

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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

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

June 30, 2020 and 2019

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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 the business-type activities and the discretely presented major component unit of Northern Essex Community College (an agency of the Commonwealth of Massachusetts) (the "College"), as of and for the years ending June 30, 2020 and 2019, 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.

Auditor Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented major component unit of Northern Essex Community College as of June 30, 2020 and

2019, the respective changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the College restated prior balances with regards to the College's Other Post-Employment Benefits liability and the related deferred inflows and outflows. Our opinion is not modified with respect to that matter.

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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2020, 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 solely 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 the effectiveness of Northern Essex Community College's 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.



**Certified Public Accountants
Braintree, Massachusetts**

December 2, 2020

NORTHERN ESSEX COMMUNITY COLLEGE

(An agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The following discussion and analysis provides an overview of the financial position and activities of Northern Essex Community College (The "College" or "NECC") as of June 30, 2020 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 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 Statements of Net Position, (2) the Statements of Revenues and Expenses, (3) the Statements of Changes in Net Position, and (4) the Statements 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*.

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, 2020 and 2019

Statements of Net Position

The Statements of Net Position present 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.

| (\$ in thousands) | <u>FY20</u> | (Restated) <u>FY19</u> | <u>FY18</u> | Change <u>FY20-FY19</u> | <u>%</u> |
|---|------------------|---------------------------|------------------|----------------------------|---------------|
| Current assets | \$ 14,695 | \$ 11,218 | \$ 8,540 | \$ 3,477 | |
| Non-current assets | <u>71,235</u> | <u>71,916</u> | <u>69,365</u> | (681) | |
| Total assets | <u>85,930</u> | <u>83,134</u> | <u>77,905</u> | <u>2,796</u> | 3.4% |
| Deferred outflows of resources | | | | | |
| Pension allocation | 1,623 | 2,790 | 3,307 | (1,167) | |
| OPEB allocation | <u>3,440</u> | <u>4,039</u> | <u>1,953</u> | (599) | |
| Total deferred outflows of resources | <u>5,063</u> | <u>6,829</u> | <u>5,260</u> | (1,766) | -25.9% |
| Total assets & deferred outflows | <u>\$ 90,993</u> | <u>\$ 89,963</u> | <u>\$ 83,165</u> | <u>\$ 1,030</u> | 1.1% |
| Current liabilities | 8,533 | 8,045 | 8,892 | 488 | |
| Non-current liabilities | <u>25,037</u> | <u>39,846</u> | <u>35,674</u> | (14,809) | |
| Total liabilities | <u>33,570</u> | <u>47,891</u> | <u>44,566</u> | (14,321) | -29.9% |
| Deferred inflows of resources | | | | | |
| Service concession arrangements | 207 | 253 | 299 | (46) | |
| Pension allocation | 4,275 | 1,701 | 1,944 | 2,574 | |
| OPEB allocation | <u>11,379</u> | <u>2,114</u> | <u>2,355</u> | 9,265 | |
| Total deferred inflows of resources | <u>15,861</u> | <u>4,068</u> | <u>4,598</u> | 11,793 | 289.9% |
| Invested in capital assets | 63,553 | 63,229 | 60,717 | 324 | |
| Restricted, expendable | 430 | 288 | 162 | 142 | |
| Unrestricted | <u>(22,421)</u> | <u>(25,513)</u> | <u>(26,878)</u> | 3,092 | |
| Total net position | <u>41,562</u> | <u>38,004</u> | <u>34,001</u> | <u>3,558</u> | 9.4% |
| Total liabilities, deferred inflows & net position | <u>\$ 90,993</u> | <u>\$ 89,963</u> | <u>\$ 83,165</u> | <u>\$ 1,030</u> | 1.1% |

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020 and 2019

Total Assets

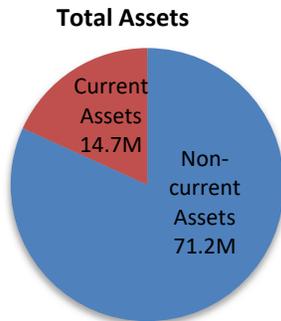
Total assets represent property, facilities, and equipment owned or controlled by the College, along with payments due to the College for services rendered prior to the end of the fiscal year. Total assets on June 30, 2020 were \$91 million, an increase of \$1.0 million or 1.1% from the prior year.

The value of current assets on June 30 was \$14.7 million, an increase of \$3.5 million or 31.0% compared to the prior year. Total Cash and Cash Equivalents totaled \$10.6 million, \$2.3 million higher or 27.4% than last year primarily due to the CARES Act funding of \$1.1 million and the State providing \$760k of additional funding in salaries, fringe and tax then the previous year.

The value of non-current assets at year-end was \$71.2 million, a decrease of (\$682k) or (0.9%) from the prior year. Buildings 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 decrease in non-current assets of (\$682k) is primarily related to the Capital Improvements of Spurk general-purpose academic building in Haverhill moving from Construction in Progress and depreciated for \$780k. 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 FY20 were \$33.6 million, a decrease of (\$14.3) million or (29.9%) from the prior year. The decrease was due to a decrease in the net OPEB liability of (\$10.7) million and a decrease in net Pension liability of (\$3.9) million at June 30, 2020. Additional information pertaining to these liabilities may be found in Footnote 9.

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.

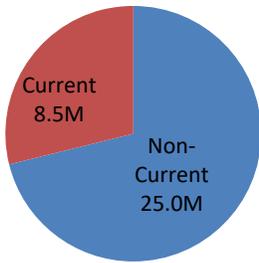
NORTHERN ESSEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020 and 2019

Total Liabilities



The calculated liability for compensated absences and workers' compensation, both current and non-current, is \$4.3 million, an increase of \$519k from the prior year. The total liability averages approximately \$12k 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 \$1.9 million. This is an increase of \$651k over the prior year. The increase is comprised of various small amounts.

Student deposits and unearned revenue on June 30 was \$1.5 million, which was a decrease of (\$722k) or (32.4%) from the prior year. Approximately \$1.3 million represents student tuition and fees collected for the summer and fall 2020 terms, in which is a decrease of (\$814k) or (39.0%) from the prior year. This decrease is consistent with the enrollment decline in the fall semester 2020. Due to the timing of the fiscal year, payments for these classes and when classes are provided cross fiscal years. Unearned revenue reflects the value of classes which will be held in FY21. Grant revenue received but not yet earned equals \$232k.

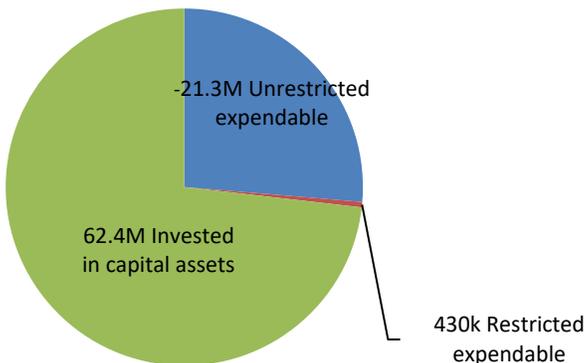
Net Position

Net Position represents resources currently available to the College. At the end of FY20, net position was \$41.6 million. This is \$3.6 million or 9.4% 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 FY20 is 1.7, which is 0.3 higher than the previous year.

Current ratio = current assets/current liabilities.

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

Net Position



Current assets increased \$3.5 million or 31.0%, primarily due to an increase in cash, which resulted in the higher current ratio. 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 is (0.35) for FY20 and was (0.40) for FY19: 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.

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

June 30, 2020 and 2019

Statements of Revenues and Expenses and Statements of Changes in Net Position

The Statements of Revenues and Expenses and Statements 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 Statements 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>FY20</u> | (Restated) <u>FY19</u> | <u>FY18</u> | Change <u>FY20-FY19</u> | <u>%</u> |
|--|------------------|---------------------------|------------------|----------------------------|---------------|
| Operating revenues | | | | | |
| Student tuition and fees | \$ 22,267 | \$ 23,525 | \$ 24,615 | \$ (1,258) | |
| less: Scholarship allowances | (8,887) | (9,920) | (10,224) | 1,033 | |
| Net student tuition & fees | 13,380 | 13,605 | 14,391 | (225) | -1.7% |
| Federal grants and contracts | 11,151 | 10,702 | 11,762 | 449 | |
| State grants and contracts | 8,134 | 5,966 | 6,931 | 2,168 | |
| Private/local grants and contracts | 1,353 | 1,062 | 847 | 291 | |
| Other operating revenues | 1,476 | 1,397 | 2,253 | 79 | |
| Total operating revenues | 35,494 | 32,732 | 36,184 | 2,762 | 8.4% |
| Operating expenses | 64,196 | 61,220 | 63,630 | 2,976 | 4.9% |
| Operating loss | (28,702) | (28,488) | (27,446) | (214) | 0.8% |
| Non-operating revenues (expenses) | | | | | |
| Federal grants | 1,129 | - | - | 1,129 | |
| State appropriations | 29,515 | 27,760 | 26,393 | 1,755 | |
| Investment income, net | 588 | 492 | 288 | 96 | |
| Interest on Indebtedness | (140) | (147) | (155) | 7 | |
| Net non-operating revenues | 31,092 | 28,105 | 26,526 | 2,987 | 10.6% |
| Net gain (loss) before other revenues | 2,390 | (383) | (920) | 2,773 | |
| Capital appropriations | 1,169 | 5,204 | 3,228 | (4,035) | |
| Total increase in net position | 3,559 | 4,821 | 2,308 | (1,262) | -26.2% |
| Net position, Beginning of Year | 38,004 | 34,001 | 31,693 | 4,003 | |
| Net position, End of Year | \$ 41,563 | \$ 38,822 | \$ 34,001 | \$ 2,741 | |
| Prior period adjustment - OPEB | - | (818) | - | | |
| Net position, after OPEB adjustment | \$ 41,563 | \$ 38,004 | \$ 34,001 | | |

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020 and 2019

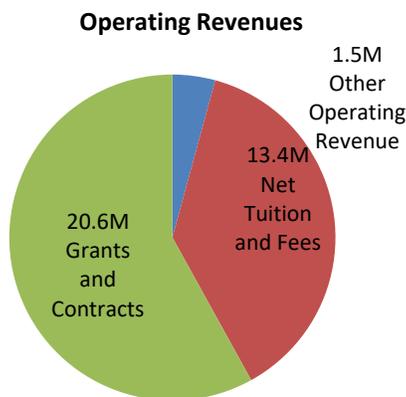
Operating Revenue

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 FY20 were \$35.5 million, an increase of 8.4% as compared to the prior year.

Total (gross) revenue from student tuition and fees was \$22.3 million. This was a decrease of (\$1.3) million or (5.3%) from the prior year.

Revenue reported as federal grants and contracts was \$11.2 million, an increase of \$449k or 4.2% from the prior year. State grants and contracts totaled \$8.1 million, an increase of \$2.2 million or 36.3% primary due to adding the Essex County grant of \$1.3 million and Early Education and Care grant of \$502k.

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 \$1.5 million, an increase of \$80k or 5.7% more than prior year. Donations from the NECC Foundation totaled \$294k, compared to \$224k in FY19, an increase of \$70k or 31.2% from the prior year. Collections from Intercept Recovery decreased (\$37k), Enterprise funds decreased (\$50k) and TCBI Contracts increased by \$71k.



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, and 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

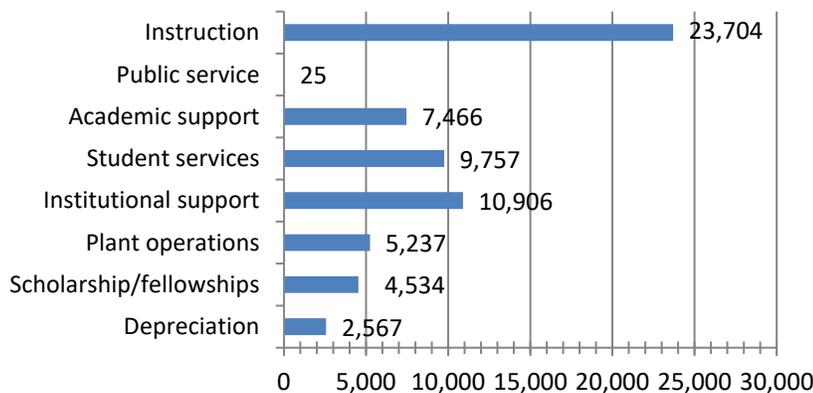
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020 and 2019

In FY20, total operating expenses were \$64.2 million, an increase of \$2.2 million or 3.5%. The area with the largest change was Scholarships and Fellowships, which increased \$1.9 million or 72.9% from prior year. Other significant changes included an increase in Institutional Support by \$1.3 million or 13.3%.

Uses of Funds (\$millions)



Employee compensation and benefits totaled \$42.4 million, which represented 66% of total operating costs.

Spending in Instruction was the highest of the eight IPEDS functional areas and represented 36.9% of the total. Institutional Support was the next highest at 17%, followed by Student Services at 15.2%.

| Operating Expenses | | | | | |
|---------------------------------|------------------|----------------------------|------------------|-----------------------------|-------------|
| (\$ in thousands) | FY20 | (Restated) FY19 | FY18 | Change FY20-FY19 | % |
| Instruction | \$ 23,704 | \$ 24,061 | \$ 25,294 | \$ (357) | -1.5% |
| Academic services | 7,466 | 7,906 | 7,773 | (440) | -5.6% |
| Student services | 9,757 | 10,445 | 10,918 | (688) | -6.6% |
| Public service | 25 | 31 | 28 | (6) | -19.4% |
| Plant operations | 5,237 | 5,489 | 5,705 | (252) | -4.6% |
| Institutional support | 10,906 | 9,625 | 9,307 | 1,281 | 13.3% |
| Depreciation | 2,567 | 1,859 | 1,906 | 708 | 38.1% |
| Scholarships and fellowships | 4,534 | 2,622 | 2,699 | 1,912 | 72.9% |
| Total Operating Expenses | \$ 64,196 | \$ 62,038 | \$ 63,630 | \$ 2,158 | 3.5% |

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

NORTHERN ESSEX COMMUNITY COLLEGE

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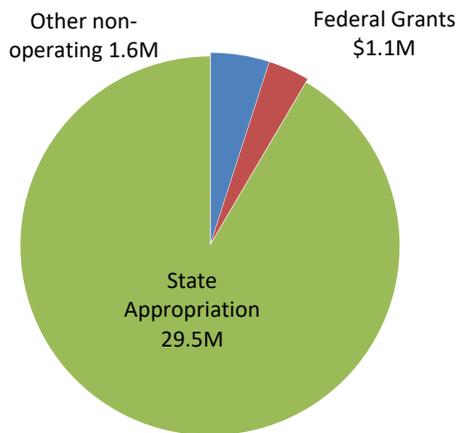
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2020 and 2019

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's approved budget formula has provided the foundation upon which GAA funding to the state and community college system is based.

Non-Operating Revenues



Federal grant non-operating revenue is entirely made up of CARES Act money received in FY20.

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 FY20 by \$1.8 million or 6.3% due to the increased appropriation and increase fringe benefit paid by state on behalf of NECC.

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

June 30, 2020 and 2019

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. At the end of FY20, cash on hand was \$10.6 million. This is an increase of \$2.3 million or 27% higher than FY19.

| <i>(\$ in thousands)</i> | <u>FY20</u> | (Restated) <u>FY19</u> | <u>FY18</u> | Change <u>FY20-FY19</u> |
|--|-------------------------|----------------------------------|------------------------|----------------------------|
| Cash received from operations | \$ 33,480 | \$ 31,402 | \$ 37,111 | \$ 2,078 |
| Cash expended from operations | <u>53,299</u> | <u>50,273</u> | <u>54,043</u> | <u>3,026</u> |
| Net cash applied to operating activities | (19,819) | (18,871) | (16,932) | (948) |
| Net cash provided by noncapital financing activities | 22,766 | 20,465 | 19,499 | 2,301 |
| Net cash provided by (applied to) capital and related financing activities | (753) | 682 | (1,753) | (1,435) |
| Net cash provided by (applied to) investing activities | <u>89</u> | <u>(27)</u> | <u>1,255</u> | <u>116</u> |
| Net increase in cash and cash equivalents | 2,283 | 2,249 | 2,069 | 34 |
| Cash and cash equivalents, beginning of FY | <u>8,321</u> | <u>6,072</u> | <u>4,003</u> | <u>2,249</u> |
| Cash and cash equivalents, end of FY | <u>\$ 10,604</u> | <u>\$ 8,321</u> | <u>\$ 6,072</u> | <u>\$ 2,283</u> |

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

June 30, 2020 and 2019

Major Projects

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 ("MassHire"). 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 MassHire 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 MassHire 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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Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

| | Primary Government | | Component Unit | |
|---|---------------------------------|--------------------------------------|--------------------------------|--------------------------------|
| | 2020 <u>College</u> | (Restated) 2019 <u>College</u> | 2020 <u>Foundation</u> | 2019 <u>Foundation</u> |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 7,857,046 | \$ 5,318,287 | \$ 408,538 | \$ 349,600 |
| Restricted cash and cash equivalents | 196,180 | 151,265 | 953,711 | 840,837 |
| Deposits held by State Treasurer | 1,436,164 | 1,480,886 | - | - |
| Deposits held by DCAMM | 1,113,013 | 1,245,793 | - | - |
| Cash held by State Treasurer | 1,152 | 124,289 | - | - |
| Accounts receivable, net | 3,763,633 | 2,517,104 | - | - |
| Other current assets | <u>327,420</u> | <u>380,456</u> | <u>741,602</u> | <u>902,546</u> |
| Total Current Assets | <u>14,694,608</u> | <u>11,218,080</u> | <u>2,103,851</u> | <u>2,092,983</u> |
| Non-Current Assets: | | | | |
| Investments | 5,453,168 | 4,954,790 | 4,670,452 | 3,616,855 |
| Capital assets, net | <u>65,781,644</u> | <u>66,961,576</u> | <u>-</u> | <u>-</u> |
| Total Non-Current Assets | <u>71,234,812</u> | <u>71,916,366</u> | <u>4,670,452</u> | <u>3,616,855</u> |
| Total Assets | <u>85,929,420</u> | <u>83,134,446</u> | <u>6,774,303</u> | <u>5,709,838</u> |
| Deferred Outflows of Resources: | | | | |
| Deferred outflows of resources related to pension | 1,623,246 | 2,790,022 | - | - |
| Deferred outflows of resources related to OPEB | <u>3,440,083</u> | <u>4,039,004</u> | <u>-</u> | <u>-</u> |
| Total Deferred Outflows of Resources | <u>5,063,329</u> | <u>6,829,026</u> | <u>-</u> | <u>-</u> |
| Total Assets and Deferred Outflow of Resources | <u>\$ 90,992,749</u> | <u>\$ 89,963,472</u> | <u>\$ 6,774,303</u> | <u>\$ 5,709,838</u> |

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

| | Primary Government | | Component Unit | |
|--|-------------------------------|-------------------------------|----------------------------|---------------------|
| | 2020 College | (Restated) 2019 College | 2020 Foundation | 2019 Foundation |
| | | | | |
| Current Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 1,893,499 | \$ 1,242,688 | \$ 12,000 | \$ 11,500 |
| Accrued salaries and wages | 2,218,834 | 1,912,910 | - | - |
| Current portion of notes payable | 220,465 | 391,369 | - | - |
| Accrued compensated absences | 2,632,812 | 2,196,929 | - | - |
| Accrued workers' compensation | 63,243 | 75,472 | - | - |
| Student deposits and unearned revenues | <u>1,503,504</u> | <u>2,225,451</u> | <u>1,500</u> | <u>24,775</u> |
| Total Current Liabilities | <u>8,532,357</u> | <u>8,044,819</u> | <u>13,500</u> | <u>36,275</u> |
| Non-Current Liabilities: | | | | |
| Accrued compensated absences | 1,331,640 | 1,247,880 | - | - |
| Accrued workers' compensation | 284,244 | 272,325 | - | - |
| Notes payable, net of current position | 3,120,882 | 3,341,348 | - | - |
| Net pension liability | 7,035,864 | 10,973,238 | - | - |
| Net OPEB liability | <u>13,263,795</u> | <u>24,011,542</u> | <u>-</u> | <u>-</u> |
| Total Non-Current Liabilities | <u>25,036,425</u> | <u>39,846,333</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>33,568,782</u> | <u>47,891,152</u> | <u>13,500</u> | <u>36,275</u> |
| Deferred Inflows of Resources: | | | | |
| Service concession arrangements | 207,169 | 252,893 | - | - |
| Deferred inflows of resources related to pension | 4,275,305 | 1,701,054 | - | - |
| Deferred inflows of resources related to OPEB | <u>11,378,995</u> | <u>2,114,890</u> | <u>-</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>15,861,469</u> | <u>4,068,837</u> | <u>-</u> | <u>-</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>49,430,251</u> | <u>51,959,989</u> | <u>13,500</u> | <u>36,275</u> |
| Net Position: | | | | |
| Net investment in capital assets | 62,440,297 | 63,228,859 | - | - |
| Restricted: | | | | |
| Nonexpendable | - | - | 3,910,501 | 2,812,011 |
| Expendable | 429,856 | 287,805 | 1,235,224 | 1,351,873 |
| Unrestricted | <u>(21,307,655)</u> | <u>(25,513,181)</u> | <u>1,615,078</u> | <u>1,509,679</u> |
| Total Net Position | <u>41,562,498</u> | <u>38,003,483</u> | <u>6,760,803</u> | <u>5,673,563</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 90,992,749</u> | <u>\$ 89,963,472</u> | <u>\$ 6,774,303</u> | <u>\$ 5,709,838</u> |

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

Statements of Revenues and Expenses

For the Years Ended June 30,

| | Primary Government | | Component Unit | |
|--|-------------------------------|---------------------|----------------------------|---------------------|
| | (Restated) | | 2020 Foundation | 2019 Foundation |
| | 2020 College | 2019 College | | |
| Operating Revenues: | | | | |
| Tuition and fees | \$ 22,267,214 | \$ 23,525,430 | \$ - | \$ - |
| Less: scholarships and allowances | <u>(8,886,844)</u> | <u>(9,919,608)</u> | - | - |
| Net tuition and fees | 13,380,370 | 13,605,822 | - | - |
| Gifts and contributions | - | - | 1,343,349 | 1,657,075 |
| Federal grants and contracts | 11,151,150 | 10,702,090 | - | - |
| State grants and contracts | 8,133,788 | 5,965,710 | - | - |
| Private and local grants and contracts | 1,353,470 | 1,061,712 | - | - |
| Other operating revenues | <u>1,475,620</u> | <u>1,396,826</u> | - | - |
| Total Operating Revenues | <u>35,494,398</u> | <u>32,732,160</u> | <u>1,343,349</u> | <u>1,657,075</u> |
| Operating Expenses: | | | | |
| Instruction | 23,703,706 | 24,060,795 | - | - |
| Academic support | 7,465,370 | 7,906,180 | - | - |
| Student services | 9,757,161 | 10,444,976 | - | - |
| Public service | 25,064 | 30,631 | - | - |
| Operations and maintenance | 5,237,558 | 5,489,308 | - | - |
| Institutional support | 10,906,163 | 9,625,374 | 356,103 | 311,668 |
| Depreciation | 2,567,082 | 1,858,827 | - | - |
| Scholarships and fellowships | <u>4,533,748</u> | <u>2,621,759</u> | <u>348,692</u> | <u>241,004</u> |
| Total Operating Expenses | <u>64,195,852</u> | <u>62,037,850</u> | <u>704,795</u> | <u>552,672</u> |
| Net Operating Income (Loss) | (28,701,454) | (29,305,690) | 638,554 | 1,104,403 |
| Non-Operating Revenues (Expenses): | | | | |
| Federal grants | 1,128,900 | - | - | - |
| State appropriations, net | 29,514,826 | 27,760,223 | - | - |
| Investment income, net | 587,376 | 491,612 | 448,686 | 338,345 |
| Interest expense | <u>(139,996)</u> | <u>(147,656)</u> | - | - |
| Total Non-Operating Revenues | <u>31,091,106</u> | <u>28,104,179</u> | <u>448,686</u> | <u>338,345</u> |
| Net Increase (Decrease) in Net Position Before Capital Appropriations | 2,389,652 | (1,201,511) | 1,087,240 | 1,442,748 |
| Capital appropriations | <u>1,169,362</u> | <u>5,203,965</u> | - | - |
| Changes in Net Position | \$ 3,559,014 | \$ 4,002,454 | \$ 1,087,240 | \$ 1,442,748 |

See accompanying notes to the financial statements.

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

Statements of Changes in Net Position

For the Years Ended June 30, 2020 and 2019

| | <u>College</u> | | | | |
|---|---|-------------------------------------|----------------------------------|-------------------------------|-----------------------------|
| | <u>Net Investment in Capital Assets</u> | <u>Restricted Nonexpendable</u> | <u>Restricted Expendable</u> | <u>Unrestricted</u> | <u>Total</u> |
| Balance, June 30, 2018 | \$ 60,716,689 | \$ - | \$ 162,321 | \$ (26,877,981) | \$ 34,001,029 |
| Changes in net position, as previously reported | <u>2,512,170</u> | <u>-</u> | <u>125,484</u> | <u>2,183,007</u> | <u>4,820,661</u> |
| Balance at June 30, 2019, as previously reported | 63,228,859 | - | 287,805 | (24,694,974) | 38,821,690 |
| Prior period adjustment - See Note 2 | <u>-</u> | <u>-</u> | <u>-</u> | <u>(818,207)</u> | <u>(818,207)</u> |
| Balance at June 30, 2019, as restated | 63,228,859 | - | 287,805 | (25,513,181) | 38,003,483 |
| Changes in net position | <u>(788,562)</u> | <u>-</u> | <u>142,051</u> | <u>4,205,526</u> | <u>3,559,015</u> |
| Balance at June 30, 2020 | <u>\$ 62,440,297</u> | <u>\$ -</u> | <u>\$ 429,856</u> | <u>\$ (21,307,655)</u> | <u>\$ 41,562,498</u> |

| | <u>Component Unit - Foundation</u> | | | | |
|-------------------------------|---|-------------------------------------|----------------------------------|----------------------------|----------------------------|
| | <u>Net Investment in Capital Assets</u> | <u>Restricted Nonexpendable</u> | <u>Restricted Expendable</u> | <u>Unrestricted</u> | <u>Total</u> |
| Balance, June 30, 2018 | \$ - | \$ 1,538,330 | \$ 1,281,761 | \$ 1,410,724 | \$ 4,230,815 |
| Changes in net position | <u>-</u> | <u>1,033,681</u> | <u>310,112</u> | <u>98,955</u> | <u>1,442,748</u> |
| Balance, June 30, 2019 | \$ - | \$ 2,572,011 | \$ 1,591,873 | \$ 1,509,679 | \$ 5,673,563 |
| Changes in net position | <u>-</u> | <u>1,338,490</u> | <u>(356,649)</u> | <u>105,399</u> | <u>1,087,240</u> |
| Balance, June 30, 2020 | <u>\$ -</u> | <u>\$ 3,910,501</u> | <u>\$ 1,235,224</u> | <u>\$ 1,615,078</u> | <u>\$ 6,760,803</u> |

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

| | 2020 <u>College</u> | (Restated) 2019 <u>College</u> |
|--|-----------------------------|--------------------------------------|
| Cash Flows from Operating Activities: | | |
| Tuition and fees | \$ 12,787,980 | \$ 12,864,544 |
| Grants and contracts | 19,216,593 | 17,338,434 |
| Payments to suppliers | (13,691,059) | (13,053,365) |
| Payments to students | (4,533,748) | (2,621,759) |
| Payments to employees | (35,073,997) | (34,598,363) |
| Other operating revenues | <u>1,475,620</u> | <u>1,199,228</u> |
| Net Cash Applied to Operating Activities | <u>(19,818,611)</u> | <u>(18,871,281)</u> |
| Cash Flows from Non-Capital Financing Activities: | | |
| Federal grants | 1,128,900 | - |
| State appropriations | 21,772,013 | 20,702,610 |
| Tuition remitted to state | <u>(135,213)</u> | <u>(237,436)</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>22,765,700</u> | <u>20,465,174</u> |
| Cash Flows from Capital Financing Activities: | | |
| Purchases of capital assets | (217,788) | (121,744) |
| Capital appropriations | - | 1,434,888 |
| Payment on note payable | (391,370) | (480,176) |
| Interest paid on note payable | <u>(143,902)</u> | <u>(151,409)</u> |
| Net Cash Provided by (Applied to) Capital Financing Activities | <u>(753,060)</u> | <u>681,559</u> |
| Cash Flows from Investing Activities: | | |
| Proceeds from sale of investments | 2,416,970 | 1,935,910 |
| Interest and dividends on investments, net | 100,837 | 82,894 |
| Purchases of investments | <u>(2,428,801)</u> | <u>(2,045,907)</u> |
| Net Cash Provided by (Applied to) Investing Activities | <u>89,006</u> | <u>(27,103)</u> |
| Net Increase in Cash and Cash Equivalents | 2,283,035 | 2,248,349 |
| Cash and Cash Equivalents, Beginning of Year | <u>8,320,520</u> | <u>6,072,171</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 10,603,555</u> | <u>\$ 8,320,520</u> |

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

| | <u>2020</u> <u>College</u> | (Restated) <u>2019</u> <u>College</u> |
|---|-------------------------------|---|
| Reconciliation of Net Operating Loss to: | | |
| Net Cash Applied to Operating Activities: | | |
| Net operating loss | \$ (28,701,454) | \$ (29,305,690) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | | |
| Depreciation | 2,567,082 | 1,858,827 |
| Net pension activity | (196,347) | 932,286 |
| Net OPEB activity | (884,721) | 1,622,221 |
| Amortization of deferred inflows of resources | (45,725) | (45,725) |
| Fringe benefits provided by the state | 7,878,020 | 7,295,049 |
| Bad debts | 321,238 | 1,016,327 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,567,767) | (1,443,485) |
| Other current assets | 53,036 | (3,709) |
| Accounts payable and accrued expenses | 654,717 | (539,816) |
| Accrued salaries and wages | 305,924 | (211,543) |
| Accrued compensated absences and workers' compensation | 519,333 | (283,478) |
| Student deposits and unearned revenue | <u>(721,947)</u> | <u>237,455</u> |
| Net Cash Applied to Operating Activities | <u>\$ (19,818,611)</u> | <u>\$ (18,871,281)</u> |
| Reconciliation of Cash and Cash Equivalents Balance to the Statements of Net Position: | | |
| Cash and cash equivalents | \$ 7,857,046 | \$ 5,318,287 |
| Restricted cash and equivalents | 196,180 | 151,265 |
| Deposits held by State Treasurer | 1,436,164 | 1,480,886 |
| Deposits held by DCAMM | 1,113,013 | 1,245,793 |
| Cash held by State Treasurer | <u>1,152</u> | <u>124,289</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 10,603,555</u> | <u>\$ 8,320,520</u> |
| Non-Cash Transactions: | | |
| Fringe benefits provided by the state | <u>\$ 7,878,020</u> | <u>\$ 7,295,049</u> |
| Capital appropriations | <u>\$ 1,169,362</u> | <u>\$ 3,769,077</u> |
| Unrealized gain on investments | <u>\$ 386,643</u> | <u>\$ 259,913</u> |

See accompanying notes to the financial statements.

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2020 and 2019

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 Commission of Higher Education.

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (COVID-19) as a pandemic. On March 30, 2020, the College transitioned students to a distance learning environment for the completion of the 2020 spring semester, and the 2020 summer semester was taught online.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. As part of the law, the CARES Act created the Higher Education Emergency Relief Fund (HEERF). The College was awarded \$3,271,644, of which 50% (or half) is required to be distributed to students affected by the COVID-19 crisis as emergency grants and the other half is eligible for the College to cover costs associated with changes in operations due to the COVID-19 crisis. According to the terms of HEERF, an institution can only spend costs associated with changes in operations due to the COVID-19 crisis up to the amount provided to students as emergency grants.

As of June 30, 2020, the College expended \$1,128,900 for emergency grants to students from the HEERF funds.

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”).

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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 Statements 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 units 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.

The College's policies for defining operating activities in the Statements 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 (the "Commonwealth"), net investment income(loss), and interest expense.

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.

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The Foundation is a private not-for-profit organization that reports in accordance with standards of the Financial Accounting Standards Board ("FASB"), including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*. Accordingly, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

A complete copy of the Foundation's financial statements can be obtained from the Foundation's administrative office in Haverhill, Massachusetts.

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.

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Cash and Cash 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.

Restricted Cash and Cash Equivalents

Restricted cash and equivalents consists of grant and capital funds designated for specific projects.

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.

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.

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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.

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation 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.

Workers' Compensation

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

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.

NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Post-employment 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.

Student Fees

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

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, 2020 and 2019

Adoption of New Governmental Accounting Pronouncement

The College adopted GASB Statement 84 - *Fiduciary Activities*. The objective of this statements is to establish the criteria for identifying and reporting fiduciary activities. The implementation of this statement did not have a material effect on the financial statements.

New Governmental Accounting Pronouncements

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2021. 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.

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2020. 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.

GASB Statement 90 – *Majority Equity Interests, an amendment of GASB Statements 14 and 61* is effective for reporting periods beginning after December 15, 2019. The objective of this statement is to improve the consistency of reporting a government's majority equity interest in a legally separate organization. A majority equity interest should be recognized using the equity method if the government's holding of the equity interest represents an investment. Management has not completed its review of the requirements of this standard and its applicability.

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June 30, 2020 and 2019

GASB Statement 91 – *Conduit Debt Obligations* is effective for reporting periods beginning after December 15, 2021. The objective of this statement is to improve the consistency of reporting conduit debt. This statement requires government entities that issue conduit debt, but are not the obligors, not to recognize the liability unless it is more likely than not that the government issuer will service the debt. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 92 – *Omnibus 2020* is effective for reporting periods beginning after June 15, 2021. The objective of this statement is to improve comparability in financial reporting for leases, pensions, OPEB, and asset retirement obligations. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* is effective for reporting periods beginning after June 15, 2022. The objective of this statement is to provide accounting and financial reporting guidance for arrangements in which the governmental entity (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 96 – *Subscription-Based Information Technology Arrangements (SBITA)* is effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for transactions in which a governmental entity contracts with another party for the right to use their software. A right-to-use-asset and a corresponding liability would be recognized for SBITAs. Management has not completed its review of the requirements of this standard and its applicability.

Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to 2020 presentation.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 2 - **Prior Period Adjustment**

Management of the College was notified of an error in the calculation of OPEB for the year ended June 30, 2019. The error did not have an effect on the calculation of OPEB as of June 30, 2018.

The table below presents the effects of the corrections made to the previously issued financial statements:

| | As Previously Reported <u>at June 30, 2019</u> | Correction of <u>the Error</u> | As Restated <u>at June 30, 2019</u> |
|--|--|-----------------------------------|--|
| Statements of Net Position: | | | |
| Deferred outflows of resources related to OPEB | \$ 4,016,006 | \$ 22,998 | \$ 4,039,004 |
| Deferred inflows of resources related to OPEB | 6,011,105 | (3,896,215) | 2,114,890 |
| Net OPEB liability | 19,274,122 | 4,737,420 | 24,011,542 |
| Unrestricted net position | (24,694,974) | (818,207) | (25,513,181) |
| Statements of Revenues and Expenses: | | | |
| Operating expenses | 61,219,643 | 818,207 | 62,037,850 |

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, 2020 and 2019 amounted to \$7,513,176 and \$5,329,677, respectively, of which \$189,356 and \$124,425, respectively, was exposed to custodial credit risk and uncollateralized.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Accrued payroll and related expenses to be funded from state funds totaled \$1,152 at June 30, 2020. No funds were held for this purpose at June 30, 2019. 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 also held funds of \$124,289 at June 30, 2019, for the College's development of a new culinary program. No funds were held for this purpose at June 30, 2020.

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, 2020 and 2019 through the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System ("MMARS"), were recorded in the sums of \$1,436,164 and \$1,480,886, respectively.

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

A total of \$1,113,013 and \$1,245,793 was held by DCAMM on behalf of the College at June 30, 2020 and 2019, respectively. The balance was allocated by DCAMM for multiple projects on the Haverhill and Lawrence campuses for the years ended June 30, 2020 and 2019. These include renovations to the Dimitry building and a variety of deferred maintenance projects.

Note 6 - **Accounts Receivable**

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

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|----------------------------|----------------------------|
| Student accounts receivable | \$ 3,122,582 | \$ 3,023,106 |
| Grants receivable | 2,502,687 | 840,496 |
| Other receivables | <u>407,664</u> | <u>601,564</u> |
| | 6,032,933 | 4,465,166 |
| Less: allowance for doubtful accounts | <u>2,269,300</u> | <u>1,948,062</u> |
| | <u>\$ 3,763,633</u> | <u>\$ 2,517,104</u> |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 7 - **Investments**

College

The College categorizes short-term investments according to the level of risk assumed by the College. At June 30, 2020 and 2019, the entire balance of investments of \$5,453,168 and \$4,954,790, respectively, 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, 2020 and 2019, one federal entity made up 9% and 12%, respectively, 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,:

| <u>2020</u> | | | | |
|--|--------------------------|-------------------|--------------------|----------------------------|
| <u>Investment Maturities (in Years)</u> | | | | |
| <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 | \$ 874,059 | \$ 90,281 | \$ 116,750 | \$ 667,028 |
| Municipal bonds | 164,608 | - | 73,175 | 91,433 |
| Corporate | <u>1,005,573</u> | <u>170,999</u> | <u>589,623</u> | <u>244,951</u> |
| Total | 2,044,240 | <u>\$ 261,280</u> | <u>\$ 779,548</u> | <u>\$ 1,003,412</u> |
| <u>Other Investments:</u> | | | | |
| Equity Securities | <u>3,408,928</u> | | | |
| Total | <u>\$ 5,453,168</u> | | | |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

2019
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 | \$ 889,855 | \$ 118,919 | \$ 100,413 | \$ 670,523 |
| Municipal bonds | 146,149 | - | 33,589 | 112,560 |
| Corporate | <u>806,791</u> | <u>186,898</u> | <u>409,982</u> | <u>209,911</u> |
| Total | 1,842,795 | <u>\$ 305,817</u> | <u>\$ 543,984</u> | <u>\$ 992,994</u> |
| <u>Other Investments:</u> | | | | |
| Equity Securities | <u>3,111,995</u> | | | |
| Total | <u>\$ 4,954,790</u> | | | |

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

Quality Ratings
2020

| <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 | \$ 874,059 | \$ 874,059 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Municipal Bonds | 164,608 | - | - | 78,876 | 22,476 | 27,654 | 19,262 | - | 16,340 | - | - |
| Corporate | <u>1,005,573</u> | <u>20,860</u> | <u>33,632</u> | <u>44,173</u> | <u>106,459</u> | <u>134,202</u> | <u>120,469</u> | <u>203,864</u> | <u>175,267</u> | <u>99,330</u> | <u>67,317</u> |
| | <u>\$2,044,240</u> | <u>\$894,919</u> | <u>\$33,632</u> | <u>\$123,049</u> | <u>\$128,935</u> | <u>\$161,856</u> | <u>\$139,731</u> | <u>\$203,864</u> | <u>\$191,607</u> | <u>\$99,330</u> | <u>\$67,317</u> |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

| Rated Debt Investments | Fair Value | <u>2019</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 | \$ 889,855 | \$ 889,855 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Municipal Bonds | 146,149 | - | - | 26,500 | 55,906 | 46,482 | - | - | 17,261 | - | - |
| Corporate | <u>806,791</u> | <u>20,670</u> | <u>-</u> | <u>85,717</u> | <u>74,488</u> | <u>102,259</u> | <u>65,954</u> | <u>191,581</u> | <u>84,517</u> | <u>106,950</u> | <u>74,655</u> |
| | <u>\$ 1,842,795</u> | <u>\$ 910,525</u> | <u>\$ -</u> | <u>\$ 112,217</u> | <u>\$ 130,394</u> | <u>\$ 148,741</u> | <u>\$ 65,954</u> | <u>\$ 191,581</u> | <u>\$ 101,778</u> | <u>\$ 106,950</u> | <u>\$ 74,655</u> |

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

| | <u>2020</u> | <u>2019</u> |
|------------------------------|-------------------|-------------------|
| Interest and dividend income | \$ 127,125 | \$ 103,799 |
| Investment expense | (26,163) | (21,856) |
| Realized gain | 99,771 | 149,756 |
| Unrealized gain | <u>386,643</u> | <u>259,913</u> |
| | <u>\$ 587,376</u> | <u>\$ 491,612</u> |

Fair Value Measurements

The College's investments have been categorized based upon the fair value hierarchy in accordance with GASB 72 below.

Level 1 - Observable market prices (unadjusted) in active markets for identical assets or liabilities that the College can access at measurement date.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by observable market data.

The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

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June 30, 2020 and 2019

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.

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

| | June 30, 2020 | | | |
|---|----------------------|---------------------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements: | | | | |
| <u>Debt Securities:</u> | | | | |
| U.S. Government and Agencies | \$ 874,059 | \$ - | \$ - | \$ 874,059 |
| Municipal bonds | - | 164,608 | - | 164,608 |
| Corporate bonds | - | 1,005,573 | - | 1,005,573 |
| <u>Other Investments:</u> | | | | |
| Equity securities | <u>3,408,928</u> | <u>-</u> | <u>-</u> | <u>3,408,928</u> |
| Total marketable securities at fair value | <u>\$ 4,282,987</u> | <u>\$ 1,170,181</u> | <u>\$ -</u> | <u>\$ 5,453,168</u> |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

| | June 30, 2019 | | | |
|---|----------------------|-------------------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements: | | | | |
| <u>Debt Securities:</u> | | | | |
| U.S. Government and Agencies | \$ 889,855 | \$ - | \$ - | \$ 889,855 |
| Municipal bonds | - | 146,149 | - | 146,149 |
| Corporate bonds | - | 806,791 | - | 806,791 |
| <u>Other Investments:</u> | | | | |
| Equity securities | <u>3,111,995</u> | <u>-</u> | <u>-</u> | <u>3,111,995</u> |
| Total marketable securities at fair value | <u>\$ 4,001,850</u> | <u>\$ 952,940</u> | <u>\$ -</u> | <u>\$ 4,954,790</u> |

Investments of the Foundation

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

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|---------------------|---------------------|
| U.S. Government obligations | \$ 97,629 | \$ 131,030 |
| Mortgage backed securities | 538,248 | 409,070 |
| Corporate bonds | 935,815 | 488,654 |
| Municipal bonds | 145,098 | 93,877 |
| Mutual funds | 402,054 | 362,285 |
| Equity securities | <u>2,551,608</u> | <u>2,131,939</u> |
| | <u>\$ 4,670,452</u> | <u>\$ 3,616,855</u> |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Capital Assets**

Capital assets activity for the year ended June 30, 2020 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>20,881,454</u> | <u>936,920</u> | - | <u>(15,637,798)</u> | <u>6,180,576</u> |
| Total capital assets, not depreciated | | <u>21,656,369</u> | <u>936,920</u> | - | <u>(15,637,798)</u> | <u>6,955,491</u> |
| Capital assets, depreciated: | | | | | | |
| Buildings and improvements | 40 | 71,873,931 | - | - | 15,637,798 | 87,511,729 |
| Land improvements | 20-30 | 1,454,359 | - | - | - | 1,454,359 |
| Furnishings and equipment | 5-20 | <u>3,892,678</u> | <u>450,230</u> | - | - | <u>4,342,908</u> |
| Total capital assets, depreciated | | <u>77,220,968</u> | <u>450,230</u> | - | <u>15,637,798</u> | <u>93,308,996</u> |
| Total capital assets | | <u>98,877,337</u> | <u>1,387,150</u> | - | - | <u>100,264,487</u> |
| Less: accumulated depreciation: | | | | | | |
| Buildings and improvements | | 28,529,159 | 2,379,049 | - | - | 30,908,208 |
| Land improvements | | 414,666 | 60,212 | - | - | 474,878 |
| Furnishings and equipment | | <u>2,971,936</u> | <u>127,821</u> | - | - | <u>3,099,757</u> |
| Total accumulated depreciation | | <u>31,915,761</u> | <u>2,567,082</u> | - | - | <u>34,482,843</u> |
| Capital assets, net | | <u>\$ 66,961,576</u> | <u>\$ (1,179,932)</u> | \$ - | \$ - | <u>\$ 65,781,644</u> |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Capital assets activity for the year ended June 30, 2019 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 | | 17,112,377 | 3,769,077 | - | - | 20,881,454 |
| Total capital assets, not depreciated | | 17,887,292 | 3,769,077 | - | - | 21,656,369 |
| Capital assets, depreciated: | | | | | | |
| Buildings and improvements | 40 | 71,873,931 | - | - | - | 71,873,931 |
| Land improvements | 20-30 | 1,454,359 | - | - | - | 1,454,359 |
| Furnishings and equipment | 5-20 | 3,770,934 | 121,744 | - | - | 3,892,678 |
| Total capital assets, depreciated | | 77,099,224 | 121,744 | - | - | 77,220,968 |
| Total capital assets | | 94,986,516 | 3,890,821 | - | - | 98,877,337 |
| Less: accumulated depreciation: | | | | | | |
| Buildings and improvements | | 26,931,999 | 1,597,160 | - | - | 28,529,159 |
| Land improvements | | 354,453 | 60,213 | - | - | 414,666 |
| Furnishings and equipment | | 2,770,482 | 201,454 | - | - | 2,971,936 |
| Total accumulated depreciation | | 30,056,934 | 1,858,827 | - | - | 31,915,761 |
| Capital assets, net | | \$ 64,929,582 | \$ 2,031,994 | \$ - | \$ - | \$ 66,961,576 |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2020 consist of:

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Current</u> <u>Portion</u> |
|------------------------------------|--|------------------------------|---------------------------------|---|--|
| Notes payable | \$ 3,732,717 | \$ - | \$ 391,370 | \$ 3,341,347 | \$ 220,465 |
| Compensated absences | 3,444,809 | 519,643 | - | 3,964,452 | 2,632,812 |
| Workers' compensation | 347,797 | - | 310 | 347,487 | 63,243 |
| Net pension liability | 10,973,238 | - | 3,937,374 | 7,035,864 | - |
| Net OPEB liability | <u>24,011,542</u> | <u>-</u> | <u>10,747,747</u> | <u>13,263,795</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>\$ 42,510,103</u> | <u>\$ 519,643</u> | <u>\$ 15,076,801</u> | <u>\$ 27,952,945</u> | <u>\$ 2,916,520</u> |

Long-term liabilities at June 30, 2019 consist of:

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | (Restated) <u>Ending</u> <u>Balance</u> | <u>Current</u> <u>Portion</u> |
|------------------------------------|--|--------------------------------|------------------------------|--|--|
| Notes payable | \$ 4,212,893 | \$ - | \$ 480,176 | \$ 3,732,717 | \$ 391,369 |
| Compensated absences | 3,791,740 | - | 346,931 | 3,444,809 | 2,196,929 |
| Workers' compensation | 284,344 | 63,453 | - | 347,797 | 75,472 |
| Net pension liability | 10,315,396 | 657,842 | - | 10,973,238 | - |
| Net OPEB liability | <u>20,063,487</u> | <u>3,948,055</u> | <u>-</u> | <u>24,011,542</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>\$ 38,667,860</u> | <u>\$ 4,669,350</u> | <u>\$ 827,107</u> | <u>\$ 42,510,103</u> | <u>\$ 2,663,770</u> |

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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 \$3,319,262 and \$3,509,828 at June 30, 2020 and 2019, respectively.

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 June 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 August 2020 with additional principal payments of \$1,142 continuing through December 2020. 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 \$22,085 and \$222,889 at June 30, 2020 and 2019, respectively.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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> |
|--|---------------------|---------------------|---------------------|
| 2021 | \$ 220,465 | \$ 136,090 | \$ 356,555 |
| 2022 | 206,513 | 127,956 | 334,469 |
| 2023 | 214,980 | 119,489 | 334,469 |
| 2024 | 223,794 | 110,675 | 334,469 |
| 2025 | 232,970 | 101,499 | 334,469 |
| 2026-2030 | 1,316,202 | 356,143 | 1,672,345 |
| 2031-2033 | <u>926,423</u> | <u>76,985</u> | <u>1,003,408</u> |
| Total | <u>\$ 3,341,347</u> | <u>\$ 1,028,837</u> | <u>\$ 4,370,184</u> |

Note 10 - **Pensions**

Defined Benefit Plan Description

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

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

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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.

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 |

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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 \$3,126,339, \$2,521,590, and \$2,329,456, for the years ended June 30, 2020, 2019 and 2018, respectively.

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 14.08%, 12.06% and 11.78% of annual covered payroll for the fiscal years ended June 30, 2020, 2019, and 2018, respectively. The College contributed \$495,643, \$478,772, and \$758,476 for the fiscal years ended June 30, 2020, 2019 and 2018, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 78%, 77% and 77% of total related payroll for fiscal years end 2020, 2019 and 2018, respectively.

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

At June 30, 2020 and 2019, the College reported a liability of \$7,035,864 and \$10,973,238, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2020, the reporting date, was measured as of June 30, 2019, 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, 2019 rolled forward to June 30, 2019. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, 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, 2018 rolled forward to June 30, 2018.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2020 and 2019. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2020 and 2019 relative to total contributions of all participating employers for the fiscal year. At June 30, 2020 and 2019, the College's proportion was 0.048% and 0.083%, respectively.

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For the years ended June 30, 2020 and 2019, the College recognized pension expense of \$299,296 and \$1,411,058, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| <u>Deferred Outflows of Resources Related to Pension</u> | | |
| Contributions subsequent to the measurement date | \$ 495,643 | \$ 478,772 |
| Differences between expected and actual experience | 233,662 | 347,978 |
| Changes in proportion from Commonwealth | 12,422 | 29,595 |
| Changes in plan actuarial assumptions | 521,529 | 1,112,070 |
| Changes in proportion due to internal allocation | <u>359,990</u> | <u>821,607</u> |
| Total deferred outflows of resources related to pension | <u>\$ 1,623,246</u> | <u>\$ 2,790,022</u> |
| <u>Deferred Inflows of Resources Related to Pension</u> | | |
| Changes in proportion from Commonwealth | \$ 357 | \$ 2,086 |
| Changes in proportion due to internal allocation | 4,078,494 | 1,093,915 |
| Differences between expected and actual experience | 91,505 | 223,635 |
| Net differences between projected and actual investment earnings on pension plan investments | <u>104,949</u> | <u>381,418</u> |
| Total deferred inflows of resources related to pension | <u>\$ 4,275,305</u> | <u>\$ 1,701,054</u> |

The College's contributions of \$495,643 and \$478,772 made during the fiscal years ending 2020 and 2019, respectively, subsequent to the measurement date, will be recognized as a reduction of the net pension liability in each of the succeeding years.

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June 30, 2020 and 2019

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as decreases in pension expense as follows:

| Years ending <u>June 30,</u> | |
|---------------------------------|-----------------------|
| 2021 | \$ (575,327) |
| 2022 | (849,945) |
| 2023 | (745,711) |
| 2024 | (731,758) |
| 2025 | <u>(244,961)</u> |
| | <u>\$ (3,147,702)</u> |

Actuarial Assumptions

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

| Measurement date | June 30, 2019 | June 30, 2018 |
|--|----------------|----------------|
| Inflation | 3.00% | 3.00% |
| Salary increases | 4.00% to 9.00% | 4.00% to 9.00% |
| Investment rate of return | 7.25% | 7.35% |
| Interest rate credited to annuity savings fund | 3.50% | 3.50% |

For measurement dates June 30, 2019 and 2018, 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

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- Disability - reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 set forward year.

The 2020 pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 and rolled forward to June 30, 2019. The 2019 pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 and rolled forward to June 30, 2018.

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

| Asset Class | 2020 | | 2019 | |
|---------------------------------|-------------------|--|-------------------|--|
| | Target Allocation | Long-term expected real rate of return | Target Allocation | Long-term expected real rate of return |
| Global Equity | 39% | 5.00% | 39% | 5.00% |
| Core Fixed Income | 15% | 0.90% | 12% | 0.90% |
| Private Equity | 13% | 6.60% | 12% | 6.60% |
| Portfolio Completion Strategies | 11% | 3.70% | 13% | 3.00% |
| Real Estate | 10% | 3.80% | 10% | 3.80% |
| Value Added Fixed Income | 8% | 3.80% | 10% | 3.80% |
| Timber/Natural Resources | 4% | 3.40% | 4% | 3.40% |
| | <u>100%</u> | | <u>100%</u> | |

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June 30, 2020 and 2019

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.35% at June 30, 2020 and 2019, respectively. 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 at June 30,:

| 2020 | | |
|----------------|---------------|----------------|
| Current | | |
| 1.00% Decrease | Discount Rate | 1.00% Increase |
| (6.25%) | (7.25%) | (8.25%) |
| \$ 9,364,963 | \$ 7,035,864 | \$ 5,045,761 |
| | | |
| 2019 | | |
| Current | | |
| 1.00% Decrease | Discount Rate | 1.00% Increase |
| (6.35%) | (7.35%) | (8.35%) |
| \$ 14,790,090 | \$ 10,973,238 | \$ 7,711,884 |

Note 11 - **Other Post-Employment Benefits ("OPEB") (Restated)**

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

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June 30, 2020 and 2019

("PRIM") Board. The GIC has representation on the Board of Trustees of the State Retirees' Benefits Trust ("Trustees").

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 seven 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), one person appointed by the Governor, and one person appointed by the State Treasurer. These members elect one person to serve as chair of the board.

The SRBT does not issue 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, 2020 and 2019, and as of the valuation date (January 1, 2019 and 2018), participants contributed 10% to 20%, respectively, 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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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 7.29% and 8.79% of annual covered payroll for the fiscal years ended June 30, 2020 and 2019, respectively. The College contributed \$256,755 and \$349,118 for the fiscal years ended June 30, 2020 and 2019, respectively, equal to 100% of the required contribution for both years.

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

At June 30, 2020 and 2019, the College reported a liability of \$13,263,795 and \$24,011,542 respectively, 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, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 and 2018, respectively. 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 years 2019 and 2018. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2020 and 2019, the College's proportion was 0.073% and 0.129%, respectively.

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For the years ended June 30, 2020 and 2019, the College recognized OPEB (benefit) and expense of (\$541,824) and \$2,097,478, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|---------------------|
| <u>Deferred Outflows of Resources Related to OPEB</u> | | |
| Contributions subsequent to the measurement date | \$ 256,755 | \$ 349,118 |
| Differences between expected and actual experience | 531,940 | 234,101 |
| Changes in proportion from Commonwealth | 32,341 | 61,942 |
| Changes in OPEB plan actuarial assumption | 10,206 | 22,998 |
| Changes in proportion due to internal allocation | <u>2,608,841</u> | <u>3,370,845</u> |
| Total deferred outflows of resources related to OPEB | <u>\$ 3,440,083</u> | <u>\$ 4,039,004</u> |
| <u>Deferred Inflows of Resources Related to OPEB</u> | | |
| Net differences between projected and actual investment earnings on OPEB plan investments | \$ 6,100 | \$ 48,128 |
| Differences between expected and actual experience | 16,985 | 41,139 |
| Changes in proportion due to internal allocation | 9,361,376 | - |
| Changes in OPEB plan actuarial assumptions | <u>1,994,534</u> | <u>2,025,623</u> |
| Total deferred inflows of resources related to OPEB | <u>\$ 11,378,995</u> | <u>\$ 2,114,890</u> |

The College's contributions of \$256,755 and \$349,118 made during the fiscal year 2020 and 2019, respectively, subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in each of the succeeding years.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as decreases in OPEB expense as follows:

| Years ending <u>June 30,</u> | |
|---------------------------------|-----------------------|
| 2021 | \$ (1,997,969) |
| 2022 | (1,997,969) |
| 2023 | (1,927,942) |
| 2024 | (1,690,248) |
| 2025 | <u>(581,539)</u> |
| | <u>\$ (8,195,667)</u> |

Actuarial Assumptions

The total OPEB liability for 2020 and 2019 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| Measurement date | June 30, 2019 | June 30, 2018 |
|------------------------------|--|---|
| Inflation | 2.50% | 3.00% |
| Salary increases | 4.00% per year | 4.50% per year |
| Investment rate of return | 7.25%, net of OPEB plan investment expense, including inflation | 7.35%, net of OPEB plan investment expense, including inflation |
| Health care cost trend rates | 7.5% decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023 and 2024 then decreasing 0.50% each year to an ultimate rate of 4.5% in 2026 for Medical; 5.0% for EGWP through 2025, then 4.5% in 2026; 4.5% for administrative costs | 8.0%, decreasing by 0.50% each year to an ultimate rate of 5.5% in 2023 then decreasing 0.25% each year to an ultimate rate of 0.5% in 2025 for Medical; 5.0% for EGWP; 5.0% for administrative costs |

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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.
- 85% of current and future contingent eligible participants will elect health care benefits at age 55, 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 | 25.0% | 85.0% |
| POS/PPO | 60.0% | 0.0% |
| HMO | 15.0% | 15.0% |

The actuarial assumptions used in the January 1, 2019 and 2018 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2017 and 2016 through December 31, 2018 and 2017, depending upon the criteria being evaluated.

As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2018 and 2017 actuarial valuations to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

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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, 2020 and 2019, are the same as discussed in the pension footnote.

Discount Rate

The discount rate used to measure the total OPEB liability for 2020 and 2019 was 3.63% and 3.95%, respectively. These rates were based on a blend of the Bond Buyer Index rate (3.51% and 3.87%) 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 2029 and 2023 for the fiscal years 2020 and 2019, respectively. Therefore, the long-term expected rate of return on OPEB plan investments is 7.25% and 7.35%, respectively 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:

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| 2020 | | |
|---------------------------|--------------------------|---------------------------|
| Current | | |
| 1.00% Decrease (2.63%) | Discount Rate (3.63%) | 1.00% Increase (4.63%) |
| | | |
| \$ 15,832,685 | \$ 13,263,795 | \$ 11,232,700 |
| 2019 | | |
| Current | | |
| 1.00% Decrease (2.92%) | Discount Rate (3.92%) | 1.00% Increase (4.92%) |
| | | |
| \$ 28,542,090 | \$ 24,011,542 | \$ 20,417,450 |

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:

| 2020 | | | |
|--------------------|----------------------|---------------------------------------|----------------------|
| | 1.00% Decrease | Current Healthcare Cost Trend Rate | 1.00% Increase |
| | | | |
| Net OPEB liability | \$ 10,931,043 | \$ 13,263,795 | \$ 16,341,612 |
| 2019 | | | |
| | 1.00% Decrease | Current Healthcare Cost Trend Rate | 1.00% Increase |
| | | | |
| Net OPEB liability | \$ 20,311,709 | \$ 24,011,542 | \$ 28,688,743 |

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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, 2020 and 2019, 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 2 years, with the remaining balance recognized in revenues during the year ended June 30, 2023.

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 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 years ended June 30, 2020 and 2019, such additional payments received aggregated \$64,492 and \$99,055, respectively. The College expects to recognize \$40,725 per year over the next 4 years, with the remaining balance recognized in revenues during the year ended June 30, 2025. There were no payments received in the years ended June 30, 2020 and 2019.

The College reports the carrying value of the capital assets relating to the service concession arrangements of approximately \$305,396 and \$327,210 at June 30, 2020 and 2019, respectively. Depreciation expense on these capital assets amounted to \$21,814 during the years ended June 30, 2020 and 2019.

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Note 13 - **Leases**

The College leases certain equipment, vehicles, and buildings under various operating leases with monthly payments ranging from \$49 to \$67,938 per month. The terms of these leases range between two to nine years and expire at various dates through September 2028. Total lease expense was \$2,666,885 and \$2,554,787 for the years ended June 30, 2020 and 2019, respectively.

At June 30, 2020, future minimum payments due under all operating leases for the College are as follows:

| Fiscal Years <u>Ending June 30,</u> | <u>Total</u> |
|--|---------------------|
| 2021 | \$ 2,366,304 |
| 2022 | 1,333,212 |
| 2023 | 983,379 |
| 2024 | 456,741 |
| 2025 | 384,216 |
| Thereafter | <u>673,125</u> |
| Total | <u>\$ 6,196,977</u> |

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.

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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.

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.

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The vast majority of higher educational institutions transitioned to distance learning during the 2020 spring semester due to the COVID-19 crisis. Many higher educational institutions have been served with a class action lawsuit due to this decision. The plaintiffs' claim that they have suffered academic harm after the 2020 spring semester transitioned to distance learning. Since the lawsuits are in the early stages, there have been no settlements or court decisions on this matter. The College has not been served with a lawsuit related to COVID-19. Management believes that any potential future adverse outcome is possible, but unlikely, and, would not be material to the College.

Note 16 - **Operating Expenses**

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

| | <u>2020</u> | (Restated) <u>2019</u> |
|------------------------------|-----------------------------|-----------------------------|
| Compensation and benefits | \$ 42,439,458 | \$ 44,527,151 |
| Supplies and services | 14,655,564 | 13,030,113 |
| Scholarships and fellowships | 4,533,748 | 2,621,759 |
| Depreciation | <u>2,567,082</u> | <u>1,858,827</u> |
| | <u>\$ 64,195,852</u> | <u>\$ 62,037,850</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, 2020 and 2019

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, 2020 and 2019, 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.

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

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Direct unrestricted appropriations | \$ 21,772,019 | \$ 20,702,610 |
| Add: | | |
| Fringe benefits for benefited employees on the state-funded payroll | 7,878,020 | 7,295,049 |
| Less: | | |
| Day school tuition remitted to the state and included in tuition and fee revenue | <u>(135,213)</u> | <u>(237,436)</u> |
| Total unrestricted appropriations | <u>29,514,826</u> | <u>27,760,223</u> |
| Capital appropriations | <u>1,169,362</u> | <u>5,203,965</u> |
| Total appropriations | <u>\$ 30,684,188</u> | <u>\$ 32,964,188</u> |

A reconciliation between the College and MMARS as of June 30, 2020 is as follows (unaudited):

| | |
|---------------------|-----------------------|
| Revenue per MMARS | \$ 52,306,310 |
| Revenue per College | <u>52,306,310</u> |
| Difference | \$ <u> -</u> |

Note 19 - **Pass-Through Grants**

The College distributed approximately \$4,063,000 and \$5,500,000 for student loans through the U.S. Department of Education Federal Direct Lending Program during the years ended June 30, 2020 and 2019, respectively. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 20 - **Subsequent Events**

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the College's finances and operations cannot be determined.

Subsequent to June 30, 2020, the College announced that approximately 89% of its courses in the 2020 fall semester will be taught online. As a result of the crisis and other factors, enrollment for the 2020 fall semester decreased from the 2019 fall semester.

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, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Measurement date | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Valuation date | January 1, 2019 | January 1, 2018 | January 1, 2017 | January 1, 2016 | January 1, 2015 | January 1, 2014 |
| Proportion of the collective net pension liability | 0.048% | 0.083% | 0.080% | 0.082% | 0.105% | 8.200% |
| Proportionate share of the collective net pension liability | \$ 7,035,864 | \$ 10,973,238 | \$ 10,315,396 | \$ 11,288,307 | \$ 11,931,702 | \$ 6,105,705 |
| Covered payroll | \$ 3,969,917 | \$ 6,438,676 | \$ 6,319,979 | \$ 6,220,481 | \$ 6,316,080 | \$ 6,100,441 |
| Proportionate share of the net pension liability as a percentage of its covered payroll | 177.23% | 170.43% | 163.22% | 181.47% | 188.91% | 100.09% |
| Plan fiduciary net position as a percentage of the plan's total pension liability | 66.28% | 67.91% | 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, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Contractually required contribution | \$ 495,643 | \$ 478,772 | \$ 758,476 | \$ 628,838 | \$ 587,850 | \$ 656,241 |
| Contributions in relation to the contractually required contribution | <u>495,643</u> | <u>478,772</u> | <u>758,476</u> | <u>628,838</u> | <u>587,850</u> | <u>656,241</u> |
| Contribution excess | <u>\$ -</u> |
| Covered payroll | \$ 3,520,192 | \$ 3,969,917 | \$ 6,438,676 | \$ 6,319,979 | \$ 6,220,481 | \$ 6,316,080 |
| Contribution as a percentage of covered payroll | 14.08% | 12.06% | 11.78% | 9.95% | 9.45% | 10.39% |

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by Massachusetts 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, 2020

Note 1 - **Changes in Pension Plan Benefit Terms and Assumptions**

Measurement Date – June 30, 2019

The investment rate of return changed from 7.35% to 7.25%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

Measurement Date – June 30, 2018

The investment rate of return changed from 7.50% to 7.35%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

The mortality rate assumptions were changed as follows:

- Disabled members – the amount reflects the same assumptions as for superannuation retirees, but with an age set forward of one year

Measurement Date – June 30, 2017

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

Measurement Date – June 30, 2016

The assumption for salary increases changed from a range of 3.5% to 9.0% depending on group and length of service to a range of 4.0% to 9.0% depending on group and length of service.

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

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

June 30, 2020

Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (“ORP”) to transfer to 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.

Measurement Date – June 30, 2015

The discount rate to calculate the pension liability decreased from 8.0% to 7.5%

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (“ERI”) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS increased by approximately \$230 million 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)

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

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

State Retirees' Benefit Trust

| | June 30, 2020 | (Restated) June 30, 2019 | June 30, 2018 |
|--|-----------------|-----------------------------|-----------------|
| Year ended | June 30, 2019 | June 30, 2018 | June 30, 2017 |
| Measurement date | January 1, 2019 | January 1, 2018 | January 1, 2017 |
| Valuation date | | | |
| Proportion of the collective net OPEB liability | 0.073% | 0.129% | 0.115% |
| Proportionate share of the collective net OPEB liability | \$ 13,263,795 | \$ 24,011,542 | \$ 20,063,487 |
| College's covered payroll | \$ 3,969,917 | \$ 6,438,676 | \$ 6,319,979 |
| College's proportionate share of the net OPEB liability as a percentage of its covered payroll | 334.11% | 372.93% | 317.46% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 6.96% | 6.01% | 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>2020</u> | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|------------------|
| Statutorily required contribution | \$ 256,755 | \$ 349,118 | \$ 574,256 |
| Contributions in relation to the statutorily required contribution | <u>(256,755)</u> | <u>(349,118)</u> | <u>(574,256)</u> |
| Contribution (excess)/deficit | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| College's covered payroll | \$ 3,520,192 | \$ 3,969,917 | \$ 6,438,676 |
| Contribution as a percentage of covered payroll | 7.29% | 8.79% | 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, 2020

Note 1 - **Changes in OPEB Plan Assumptions**

Measurement date - June 30, 2019

Change in Inflation

The inflation rate decreased from 3.0% to 2.5%.

Change in Salary Assumptions

Salary decreased from 4.5% to 4.0%.

Change in Investment Rate

The investment rate of return decreased from 7.35% to 7.25%.

Change in Trend on Future Costs

The original healthcare trend rate decreased from 8.0% to 7.5%, which affects the high-cost excise tax.

Change in Discount Rate

The discount rate was decreased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.51%) as of the measurement date as required by GASB Statement 74.

Measurement date - June 30, 2018

Change in Trend on Future Costs

The healthcare trend rate decreased from 8.5% to 8.0%, which affects the high-cost excise tax.

Change in Mortality Rates

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members – would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year

Change in Discount Rate

The discount rate was increased to 3.95% (based upon a blend of the Bond Buyer Index rate (3.87%) as of the measurement date as required by GASB Statement 74.

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

**Notes to the Required Supplementary Information - OPEB (Unaudited) -
Continued**

June 30, 2020

Measurement date - June 30, 2017

Change in Discount Rate

The discount rate was increased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.58%) as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%.

**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 and business-type activities of Northern Essex Community College (the "College"), and its discretely presented major component unit, as of June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 2, 2020.

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") as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Handwritten signature in cursive script that reads "O'Connor + Drew, P.C."

**Certified Public Accountants
Braintree, Massachusetts**

December 2, 2020