

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Northern Essex Community College
Haverhill, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Essex Community College (an agency of the Commonwealth of Massachusetts) (the "College"), and its discretely presented component unit, the Northern Essex Community College Foundation (the "Foundation"), which comprise the statement of net position as of June 30, 2018, the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northern Essex Community College and its discretely presented component unit as of June 30, 2018, the respective changes in financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

As discussed in Note 2 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated December 5, 2018. Subsequent to the issuance of the financial statements, it was discovered that the calculation of postemployment benefits other than pensions as of June 30, 2018 and July 1, 2017 was misstated.

Our opinion is not modified with respect to these matters.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report with a dual date of December 5, 2018 and February 8, 2019, on our consideration of Northern Essex 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 Northern Essex Community College's internal control over financial reporting and compliance.

O'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

December 5, 2018 (except for Management's Discussion and Analysis, Note 2, Note 9, Note 11, Note 16, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is February 8, 2019)

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

The following discussion and analysis provides an overview of the financial position and activities of Northern Essex Community College (The “College”) as of June 30, 2018 for the fiscal year then ended. The objective of the Management Discussion and Analysis (“MD&A”) section is to provide information that enables an individual to read the College’s financial statements and come away with a clear understanding of the College’s financial position and to know how resources are used to support the College’s Mission.

Northern Essex Community College is an accredited, public, two-year institution serving the cities and towns of the Merrimack Valley and Northeastern Massachusetts. The College has two campuses located in Haverhill and Lawrence that offer comprehensive academic programs of study leading to an associate degree or certificates of program completion. In addition, the College has a number of partnerships with several public and private institutions that offer Bachelor’s and Master’s degree programs on campuses of the College.

Overview of the Financial Statements and Financial Analysis

The focus of the MD&A is on the current fiscal year, with data from the previous fiscal year provided for comparative purposes. The MD&A is prepared by management and should be read in conjunction with the audited financial statements and footnotes which follow.

The MD&A discussion is framed around four financial statements: (1) the Statement of Net Position, (2) the Statement of Revenues and Expenses, (3) Statement of Changes in Net Position, and (4) the Statement of Cash Flows. These statements are prepared in compliance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management’s Discussion and Analysis-for Public Colleges and Universities*.

A major change in FY18 is the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The College is required to reflect the liability of the employees receiving State postemployment benefits other than pensions which requires that the net position in the Statement of Changes in Net Position be restated as of June 30, 2017. Net position decreased \$19.6 million as of June 30, 2017 due to the restatement. Audit footnotes 2 and 11 have further information on the postemployment benefits other than pensions calculation and the effect on the college financial statements.

Please note: All numbers are reported in thousands, unless otherwise noted.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Statement of Net Position

The Statement of Net Position presents information on the assets and liabilities of the College as of the end of the Fiscal Year (FY); it is a snapshot as of a fixed point of time (June 30). The three primary components of the statement are: (a) *total assets*, (b) *total liabilities*, and (c) *net position*. Comparing the changes in net position from one year to another is one indicator of whether the financial condition of the College has improved or deteriorated.

Assets and liabilities are measured using current value, with the exception of Capital Assets which are stated at historical cost less an allowance for depreciation.

Note: FY17 has been restated to reflect GASB 75 postemployment benefits other than pensions requirements.

<i>(\$ in thousands)</i>	<u>FY18</u>	<u>FY17</u>	Change <u>FY18-FY17</u>	<u>%</u>
Current assets	\$ 12,975	\$ 12,039	\$ 936	
Capital assets	<u>64,930</u>	<u>62,484</u>	<u>2,446</u>	
Total assets	<u>77,905</u>	<u>74,523</u>	<u>3,382</u>	4.5%
Deferred outflows of resources				
Pension allocation	3,307	3,175	132	
OPEB allocation	<u>1,953</u>	<u>505</u>	<u>1,448</u>	
Total deferred outflows of resources	<u>5,260</u>	<u>3,680</u>	<u>1,580</u>	42.9%
Total assets & deferred outflows	<u>\$ 83,165</u>	<u>\$ 78,203</u>	<u>\$ 4,962</u>	6.3%
Current liabilities	8,892	8,740	152	
Non-current liabilities	<u>35,674</u>	<u>37,130</u>	<u>(1,456)</u>	
Total liabilities	<u>44,566</u>	<u>45,870</u>	<u>(1,304)</u>	-2.8%
Deferred inflows of resources				
Service concession arrangements	299	344	(45)	
Pension allocation	1,944	296	1,648	
OPEB allocation	<u>2,355</u>	<u>-</u>	<u>2,355</u>	
Total deferred inflows of resources	<u>4,598</u>	<u>640</u>	<u>3,958</u>	618.4%
Invested in capital assets	60,767	58,081	2,686	
Restricted, expendable	162	324	(162)	
Unrestricted	<u>(26,928)</u>	<u>(26,712)</u>	<u>(216)</u>	
Total net position	<u>34,001</u>	<u>31,693</u>	<u>2,308</u>	7.3%
Total liabilities, deferred inflows & net position	<u>\$ 83,165</u>	<u>\$ 78,203</u>	<u>\$ 4,962</u>	6.3%

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Total Assets

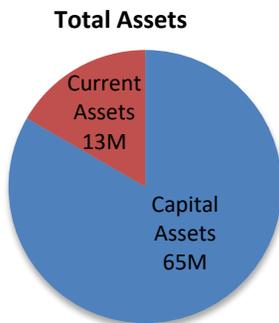
Total assets represent property, facilities, and equipment owned or controlled by the College, along with payments due to the College for services rendered prior to the end of the fiscal year. Total assets on June 30, 2018 were \$77.9 million, an increase of \$3.4 million or 4.5% from the prior year.

The value of current assets on June 30 was \$13 million, an increase of \$936k compared to the prior year. Total Cash and Equivalents totaled \$6.1 million, \$2 million higher than last year primarily due to management of cash disbursements and well as a conscious effort in expense savings.

The value of non-current assets at year-end was \$65 million, \$2.4 million higher as compared to prior year. Buildings and the newly renovated Spurk building are the largest component of non-current assets.

Current assets are assets which could be converted to cash within a year and typically include cash, money market funds, investments and accounts receivable.

Non current assets are not easily converted to cash and include facilities and other fixed assets and equipment.



The increase in non-current assets of \$2.4 million is primarily related to the Dimitry general-purpose academic building in Lawrence and the Culinary Program. The value of capitalized assets was offset by the depreciation expense on existing capitalized assets. Additional information on capital assets is available in Footnote 8: Capital Assets.

Total Liabilities

Total liabilities at the end of FY18 were \$44.6 million, a decrease of \$1.3 million from the prior year. The largest item is the GASB 75 net OPEB liability of \$20.1 million. The second largest item is the GASB 68 net pension liability of \$10.3 million. Additional information pertaining to these liabilities may be found in Footnotes 10 and 11.

Total liabilities represent what the College owes to others.

There are three primary components of College liabilities.

(a) salaries and compensated absences;

(b) outstanding accounts payable; and

(c) deferred revenue.

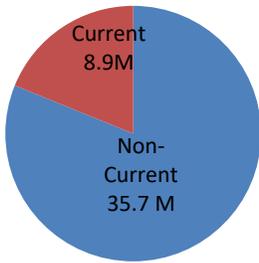
NORTHERN ESSEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Total Liabilities



The calculated liability for compensated absences and workers' compensation, both current and non-current, is \$4.1 million, a decrease of \$100k from the prior year. The total liability averages approximately \$12,000 per employee.

Outstanding accounts payable reflect goods and services received during the fiscal year for which payment has not been made as of June 30. The balance of accounts payable at the end of the year was \$1.6 million. This is a decrease of \$500k over the previous year. The decrease is a result of expense management.

Student deposits and unearned revenue on June 30 was \$2 million, which was an increase of \$800k from the previous year. Approximately \$1.9 million represents student tuition and fees collected for the summer and fall 2018 terms. Due to the timing of the fiscal year, payments for these classes and when classes are provided cross fiscal years. Deferred revenue reflects the value of classes which will be held in FY19. Grant revenue received but not yet earned equals \$116K.

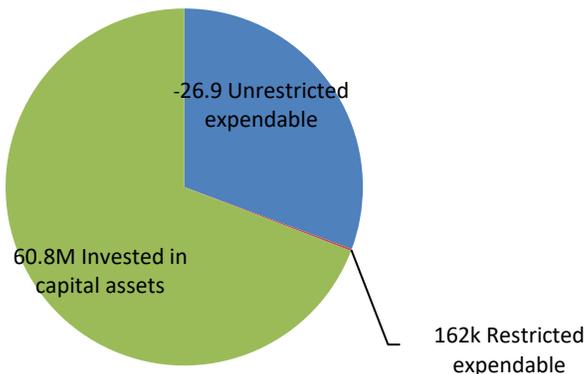
Net Position

Net Position represents resources currently available to the College. At the end of FY18, net position was \$34 million. This is \$2.3 million or 7.3% higher as compared to last year. There are two measures of the financial health of the institution based on net position: (a) the current ratio; which measures the degree to which current assets are available to pay short-term obligations; and (b) the primary reserve ratio; indicating how long the institution could function using its expendable reserves to cover operations. The current ratio for FY18 is 1.5, which is 0.1 higher than the previous year.

Current ratio = current assets/current liabilities.

Primary reserve ratio = unrestricted and restricted-expendable net assets/total expense.

Net Position



While the current assets increased \$936k, the current ratio is higher primarily due to an increase in cash. The higher the current ratio, the more capable the institution is of paying its obligations; a preferred ratio is 2.0. The primary reserve ratio was (0.42) for FY 2018 and FY 2017; the preferred primary ratio is 40. While the ratios highlight that the College has limited flexibility to endure turbulent economic conditions, enrollment declines, or respond to a significant adverse event, the College continues to strive to improve its financial health by careful monitoring of expenses and increasing its sources of revenue.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Statement of Revenues and Expenses, and Statement of Changes in Net Position

The Statement of Revenues and Expenses and Statement of Changes in Net Position summarize the financial results of College operations and encompass all activity throughout the fiscal year. The four primary components of the Statement of Revenues and Expenses are: (a) *operating revenue*, (b) *operating expenses*, (c) *non-operating revenue*, and (d) *non-operating expenses*.

<i>(\$ in thousands)</i>	<u>FY18</u>	<u>FY17</u>	Change <u>FY18-FY17</u>	<u>%</u>
Operating revenues				
Student tuition and fees	\$ 24,615	\$ 24,931	\$ (316)	
less: Scholarship allowances	<u>(10,224)</u>	<u>(9,950)</u>	<u>(274)</u>	
Net student tuition & fees	14,391	14,981	(590)	-3.9%
Federal grants and contracts	11,762	12,111	(349)	
State grants and contracts	6,931	4,280	2,651	
Private/local grants and contracts	847	545	302	
Other operating revenues	<u>2,253</u>	<u>1,991</u>	<u>262</u>	
Total operating revenues	36,184	33,908	2,276	6.7%
Operating expenses	63,630	62,930	700	1.1%
Operating gain/loss	(27,446)	(29,022)	1,576	-5.4%
Non-operating revenues (expenses)				
State appropriations	26,393	26,105	288	
Investment income, net	288	415	(127)	
Donations	-	166	(166)	
Interest on Indebtedness	<u>(155)</u>	<u>(161)</u>	<u>6</u>	
Net non-operating revenues	26,526	26,525	1	0.0%
Net loss before other revenues	(920)	(2,497)	1,577	
Capital appropriations	<u>3,228</u>	<u>12,502</u>	<u>(9,274)</u>	
Total increase in net position	2,308	10,005	(7,697)	-76.9%
Net position, Beginning of Year	31,693	41,267	(9,574)	
Net position, End of Year	34,001	51,272	(17,271)	
Prior period adjustment - OPEB	<u>-</u>	<u>(19,579)</u>		
Net position, after OPEB adjustment	<u>\$ 34,001</u>	<u>\$ 31,693</u>		

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

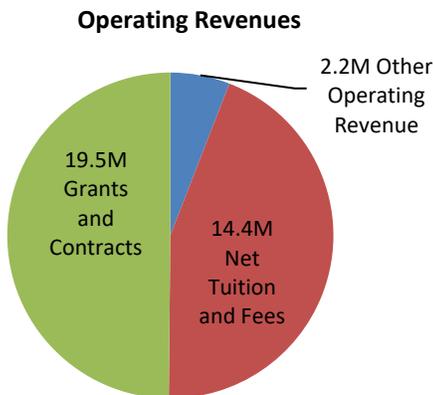
Operating Revenue

Operating revenue reflects income received from primary business activities; due to the comprehensive mission of a community college this includes revenue from a wide variety of sources, including student charges, grants, and auxiliary-type services like space rental activity. Overall, operating revenues in FY18 were \$36.2 million, an increase of 6.7% as compared to the prior year.

Total (gross) revenue from student tuition and fees was \$24.6 million. This was a decrease of \$300k from the prior year.

Revenue reported as federal grants and contracts was \$11.8 million, a decrease of \$349k, primarily due to the decrease in financial aid received. State grants and contracts totaled \$6.9 million, an increase of \$2.7 million due to new relationships with Valleyworks, which is fully grant funded.

Other operating revenues reflect commissions received from Follett (bookstore), food service and vending sales; rental of Northern Essex facilities, including Haverhill child care facilities, enterprise activity; and, other non-instructional related activities. Total other operating revenues were \$2.3 million, \$261k more than prior year, primarily due to increase athletics rentals and utility rebate. Donations from the NECC Foundation totaled \$605k, compared to \$641k in FY17, a decrease of \$36k.



Operating Expenses

Operating expense results from activities directly related to the activities of the College; the eight functional categories within operating expense correspond to those defined by the Integrated Postsecondary Education Data System (IPEDS).

Total operating expense includes expenditures made by the college and fringe benefits paid by the state on behalf of NECC employees

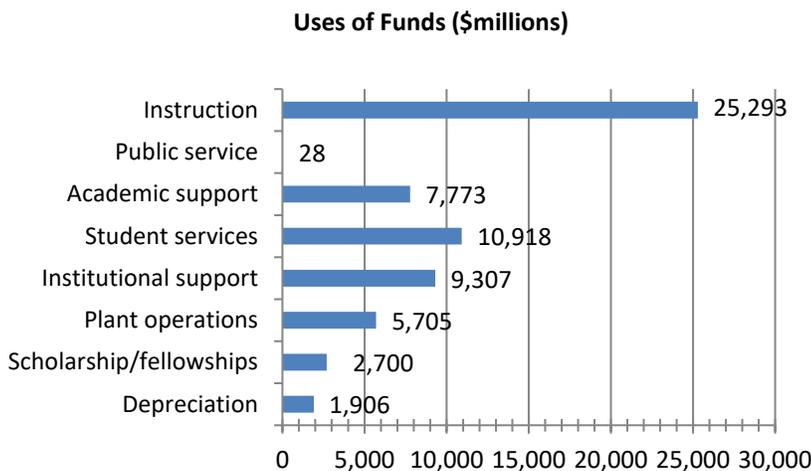
Instruction includes faculty, associate and assistant Deans, division chairs and related personnel engaged in credit and non-credit academic teaching, remedial and tutoring. *Academic Support* includes services integral to the primary mission of instruction: libraries, audiovisual services, course and curriculum development, museums and galleries, academic deans, vice presidents and support staff. *Student Services* includes offices of admission and registrar as well as student organizations, athletics, counseling and career guidance, student aid administration. *Public Service* provides non-instructional services to benefit groups external to the college. *Plant operations* include service and maintenance to the facilities and grounds, and utilities. *Institutional Support* includes operational support of the institution such as: security, human resources, legal, finance and administration, and alumni relations. *Operations & Maintenance* includes service and maintenance to the facilities and grounds, and utilities.

NORTHERN ESSEX COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

In FY18, total operating expenses were \$63.6 million, an increase of \$700k or 1.1%. The area with the largest change was Instruction, which increased \$1.3 million. Other significant changes included an increase in Depreciation by \$540k caused by the addition of the El Hefni building into fixed assets and the recognition of a full year of depreciation.



Employee compensation and benefits totaled \$44.8 million, which represented 70% of total operating costs, a 1% decrease over fiscal year 2017.

Spending in Instruction was the highest of the eight IPEDS functional areas, and represented 39.8% of the total. Student Services was the next highest at 17.2%, followed by Institutional Support at 14.6%.

Operating Expenses				
<i>(\$ in thousands)</i>	<u>FY18</u>	<u>FY17</u>	<u>Change</u>	<u>%</u>
			<u>FY18-FY17</u>	
Instruction	\$ 25,293	\$ 24,036	\$ 1,257	5.2%
Academic services	7,773	7,756	17	0.2%
Student services	10,918	11,519	(601)	-5.2%
Public service	28	34	(6)	-17.6%
Plant operations	5,705	5,785	(80)	-1.4%
Institutional support	9,307	9,503	(196)	-2.1%
Depreciation	1,906	1,366	540	39.5%
Scholarships and fellowships	<u>2,700</u>	<u>2,931</u>	<u>(231)</u>	<u>-7.9%</u>
Total Operating Expenses	<u>\$ 63,630</u>	<u>\$ 62,930</u>	<u>\$ 700</u>	<u>1.1%</u>

Operating expenses by natural classification are reported in the Financial Section, Footnote 16.

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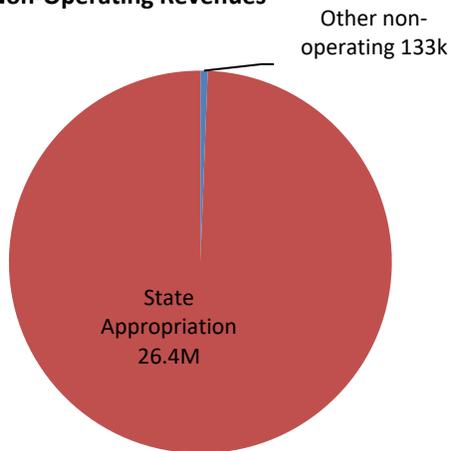
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Non-Operating Revenue

Non-operating revenue is the result of activities not directly related to the mission of the College and includes state appropriated funds. The largest component of non-operating revenue is funds earmarked for the college in the annual General Appropriation Act (“GAA”) of the Commonwealth. Since FY04, the Department of Higher Education approved budget formula has provided the foundation upon which GAA funding to the state and community college system is based.

Non-Operating Revenues



State appropriations as reported on the financial statements include GAA, fringe benefits paid by the state on behalf of NECC employees, less tuition remitted back to the general fund of the state (remitted tuition). Overall state support increased in FY18 by \$288k or 1.1% due to the increased appropriation.

NORTHERN ESSEX COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. At the end of FY18, cash on hand was \$6.1 million. This is an increase of \$2.1 million or 52% higher than FY17.

<i>(\$ in thousands)</i>	<u>FY18</u>	<u>FY17</u>	<u>Change</u> <u>FY18-FY17</u>
Cash received from (applied to) operations	\$ 34,412	\$ 30,376	\$ 4,036
Cash expended from operations	<u>51,344</u>	<u>49,959</u>	<u>1,385</u>
Net cash applied to operating activities	(16,932)	(19,583)	2,651
Net cash provided by noncapital financing activities	19,499	19,442	57
Net cash applied to capital and related financing activities	(1,753)	(847)	(906)
Net cash provided by (applied to) investing activities	<u>1,255</u>	<u>464</u>	<u>791</u>
Net increase (decrease) in cash and cash equivalents	2,069	(524)	2,593
Cash and cash equivalents, beginning of FY	4,003	4,527	(524)
Cash and cash equivalents, end of FY	<u>\$ 6,072</u>	<u>\$ 4,003</u>	<u>\$ 2,069</u>

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Major Projects

Capitalized Assets

The 2008 Higher Education Capital Bond Bill authorized \$31.7 million for the construction of a new Allied Health and Technology Center in Lawrence and renovation of the Spurk general purpose academic building (Spurk) at the Haverhill campus. Both projects will be capitalized upon completion.

The first of these two projects, the El Hefni Allied Health Building, used funding of \$24.4 million from the Capital Bond Bill. The building was finalized and formally placed into service in fiscal year 2018. The second project, renovation of Spurk, received the remaining 2008 bond bill funds of \$7.3 million, plus new funding that brought the total project cost to \$15.2 million. College management approached DCAMM regarding funding the need to relocate classrooms and offices while the entire Spurk building was offline during construction. Preparing alternative space to compensate for the lack of usage of Spurk during its construction, termed swing space, was committed to by DCAMM for an additional \$1.9 million bringing the total state funding for the Spurk project in excess of \$17 million. In FY18, buildings throughout the Haverhill campus had major renovations to accommodate the relocation of classrooms and offices being offline while Spurk is offline.

Collaboration

In July 2017, Northern Essex Community College was awarded a Workforce Innovation and Opportunity Act ("WIOA") subrecipient contract from the City of Lawrence/Merrimack Valley Workforce Investment Board ("WIB") to act as administrator of WIOA funds and operate a One-Stop Career Center ("ValleyWorks"). The contract runs from July 1, 2017 – June 30, 2021. NECC approved an allocation of approximately \$2.5M from the WIOA funds as well as other funding for the program. The purpose of the program is to provide cost effective workforce development services that foster economic opportunity. Services must help increase employment, job retention and earning potential. Funding sources are primarily Federal with some Massachusetts grants. All employees of ValleyWorks became NECC employees effective July 1, 2017 and all revenue and expenses are processed through NECC financial systems. NECC annually reviews its records that pertain to ValleyWorks with the WIB to verify proper documentation is on hand.

Requests for Information

This financial report is designed to provide a general overview for all readers with an interest in the finances of Northern Essex Community College. Questions concerning the information provided in this report, or requests for additional financial information, should be addressed to the Office of the Vice President for Administration and Finance/CFO, 100 Elliott Street, Haverhill, MA 01830.

NORTHERN ESSEX COMMUNITY COLLEGE
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Statement of Net Position

June 30, 2018

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Current Assets:		
Cash and equivalents	\$ 3,126,703	\$ 349,209
Restricted cash and equivalents	47,328	403,442
Deposits held by State Treasurer	1,635,086	-
Deposits held by DCAMM	50,236	-
Cash held by State Treasurer	1,212,818	-
Accounts receivable, net	2,090,897	-
Investments	4,435,123	3,406,096
Other current assets	<u>376,747</u>	<u>110,248</u>
Total Current Assets	<u>12,974,938</u>	<u>4,268,995</u>
Non-Current Assets:		
Capital assets, net	<u>64,929,582</u>	-
Total Assets	<u>77,904,520</u>	<u>4,268,995</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pension	3,307,053	-
Deferred outflows of resources related to OPEB	<u>1,953,412</u>	-
Total Deferred Outflows of Resources	<u>5,260,465</u>	-
 Total Assets and Deferred Outflow of Resources	 <u>\$ 83,164,985</u>	 <u>\$ 4,268,995</u>

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,684,938	\$ 10,600
Funds held for others	101,319	-
Accrued salaries and wages	2,124,453	-
Current portion of notes payable	480,177	-
Accrued compensated absences	2,453,045	-
Accrued workers' compensation	60,281	-
Student deposits and unearned revenues	<u>1,987,995</u>	<u>27,580</u>
Total Current Liabilities	<u>8,892,208</u>	<u>38,180</u>
Non-Current Liabilities:		
Accrued compensated absences	1,338,695	-
Accrued workers' compensation	224,063	-
Notes payable, net of current position	3,732,716	-
Net pension liability	10,315,396	-
Net OPEB liability	<u>20,063,487</u>	<u>-</u>
Total Non-Current Liabilities	<u>35,674,357</u>	<u>-</u>
Total Liabilities	<u>44,566,565</u>	<u>38,180</u>
Deferred Inflows of Resources:		
Service concession arrangements	298,618	-
Deferred inflows of resources related to pension	1,943,641	-
Deferred inflows of resources related to OPEB	<u>2,355,132</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>4,597,391</u>	<u>-</u>
Total Liabilities and Deferred Inflows of Resources	<u>49,163,956</u>	<u>38,180</u>
Net Position:		
Net investment in capital assets	60,766,925	-
Restricted:		
Nonexpendable	-	1,538,330
Expendable	162,321	1,281,761
Unrestricted	<u>(26,928,217)</u>	<u>1,410,724</u>
Total Net Position	<u>34,001,029</u>	<u>4,230,815</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 83,164,985</u>	<u>\$ 4,268,995</u>

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statement of Revenues and Expenses

For the Years Ended June 30, 2018

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 24,615,387	\$ -
Less: scholarships and allowances	<u>(10,223,842)</u>	<u>-</u>
Net tuition and fees	14,391,545	-
Gifts and contributions	-	897,639
Federal grants and contracts	11,762,054	-
State grants and contracts	6,930,730	-
Private and local grants and contracts	846,985	-
Other operating revenues	<u>2,252,860</u>	<u>-</u>
Total Operating Revenues	<u>36,184,174</u>	<u>897,639</u>
Operating Expenses:		
Instruction	25,293,854	-
Academic support	7,772,942	-
Student services	10,918,211	-
Public service	27,750	-
Operations and maintenance	5,705,071	-
Institutional support	9,306,789	402,039
Depreciation	1,905,742	-
Scholarships and fellowships	<u>2,699,698</u>	<u>617,563</u>
Total Operating Expenses	<u>63,630,057</u>	<u>1,019,602</u>
Net Operating Loss	(27,445,883)	(121,963)
Non-Operating Revenues (Expenses):		
State appropriations, net	26,393,065	-
Investment income, net	287,972	268,630
Interest expense	<u>(155,013)</u>	<u>-</u>
Total Non-Operating Revenues	<u>26,526,024</u>	<u>268,630</u>
Net Increase (Decrease) in Net Position Before Capital Appropriations	(919,859)	146,667
Capital appropriations	<u>3,227,994</u>	<u>-</u>
Changes in Net Position	<u>\$ 2,308,135</u>	<u>\$ 146,667</u>

See accompanying notes to the financial statements.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statement of Changes in Net Position

For the Years Ended June 30, 2018

	<u>College</u>				
	Net Investment in Capital <u>Assets</u>	Restricted <u>Nonexpendable</u>	Restricted <u>Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2017, as previously reported	\$ 58,080,884	\$ -	\$ 324,072	\$ (7,132,635)	\$ 51,272,321
Prior period adjustment - See Note 2	-	-	-	(19,579,427)	(19,579,427)
Balance, June 30, 2017, as restated	58,080,884	-	324,072	(26,712,062)	31,692,894
Changes in net position	<u>2,686,041</u>	<u>-</u>	<u>(161,751)</u>	<u>(216,155)</u>	<u>2,308,135</u>
Balance, June 30, 2018	<u>\$ 60,766,925</u>	<u>\$ -</u>	<u>\$ 162,321</u>	<u>\$ (26,928,217)</u>	<u>\$ 34,001,029</u>

	<u>Component Unit - Foundation</u>				
	Net Investment in Capital <u>Assets</u>	Restricted <u>Nonexpendable</u>	Restricted <u>Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2017	\$ -	\$ 1,497,765	\$ 1,161,833	\$ 1,424,550	\$ 4,084,148
Changes in net position	<u>-</u>	<u>40,565</u>	<u>119,928</u>	<u>(13,826)</u>	<u>146,667</u>
Balance, June 30, 2018	<u>\$ -</u>	<u>\$ 1,538,330</u>	<u>\$ 1,281,761</u>	<u>\$ 1,410,724</u>	<u>\$ 4,230,815</u>

See accompanying notes to the financial statements.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows

For the Years Ended June 30, 2018

	<u>College</u>
Cash Flows from Operating Activities:	
Tuition and fees	\$ 15,836,969
Grants and contracts	19,263,821
Payments to suppliers	(17,107,850)
Payments to students	(2,699,698)
Payments to employees	(34,235,042)
Other operating revenues	<u>2,010,441</u>
Net Cash Applied to Operating Activities	<u>(16,931,359)</u>
Cash Flows from Non-Capital Financing Activities:	
State appropriations	19,725,822
Tuition remitted to state	<u>(226,678)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>19,499,144</u>
Cash Flows from Capital Financing Activities:	
Purchases of capital assets	(1,123,029)
Payment on note payable	(471,739)
Interest paid on note payable	<u>(158,618)</u>
Net Cash Applied to Capital Financing Activities	<u>(1,753,386)</u>
Cash Flows from Investing Activities:	
Proceeds from sale of investments	3,115,103
Interest and dividends on investments, net	92,077
Purchases of investments	<u>(1,952,177)</u>
Net Cash Provided by Investing Activities	<u>1,255,003</u>
Net Increase in Cash and Equivalents	2,069,402
Cash and Equivalents, Beginning of Year	<u>4,002,769</u>
Cash and Equivalents, End of Year	<u>\$ 6,072,171</u>

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows - Continued

For the Years Ended June 30, 2018

College

Reconciliation of Net Operating Loss to:

Net Cash Applied to Operating Activities:

Net operating loss	\$ (27,445,883)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	1,905,742
Net pension activity	542,304
Net OPEB activity	885,780
Amortization of deferred inflows of resources	(45,726)
Fringe benefits paid by state	6,893,921
Bad debts	827,041
Changes in assets and liabilities:	
Accounts receivable	(644,963)
Other current assets	(15,577)
Accounts payable and accrued expenses, and funds held for others	(501,614)
Accrued salaries and wages	(45,965)
Accrued compensated absences and workers' compensation	(77,128)
Student deposits and unearned revenue	<u>790,709</u>

Net Cash Applied to Operating Activities **\$ (16,931,359)**

Reconciliation of Cash and Equivalents Balance to the Statements of Net Position:

Cash and cash equivalents	\$ 3,126,703
Restricted cash and equivalents	47,328
Deposits held by State Treasurer	1,635,086
Deposits held by DCAMM	50,236
Cash held by State Treasurer	<u>1,212,818</u>

Cash and Equivalents, End of Year **\$ 6,072,171**

Non-Cash Transactions:

Fringe benefits provided by the state	\$ <u>6,893,921</u>
Capital appropriations	<u>\$ 3,227,994</u>
Unrealized gain (loss) on investments	<u>\$ 36,377</u>

See accompanying notes to the financial statements.

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Organization

Northern Essex Community College (the “College”) is a state-supported comprehensive two-year community college that offers a quality education leading to associate degrees in the arts and sciences, as well as one-year certificate programs. The College also offers, through the Division of Continuing Education, credit and non-credit courses, as well as community service programs. The College provides instruction in a variety of fields, including nursing and allied health, business and computer technology, liberal arts, and human services. The College offers courses at its campuses in Haverhill and Lawrence and is accredited by the New England Association of Schools and Colleges.

Basis of Presentation and Accounting

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

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The accompanying Statement of Revenues and Expenses demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenues.

The College has determined that it functions as a business-type activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management’s discussion and analysis, basic financial statements including the College's discretely presented component unit and required supplementary information. The College presents statements of net position, revenues and expenses, changes in net position and cash flows on a combined college-wide basis.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Basis of Presentation and Accounting - Continued

The College's policies for defining operating activities in the Statement of Revenues and Expenses are those that generally result from exchange transactions such as payments received for services and for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, and interest expense.

The College's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements.

The Northern Essex Community College Foundation, Inc. (the "Foundation"), a discretely presented component unit of the College, was formed in 1975 to render financial assistance and support to the educational programs and development of the College. The Foundation is legally separate from the College, but in accordance with GASB, has been included in these financial statements because of the nature and significance of its relationship with the College. A complete copy of the financial statements can be obtained from the Foundation's administrative office in Haverhill, Massachusetts.

The NECC Allied Health & Technology Center, Inc. ("Allied Health"), a legally separate entity from the College, was formed in 2006 to assist the College by holding real estate. In accordance with GASB, Allied Health was included as a component unit of the College in previously issued financial statements because of the nature and significance of its relationship with the College. In 2016, the real estate held by Allied Health was transferred to the College and Allied Health's remaining net assets as of July 1, 2017 amounted to \$187. Due to its lack of materiality, Allied Health was not audited and is no longer included as a component unit of the College for the year ended June 30, 2018.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Net Position

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

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

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

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

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

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

Trust Funds

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

Cash and Equivalents

The College considers cash and deposits held by the State Treasurer, the Department of Capital Assets Management and Maintenance ("DCAMM"), and all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Investments

The College categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles as prescribed by the GASB. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value as further discussed in Note 7.

Student Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year will be recorded as revenue as the related services are provided.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Library materials are no longer capitalized and amortized. 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 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

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

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Fringe Benefits

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

Compensated Absences

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

Pensions

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

Postemployment Benefits Other Than Pensions ("OPEB")

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Student Fees

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

Tax Status

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

Funds Held for Others

Funds held for others consists of resources held by the College as custodian or fiscal agent of students' and other organizations. Accordingly, disbursement or receipt of these funds is not reflected in the Statement of Revenues and Expenses.

Use of Estimates

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

New Governmental Accounting Pronouncements

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

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

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

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

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

Note 2 - **Implementation of Newly Effective Accounting Standard and Restatement of Previously Issued Financial Statements**

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

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

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 2 - **Implementation of Newly Effective Accounting Standard and Restatement of Previously Issued Financial Statements - Continued**

	As Previously Reported <u>at June 30, 2017</u>	Implementation of <u>GASB 75</u>	As Previously Reported <u>at July 1, 2017</u>	Correction of <u>the Error</u>	As Restated <u>at July 1, 2017</u>
Statement of Net Position:					
Deferred outflows related to OPEB	\$ -	505,070	505,070	-	\$ 505,070
Net OPEB liability	\$ -	23,138,936	23,138,936	(3,054,439)	\$ 20,084,497
Unrestricted net position	\$ (7,132,635)	(22,633,866)	(29,766,501)	3,054,439	\$ (26,712,062)

	As Previously Reported <u>at June 30, 2018</u>	Correction of <u>the Error</u>	As Restated <u>at June 30, 2018</u>
Statement of Net Position:			
Deferred outflows related to OPEB	\$ 2,163,153	(209,741)	\$ 1,953,412
Net OPEB liability	\$ 22,691,758	(2,628,271)	\$ 20,063,487
Deferred inflows related to OPEB	\$ 3,020,329	(665,197)	\$ 2,355,132
Unrestricted net position	\$ (30,011,944)	3,083,727	\$ (26,928,217)

Statement of Revenues and Expenses:			
Operating expenses	\$ 63,659,345	(29,288)	\$ 63,630,057

Note 3 - **Cash and Equivalents**

Custodial credit risk is risk associated with the failure of a depository financial institution. Bank deposits are insured to the limits provided by the Federal Deposit Insurance Corporation ("FDIC"), or as applicable, by the Depositors Insurance Fund. The College has an agreement with its primary banking institution that it must maintain an Irrevocable Stand-by Letter of Credit in the College's favor in an amount sufficient to cover the College's deposits. This agreement has been accepted by the Office of the State Treasurer as acceptable collateral.

The bank balances of the deposits and investments at June 30, 2018 amounted to \$3,287,704, of which \$159,070 was exposed to custodial credit risk.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

Accrued payroll and related expenses to be funded from state funds totaled \$11,150 at June 30, 2018. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently used for these liabilities. The State is also holding funds of \$1,201,668 at June 30, 2018 for the College's development of a new culinary program.

Accounts payable and accrued salaries to be funded by cash forwarded by the College to the State Treasurer held for payment of so-called "non-appropriated" liabilities at June 30, 2018 through the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System ("MMARS"), were recorded in the sums of \$1,635,086.

Note 5 - **Deposits Held by Department of Capital Assets Management & Maintenance ("DCAMM")**

A total of \$50,236 was held by DCAMM on behalf of the College at June 30, 2018. The balance was allocated by DCAMM for multiple projects on the Haverhill and Lawrence campuses for the year ended June 30, 2018. These include repairs to generators and funds allocated for temporary space needed while the Spurk building is under renovation.

Note 6 - **Accounts Receivable**

The accounts receivable balance comprises the following at June 30, 2018:

Student accounts receivable	\$ 2,030,217
Grants receivable	475,091
Other receivables	<u>401,207</u>
	2,906,515
Less: allowance for doubtful accounts	<u>815,618</u>
	<u>\$ 2,090,897</u>

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Investments**

College

The College categorizes short-term investments according to the level of risk assumed by the College. At June 30, 2018, the entire balance of investments of \$4,435,123, represents investments that are insured, registered or held by the College's agent in the College's name. Investment income is presented net of related expenses. The College currently follows investment policies largely defined by the Commonwealth of Massachusetts. The College has a formal investment policy; however, the policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

As of June 30, 2018, one federal entity made up 11% of the market value of the College's investment portfolio.

Investments of the College are stated at fair market value and consist of the following at June 30, 2018:

Investment Maturities (in Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities:</u>				
U.S Government and Agencies	\$ 846,980	\$ 147,313	\$ 137,882	\$ 561,785
Municipal	113,745	-	-	113,745
Corporate	<u>712,895</u>	<u>77,609</u>	<u>53,497</u>	<u>581,789</u>
Total	1,673,620	<u>\$ 224,922</u>	<u>\$ 191,379</u>	<u>\$ 1,257,319</u>
<u>Other Investments:</u>				
Equity Securities	<u>2,761,503</u>			
Total	<u>\$ 4,435,123</u>			

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Investments - Continued**

College - Continued

The following tables summarize the quality ratings of the College's investments using Standard & Poor's ratings.

Quality Ratings
2018

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA+</u>	<u>AA</u>	<u>AA-</u>	<u>A+</u>	<u>A</u>	<u>A-</u>	<u>BBB+</u>	<u>BBB</u>	<u>BBB-</u>
U.S. Government and Agencies	\$ 846,980	\$ 846,980	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Municipal Bonds	113,745	-	-	-	77,090	19,996	-	-	16,659	-	-
Corporate	<u>712,895</u>	<u>16,662</u>	<u>42,509</u>	<u>25,051</u>	<u>47,949</u>	<u>111,452</u>	<u>60,434</u>	<u>159,027</u>	<u>60,752</u>	<u>128,358</u>	<u>60,701</u>
	<u>\$ 1,673,620</u>	<u>\$ 863,642</u>	<u>\$ 42,509</u>	<u>\$ 25,051</u>	<u>\$ 125,039</u>	<u>\$ 131,448</u>	<u>\$ 60,434</u>	<u>\$ 159,027</u>	<u>\$ 77,411</u>	<u>\$ 128,358</u>	<u>\$ 60,701</u>

The following schedule summarizes the investment return of the College in the Statement of Revenues and Expenses for the year ended June 30, 2018:

Interest and dividend income	\$ 112,530
Investment expense	(24,008)
Realized gain	163,073
Unrealized gain	<u>36,377</u>
	<u>\$ 287,972</u>

Fair Value Hierarchy

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

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Investments - Continued**

Fair Value Hierarchy - Continued

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.

U.S. Government Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Municipal Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Corporate Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Equity Securities: Value based on quoted prices in active markets of similar instruments.

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

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Investments - Continued**

Fair Value Hierarchy - Continued

The following tables set forth, by level, the College's investments, measured on a recurring basis:

	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
<u>Debt Securities:</u>				
U.S. Government and Agencies	\$ 846,980	\$ -	\$ -	\$ 846,980
Municipal bonds	-	113,745	-	113,745
Corporate bonds	-	712,895	-	712,895
<u>Other Investments:</u>				
Equity securities	<u>2,761,503</u>	<u>-</u>	<u>-</u>	<u>2,761,503</u>
Total marketable securities at fair value	<u>\$ 3,608,483</u>	<u>\$ 826,640</u>	<u>\$ -</u>	<u>\$ 4,435,123</u>

Component Unit

Investments of the Foundation are stated at fair value and consist of the following at June 30, 2018:

U.S. Government obligations	\$ 106,538
Mortgage backed securities	333,210
Corporate bonds	547,213
Municipal bonds	73,659
Mutual funds	344,973
Equity securities	<u>2,000,503</u>
	<u>\$ 3,406,096</u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Investments - Continued**

Component Unit - Continued

The following schedule summarizes the investment return of the Foundation in the statements of revenues and expenses and changes in net position for the year ended June 30, 2018:

Interest and dividend income, net	\$ 78,308
Investment expense	(19,081)
Realized gains	230,102
Unrealized losses	<u>(20,699)</u>
	<u>\$ 268,630</u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Capital Assets**

Capital assets activity for the year ended June 30, 2018 is as follows:

	Estimated Lives (in years)	Beginning Balance	Additions	Retire- ments	Reclass- ifications	Ending Balance
Capital assets, not depreciated:						
Land		\$ 774,915	\$ -	\$ -	\$ -	\$ 774,915
Construction in progress		<u>36,832,899</u>	<u>3,789,728</u>		<u>(23,510,250)</u>	<u>17,112,377</u>
Total capital assets, not depreciated		<u>37,607,814</u>	<u>3,789,728</u>	<u>-</u>	<u>(23,510,250)</u>	<u>17,887,292</u>
Capital assets, depreciated:						
Buildings and improvements	40	48,239,153	124,528	-	23,510,250	71,873,931
Land improvements	20-30	1,454,359	-	-	-	1,454,359
Furnishings and equipment	5-20	<u>3,474,488</u>	<u>436,767</u>	<u>(140,321)</u>	<u>-</u>	<u>3,770,934</u>
Total capital assets, depreciated		<u>53,168,000</u>	<u>561,295</u>	<u>(140,321)</u>	<u>23,510,250</u>	<u>77,099,224</u>
Total capital assets		<u>90,775,814</u>	<u>4,351,023</u>	<u>(140,321)</u>	<u>-</u>	<u>94,986,516</u>
Less: accumulated depreciation:						
Buildings and improvements		25,339,510	1,592,489	-	-	26,931,999
Land improvements		294,241	60,212	-	-	354,453
Furnishings and equipment		<u>2,657,762</u>	<u>253,041</u>	<u>(140,321)</u>	<u>-</u>	<u>2,770,482</u>
Total accumulated depreciation		<u>28,291,513</u>	<u>1,905,742</u>	<u>(140,321)</u>	<u>-</u>	<u>30,056,934</u>
Capital assets, net		<u>\$ 62,484,301</u>	<u>\$ 2,445,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,929,582</u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2018 consist of:

	(Restated)				
	Beginning			Ending	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Notes payable	\$ 4,684,632	\$ -	\$ 471,739	\$ 4,212,893	\$ 480,177
Compensated absences	3,843,175	-	51,435	3,791,740	2,453,045
Workers' compensation	310,037	-	25,693	284,344	60,281
Net pension liability	11,288,307	-	972,911	10,315,396	-
Net OPEB liability	<u>20,084,497</u>	<u>-</u>	<u>21,010</u>	<u>20,063,487</u>	<u>-</u>
 Total Long-Term Liabilities	 <u>\$ 40,210,648</u>	 <u>\$ -</u>	 <u>\$ 1,542,788</u>	 <u>\$ 38,667,860</u>	 <u>\$ 2,993,503</u>

Notes Payable

In July 2012, the College entered into an agreement with Commonwealth's Division of Capital Asset Management and Maintenance ("DCAMM") to participate in the Massachusetts Clean Energy Investment Program ("CEIP"). Under the program, DCAMM was responsible for construction of specific energy conservation projects, including the conversion of heating systems from electric to gas, replacement of boilers, updating of lighting, installation of water conservation equipment, and other similar projects, at the College funded by CEIP funds and proceeds of bonds issued by the Commonwealth. In connection with this agreement, in January 2013 the College issued notes payable to DCAMM in the original amount of \$4,585,686, requiring annual payments of \$334,469 including principal and interest, at 4.1% per annum through January 2033. The outstanding balance of the note payable is \$3,693,502 at June 30, 2018.

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Long-Term Liabilities - Continued**

Notes Payable - Continued

During the fiscal years ended June 30, 2016 and 2017, the College issued notes payable to its electric provider to provide funds for the installation of energy efficient lighting on the Haverhill and Lawrence campuses. The note payable issued during the fiscal year ending 2016 was in the amount of \$765,592 and required monthly principal payments of \$15,950 through December 2020. Notes payable issued during fiscal year ended 2017 were in the aggregate amount of \$420,416 and require aggregate monthly principal payments of \$8,759 through December 2021. The notes are non-interest bearing and unsecured. No interest has been imputed due to a lack of materiality. The aggregate outstanding balance of these notes is \$519,391 at June 30, 2018.

Principal and interest on long-term debt payable for the next five years and through maturity are as follows:

Fiscal Years <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 480,177	\$ 151,408	\$ 631,585
2020	391,368	143,904	535,272
2021	220,465	136,090	356,555
2022	206,513	127,956	334,469
2023	214,980	119,489	334,469
2024-2028	1,214,566	457,779	1,672,345
2029-2033	<u>1,484,824</u>	<u>188,138</u>	<u>1,672,962</u>
Total	<u>\$ 4,212,893</u>	<u>\$ 1,324,764</u>	<u>\$ 5,537,657</u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension**

Defined Benefit Plan Description

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

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

Benefit Provisions

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

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

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension - Continued**

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

The Commonwealth does not require the College to contribute funding from its local trust funds for employees paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$2,329,456 for the year ended June 30, 2018.

For employees covered by SERS, but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 11.78% of annual covered payroll for the fiscal year ended June 30, 2018. The College contributed \$758,476 for the fiscal year ended June 30, 2018, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 77% of total related payroll for fiscal year end 2018.

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension - Continued**

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

At June 30, 2018, the College reported a liability of \$10,315,396 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.080%.

For the year ended June 30, 2018, the College recognized pension expense of \$1,300,781. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30, 2018:

Deferred Outflows of Resources Related to Pension

Contributions subsequent to the measurement date	\$ 758,476
Differences between expected and actual experience	398,835
Changes in proportion from Commonwealth	35,330
Changes in plan actuarial assumptions	1,073,474
Changes in proportion due to internal allocation	<u>1,040,938</u>
Total deferred outflows of resources related to pension	<u>\$ 3,307,053</u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension - Continued**

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

Deferred Inflows of Resources Related to Pension

Changes in proportion from Commonwealth	\$	3,677
Changes in proportion due to internal allocation		1,536,400
Differences between expected and actual experience		280,656
Net differences between projected and actual investment earnings on pension plan investments		<u>122,908</u>
Total deferred inflows of resources related to pension	\$	<u><u>1,943,641</u></u>

The College's contributions of \$758,476 made during the fiscal year ending 2018, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years ending
June 30,

2019	\$	224,742
2020		523,717
2021		161,715
2022		(297,749)
2023		<u>(7,489)</u>
	\$	<u><u>604,936</u></u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension - Continued**

Actuarial Assumptions

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

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

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

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

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

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension - Continued**

Actuarial Assumptions – continued

Investment assets of SERS are with the Pension Reserves Investment Trust (“PRIT”) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2018 are summarized in the following table:

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

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Pension - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.50% at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	June 30, 2017 Current Discount Rate	
1.00% Decrease (6.50%)	(7.50%)	1.00% Increase (8.50%)
\$ 14,049,140	\$ 10,315,396	\$ 7,307,776

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB")**

Plan Description

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

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

Plan Description - Continued

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

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

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

Benefits Provided

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

Contributions

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

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Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

Contributions - Continued

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

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.92% of annual covered payroll for the fiscal year ended June 30, 2018. The College contributed \$574,256 for the fiscal year ended June 30, 2018 equal to 100% of the required contribution for the year.

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

At June 30, 2018, the College reported a liability of \$20,063,487 for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal year 2017. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal year 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.115%.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

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

For the year ended June 30, 2018, the College recognized OPEB expense of \$1,491,497. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30, 2018:

Deferred Outflows of Resources Related to OPEB

Contributions subsequent to the measurement date	\$ 574,256
Changes in proportion from Commonwealth	41,991
Changes in proportion due to internal allocation	<u>1,337,165</u>
Total deferred outflows of resources related to OPEB	<u>\$ 1,953,412</u>

Deferred Inflows of Resources Related to OPEB

Net differences between projected and actual investment earnings on OPEB plan investments	\$ 36,605
Differences between expected and actual experience	46,130
Changes in OPEB plan actuarial assumptions	<u>2,272,397</u>
Total deferred inflows of resources related to OPEB	<u>\$ 2,355,132</u>

NORTHERN ESSEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

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

The College's contribution of \$574,256 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending <u>June 30,</u>	
2019	\$ (205,264)
2020	(205,264)
2021	(205,264)
2022	(205,264)
2023	<u>(154,920)</u>
	<u>\$ (975,976)</u>

Actuarial Assumptions

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

Measurement date	June 30, 2017
Inflation	3.00%
Salary increases	4.50% per year
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.50%, decreasing by 0.50% each year to an ultimate rate of 5.00% in 2024 for Medical; 5.00% for EGWP; 5.00% for administrative costs

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Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

Actuarial Assumptions - Continued

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

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% of current and future contingent eligible participants will elect health care benefits at age 65, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

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

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

Actuarial Assumptions - Continued

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

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2018, are the same as discussed in the Pension footnote number 10.

Discount Rate

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

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

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

1.00% Decrease (2.63%)	Current Discount Rate (3.63%)	1.00% Increase (4.63%)
\$ 23,816,964	\$ 20,063,487	\$ 17,079,180

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Postemployment Benefits Other Than Pensions ("OPEB") - Continued**

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

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

	1.00% Decrease (B)	Current Healthcare Cost trend Rate (A)	1.00% Increase (C)
Net OPEB liability	\$ 16,599,984	\$ 20,063,487	\$ 24,621,248

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

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

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

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

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

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

Note 12 - **Service Concession Agreements**

The College has a service concession arrangement for beverage products with Coca Cola, Inc. ("Coca Cola"). In exchange for this agreement, Coca Cola has provided the College with funds aggregating \$50,000. These monies are amortized into revenue ratably over the life of the agreement through June 2022. In the event of termination, as provided for by either party in the agreement, repayment of the unamortized portion would be required. The agreement also requires additional payments from Coca Cola to defray costs incurred by the College, as well as revenue sharing. During the fiscal year ended June 30, 2018, the sales volume did not meet the required amount in order for the College to receive additional payments. The College expects to recognize \$5,000 per year over the next 4 years, with the remaining balance recognized in revenues during the year ended June 30, 2022.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 12 - **Service Concession Agreements - Continued**

The College has entered into an operating agreement with Follett Higher Education Group (“Follett”). A provision of the agreement is that Follett will make a planned investment in the College bookstore. Specifically, Follett shall provide a one-time contribution of \$300,000 to the College for the creation of the new bookstore/café on the Haverhill campus. Additionally, during the fiscal year ended June 30, 2015, the College received \$136,280 as a supplemental payment from Follett for new modifications to the bookstore. These monies will be amortized into revenue ratably through April 2025, the end of the agreements. In the event of termination, as provided for by either party in the agreement, repayment of the unamortized portion would be required. The agreement also requires additional payments from Follett to defray costs incurred by the College, as well as revenue sharing. During the fiscal year ended June 30, 2018, such additional payments received aggregated \$167,240. The College expects to recognize \$40,725 per year over the next 6 years, with the remaining balance recognized in revenues during the year ended June 30, 2025.

Note 13 - **Leases**

The College leases certain equipment, vehicles, and buildings under various operating leases with monthly payments ranging from \$138 to \$36,817 per month. The terms of these leases range between two to six years and expire at various dates through September 2027. Total lease expense was \$2,039,888 for the year ended June 30, 2018.

At June 30, 2018, future minimum payments due under all operating leases for the College are as follows:

<u>Fiscal Years</u> <u>Ending June 30,</u>	<u>Total</u>
2019	\$ 1,758,315
2020	1,459,857
2021	1,144,553
2022	988,736
2023	789,712
Thereafter	<u>1,256,250</u>
Total	<u>\$ 7,397,423</u>

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 14 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time.

Restricted - expendable net position consists of funds whose income is mainly to be used for scholarships, the Lawrence Capital Campaign and the Women of NECC program.

The Foundation's restricted - nonexpendable net position consists of endowment funds to be held indefinitely. The income from these assets is restricted for the purpose of providing scholarships.

Note 15 - **Contingencies**

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

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 expenditure resulting from such audits becomes 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 the Program without regard to the standard tuition rate in effect at the time of the individual's enrollment at the College. The effect of the program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the College.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 15 - **Contingencies - Continued**

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

Note 16 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, comprise the following at June 30, 2018:

Compensation and benefits	\$ 44,816,492
Supplies and services	14,208,127
Scholarships and fellowships	2,699,696
Depreciation	<u>1,905,742</u>
	<u>\$ 63,630,057</u>

Note 17 - **Fringe Benefits**

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

Group Insurance Commission

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 17 - **Fringe Benefits - Continued**

Group Insurance Commission - Continued

The GIC is a quasi-independent state agency governed by a seventeen-member body (the “Commission”) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth’s employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

Other Retirement Plans

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 18 - **Massachusetts Management Accounting and Reporting System**

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus-based funds to the Comptroller of the Commonwealth on the Commonwealth’s Statewide Accounting System, MMARS on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 18 - **Massachusetts Management Accounting and Reporting System - Continued**

Management believes the amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Educational Audited Financial Statements*.

The College's state appropriation is composed of the following at June 30, 2018:

Direct unrestricted appropriations	\$	19,725,822
Add:		
Fringe benefits for benefited employees on the state-funded payroll		6,893,921
Less:		
Day school tuition remitted to the state and included in tuition and fee revenue		<u>(226,678)</u>
Total unrestricted appropriations		<u>26,393,065</u>
Capital appropriations		<u>3,227,994</u>
Total appropriations	\$	<u>29,621,059</u>

A reconciliation between the College and MMARS as of June 30, 2018 is as follows (unaudited):

Revenue per MMARS	\$	56,705,310
Revenue per College		<u>56,705,310</u>
Difference	\$	<u>-</u>

Note 19 - **Pass-Through Grants**

The College distributed approximately \$5,700,000 for student loans through the U.S. Department of Education Federal Direct Lending Program during the year ended June 30, 2018. These distribution and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

Year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Valuation date	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.080%	0.082%	0.105%	0.082%
Proportionate share of the collective net pension liability	\$ 10,315,396	\$ 11,288,307	\$ 11,931,702	\$ 6,105,705
Covered payroll	\$ 6,319,979	\$ 6,218,504	\$ 6,316,080	\$ 6,100,441
Proportionate share of the net pension liability as a percentage of its covered payroll	163.22%	181.53%	188.91%	100.09%
Plan fiduciary net position as a percentage of the plan's total pension liability	67.21%	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplementary information.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Pension Contributions (Unaudited)

Year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 758,476	\$ 628,838	\$ 587,850	\$ 656,241
Contributions in relation to the contractually required contribution	<u>758,476</u>	<u>628,838</u>	<u>587,850</u>	<u>656,241</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 6,438,676	\$ 6,319,979	\$ 6,218,504	\$ 6,316,080
Contribution as a percentage of covered payroll	11.78%	9.95%	9.45%	10.39%

Notes:

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

The 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.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - Pension (unaudited)

June 30, 2018

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

Fiscal year June 30, 2018

Change of Benefits:

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

Assumptions:

The mortality rates were changed as follows:

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

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

Fiscal year June 30, 2017

Change of Benefits:

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - Pension (unaudited) - Continued

June 30, 2018

Note 1 - **Changes in Plan Actuarial and Assumptions - Continued**

Fiscal year June 30, 2017 - Continued

Assumptions:

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

The mortality rates were changed as follows:

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

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

Fiscal year June 30, 2015

Assumptions:

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

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

State Retirees' Benefit Trust

Year ended	June 30, 2018
Measurement date	June 30, 2017
Valuation date	January 1, 2017
Proportion of the collective net OPEB liability	0.115%
Proportionate share of the collective net OPEB liability	\$ 20,063,487
College's covered payroll	\$ 6,319,979
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	317.46%
Plan fiduciary net position as a percentage of the total OPEB liability	5.39%

Notes:

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

See accompanying notes to the required supplementary information.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of OPEB Contributions (Unaudited)

State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2018</u>
Statutorily required contribution	\$ 574,256
Contributions in relation to the statutorily required contribution	<u>574,256</u>
Contribution (excess)/deficit	<u>\$ -</u>
College's covered payroll	\$ 6,438,676
Contribution as a percentage of covered payroll	8.92%

Notes:

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

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

See accompanying notes to the required supplementary information.

NORTHERN ESSEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - OPEB (Unaudited)

June 30, 2018

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2018

Assumptions:

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

**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 Trustees of
Northern Essex Community College
Haverhill, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northern Essex Community College (the "College"), and its discretely presented component unit, the Northern Essex Community College Foundation (the "Foundation"), which comprise the statements of net position as of June 30, 2018, the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon with a dual date of December 5, 2018 and February 8, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

December 5, 2018 (except for Management's Discussion and Analysis, Note 2, Note 9, Note 11, Note 16, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is February 8, 2019)