 and 2015, 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 3-28, the schedules of proportionate share of the net pension liability on page 64, the schedules of contributions of page 65 and the notes to the required supplementary information on page 66 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 21, 2016, 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 21, 2016

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis

June 30, 2016 and 2015

(Unaudited)

The following discussion and analysis provides management's view of the financial position of Bunker Hill Community College (the "College") as of June 30, 2016 and 2015, 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 2016 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, 2016, the College's assets and deferred outflows were \$73,211,991 and its liabilities and deferred inflows were \$38,485,165 resulting in net position of \$34,726,826. This represents an increase in net position of \$2,488,262 for fiscal year 2016. By contrast, at June 30, 2015, the College's assets and deferred outflows were \$70,431,810 and its liabilities and deferred inflows were \$38,193,246 resulting in net position of \$32,238,564. This represents an increase in net position of \$3,199,769 for fiscal year 2015.

	June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Invested in capital assets, net of related liabilities	\$ 27,277,967	\$ 25,390,311	\$ 23,956,616
Unrestricted	<u>7,448,859</u>	<u>6,848,253</u>	<u>5,082,179</u>
Total net position	<u>\$ 34,726,826</u>	<u>\$ 32,238,564</u>	<u>\$ 29,038,795</u>

- 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 \$2,488,262 in fiscal year 2016 and \$3,199,769, in fiscal year 2015 was due primarily to an increase in the direct unrestricted State appropriation that was driven by the performance based budget formula.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Overview of the Financial Statements

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

Bunker Hill Community College Foundation (the "Foundation") is a legally separate tax exempt component unit of Bunker Hill Community College. The Foundation acts primarily as a fundraising 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 Statements of Net Position present 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 Statements 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's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Overview of the Financial Statements - Continued

The Statements of Cash Flows are 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 29-31 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 32-63 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 2016, assets exceeded liabilities by \$34,726,826 compared to \$32,238,564 in fiscal year 2015.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

The College's FY 2016 net position of \$34,726,826 includes investment in capital assets of \$27,277,967 (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 2016 and 2015	
	2016	2015	Dollar Change	Percentage Change
Current assets	\$ 24,349,913	\$ 28,510,612	\$ (4,160,699)	-15%
Noncurrent assets	44,179,954	39,485,145	4,694,809	12%
Deferred outflows	4,682,124	2,436,053	2,246,071	92%
Total assets and deferred outflows	73,211,991	70,431,810	2,780,181	4%
Current liabilities	13,325,276	15,969,432	(2,644,156)	-17%
Noncurrent liabilities	23,950,384	20,636,000	3,314,384	16%
Deferred inflows	1,209,505	1,587,814	(378,309)	-24%
Total liabilities and deferred inflows	38,485,165	38,193,246	291,919	1%
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%

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

	Summary of the College's Net Assets			
	June 30		Between 2015 and 2014	
	2015	2014 (Restated)	Dollar Change	Percentage Change
Current assets	\$ 28,510,612	\$ 23,980,011	\$ 4,530,601	19%
Noncurrent assets	39,485,145	37,680,100	1,805,045	5%
Deferred outflows	2,436,053	1,913,913	522,140	27%
Total assets and deferred outflows	70,431,810	63,574,024	6,857,786	11%
Current liabilities	15,969,432	12,803,629	3,165,803	25%
Noncurrent liabilities	20,636,000	21,731,600	(1,095,600)	-5%
Deferred inflows	1,587,814	-	1,587,814	100%
Total liabilities and deferred inflows	38,193,246	34,535,229	3,658,017	11%
Net position:				
Invested in capital assets, net of related debt	25,390,311	23,956,616	1,433,695	6%
Unrestricted	6,848,253	5,082,179	1,766,074	35%
Total net position	\$ 32,238,564	\$ 29,038,795	\$ 3,199,769	11%

- As stated earlier, the increase in the College's net position of \$2,488,262 in fiscal year 2016 and \$3,199,769 in fiscal year 2015 was due primarily to an increase in the direct unrestricted State appropriation that was driven by the performance based budget formula.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

	Summary of Changes in Net Position			
	Years Ended June 30		Between 2016 and 2015	
	2016	2015	Dollar Change	Percentage Change
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	2,363,992	2,652,068	(288,076)	(11)
Total operating revenues	63,340,319	64,439,799	(1,099,480)	(2)
Total operating expenses	95,353,544	92,252,715	3,100,829	3
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	(672,852)	(294)
Total nonoperating	34,501,487	31,012,685	3,488,801	11
Total change in net position	2,488,262	3,199,769	(711,507)	(22)
Net position, beginning of year	32,238,564	29,038,795	3,199,769	11
Net position, end of year	\$ 34,726,826	\$ 32,238,564	\$ 2,488,262	8%

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

	Summary of Changes in Net Position			
	Year Ended June 30		Between 2015 and 2014	
	2015	2014 (Restated)	Dollar Change	Percentage Change
Operating:				
Tuition and fees, net of scholarship allowances	\$ 25,718,887	\$ 26,145,752	\$ (426,865)	(2)%
Grants and contracts	36,068,844	36,131,398	(62,554)	—
Other operating revenues	2,652,068	2,075,385	576,683	28
Total operating revenues	64,439,799	64,352,535	87,264	—
Total operating expenses	92,252,715	92,419,630	(166,915)	—
Operating loss	(27,812,916)	(28,067,095)	254,179	(1)
Nonoperating:				
Total state support	30,784,194	27,490,023	3,294,171	12
Net other nonoperating	228,491	1,762,080	(1,533,588)	(87)
Total nonoperating	31,012,685	29,252,103	1,760,583	6
Total change in net position	3,199,769	1,185,008	2,014,761	170
Net position, beginning of year	29,038,795	27,853,787	1,185,008	4
Net position, end of year	\$ 32,238,564	\$ 29,038,795	\$ 3,199,769	11%

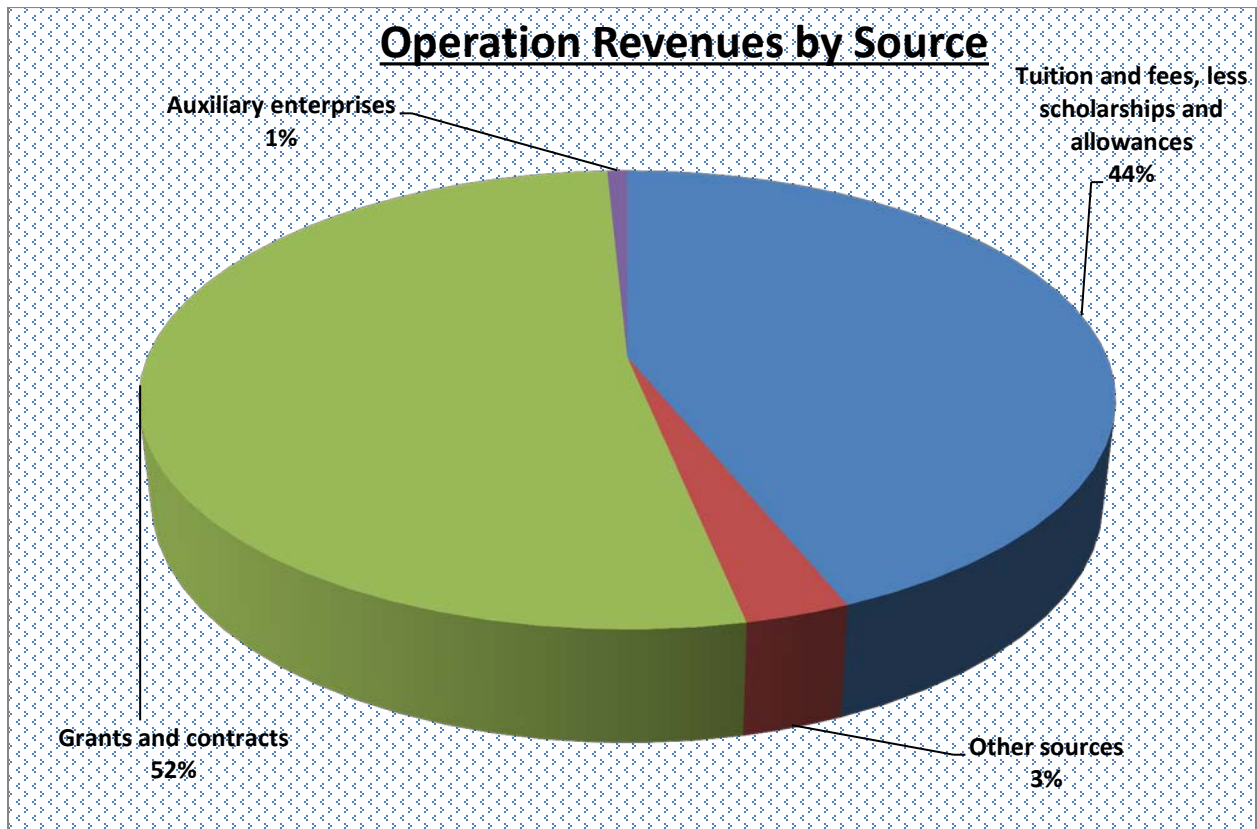
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



Tuition and fees, less scholarships and allowances increased by 8% in fiscal year 2016 compared to a decrease of 2% in fiscal year 2015. Tuition and fees, less scholarship allowances were 44% of total operating revenue in fiscal year 2016 compared to 40% in fiscal year 2015. Federal, State, Local and Private Grants and contracts revenue decreased by 2% compared to fiscal year 2015 and was 52% of total operating revenue in fiscal year 2016.

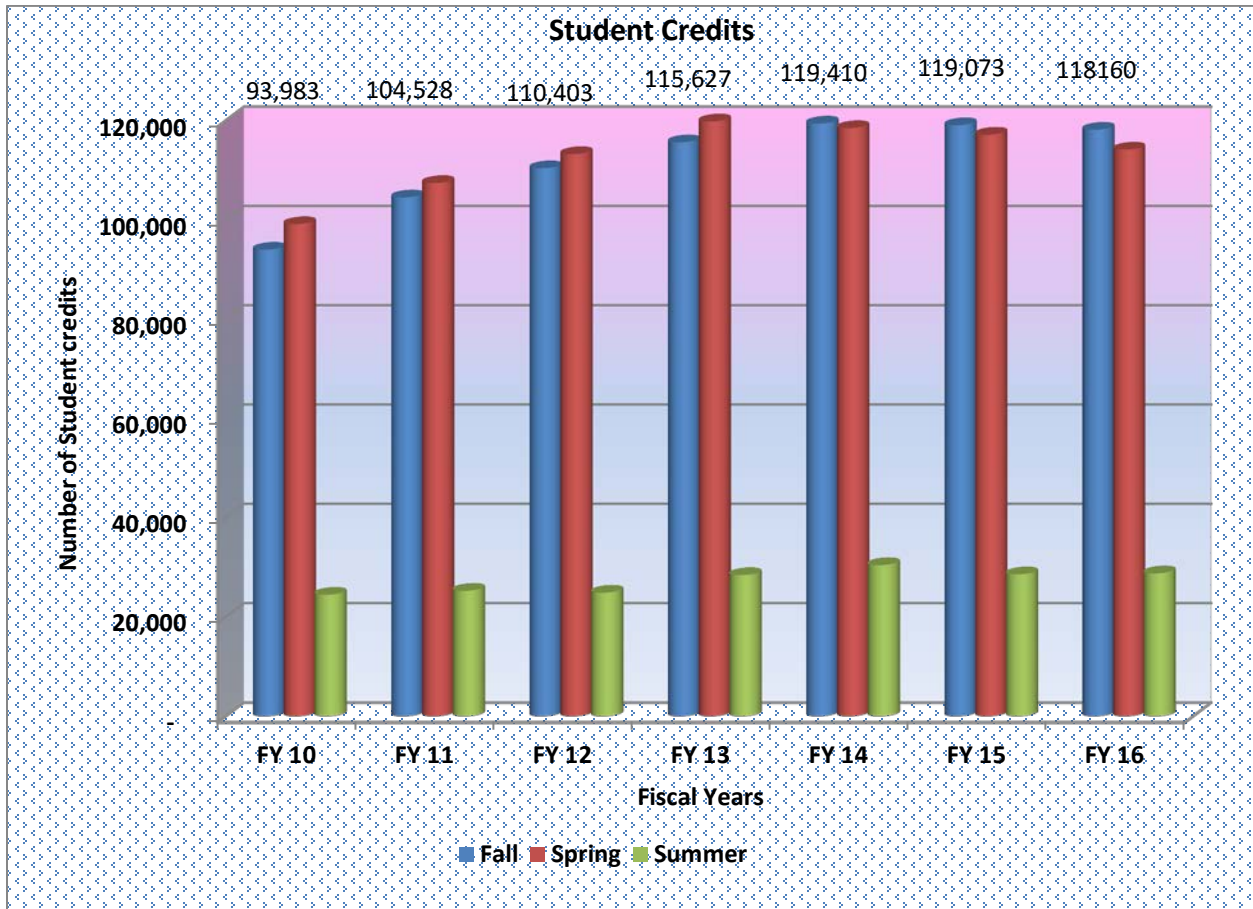
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



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

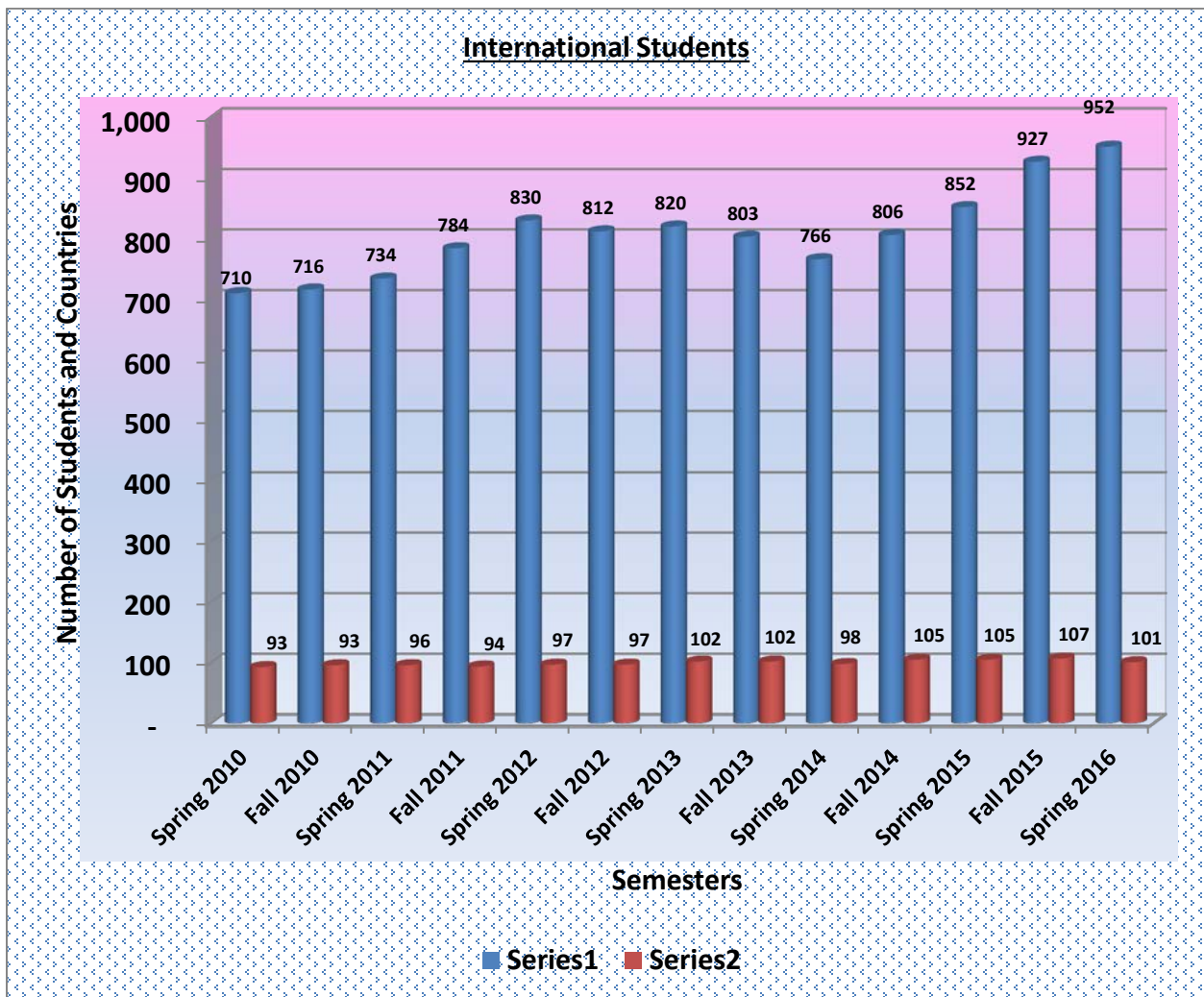
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



The College experienced an increase in international students' enrollment by 100 students in spring 2016 compared to spring 2015. This is the highest enrollment of international students in the history of the College at 952 students in spring 2016.

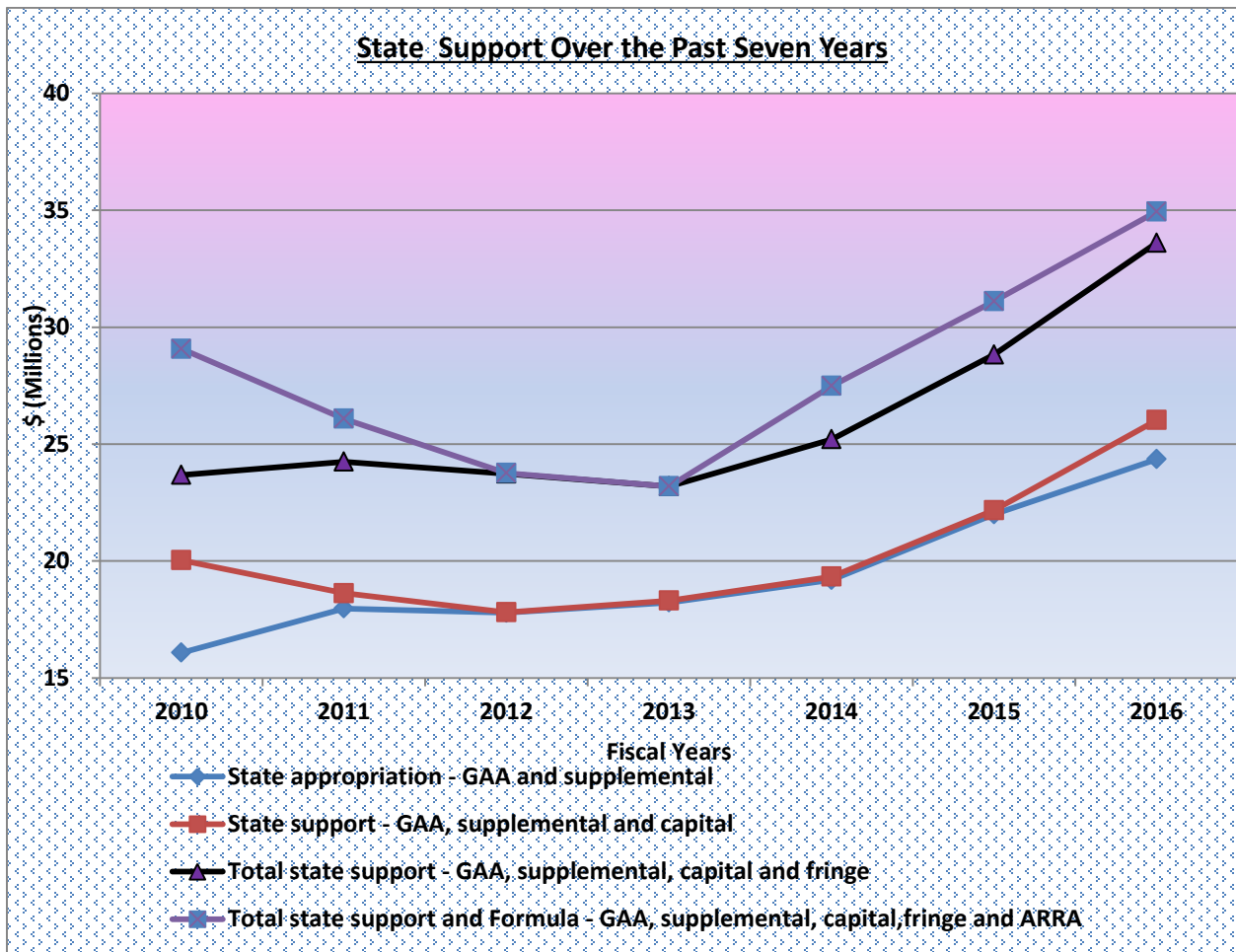
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



The seven-year trend analysis shows that for the year ended June 30, 2016, 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.

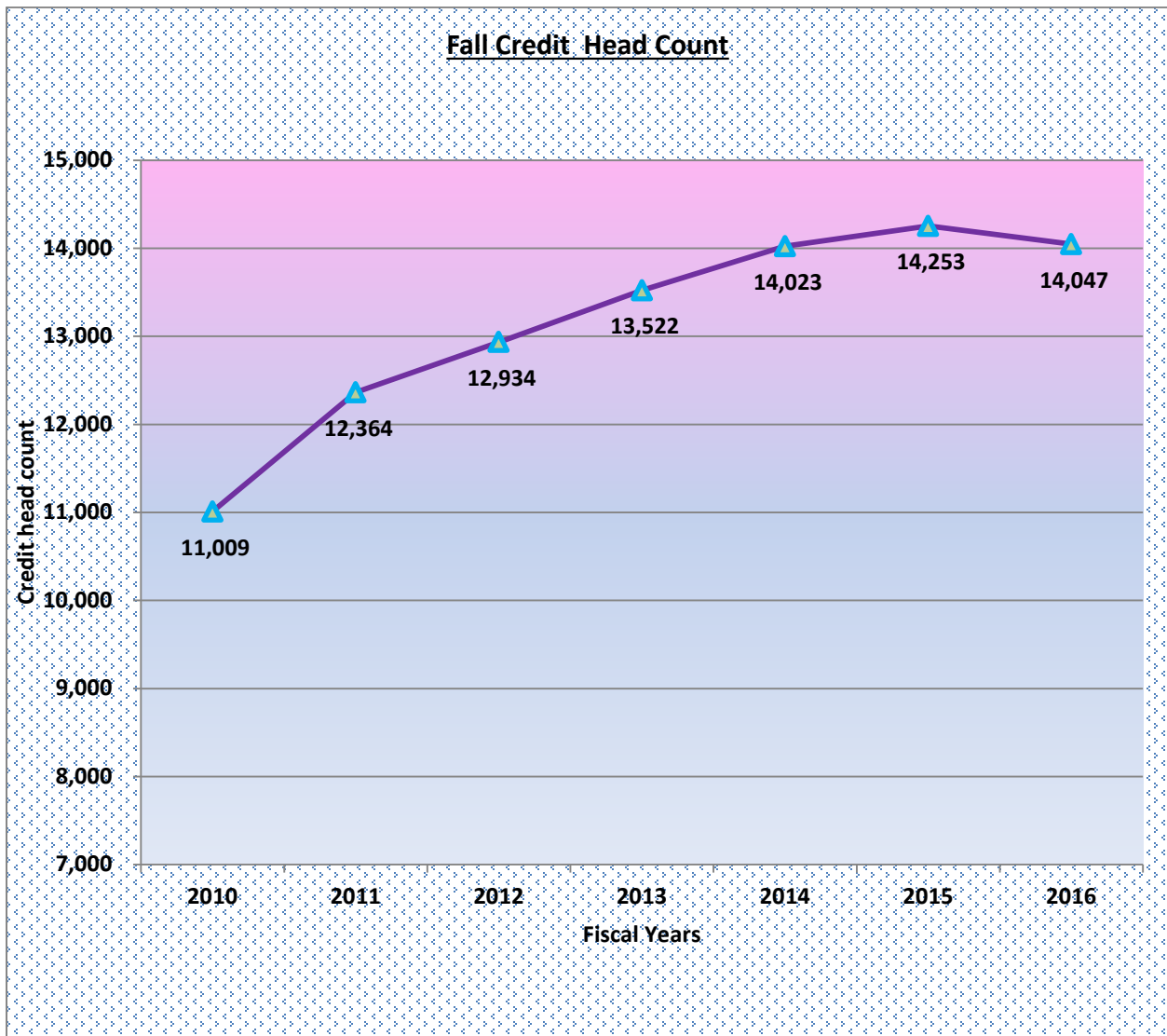
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



The College's head count has increased consistently over the years to over 14,253 students in spring 2015 semester and declined marginally by 106 students in Spring 2016 to 14,047 students.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

Major grants and contracts received by the College for 2016 included the following:

- PELL grant from US Department of Education in the amount of \$24,767,177 for student financial aid. This is a decrease of \$2,133,719 (8%) from 2015 and a decrease of \$2,211,870 (8%) from 2014.
- SEOG grant from US Department of Education in the amount of \$472,858 for student financial aid. This is a decrease of \$7,948 from 2015 and a decrease of \$91,737 from 2014.
- Nursing grant from US Department of Health and Human Services in the amount of \$300,000 for student financial aid. This is an increase of \$31,260 from 2015 and \$65,525 from 2014.
- MASS CASH grant from Massachusetts Board of Higher Education in the amount of \$1,618,331 for student financial aid. This is an increase of \$37,361 from 2015 and an increase of \$190,269 from 2014.
- MASS grant from Massachusetts Board of Higher Education in the amount of \$1,018,812 for student financial aid. This is a decrease of \$13,965 from 2015 and a decrease of \$30,737 from 2014.
- TRIO grant from U.S. Department of Education of \$508,355. This is a decrease of \$49,621 from 2015 and a decrease of \$21,666 from 2014.
- Grants and contracts from other sources in the amount of \$5,895,609 for specific purposes. This is an increase of \$648,930 and \$345,976 from 2015 and 2014, respectively:
 - State Appropriated grants received for MCAS of \$157,200.
 - Department of Higher Education grants received for Adult Basic Education of \$639,589, Perkins Vocational grant of \$449,511 and TITLE III grant of \$374,177.
 - Local grants received from the Center for Allied Health of \$36,754.
 - United States Department of Labor grants received: through Quinsigamond Community College of \$17,934; through Collin College, Texas of \$164,616; through Passaic Community College of \$527,800.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

- Auxiliary enterprises (Workforce development contracts) revenue decreased by 13% or \$73,222 in fiscal year 2016.

Tuition and fees received by the College included the following:

	Years Ended June 30,		Between 2016 and 2015	
	2016	2015	Dollar Change	Percentage Change
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	\$ <u>44,813,907</u>	\$ <u>43,486,025</u>	\$ <u>1,327,882</u>	<u>3%</u>

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

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

Comparison of Expenses by Function

	Years Ended June 30,		Between 2016 and 2015	
	2016	2015	Dollar	Percentage
			Change	Change
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>

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

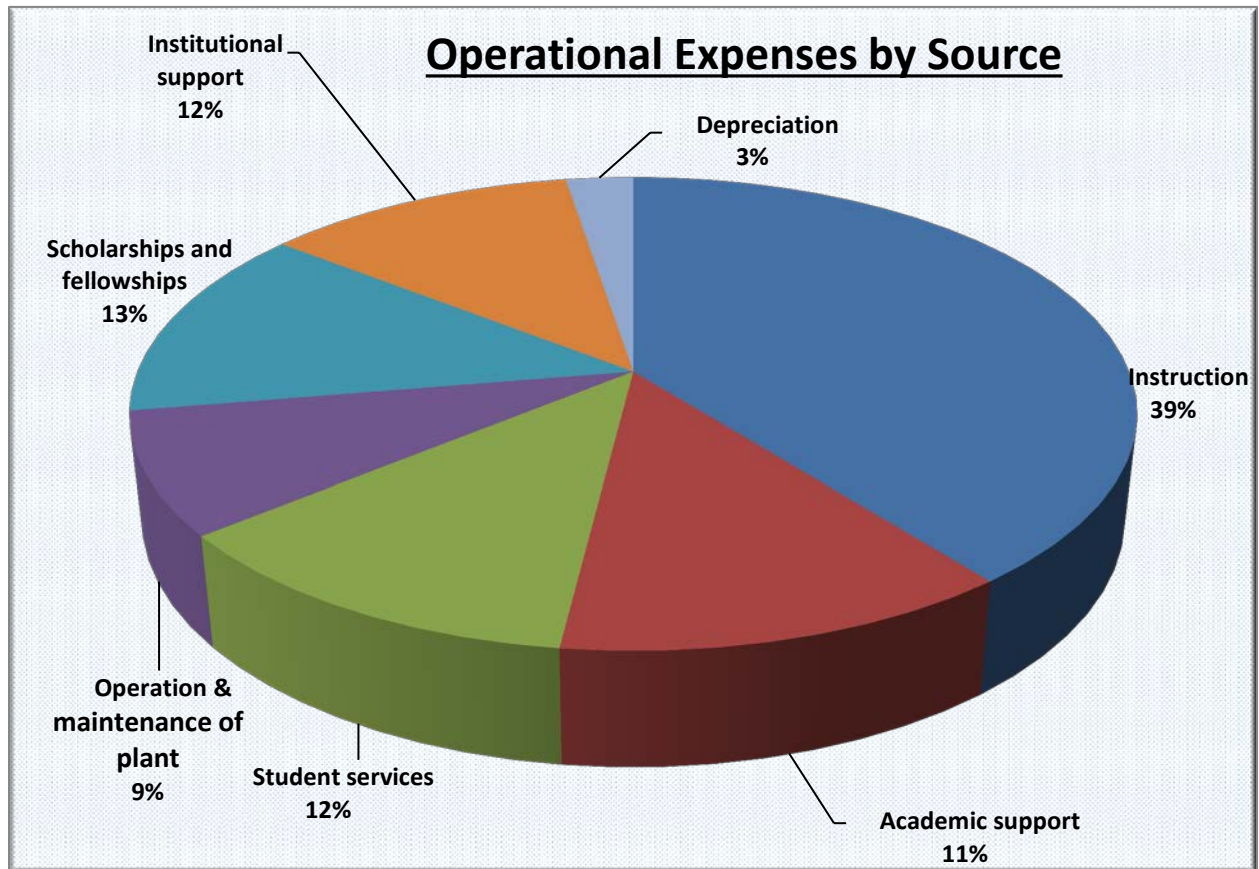
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



Highlights of operating expense activity:

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

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

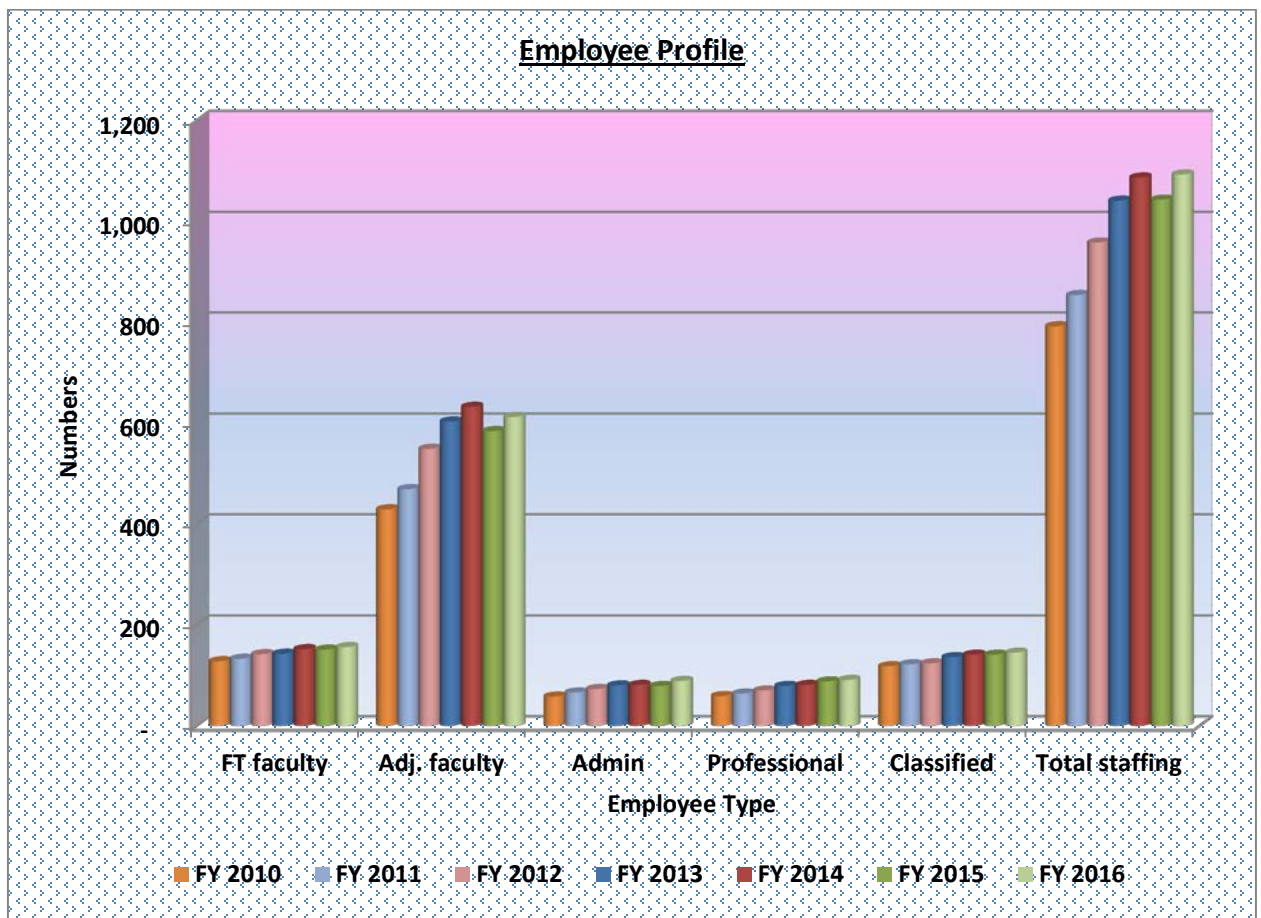
June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

The expenditure on instruction in fiscal year 2016 increased mainly due to the employment of additional faculty and adjunct faculty in response to the increase in student enrollment and academic programs.

The expenditure on scholarships and fellowships decreased by 11% or \$1,503,066 in fiscal year 2016 due to an overall decrease in grant aid other than those applied to tuition and fees. In fiscal year 2015, the decrease was 7% or \$1,044,318.



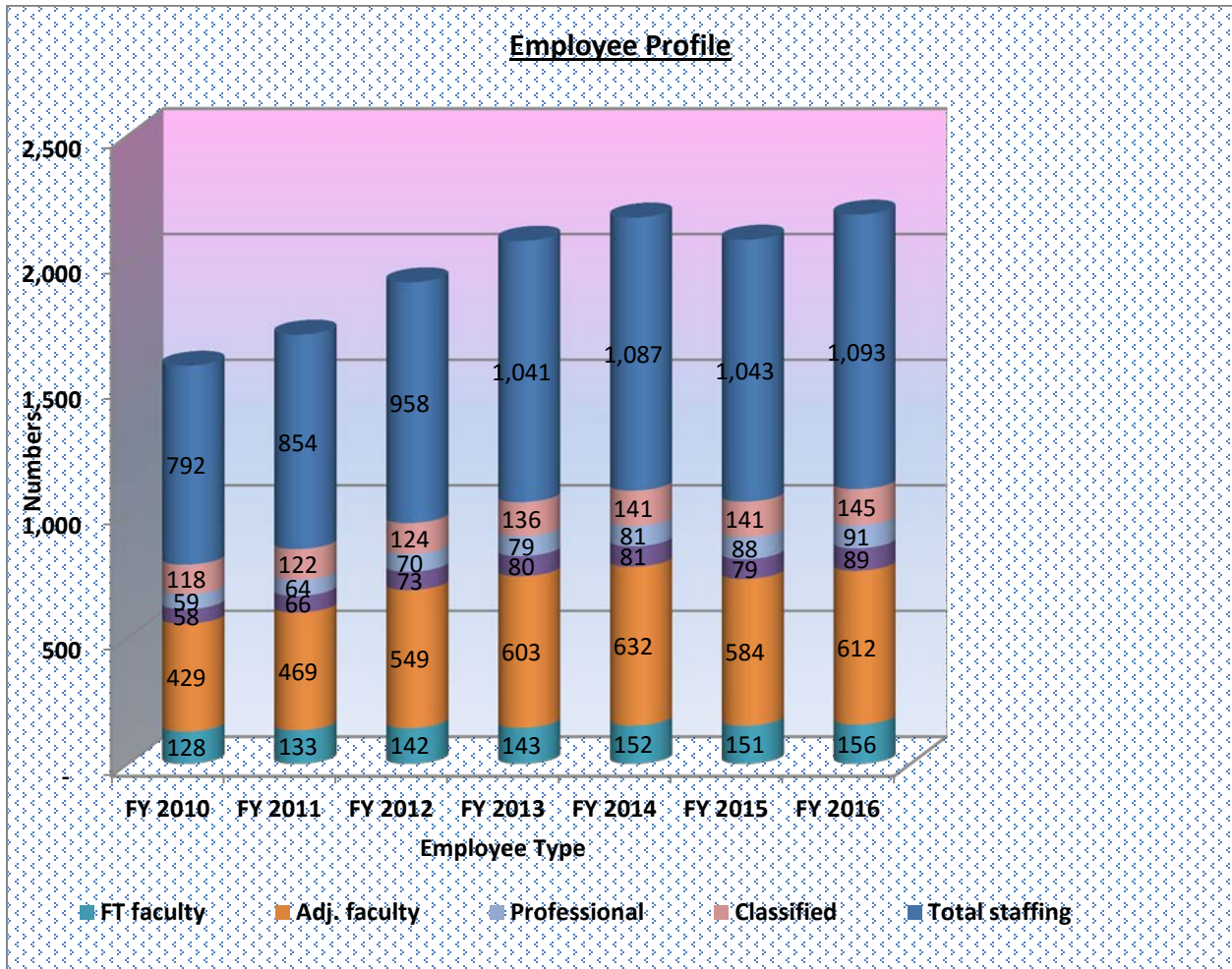
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Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

Loss from Operations

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

	Years Ended June 30,		Between 2016 and 2015	
	2016	2015	Dollar Change	Percentage Change
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	33,234,443	36,068,844	(2,834,401)	(8)
Other revenue	2,363,992	2,652,068	(288,076)	(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%

	Years Ended June 30,		Between 2015 and 2014	
	2015	2014 (Restated)	Dollar Change	Percentage Change
Tuition and fees	\$ 43,486,025	\$ 42,784,284	\$ 701,741	2%
Less scholarship allowances	(17,767,138)	(16,638,532)	(1,128,606)	7
Net tuition and fees	25,718,887	26,145,752	(426,865)	(2)
Grants and contracts	36,068,844	36,131,398	(62,554)	—
Other revenue	2,652,068	2,075,385	576,683	28
Operating expenses	(92,252,715)	(91,195,816)	(1,056,899)	1
Operating loss	\$ (27,812,916)	\$ (26,843,281)	\$ (969,635)	4%

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(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

	Years Ended June 30,		Between 2016 and 2015	
	2016	2015	Dollar Change	Percentage Change
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 in net position	\$ 2,488,262	\$ 3,199,769	\$ (711,507)	(22)%

	Years Ended June 30,		Between 2015 and 2014	
	2015	2014 (restated)	Dollar Change	Percentage Change
Operating loss	\$ (27,812,916)	\$ (26,843,281)	\$ (969,635)	4%
Nonoperating:				
Total state support	30,784,194	27,490,023	3,294,171	12
Net other nonoperating	228,491	1,762,080	(1,533,589)	(87)
Increase in net position	\$ 3,199,769	\$ 2,408,822	\$ 790,947	33%

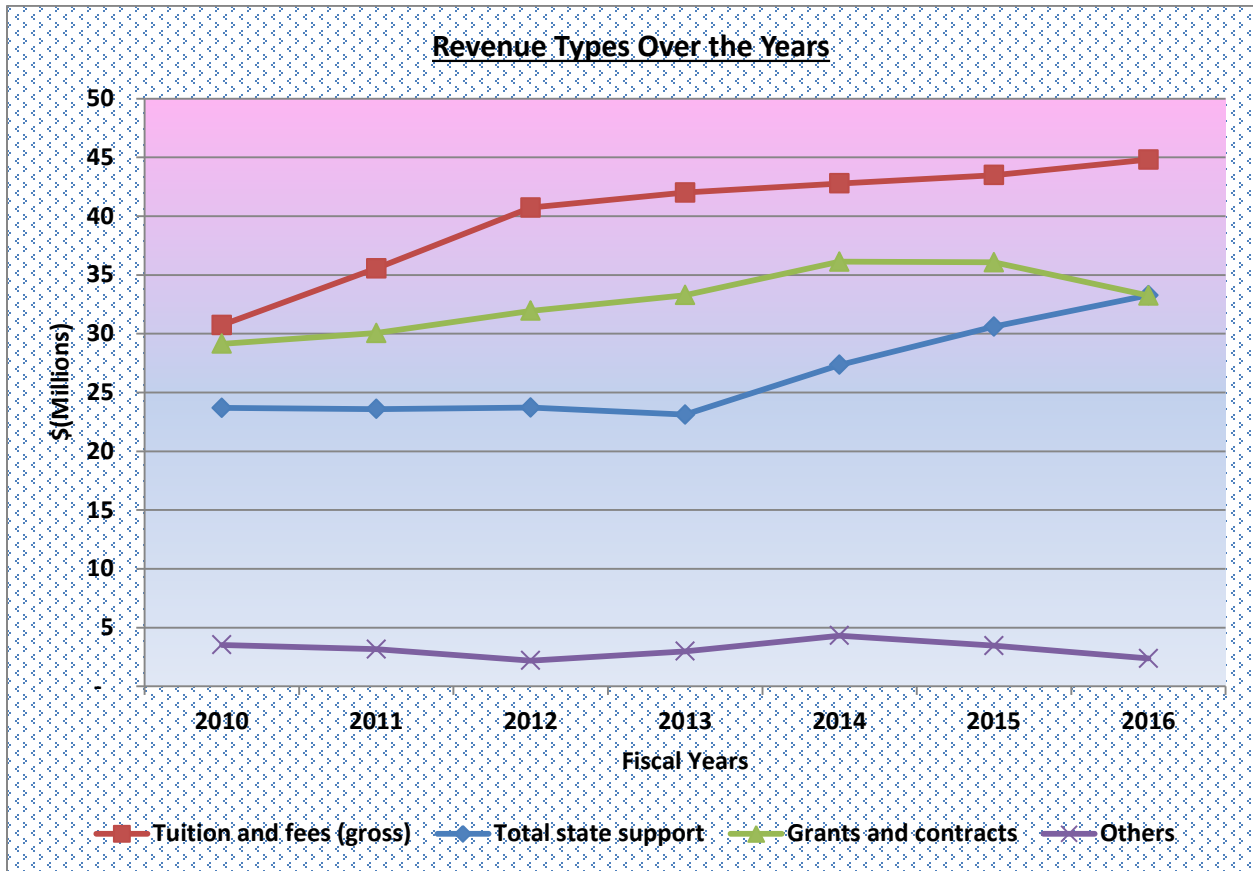
BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued



BUNKER HILL COMMUNITY COLLEGE

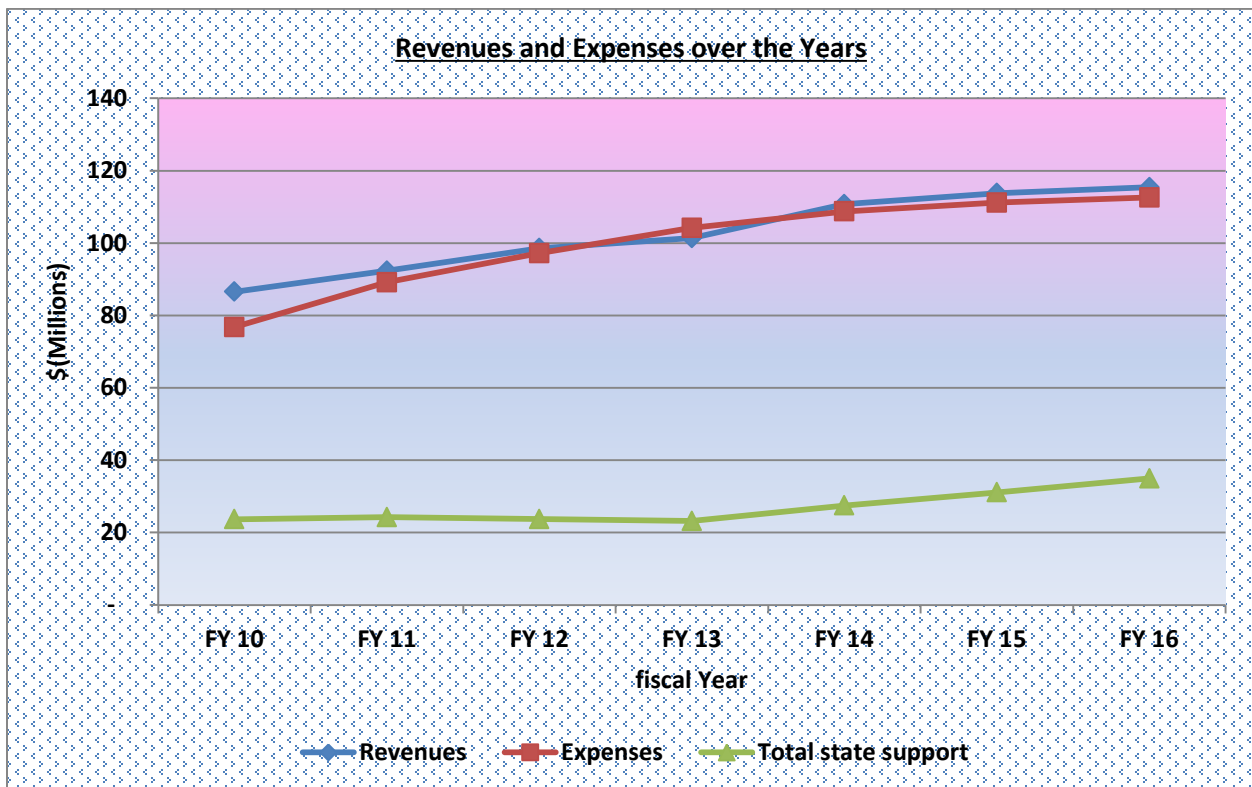
Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Financial Analysis - Continued

After fiscal year 2010, State appropriation ceased being the single largest source of funding to the College. Gross tuition and fees net of waivers for FY 2016 was the largest single source of revenue at \$44,813,907 or 39% followed by State appropriation of \$33,271,274 or 29% and grants and contracts of \$33,234,443 or 29%.



The seven year trend analysis shows that from FY 2010 revenue exceeded expenditure each year except FY 2013, when reserves were utilized to fund planned operational expenditures.

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Capital Assets of the College

The College's capital assets as of June 30, 2016 amounted to \$37,595,739, net of accumulated depreciation. The capital assets include land, buildings and improvements, furnishings, and equipment. Capital assets increased from \$35.1 million in FY 2015 to 37.6 million in FY 2016 mainly due to major enhancements to software at a cost of \$1,164,929, improvements to buildings at a cost of \$531,122, purchase of equipment at a cost of \$2,022,480, and purchase of vehicles at a cost of \$77,944. The total net addition to fixed assets during fiscal year 2016 was \$2,464,688 while the total depreciation amounted to \$2,422,185.

The Board of Trustees approves capital asset purchases. Additional information about the College's capital assets can be found in note 5 on pages 45-46 of this report.

Long-Term Liabilities of the College

During the fiscal year 2007, the College participated in a Pool M3-C Series, tax exempt, variable rate bond issued through Massachusetts Health and Educational Facilities Authority Capital Assets Program (HEFA) to finance the construction of the Health and Wellness Center. Of the Pool M3-C Series, tax exempt bond of \$8,000,000, a sum of \$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, 2016	\$	1,913,125

BUNKER HILL COMMUNITY COLLEGE

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Long-Term Liabilities of the College - Continued

In November 2011, the College participated in a clean energy (savings) program which was administered by the Department of Capital Asset Management and Maintenance (DCAM). This project, DCAM project number BHC 1001-EC1 was funded in part by a loan from the Clean Energy Investment program (CEIP) funds and in part by a General Obligation Bond through DCAM. The status of the CEIP funds as June 30, 2016 is as follows:

Date of note	November 29, 2011
Original amount of note	\$3,330,488
Unpaid principal balance	\$2,855,548
Maturity date	January 01, 2032
Interest rate	4.00%
Date to which interest has been paid	January 01, 2016

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, 2016 are as follows:

Asset value	\$1,160,596
Interest	\$ 69,101
Period of the lease	60 months
Annual payment	\$ 45,939
Lease obligation at June 30, 2016	\$ 922,226

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 2015 to 4.2% in June 2016, 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 2015 to 4.9% in June 2016. 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's Discussion and Analysis - Continued

June 30, 2016 and 2015

(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

(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2016 <u>College</u>	2015 <u>College</u>	2016 <u>Foundation</u>	2015 <u>Foundation</u>
Current Assets:				
Cash and equivalents (Note 2)	\$ 905,085	\$ 1,599,104	\$ 264,969	\$ 82,818
Deposits held by State Treasurer (Note 3)	1,635,760	3,608,384	-	-
Cash held by State Treasurer (Note 3)	1,628,070	301,976	-	-
Short-term investments (Note 2)	16,835,123	19,242,899	-	-
Deposits with bond trustee - restricted (Note 2)	65,402	67,602	-	-
Accounts receivable, net (Note 4)	2,936,127	3,379,415	62,668	17,428
Other assets	344,346	311,232	-	-
Total Current Assets	24,349,913	28,510,612	327,637	100,246
Non-Current Assets:				
Long-term investments (Note 2)	6,584,215	4,354,094	4,798,264	5,113,313
Capital assets, net of accumulated depreciation (Note 5)	37,595,739	35,131,051	-	-
Total Non-Current Assets	44,179,954	39,485,145	4,798,264	5,113,313
Total Assets	68,529,867	67,995,757	5,125,901	5,213,559
Deferred Outflows of Resources				
Interest rate swap (Note 7)	1,913,125	1,463,189	-	-
Contributions made after the plan measurement date (Note 8)	516,365	572,632	-	-
Changes in plan actuarial assumptions (Note 8)	1,803,065	86,815	-	-
Changes in proportion (Note 8)	243,768	313,417	-	-
Difference between expected and actual experience (Note 8)	205,801	-	-	-
Total Deferred Outflows of Resources	4,682,124	2,436,053	-	-
Total Assets and Deferred Outflows of Resources	\$ 73,211,991	\$ 70,431,810	\$ 5,125,901	\$ 5,213,559

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Unit	
	2016 <u>College</u>	2015 <u>College</u>	2016 <u>Foundation</u>	2015 <u>Foundation</u>
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 3,255,663	\$ 4,289,938	\$ 27,673	\$ 17,928
Accrued payroll	1,923,862	1,705,275	-	-
Compensated absences and workers' compensation (Note 6)	2,707,439	2,741,377	-	-
Unearned revenues	454,092	711,949	-	-
Students' deposits	3,617,116	5,247,646	-	-
Funds held for others	784,621	927,438	-	-
Current portion of capital lease obligations (Note 6)	221,642	-	-	-
Current portion of bonds payable (Note 6)	230,000	220,000	-	-
Current portion of liability for energy project (Note 6)	<u>130,841</u>	<u>125,809</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>13,325,276</u>	<u>15,969,432</u>	<u>27,673</u>	<u>17,928</u>
Non-Current Liabilities:				
Bonds payable (Note 6)	6,375,402	6,607,602	-	-
Liability for derivative instrument (Note 7)	1,913,125	1,463,189	-	-
Liability for energy project (Note 6)	2,724,706	2,855,548	-	-
Capital lease obligations (Note 6)	700,583	-	-	-
Compensated absences and workers compensation (Note 6)	1,825,031	1,986,648	-	-
Net pension liability (Note 8)	<u>10,411,537</u>	<u>7,723,013</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>23,950,384</u>	<u>20,636,000</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>37,275,660</u>	<u>36,605,432</u>	<u>27,673</u>	<u>17,928</u>
Deferred Inflows of Resources				
Difference between projected and actual earnings on plan investments	299,184	1,585,140	-	-
Changes in proportions	<u>910,321</u>	<u>2,674</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>1,209,505</u>	<u>1,587,814</u>	<u>-</u>	<u>-</u>
Net Position:				
Investment in capital assets, net	27,277,967	25,390,311	-	-
Restricted:				
Expendable	-	-	2,778,891	2,820,733
Non-expendable	-	-	1,525,050	1,508,644
Unrestricted (Note 9)	<u>7,448,859</u>	<u>6,848,253</u>	<u>794,287</u>	<u>866,254</u>
Total Net Position	<u>34,726,826</u>	<u>32,238,564</u>	<u>5,098,228</u>	<u>5,195,631</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 73,211,991</u>	<u>\$ 70,431,810</u>	<u>\$ 5,125,901</u>	<u>\$ 5,213,559</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,

	Primary <u>Government</u>	Component <u>Unit</u>		
	2016 <u>College</u>	2015 <u>College</u>	2016 <u>Foundation</u>	2015 <u>Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 44,813,907	\$ 43,486,025	\$ -	\$ -
Less: scholarship allowance	<u>(17,072,023)</u>	<u>(17,767,138)</u>	-	-
Net tuition and fees	27,741,884	25,718,887	-	-
Federal, state, local and private grants and contracts	33,234,443	36,068,844	263,609	299,944
Other auxiliary enterprises	500,589	573,811	-	-
Other sources	<u>1,863,403</u>	<u>2,078,257</u>	<u>271,871</u>	<u>266,742</u>
Total Operating Revenues	<u>63,340,319</u>	<u>64,439,799</u>	<u>535,480</u>	<u>566,686</u>
Operating Expenses (Note 11):				
Instruction	37,331,673	35,535,156	-	-
Academic support	11,956,651	11,420,724	-	-
Student services	11,951,175	11,306,668	-	-
Scholarships	12,511,212	14,014,278	376,660	277,525
Operation and maintenance of plant	7,883,555	7,364,155	-	-
Institutional support	11,297,093	10,678,764	-	-
Depreciation and amortization	2,422,185	1,932,970	-	-
Other operating expenses	-	-	136,368	141,514
Total Operating Expenses	<u>95,353,544</u>	<u>92,252,715</u>	<u>513,028</u>	<u>419,039</u>
Operating (Loss) Income	<u>(32,013,225)</u>	<u>(27,812,916)</u>	<u>22,452</u>	<u>147,647</u>
Non-Operating Revenues (Expenses):				
State appropriations (Note 12)	33,271,274	30,604,240	-	-
Payments between Foundation and College	54,935	777,977	(54,935)	(777,977)
Net investment income (loss)	38,475	31,611	(64,920)	180,208
Interest expense	<u>(537,770)</u>	<u>(581,097)</u>	-	-
Net Non-Operating Revenues (Expenses)	<u>32,826,914</u>	<u>30,832,731</u>	<u>(119,855)</u>	<u>(597,769)</u>
Change in Net Position Before Capital Appropriations	813,689	3,019,815	(97,403)	(450,122)
Capital appropriations (Note 12)	<u>1,674,573</u>	<u>179,954</u>	-	-
Total Change in Net Position	2,488,262	3,199,769	(97,403)	(450,122)
Net Position, Beginning of Year	<u>32,238,564</u>	<u>29,038,795</u>	<u>5,195,631</u>	<u>5,645,753</u>
Net Position, End of Year	<u>\$ 34,726,826</u>	<u>\$ 32,238,564</u>	<u>\$ 5,098,228</u>	<u>\$ 5,195,631</u>

See accompanying notes to the financial statements.

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30,

	Primary Government	
	<u>2016</u> <u>College</u>	<u>2015</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition, residence, dining and other student fees	\$ 44,059,637	\$ 45,199,178
Grants and contracts	33,029,782	37,280,074
Payments to suppliers	(36,121,398)	(34,354,386)
Payments to employees	(53,364,659)	(52,990,211)
Payments to students	(13,123,271)	(14,591,399)
Other cash receipts and payments	<u>1,284,302</u>	<u>2,325,272</u>
Net Cash Applied to Operating Activities	<u>(24,235,607)</u>	<u>(17,131,472)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	25,695,520	23,947,814
Other receipts/payments	<u>426,207</u>	<u>650,000</u>
Net Cash Provided by Non-Capital Financing Activities	<u>26,121,727</u>	<u>24,597,814</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	1,674,573	179,954
Purchases of capital assets	(3,422,428)	(2,722,812)
Principal payments on capital debt	(586,379)	(333,070)
Interest payments on capital debt	<u>(537,770)</u>	<u>(580,302)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(2,872,004)</u>	<u>(3,456,230)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	59,898,222	62,526,914
Purchases of investments	(60,307,270)	(66,228,836)
Interest on investments	<u>52,183</u>	<u>69,057</u>
Net Cash Applied to Investing Activities	<u>(356,865)</u>	<u>(3,632,865)</u>
Net Increase (Decrease) in Cash and Equivalents	(1,342,749)	377,247
Cash and Equivalents, Beginning of the Year	<u>5,577,066</u>	<u>5,199,819</u>
Cash and Equivalents, End of the Year	\$ <u>4,234,317</u>	\$ <u>5,577,066</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (32,013,225)	\$ (27,812,916)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization	2,422,185	1,932,970
Fringe benefits provided by the State	7,575,754	6,656,426
Net pension activity	514,081	68,172
Other noncash operating revenues and expenses	28,714	(1,342,497)
Changes in assets and liabilities:		
Accounts receivable, net	443,288	54,511
Other assets	(33,115)	(88,913)
Accounts payable and accrued liabilities	(1,165,117)	155,413
Accrued payroll, compensated absences, and workers' compensation	23,032	185,404
Student deposits	(1,630,530)	2,610,410
Funds held for others	(142,817)	156,278
Unearned revenues	<u>(257,857)</u>	<u>293,270</u>
Net Cash Applied to Operating Activities	<u>\$ (24,235,607)</u>	<u>\$ (17,131,472)</u>
Non-Cash Transactions:		
Fringe benefits provided by the State	<u>\$ 7,575,754</u>	<u>\$ 6,656,426</u>
Construction in progress funded with capital appropriations	<u>\$ 303,849</u>	<u>\$ 179,954</u>
Capital assets acquired through capital leases	<u>\$ 1,160,596</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2016 and 2015

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

Organization

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

Basis of Presentation

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

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

Bunker Hill Community College Foundation, Inc. (the “Foundation”) is a not-for-profit corporation established in July 1986. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. The Foundation is located at the College’s Charlestown campus. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College and is therefore discretely presented in the College’s financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Basis of Presentation - Continued

During the years ended June 30, 2016 and 2015, the Foundation distributed \$54,935 and \$777,977, 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.

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 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, 2016 and 2015

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, expenses and changes in net position. Gains and losses on the disposition of investments are determined based on specific identification of securities sold. Investment income is recognized when earned. The College has no donor-restricted endowments.

Capital Assets

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

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

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

Pensions

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

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2016 and 2015. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2016 and 2015. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Workers' Compensation

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

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 student deposits and unearned revenues.

Derivative Instruments

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

Student Fees

Student tuition and fees are presented net of scholarships 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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Tax Status

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

Use of Estimates

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

New Governmental Accounting Pronouncements

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

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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>2016</u>	<u>2015</u>
Cash in bank	\$ 905,085	\$ 1,599,104
Proprietary money market funds - restricted	<u>65,402</u>	<u>67,602</u>
Total Deposits	<u>970,487</u>	<u>1,666,706</u>
Money market funds	9,158,849	12,342,617
Corporate bonds	4,862,361	4,921,456
Mutual funds	86,914	-
Federal agencies	2,149,041	1,501,689
Equity securities	<u>7,162,173</u>	<u>4,831,231</u>
Total Investments	<u>23,419,338</u>	<u>23,596,993</u>
Total Deposits and Investments	<u>\$ 24,389,825</u>	<u>\$ 25,263,699</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.

Concentration of Credit Risk

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

<u>2016</u>			
<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage of the total</u>
Citizens Bank	Money market funds	\$ 3,946,617	17%
Santander Bank	Money market funds	5,212,232	22%

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Concentration of Credit Risk – Continued

2015			
<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage of the total</u>
Citizens Bank	Money market funds	\$ 5,169,550	22%
Santander Bank	Money market funds	4,173,067	18%
Eaton Vance	Money market funds	3,000,000	13%

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College’s deposits might not be recovered. Certain deposits are made in federally insured domestic banks and Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. In addition, certain investments are covered up to \$500,000 by the Securities Investor Protection Corporation (“SIPC”). The College’s bank balances, including money market funds, as of June 30, 2016 and 2015 were \$10,164,835 and \$13,577,073, respectively. Of these balances, \$9,399,413 and \$12,169,763 were exposed to custodial credit risk as uninsured and uncollateralized as of June 30, 2016 and 2015, respectively.

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
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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.

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Interest Rate Risk

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

		2016			
		Investment maturities (in years)			
Investment type	Fair value	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	4,862,361	198,697	1,841,416	1,963,487	858,761
	<u>7,011,402</u>	<u>\$ 514,101</u>	<u>\$ 3,643,851</u>	<u>\$ 1,994,689</u>	<u>\$ 858,761</u>
Cash in bank	905,085				
Money market funds	9,158,849				
Proprietary money market funds	65,402				
Mutual funds	86,914				
Equity securities – domestic	6,379,034				
Equity securities – international	783,139				
	<u>\$ 24,389,825</u>				
		2015			
		Investment maturities (in years)			
Investment type	Fair value	Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 1,501,689	\$ 34,993	\$ 1,392,786	\$ 73,910	\$ -
Corporate bonds	4,921,456	2,034,059	1,916,702	103,570	867,125
	6,423,145	<u>\$ 2,069,052</u>	<u>\$ 3,309,488</u>	<u>\$ 177,480</u>	<u>\$ 867,125</u>
Cash in bank	1,599,104				
Money market funds	12,342,617				
Proprietary money market funds	67,602				
Equity securities – domestic	3,427,410				
Equity securities – international	1,403,821				
	<u>\$ 25,263,699</u>				

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Interest Rate Risk – Continued

The College's net investment income of \$38,475 and \$31,611 for the years ended June 30, 2016 and 2015, 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:

Rated debt investments	Fair value	2016 Quality ratings				
		Aaa	A	A1	A2	A3
Federal agencies	\$ 2,149,041	\$ 2,149,041	\$ -	\$ -	\$ -	\$ -
Corporate bonds	<u>4,862,361</u>	<u>284,813</u>	<u>75,451</u>	<u>351,401</u>	<u>312,107</u>	<u>969,650</u>
Total	<u>\$ 7,011,402</u>	<u>\$ 2,433,854</u>	<u>\$ 75,451</u>	<u>\$ 351,401</u>	<u>\$ 312,107</u>	<u>\$ 969,650</u>

Rated debt investments	2016 Quality ratings				
	Aa1	Aa2	Aa3	Ba2	Baa1,2,3
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	<u>70,967</u>	<u>77,917</u>	<u>105,747</u>	-	<u>2,614,308</u>
Total	<u>\$ 70,967</u>	<u>\$ 77,917</u>	<u>\$ 105,747</u>	<u>\$ -</u>	<u>\$ 2,614,308</u>

Rated debt investments	Fair value	2015 Quality ratings				
		Aaa	A	A1	A2	A3
Federal agencies	\$ 1,501,689	\$ 1,501,689	\$ -	\$ -	\$ -	\$ -
Corporate bonds	<u>4,921,456</u>	-	<u>2,028,673</u>	<u>139,207</u>	<u>219,780</u>	<u>242,661</u>
Total	<u>\$ 6,423,145</u>	<u>\$ 1,501,689</u>	<u>\$ 2,028,673</u>	<u>\$ 139,207</u>	<u>\$ 219,780</u>	<u>\$ 242,661</u>

Rated debt investments	2015 Quality ratings				
	Aa1	Aa2	Aa3	Ba2	Baa1,2,3
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	<u>210,236</u>	<u>35,810</u>	<u>30,833</u>	<u>30,833</u>	<u>1,983,423</u>
Total	<u>\$ 210,236</u>	<u>\$ 35,810</u>	<u>\$ 30,833</u>	<u>\$ 30,833</u>	<u>\$ 1,983,423</u>

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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>2016</u>	<u>2015</u>
Mutual funds	\$ 3,756,907	\$ 4,069,274
Corporate and other bonds	1,041,357	1,044,039
	<u>\$ 4,798,264</u>	<u>\$ 5,113,313</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 74,308	\$ 88,927
Realized gain	144,545	235,994
Unrealized loss on investments	(283,773)	(144,713)
	<u>\$ (64,920)</u>	<u>\$ 180,208</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, 2016 and 2015 through Massachusetts Management Accounting Reporting System (MMARS) were recorded in the sum of \$1,635,760 and \$3,608,384, respectively.

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$1,628,070 and \$301,976 at June 30, 2016 and 2015, 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.

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Accounts Receivable**

Accounts receivable include the following at June 30:

	<u>2016</u>	<u>2015</u>
Student accounts receivable	\$ 494,249	\$ 1,075,912
Grants receivable	467,316	702,441
Financial aid receivable	788,214	606,285
Other receivables	<u>1,302,052</u>	<u>1,266,985</u>
	3,051,831	3,651,623
Less: allowance for doubtful accounts	<u>(115,704)</u>	<u>(272,208)</u>
	<u>\$ 2,936,127</u>	<u>\$ 3,379,415</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 5 - **Capital Assets**

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

		<u>2016</u>			
	Estimated lives (in years)	Beginning Balance	Additions	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>(447,577)</u>	<u>1,090,398</u>
Total not depreciated		<u>656,404</u>	<u>1,090,398</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>614,858</u>
Total depreciated		<u>62,340,346</u>	<u>3,796,475</u>	<u>447,577</u>	<u>66,584,398</u>
Less accumulated depreciation:					
Building, including improvements		(22,873,311)	(1,551,511)		(24,424,822)
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>(614,858)</u>
Total accumulated depreciation		<u>(27,865,699)</u>	<u>(2,422,185)</u>	-	<u>(30,287,884)</u>
Capital assets, net		<u>\$ 35,131,051</u>	<u>\$ 2,464,688</u>	<u>\$ -</u>	<u>\$ 37,595,739</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 5 - **Capital Assets – Continued**

2015

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

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 6 - **Long-Term Liabilities**

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

2016					
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Other long-term liabilities:					
Bonds payable	\$ 6,827,602	\$ -	\$ (222,200)	\$ 6,605,402	\$ 230,000
Derivative instrument	1,463,189	449,936	-	1,913,125	-
Energy project liability	2,981,357	-	(125,810)	2,855,547	130,841
Capital lease obligations	-	1,160,596	(238,371)	922,225	221,642
Compensated absences	4,211,886	2,352,943	(2,444,066)	4,120,763	2,560,294
Workers' compensation	516,139	-	(104,432)	411,707	147,145
Net pension liability	<u>7,723,013</u>	<u>2,688,524</u>	<u>-</u>	<u>10,411,537</u>	<u>-</u>
Total long-term liabilities	<u>\$ 23,723,186</u>	<u>\$ 6,651,999</u>	<u>\$ (3,134,879)</u>	<u>\$ 27,240,306</u>	<u>\$ 3,289,922</u>
2015					
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Other long-term liabilities:					
Bonds payable	\$ 7,039,702	\$ -	\$ (212,100)	\$ 6,827,602	\$ 220,000
Derivative instrument	1,302,006	161,183	-	1,463,189	-
Energy project liability	3,102,327	-	(120,970)	2,981,357	125,809
Compensated absences	4,042,773	2,514,940	(2,345,827)	4,211,886	2,597,920
Workers' compensation	426,451	290,166	(200,478)	516,139	143,457
Net pension liability	<u>8,881,698</u>	<u>-</u>	<u>(1,158,685)</u>	<u>7,723,013</u>	<u>-</u>
Total long-term liabilities	<u>\$ 24,794,957</u>	<u>\$ 2,966,289</u>	<u>\$ (4,038,060)</u>	<u>\$ 23,723,186</u>	<u>\$ 3,087,186</u>

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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Capital leases - Continued

The following schedule summarizes future minimum payments due under the non-cancelable capital lease as of June 30, 2016:

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 221,642	\$ 24,296	\$ 245,938
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>\$ 922,225</u>	<u>\$ 61,530</u>	<u>\$ 983,755</u>

Operating Leases

The College leases computer equipment, software and copiers for various departments. Additionally, the College has leased one vehicle. On January 22, 2013, the College, acting through the Commissioner of the Division of Capital Asset Management and Maintenance, entered into an agreement with Hood Business Park LLC (Re-named Hood Park LLC) on October 1, 2014 to lease 25,284 square feet of building space for a term of seven years with annual payments ranging from \$706,600 in the first year to \$745,158 in the seventh year. The premises are used for classroom instruction, workforce training, meeting space and educational administration.

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Operating Leases - Continued

The following schedule summarizes future minimum payments due under the non-cancelable operating leases as of June 30, 2016:

Years Ending June 30,	
2017	\$ 1,442,519
2018	1,384,480
2019	1,361,249
2020	1,318,599
2021	1,314,953
2022-2025	<u>5,373,337</u>
	<u>\$12,195,137</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. The bonds are payable in annual installments and are due July 2031.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Bonds Payable - Continued

The following schedule summarizes future principal and interest payments on bonds payable as of June 30, 2016:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap, net*</u>	<u>Total</u>
2017	\$ 230,000	\$ 8,065	\$ 240,615	\$ 478,680
2018	240,000	7,785	231,464	479,249
2019	250,000	7,493	221,932	479,425
2020	260,000	7,188	212,019	479,207
2021	270,000	6,871	201,725	478,596
2022 – 2026	1,560,000	29,057	834,762	2,423,819
2027 – 2032	<u>3,795,402</u>	<u>18,787</u>	<u>427,590</u>	<u>4,241,779</u>
	<u>\$ 6,605,402</u>	<u>\$ 85,246</u>	<u>\$ 2,370,107</u>	<u>\$ 9,060,755</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%. 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, 2016 during the remaining life of the swap. See note 7 for more information. The variable rate on the bonds as of June 30, 2016 and 2015 was 0.04% and 0.05%, 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 at status to A- status.

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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
2017	\$ 130,841	\$ 114,222	\$ 245,063
2018	136,075	108,988	245,063
2019	141,518	103,545	245,063
2020	147,178	97,885	245,063
2021	153,066	91,997	245,063
2022 – 2026	862,215	363,100	1,225,315
2027 – 2032	1,284,654	185,724	1,470,378
	<u>\$ 2,855,547</u>	<u>\$ 1,065,461</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.

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Objective and Terms - Continued

amortize in line with each payment of principal on the bonds. The notional amount at June 30, 2016 and 2015 was \$6,605,402 and \$6,760,000, 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 (“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, 2016 was a liability of \$1,913,125 compared to \$1,463,189 at June 30, 2015, which is recorded in the College’s statement of net position. The change in the fair value of the interest rate swap was \$449,936 and \$161,183 for the years ending June 30, 2016 and 2015, respectively. The College has determined its interest rate swap to be an effective hedge and has recorded a corresponding deferred outflow in the statement of net position.

Credit Risk

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

Basis Risk

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$5,152,286 and \$4,742,260 for the years ended June 30, 2016 and 2015, respectively. Employees who contribute a percentage of their regular compensation fund the annuity portion of the retirement system. Annual covered payroll was approximately 64% and 66% of total related payroll for years ended June 30, 2016 and 2015, respectively.

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.

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Pensions – Continued**

Benefit Provisions - Continued

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

The College is required to contribute at an actuarially determined rate; the rate was 9.45% and 10.39% of annual covered payroll for the years ended June 30, 2016 and 2015, respectively. The College contributed \$516,365 and \$572,632 for the years

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Pensions – Continued**

Contributions - Continued

ended June 30, 2016 and 2015, 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, 2016 and 2015, the College reported a liability of \$10,411,537 and \$7,723,013, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as on June 30, 2016 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 for reporting at June 30, 2016, the reporting date. The net pension liability as of June 30, 2015 was measured as of June 30, 2014, 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, 2014 rolled forward to June 30, 2014 for reporting at June 30, 2015, the reporting date. 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 2015 and 2014. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2015 and 2014 relative to total contributions of all participating employers for the fiscal years. At June 30, 2015 and 2014, the College's proportion was 0.091% and 0.104%, respectively.

For the years ended June 30, 2016 and 2015, the College recognized pension expense of \$1,042,511 and \$640,804, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Pensions – Continued**

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

	<u>2016</u>	<u>2015</u>
<u>Deferred Outflows of Resources</u>		
Difference between expected and actual experience	\$ 205,801	\$ -
Change in plan actuarial assumptions	1,803,065	86,815
Change in proportion due to internal allocation	243,768	313,417
Contributions made after the plan measurement date	<u>516,365</u>	<u>572,632</u>
Total	<u>\$ 2,768,999</u>	<u>\$ 972,864</u>
<u>Deferred Inflows of Resources</u>		
Differences between projected and actual earnings on plan investments	\$ 299,184	\$ 1,585,140
Changes in proportion from Commonwealth	<u>910,321</u>	<u>2,674</u>
Total	<u>\$ 1,209,505</u>	<u>\$ 1,587,814</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Pensions – Continued**

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

The College's contributions of \$516,365 and \$572,632 made during the fiscal years ending June 30, 2016 and 2015, 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>	
2017	\$ 122,166
2018	122,166
2019	122,166
2020	460,390
2021	<u>216,241</u>
	<u>\$ 1,043,129</u>

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, 2015	June 30, 2014
Inflation	3.00%	3.00%
Salary increases	3.50% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	8.00%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2015 and 2014, mortality rates were based on the pre-retirement of RP-2000 Employees table projected 20 years with Scale BB and

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Pensions – Continued**

Actuarial Assumptions - Continued

Scale AA (gender distinct), respectively, and post-retirement of Healthy Annuitant table projected 15 years with Scale BB and Scale AA (gender distinct), respectively.

The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of the actuarial experience study performed as of January 1, 2015.

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:

<u>Asset Class</u>	<u>2015</u>		<u>2014</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%	43%	7.20%
Core Fixed Income	13%	2.40%	13%	2.50%
Hedge Funds	9%	5.80%	10%	5.50%
Private Equity	10%	8.50%	10%	8.80%
Real Return	10%	6.50%	10%	6.30%
Portfolio Completion Strategies	4%	5.50%	0%	0.00%
Value Added Fixed Income	10%	5.80%	10%	6.30%
Timber/Natural Resources	4%	6.60%	4%	5.00%
	<u>100%</u>		<u>100%</u>	

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Pensions – Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.5% and 8.0%, respectively at June 30, 2015 and 2014. 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.

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, 2016		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
(6.50%)	(7.50%)	(8.50%)
<hr/>	<hr/>	<hr/>
\$ 14,152,695	\$10,411,537	\$ 7,184,736
June 30, 2015		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
(7.00%)	(8.00%)	(9.00%)
<hr/>	<hr/>	<hr/>
\$ 11,180,734	\$ 7,723,013	\$ 4,755,037

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Unrestricted Net Position**

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

	<u>2016</u>	<u>2015</u>
Net assets designated by the College's Board of Trustees for the following purposes:		
Capital repairs	\$ 328,612	\$ 327,997
Plant fund	4,473,924	3,513,413
Capital development plan	773,880	881,250
Technology upgrade	1,200,738	1,455,051
Instructional equipment	260,233	259,746
Academic programs	276,033	275,517
Student support services (Life map, Success Coaches, etc.)	85,439	85,279
SGA Health & Wellness Center	<u>50,000</u>	<u>50,000</u>
Total Unrestricted Net Assets	<u>\$ 7,448,859</u>	<u>\$ 6,848,253</u>

Note 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.

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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 10 - **Contingencies – Continued**

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 11 - **Operating Expenses**

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

	<u>2016</u>	<u>2015</u>
Compensation and benefits	\$ 61,762,498	\$ 58,095,235
Supplies and services	18,657,649	18,210,232
Depreciation and amortization	2,422,185	1,932,970
Scholarships	12,511,212	14,014,278
	<u>\$ 95,353,544</u>	<u>\$ 92,252,715</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 12 - **State Appropriations**

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

	<u>2016</u>	<u>2015</u>
Direct unrestricted appropriations	\$ 25,399,870	\$ 24,692,994
Add fringe benefits for benefited employees on the state payroll	7,575,754	6,656,426
Add supplemental appropriation for MCCC	295,650	-
Less other expenses	-	(327,832)
Less day school tuition remitted to the state and included in tuition and fee revenue	-	(417,348)
Total unrestricted state support	<u>33,271,274</u>	30,604,240
Capital appropriation	<u>1,674,573</u>	179,954
Total state support	<u>\$ 34,945,847</u>	<u>\$ 30,784,194</u>

The College is expecting to receive \$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. In fiscal year 2015 the College was required to refund a sum of \$327,852 to the Commonwealth. This refund represented 1.5% of the College's Direct Unrestricted appropriation and is classified as "other expenses" above.

Note 13 - **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 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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 13 - **Fringe Benefit Program – Continued**

Insurance

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

Other Employee Benefits

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

Note 14 - **Pass-Through Grants**

The College distributed \$5,414,006 and \$5,636,397 for student loans through the U.S. Department of Education Federal Direct Lending Program for the years ended June 30, 2016 and 2015, 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)

Schedules of Proportionate Share of Net Pension Liability (Unaudited)

Valuation date	January 1, 2015	January 1, 2014
Measurement date	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.091%	0.104%
Proportionate share of the collective net pension liability	\$ 10,411,537	\$ 7,723,013
College's covered-employee payroll	\$ 5,511,376	\$ 7,716,356
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	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
 (an agency of the Commonwealth of Massachusetts)

Schedules of Contributions (Unaudited)

For the Years Ended June 30,

	2016	2015
Contractually required contribution	\$ 516,365	\$ 572,632
Contributions in relation to the contractually required contribution	(516,365)	(572,632)
Contribution excess	\$ -	\$ -
Covered-employee payroll	\$ 5,462,309	\$ 5,511,376
Contribution as a percentage of covered-employee payroll	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 in 2014, 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)

For the Years Ended June 30, 2016 and 2015

Note 1 - **Changes in Assumptions**

Changes in assumptions about the discount rate from 8.0% to 7.5%, 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 is 0.091% and 0.104% for the years ended June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Changes in assumptions	\$ 2,217,997	\$ 106,107
Recognized in current year pension expense	<u>(414,932)</u>	<u>(19,292)</u>
Changes in assumptions, net	<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 BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bunker Hill Community College (the "College"), which comprise the statements of net position as of June 30, 2016 and 2015, 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 21, 2016.

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'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 21, 2016