NORTHERN ESSEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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

Financial Statements and
Management's Discussion and Analysis

June 30, 2019 and 2018

C O N T E N T S

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of Northern Essex Community College (an agency of the Commonwealth of Massachusetts) (the "College"), and its discretely presented component unit, the Northern Essex Community College Foundation (the "Foundation"), which comprise the statements of net position as of June 30, 2019 and 2018, the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northern Essex Community College and its discretely presented component unit as of June 30, 2019 and 2018, the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 4, 2019, on our consideration of Northern Essex Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

December 4, 2019

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

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

The following discussion and analysis provides an overview of the financial position and activities of Northern Essex Community College (The "College") as of June 30, 2019 for the fiscal year then ended. The objective of the Management Discussion and Analysis ("MD&A") section is to provide information that enables an individual to read the College's financial statements and come away with a clear understanding of the College's financial position and to know how resources are used to support the College's Mission.

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

Overview of the Financial Statements and Financial Analysis

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

The MD&A discussion is framed around four financial statements: (1) the Statements of Net Position, (2) the Statements of Revenues, Expenses, and Changes in Net Position, and (3) 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.

Statements of Net Position

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

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

($ in thousands)	FY19	FY18	FY17	Change FY19-FY18	%
Current assets	$ 11,218	$ 8,540	$ 12,039	$ 2,678	
Non-current assets	71,917	69,365	62,484	2,552	
Total assets	83,135	77,905	74,523	5,230	**6.7%**
Deferred outflows of resources					
Pension allocation	2,790	3,307	3,175	(517)	
OPEB allocation	4,016	1,953	505	2,063	
Total deferred outflows of resources	6,806	5,260	3,680	1,546	**29.4%**
Total assets & deferred outflows	$ 89,941	$ 83,165	$ 78,203	$ 6,776	**8.1%**
Current liabilities	8,045	8,892	8,740	(847)	
Non-current liabilities	35,109	35,674	40,185	(565)	
Total liabilities	43,154	44,566	48,925	(1,412)	**-3.2%**
Deferred inflows of resources					
Service concession arrangements	253	299	344	(46)	
Pension allocation	1,701	1,944	296	(243)	
OPEB allocation	6,011	2,355	-	3,656	
Total deferred inflows of resources	7,965	4,598	640	3,367	**73.2%**
Invested in capital assets	63,229	60,717	58,081	2,512	
Restricted, expendable	288	162	324	126	
Unrestricted	(24,695)	(26,878)	(29,767)	2,183	
Total net position	38,822	34,001	28,638	4,821	**14.2%**
Total liabilities, deferred inflows & net position	$ 89,941	$ 83,165	$ 78,203	$ 6,776	**8.1%**

Total Assets

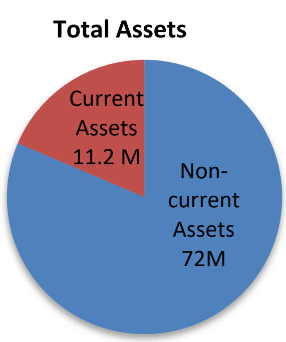
Total assets represent property, facilities, and equipment owned or controlled by the College, along with payments due to the College for services rendered prior to the end of the fiscal year. Total assets on June 30, 2019 were $89.9 million, an increase of $6.8 million or 8.1% from the prior year.

The value of current assets on June 30 was $11.2 million, an increase of $2.7 million compared to the prior year. Total Cash and Equivalents totaled $8.3 million, $2.2 million higher than last year primarily due to management of cash disbursements and well as a conscious effort in expense savings.

The value of non-current assets at year-end was $72.0 million, $2.6 million higher as compared to prior year. Buildings and the newly renovated Dimitry building are the largest component of non-current assets.

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

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



The increase in non-current assets of $2.6 million is primarily related to the Capital Improvements of Dimitry general-purpose academic building in Lawrence. The value of capitalized assets was offset by the depreciation expense on existing capitalized assets. Additional information on capital assets is available in Footnote 7: Capital Assets.

Total Liabilities

Total liabilities at the end of FY19 were $43.2 million, a decrease of $1.4 million from the prior year. The decrease was primarily due to a decrease in the net OPEB liability at June 30, 2019. Additional information pertaining to these liabilities may be found in Footnote 8.

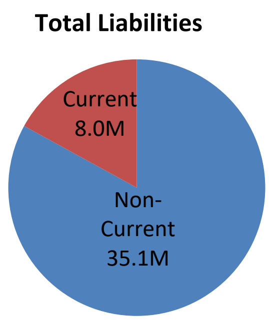
Total liabilities represent what the College owes to others.

There are three primary components of College liabilities.

(a) salaries and compensated absences;

(b) outstanding accounts payable; and

(c) deferred revenue.



The calculated liability for compensated absences and workers' compensation, both current and non-current, is $3.8 million, a decrease of $300k from the prior year. The total liability averages approximately $10,000 per employee.

Outstanding accounts payable reflect goods and services received during the fiscal year for which payment has not been made as of June 30. The balance of accounts payable at the end of the year was $1.2k. This is a decrease of $500k over the previous year. The decrease is a result of expense management.

Student deposits and unearned revenue on June 30 was $2.2 million, which was an increase of $237k from the previous year. Approximately $2.1 million represents student tuition and fees collected for the summer and fall 2019 terms. 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 FY20. Grant revenue received but not yet earned equals $140K.

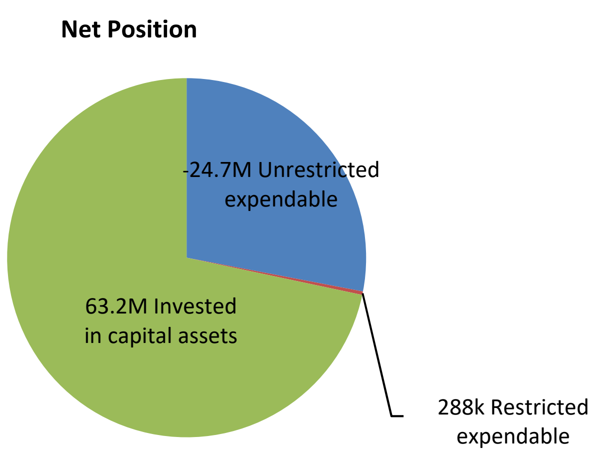
Net Position

Net Position represents resources currently available to the College. At the end of FY19, net position was $39 million. This is $5.0 million or 15% 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 FY19 is 1.3, 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.

Current assets increased $2.7 million, primarily due to an increase in cash and accounts receivable, 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 (0.40) for FY19 and was (0.42) for FY18: 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
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2019 and 2018

Statements of Revenues, Expenses, and Changes in Net Position

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

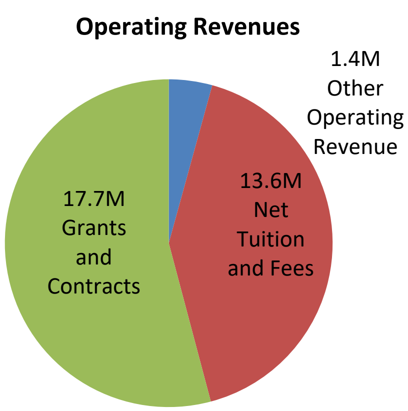
($ in thousands)	FY19	FY18	FY17	Change FY19-FY18	%
Operating revenues					
Student tuition and fees	$ 23,525	$ 24,615	$ 24,931	$ (1,090)	
less: Scholarship allowances	(9,920)	(10,224)	(9,950)	304	
Net student tuition & fees	13,605	14,391	14,981	(786)	-5.5%
Federal grants and contracts	10,702	11,762	12,111	(1,060)	
State grants and contracts	5,966	6,931	4,280	(965)	
Private/local grants and contracts	1,062	847	545	215	
Other operating revenues	1,397	2,253	1,991	(856)	
Total operating revenues	32,732	36,184	33,908	(3,452)	-9.5%
Operating expenses	61,220	63,630	62,930	(2,410)	-3.8%
Operating gain/loss	(28,488)	(27,446)	(29,022)	(1,042)	3.8%
Non-operating revenues (expenses)					
State appropriations	27,760	26,393	26,105	1,367	
Investment income, net	492	288	415	204	
Donations	-	-	166	-	
Interest on Indebtedness	(147)	(155)	(161)	8	
Net non-operating revenues	28,105	26,526	26,525	1,579	6.0%
Net loss before other revenues	(383)	(920)	(2,497)	537	
Capital appropriations	5,204	3,228	12,502	1,976	
Total increase in net position	4,821	2,308	10,005	2,513	108.9%
Net position, Beginning of Year	34,001	31,693	41,267	2,308	
Net position, End of Year	$ 38,822	$ 34,001	$ 51,272	$ 4,821	
Prior period adjustment - OPEB	-	-	(19,579)		
Net position, after OPEB adjustment	$ 38,822	$ 34,001	$ 31,693		

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 FY19 were $32.7 million, a decrease of (9.5%) as compared to the prior year.

Total (gross) revenue from student tuition and fees was $23.5 million. This was a decrease of $1.1 million from the prior year.

Revenue reported as federal grants and contracts was $10.7 million, a decrease of $1.1 million, primarily due to the decrease in financial aid received. State grants and contracts totaled $6.0 million, a decrease of $900k, primary due to the ending of the Capital Skills Mechatronics and Culinary Grants.



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 $1.4 million, $900k less than prior year. Donations from the NECC Foundation totaled $224k, compared to $605k in FY18, a decrease of $381k. Collections from Intercept Recovery decreased $139k, Enterprise funds decreased $117k and TCBI Contracts decreased by $157k.

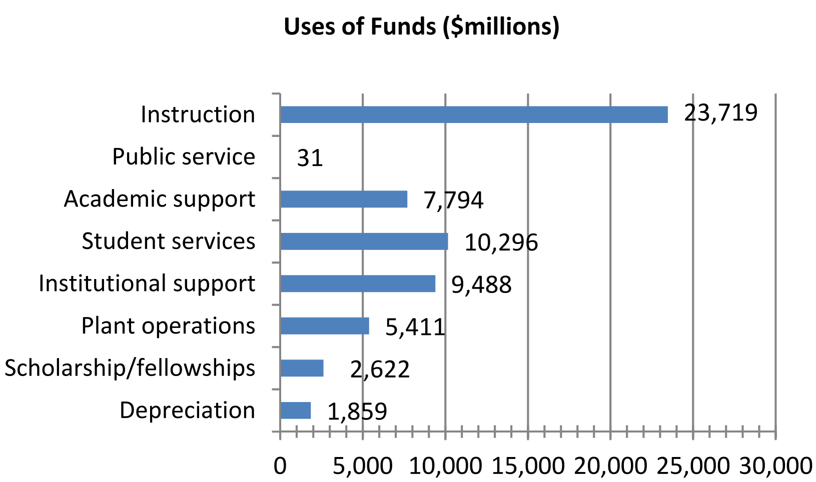
Operating Expenses

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

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

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

In FY19, total operating expenses were $61.2 million, a decrease of $2.41 million or (3.8%). The area with the largest change was Instruction, which decreased $1.6 million. Other significant changes included a decrease in Student Services by $622k.



Employee compensation and benefits totaled $43.7 million, which represented 71% of total operating costs, the same percentage as fiscal year 2018.

Spending in Instruction was the highest of the eight IPEDS functional areas and represented 38.7% of the total. Student Services was the next highest at 16.8%, followed by Institutional Support at 15.5%.

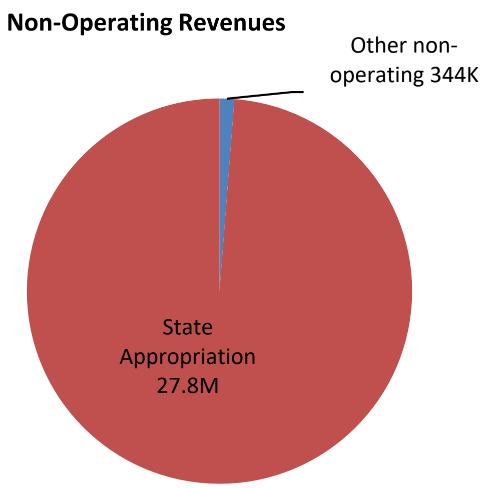
Operating Expenses

($ in thousands)	FY19	FY18	FY17	Change FY19-FY18	%
Instruction	**$ 23,719**	**$ 25,294**	**$ 24,036**	$ (1,575)	-6.2%
Academic services	**7,794**	**7,773**	**7,756**	21	0.3%
Student services	**10,296**	**10,918**	**11,519**	(622)	-5.7%
Public service	**31**	**28**	**34**	3	10.7%
Plant operations	**5,411**	**5,705**	**5,785**	(294)	-5.2%
Institutional support	**9,488**	**9,307**	**9,503**	181	1.9%
Depreciation	**1,859**	**1,906**	**1,366**	(47)	-2.5%
Scholarships and fellowships	**2,622**	**2,699**	**2,931**	(77)	-2.9%
Total Operating Expenses	**$ 61,220**	**$ 63,630**	**$ 62,930**	$ (2,410)	-3.8%

Operating expenses by natural classification are reported in the Financial Section, Footnote 15.

Non-Operating Revenue

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



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 FY19 by $1.4 million or 5.2% due to the increased appropriation and increase fringe benefit paid by state on behalf of NECC.

Statement of Cash Flows
The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. At the end of FY19, cash on hand was $8.3 million. This is an increase of $2.2 million or 37% higher than FY18.

($ in thousands)	FY19	FY18	FY17	Change FY19-FY18
Cash received from (applied to) operations	**$ 31,402**	**$ 37,111**	**$ 30,376**	$ (5,709)
Cash expended from operations	**50,273**	**54,043**	**49,959**	(3,770)
Net cash applied to operating activities	**(18,871)**	**(16,932)**	**(19,583)**	(1,939)
Net cash provided by noncapital financing activities	**20,465**	**19,499**	**19,442**	966
Net cash applied to capital and related financing activities	**682**	**(1,753)**	**(847)**	2,435
Net cash provided by (applied to) investing activities	**(27)**	**1,255**	**464**	(1,282)
Net increase (decrease) in cash and cash equivalents	**2,249**	**2,069**	**(524)**	180
Cash and cash equivalents, beginninng of FY	**6,072**	**4,003**	**4,527**	2,069
Cash and cash equivalents, end of FY	**$ 8,321**	**$ 6,072**	**$ 4,003**	$ 2,249

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 WOIA 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

(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2019 College	2018 College	**2019 Foundation**	2018 Foundation
Current Assets:				
Cash and equivalents	**$ 5,318,287**	$ 3,126,703	**$ 349,600**	$ 349,209
Restricted cash and equivalents	**151,265**	47,328	**840,837**	403,442
Deposits held by State Treasurer	**589,404**	1,635,086	-	-
Deposits held by DCAMM	**1,245,793**	50,236	-	-
Cash held by State Treasurer	**1,015,771**	1,212,818	-	-
Accounts receivable, net	**2,517,104**	2,090,897	-	-
Other current assets	**380,456**	376,747	**902,546**	110,248
Total Current Assets	**11,218,080**	8,539,815	**2,092,983**	862,899
Non-Current Assets:				
Investments	**4,954,790**	4,435,123	**3,616,855**	3,406,096
Capital assets, net	**66,961,576**	64,929,582	-	-
Total Non-Current Assets	**71,916,366**	69,364,705	**3,616,855**	3,406,096
Total Assets	**83,134,446**	77,904,520	**5,709,838**	4,268,995
Deferred Outflows of Resources:				
Deferred outflows of resources related to pension	**2,790,022**	3,307,053	-	-
Deferred outflows of resources related to OPEB	**4,016,006**	1,953,412	-	-
Total Deferred Outflows of Resources	**6,806,028**	5,260,465	-	-
Total Assets and Deferred Outflow of Resources	**$ 89,940,474**	$ 83,164,985	**$ 5,709,838**	$ 4,268,995

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government 2019 College	Primary Government 2018 College	Component Unit 2019 Foundation	Component Unit 2018 Foundation
Current Liabilities:				
Accounts payable and accrued expenses	**$ 1,218,979**	$ 1,684,938	**$ 11,500**	$ 10,600
Funds held for others	**23,709**	101,319		-
Accrued salaries and wages	**1,912,910**	2,124,453		-
Current portion of notes payable	**391,369**	480,177		-
Accrued compensated absences	**2,196,929**	2,453,045		-
Accrued workers' compensation	**75,472**	60,281		-
Student deposits and unearned revenues	**2,225,451**	1,987,995	**24,775**	27,580
Total Current Liabilities	**8,044,819**	8,892,208	**36,275**	38,180
Non-Current Liabilities:				
Accrued compensated absences	**1,247,880**	1,338,695	-	-
Accrued workers' compensation	**272,325**	224,063	-	-
Notes payable, net of current position	**3,341,348**	3,732,716	-	-
Net pension liability	**10,973,238**	10,315,396	-	-
Net OPEB liability	**19,274,122**	20,063,487	-	-
Total Non-Current Liabilities	**35,108,913**	35,674,357	-	-
Total Liabilities	**43,153,732**	44,566,565	**36,275**	38,180
Deferred Inflows of Resources:				
Service concession arrangements	**252,893**	298,618	-	-
Deferred inflows of resources related to pension	**1,701,054**	1,943,641	-	-
Deferred inflows of resources related to OPEB	**6,011,105**	2,355,132	-	-
Total Deferred Inflows of Resources	**7,965,052**	4,597,391	-	-
Total Liabilities and Deferred Inflows of Resources	**51,118,784**	49,163,956	**36,275**	38,180
Net Position:				
Net investment in capital assets	**63,228,859**	60,716,689	-	-
Restricted:				
Nonexpendable	**-**	-	**2,572,011**	1,538,330
Expendable	**287,805**	162,321	**1,591,873**	1,281,761
Unrestricted	**(24,694,974)**	(26,877,981)	**1,509,679**	1,410,724
Total Net Position	**38,821,690**	34,001,029	**5,673,563**	4,230,815
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 89,940,474**	$ 83,164,985	**$ 5,709,838**	$ 4,268,995

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

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,

	Primary Government		Component Unit	
	2019 College	2018 College	**2019 Foundation**	2018 Foundation
Operating Revenues:				
Tuition and fees	**$ 23,525,430**	$ 24,615,387	**$ -**	$ -
Less: scholarships and allowances	**(9,919,608)**	(10,223,842)	**-**	-
Net tuition and fees	**13,605,822**	14,391,545	**-**	-
Gifts and contributions	**-**	-	**1,657,075**	897,639
Federal grants and contracts	**10,702,090**	11,762,054	**-**	-
State grants and contracts	**5,965,710**	6,930,730	**-**	-
Private and local grants and contracts	**1,061,712**	846,985	**-**	-
Other operating revenues	**1,396,826**	2,252,860	**-**	-
Total Operating Revenues	**32,732,160**	36,184,174	**1,657,075**	897,639
Operating Expenses:				
Instruction	**23,718,576**	25,293,854	**-**	-
Academic support	**7,793,730**	7,772,942	**-**	-
Student services	**10,296,416**	10,918,211	**-**	-
Public service	**30,631**	27,750	**-**	-
Operations and maintenance	**5,411,233**	5,705,071	**-**	-
Institutional support	**9,488,471**	9,306,789	**311,668**	402,039
Depreciation	**1,858,827**	1,905,742		-
Scholarships and fellowships	**2,621,759**	2,699,698	**241,004**	617,563
Total Operating Expenses	**61,219,643**	63,630,057	**552,672**	1,019,602
Net Operating Income (Loss)	**(28,487,483)**	(27,445,883)	**1,104,403**	(121,963)
Non-Operating Revenues (Expenses):				
State appropriations, net	**27,760,223**	26,393,065	**-**	-
Investment income, net	**491,612**	287,972	**338,345**	268,630
Interest expense	**(147,656)**	(155,013)	**-**	-
Total Non-Operating Revenues	**28,104,179**	26,526,024	**338,345**	268,630
Net Increase (Decrease) in Net Position Before Capital Appropriations	**(383,304)**	(919,859)	**1,442,748**	146,667
Capital appropriations	**5,203,965**	3,227,994	**-**	-
Changes in Net Position	**4,820,661**	2,308,135	**1,442,748**	146,667
Net Position, Beginning of Year	**34,001,029**	31,692,894	**4,230,815**	4,084,148
Net Position, End of Year	**$ 38,821,690**	$ 34,001,029	**$ 5,673,563**	$ 4,230,815

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,

	2019 College	2018 College
Cash Flows from Operating Activities:		
Tuition and fees	**$ 12,864,544**	$ 15,836,969
Grants and contracts	**17,338,434**	19,263,821
Payments to suppliers	**(13,053,365)**	(17,107,850)
Payments to students	**(2,621,759)**	(2,699,698)
Payments to employees	**(34,598,363)**	(34,235,042)
Other operating revenues	**1,199,228**	2,010,441
Net Cash Applied to Operating Activities	**(18,871,281)**	(16,931,359)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**20,702,610**	19,725,822
Tuition remitted to state	**(237,436)**	(226,678)
Net Cash Provided by Non-Capital Financing Activities	**20,465,174**	19,499,144
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	**(121,744)**	(1,123,029)
Capital appropriations	**1,434,888**	-
Payment on note payable	**(480,176)**	(471,739)
Interest paid on note payable	**(151,409)**	(158,618)
Net Cash Provided by (Applied to) Capital Financing Activities	**681,559**	(1,753,386)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	**1,935,910**	3,115,103
Interest and dividends on investments, net	**82,894**	92,077
Purchases of investments	**(2,045,907)**	(1,952,177)
Net Cash Provided by (Applied to) Investing Activities	**(27,103)**	1,255,003
Net Increase in Cash and Equivalents	**2,248,349**	2,069,402
Cash and Equivalents, Beginning of Year	**6,072,171**	4,002,769
Cash and Equivalents, End of Year	**$ 8,320,520**	$ 6,072,171

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	2019 College	2018 College
Reconciliation of Net Operating Loss to:		
Net Cash Applied to Operating Activities:		
Net operating loss	**$ (28,487,483)**	$ (27,445,883)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	**1,858,827**	1,905,742
Net pension activity	**932,286**	542,304
Net OPEB activity	**804,014**	885,780
Amortization of deferred inflows of resources	**(45,725)**	(45,726)
Fringe benefits provided by the state	**7,295,049**	6,893,921
Bad debts	**1,016,327**	827,041
Changes in assets and liabilities:		
Accounts receivable	**(1,443,485)**	(644,963)
Other current assets	**(3,709)**	(15,577)
Accounts payable and accrued expenses, and funds held for others	**(539,816)**	(501,614)
Accrued salaries and wages	**(211,543)**	(45,965)
Accrued compensated absences and workers' compensation	**(283,478)**	(77,128)
Student deposits and unearned revenue	**237,455**	790,709
Net Cash Applied to Operating Activities	**$ (18,871,281)**	$ (16,931,359)
Reconciliation of Cash and Equivalents Balance to the Statements of Net Position:		
Cash and cash equivalents	**$ 5,318,287**	$ 3,126,703
Restricted cash and equivalents	**151,265**	47,328
Deposits held by State Treasurer	**589,404**	1,635,086
Deposits held by DCAMM	**1,245,793**	50,236
Cash held by State Treasurer	**1,015,771**	1,212,818
Cash and Equivalents, End of Year	**$ 8,320,520**	$ 6,072,171
Non-Cash Transactions:		
Fringe benefits provided by the state	**$ 7,295,049**	$ 6,893,921
Capital appropriations	**$ 3,769,077**	$ 3,227,994
Unrealized gain on investments	**$ 259,913**	$ 36,377

See accompanying notes to the financial statements.

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.

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

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

The College has determined that it functions as a business-type activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management's discussion and analysis, basic financial statements including the College's discretely presented component unit and required supplementary information. The College presents Statements of Net Position, Revenues, Expenses, and Changes in Net Position and Cash Flows on a combined college-wide basis.

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

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

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

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

> Net investment in capital assets: Capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.
>
> Restricted-nonexpendable: Net position subject to externally imposed conditions such that the College must maintain the conditions in perpetuity.
>
> Restricted-expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

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

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

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

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

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

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 6.

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

Capital Assets
Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than $50,000 are capitalized. Library materials are no longer capitalized and amortized. College capital assets, with the

exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

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

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

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

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

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

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

Tax Status

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

Funds Held for Others

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period.

Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation and determining the net pension and OPEB liabilities.

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

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

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

GASB Statement 90 – *Majority Equity Interests, an amendment of GASB Statements 14 and 61* is effective for reporting periods beginning after December 15, 2018. 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 applicability.

GASB Statement 91 – *Conduit Debt Obligations* is effective for reporting periods beginning after December 15, 2020. 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.

Reclassification
Certain amounts in the 2018 financial statements have been reclassified to conform to 20189 presentation.

Note 2 - **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, 2019 and 2018 amounted to $5,329,677 and $3,287,704, respectively, of which $124,425 and $159,070, respectively, was exposed to custodial credit risk.

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

Accrued payroll and related expenses to be funded from state funds totaled $891,482 and $11,150 at June 30, 2019 and 2018, respectively. There was no accrued payroll or related expenses to be funded from state funds 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 is also holding funds of $124,289 and $1,201,668 at June 30, 2019 and 2018, respectively, for the College's development of a new culinary program.

Accounts payable and accrued salaries to be funded by cash forwarded by the College to the State Treasurer held for payment of so-called "non-appropriated" liabilities at June 30, 2019 and 2018 through the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System ("MMARS"), were recorded in the sums of $589,404 and $1,635,086, respectively.

Note 4 - **Deposits Held by Department of Capital Assets Management & Maintenance ("DCAMM")**

A total of $1,245,793 and $50,236 was held by DCAMM on behalf of the College at June 30, 2019 and 2018, respectively. The balance was allocated by DCAMM for multiple projects on the Haverhill and Lawrence campuses for the years ended June 30, 2019 and 2018. These include renovations to the Dimitry building and a variety of deferred maintenance projects.

Note 5 - **Accounts Receivable**

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

	2019	2018
Student accounts receivable	**$ 3,023,106**	$ 2,030,217
Grants receivable	**840,496**	475,091
Other receivables	**601,564**	401,207
	4,465,166	2,906,515
Less: allowance for doubtful accounts	**1,948,062**	815,618
	$ 2,517,104	$ 2,090,897

Note 6 - **Investments**

College

The College categorizes short-term investments according to the level of risk assumed by the College. At June 30, 2019 and 2018, the entire balance of investments of $4,954,790 and $4,435,123, 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, 2019 and 2018, one federal entity made up 12% and 11%, 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,:

2019
Investment Maturities (in Years)

Investment Type	Fair Value	1-5	6-10	More Than 10
Debt Securities:				
U.S Government and Agencies	$ 889,855	$ 118,919	$ 100,413	$ 670,523
Municipal	146,149	-	33,589	112,560
Corporate	806,791	186,898	409,982	209,911
Total	1,842,795	$ 305,817	$ 543,984	$ 992,994
Other Investments:				
Equity Securities	3,111,995			
Total	$ 4,954,790			

2018
Investment Maturities (in Years)

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

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

Quality Ratings
2019

Rated Debt Investments	Fair Value	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
U.S. Government and Agencies	$ 889,855	$ 889,855	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Municipal Bonds	146,149	-	-	26,500	55,906	46,482	-	-	17,261	-	-
Corporate	806,791	20,670	-	85,717	74,488	102,259	65,954	191,581	84,517	106,950	74,655
	$ 1,842,795	$ 910,525	$ -	$ 112,217	$ 130,394	$ 148,741	$ 65,954	$ 191,581	$ 101,778	$ 106,950	$ 74,655

2018

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

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

	2019	2018
Interest and dividend income	**$ 103,799**	$ 112,530
Investment expense	**(21,856)**	(24,008)
Realized gain	**149,756**	163,073
Unrealized gain	**259,913**	36,377
	$ 491,612	$ 287,972

Fair Value Hierarchy

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

input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

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

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

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements:				
Debt Securities:				
U.S. Government and Agencies	$ 846,980	$ -	$ -	$ 846,980
Municipal bonds	-	113,745	-	113,745
Corporate bonds	-	712,895	-	712,895
Other Investments:				
Equity securities	2,761,503	-	-	2,761,503
Total marketable securities at fair value	$ 3,608,483	$ 826,640	$ -	$ 4,435,123

Component Unit

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

	2019	2018
U.S. Government obligations	**$ 131,030**	$ 106,538
Mortgage backed securities	**409,070**	333,210
Corporate bonds	**488,654**	547,213
Municipal bonds	**93,877**	73,659
Mutual funds	**362,285**	344,973
Equity securities	**2,131,939**	2,000,503
	$ 3,616,855	$ 3,406,096

Note 7 - **Capital Assets**

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**

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

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

Note 8 - **Long-Term Liabilities**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
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	**20,063,487**	**-**	**789,365**	**19,274,122**	**-**
Total Long-Term Liabilities	**$ 38,667,860**	**$ 721,295**	**$ 1,616,472**	**$ 37,772,683**	**$ 2,663,770**

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

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

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 $3,509,828 and $3,693,502 at June 30, 2019 and 2018, 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 December 2020. Notes payable issued during fiscal year ended 2017 were in the aggregate amount of $420,416 and require aggregate monthly principal payments of $8,759 through December 2021. The notes are non-interest bearing and unsecured. No interest has been imputed due to a lack of materiality. The aggregate outstanding balance of these notes is $222,889 and $519,391 at June 30, 2019 and 2018, respectively.

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

Fiscal Years Ending June 30,	Principal	Interest	Total
2020	$ 391,369	$ 143,903	$ 535,272
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
2025-2029	1,264,363	407,982	1,672,345
2030-2033	1,211,233	126,644	1,337,877
Total	$ 3,732,717	$ 1,172,739	$ 4,905,456

Note 9 - **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.

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:

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

The Commonwealth does not require the College to contribute funding from its local trust funds for employees paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to $2,521,590, $2,329,456, and $2,607,806, for the years ended June 30, 2019, 2018 and 2017, 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 12.06%, 11.78% and 9.95% of annual covered payroll for the fiscal years ended June 30, 2019, 2018, and 2017, respectively. The College contributed $478,772, $758,476, and $628,838 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately XX%, 77% and 78% of total related payroll for fiscal years end 2019, 2018 and 2017, respectively.

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

At June 30, 2019 and 2018, the College reported a liability of $10,973,238 and $10,315,396, respectively, for its proportionate share of the net pension liability related to its participation in SERS. 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 net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2019 and 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the College's proportion was 0.083% and 0.080%, respectively.

For the years ended June 30, 2019 and 2018, the College recognized pension expense of $1,411,058 and $1,300,781, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

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Notes to the Financial Statements - Continued

June 30, 2019 and 2018

	2019	2018
Deferred Outflows of Resources Related to Pension		
Contributions subsequent to the measurement date	**$ 478,772**	$ 758,476
Differences between expected and actual experience	**347,978**	398,835
Changes in proportion from Commonwealth	**29,595**	35,330
Changes in plan acturial assumptions	**1,112,070**	1,073,474
Changes in proportion due to internal allocation	**821,607**	1,040,938
Total deferred outflows of resources related to pension	**$ 2,790,022**	$ 3,307,053
Deferred Inflows of Resources Related to Pension		
Changes in proportion from Commonwealth	**$ 2,086**	$ 3,677
Changes in proportion due to internal allocation	**1,093,915**	1,536,400
Differences between expected and actual experience	**223,635**	280,656
Net differences between projected and actual investment earnings on pension plan investments	**381,418**	122,908
Total deferred inflows of resources related to pension	**$ 1,701,054**	$ 1,943,641

The College's contributions of $478,772 and $758,476 made during the fiscal years ending 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years.

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

Years ending June 30,	
2020	$ 620,192
2021	246,929
2022	(226,829)
2023	(47,009)
2024	16,913
	$ 610,196

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

	2019	2018
Measurement date	June 30, 2018	June 30, 2017
Inflation on the first $13,000 of allowance	3.00%	3.00%
Salary increases	4.00% to 9.00%	4.00% to 9.00%
Investment rate of return	7.35%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2018 and 2017, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females.

- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females

- Disability - reflects RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct)

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

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:

2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39.0%	5.0%
Portfolio Completion Strategies	13.0%	3.7%
Core Fixed Income	12.0%	0.9%
Private Equity	12.0%	6.6%
Real Estate	10.0%	3.8%
Value Added Fixed Income	10.0%	3.8%
Timberland/Natural Resources	4.0%	3.4%
	100.0%	

2018

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0%	5.0%
Portfolio Completion Strategies	13.0%	3.6%
Core Fixed Income	12.0%	1.1%
Private Equity	11.0%	6.6%
Real Estate	10.0%	3.6%
Value Added Fixed Income	10.0%	3.8%
Timberland/Natural Resources	4.0%	3.2%
Hedge Funds	0.0%	3.6%
	100.0%	

Discount Rate
The discount rate used to measure the total pension liability was 7.35% and 7.50% at June 30, 2019 and 2018, 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,:

1.00% Decrease (6.35%)	**2019 Current Discount Rate (7.35%)**	**1.00% Increase (8.35%)**
$ 14,790,090	**$ 10,973,238**	**$ 7,711,884**

1.00% Decrease (6.50%)	2018 Current Discount Rate (7.50%)	1.00% Increase (8.50%)
$ 14,049,140	$ 10,315,396	$ 7,307,776

Note 10 - Other Post-Employment Benefits ("OPEB")

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

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, 2019 and 2018, and as of the valuation date (January 1, 2018 and 2017), participants contributed 0% 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.

Effective beginning in fiscal year 2014, by statute, the Commonwealth is required to allocate, to the SRBT, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in fiscal year 2014 to 100% by fiscal year 2023. In fiscal years 2018 and 2017, 30% and 10%, respectively, of tobacco settlement proceeds or approximately $73 million and $25 million was allocated to the SRBT. The percentage of proceeds to be transferred to the SRBT in fiscal years 2018 and 2017 was set at 30% and 10%, respectively, overriding existing statute.

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.79% and 8.92% of annual covered payroll for the fiscal years ended June 30, 2019 and 2018, respectively. The College contributed $349,118 and $574,256 for the fiscal years ended June 30, 2019 and 2018, respectively, equal to 100% of the required contribution for the year.

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

At June 30, 2019 and 2018, the College reported a liability of $19,274,122 and $20,063,487, 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, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 and 2017, 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 2018 and 2017. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2018 and 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2019 and 2018, the College's proportion was 0.129% and 0.115%, respectively.

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June 30, 2019 and 2018

For the years ended June 30, 2019 and 2018, the College recognized OPEB expense of $1,279,271 and $1,491,497, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

	2019	2018
Deferred Outflows of Resources Related to OPEB		
Contributions subsequent to the measurement date	**$ 349,118**	$ 574,256
Differences between projected and actual experience	**234,101**	-
Changes in proportion from Commonwealth	**61,942**	41,991
Changes in proportion due to internal allocation	**3,370,845**	1,337,165
Total deferred outflows of resources related to OPEB	**$ 4,016,006**	$ 1,953,412
Deferred Inflows of Resources Related to OPEB		
Net differences between projected and actual investment earnings on OPEB plan investments	**$ 48,128**	$ 36,605
Differences between expected and actual experience	**41,139**	46,130
Changes in OPEB plan actuarial assumptions	**5,921,838**	2,272,397
Total deferred inflows of resources related to OPEB	**$ 6,011,105**	$ 2,355,132

The College's contributions of $349,118 and $574,256 made during the fiscal year 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in each of the succeeding years.

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 June 30,	
2020	$ (526,147)
2021	(526,147)
2022	(526,147)
2023	(401,289)
2024	(364,487)
	$ (2,344,217)

Actuarial Assumptions

The total OPEB liability for 2019 and 2018 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2018	June 30, 2017
Inflation	3.00%	3.00%
Salary increases	4.0% per year	4.5% per year
Investment rate of return	7.35%, net of OPEB plan investment expense, including inflation	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.0%, decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023 then decreasing 0.25% each year to an ultimate rate of 5.0% in 2025 for Medical; 5.0% for EGWP; 5.0% for administrative costs	8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for Medical; 5.0% for EGWP; 5.0% for administrative costs

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

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.

- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.

- 80% of current and future contingent eligible participants will elect health care benefits at age 55, or current age if later.

- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

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

The actuarial assumptions used in the January 1, 2018 and 2017 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2016 and 2015 through December 31, 2017 and 2016, depending upon the criteria being evaluated**.**

As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2017 and 2016 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").

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, 2019 and 2018, are the same as discussed in the pension footnote.

Discount Rate

The discount rate used to measure the total OPEB liability for 2019 and 2018 was 3.95% and 3.63%, respectively. These rates were based on a blend of the Bond Buyer Index rate (3.87% and 3.58%) as of the measurement date and the expected rate of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2025 and 2023 for the fiscal years 2019 and 2018, respectively. Therefore, the long-term expected rate of return on OPEB plan investments is 7.35% and 7.50%, 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:

2019		
1.00% Decrease (2.95%)	**Current Discount Rate (3.95%)**	**1.00% Increase (4.95%)**
$ 22,759,431	**$ 19,274,122**	**$ 16,487,669**

2018		
1.00% Decrease (2.63%)	Current Discount Rate (3.63%)	1.00% Increase (4.63%)
$ 23,816,964	$ 20,063,487	$ 17,079,180

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:

2019

1.00% Decrease (B)	**Current Healthcare Cost Trend Rate (A)**	**1.00% Increase (C)**
$ 16,013,468	**$ 19,274,122**	**$ 23,530,758**

2018

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

(A) - The current healthcare cost trend rate, as disclosed on page 47
(B) - 1-percentage decrease in current healthcare cost trend rate, disclosed on page 47
(C) - 1-percentage increase in current healthcare cost trend rate, as disclosed on page 47

Note 11 - **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, 2019 and 2018, the sales volume did not meet the required amount in order for the College to receive additional payments. The College expects to recognize $5,000 per year over the next 3 years, with the remaining balance recognized in revenues during the year ended June 30, 2022.

The College has entered into an operating agreement with Follett Higher Education Group ("Follett"). A provision of the agreement is that Follett will make a planned investment in the College bookstore. Specifically, Follett shall provide a one-time contribution of $300,000 to the College for the creation of the new bookstore/café on the Haverhill campus. Additionally, during the fiscal year ended June 30, 2015, the College received $136,280 as a supplemental payment from Follett for new modifications to the bookstore. These monies will be amortized into revenue ratably through April 2025, the end of the agreements. In the event of termination, as provided for by either party in the agreement, repayment of the unamortized portion would be required. The agreement also requires additional payments from Follett to defray costs incurred by the College, as well as revenue sharing. During the fiscal years ended June 30, 2019 and 2018, such additional payments received aggregated $99,055 and $167,240, respectively. The College expects to recognize $40,725 per year over the next 5 years, with the remaining balance recognized in revenues during the year ended June 30, 2025. There were no payments received in the year ended June 30, 2019.

The University reports the carrying value of the capital assets relating to the service concession arrangements of approximately $327,210 and $349,024 at June 30, 2019 and 2018, respectively.

Note 12 - **Leases**

The College leases certain equipment, vehicles, and buildings under various operating leases with monthly payments ranging from $148 to $67,016 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 $2,554,787 and $2,039,888 for the years ended June 30, 2019 and 2018, respectively.

At June 30, 2019, future minimum payments due under all operating leases for the College are as follows:

Fiscal Years Ending June 30,	Total
2020	$ 2,313,607
2021	1,988,761
2022	996,758
2023	793,735
2024	290,921
Thereafter	965,626
Total	$ 7,349,408

Note 13 - **Restricted Net Position**

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

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

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

Note 14 - **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.

Note 15 - **Operating Expenses**

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

	2019	2018
Compensation and benefits	**$ 43,708,944**	$ 45,760,848
Supplies and services	**13,030,113**	13,263,771
Scholarships and fellowships	**2,621,759**	2,699,696
Depreciation	**1,858,827**	1,905,742
	$ 61,219,643	$ 63,630,057

Note 16 - **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.

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, 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 17 - **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.*

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

	2019	2018
Direct unrestricted appropriations	**$ 20,702,610**	$ 19,725,822
Add:		
Fringe benefits for benefited employees on the state-funded payroll	**7,295,049**	6,893,921
Less:		
Day school tuition remitted to the state and included in tuition and fee revenue	**(237,436)**	(226,678)
Total unrestricted appropriations	**27,760,223**	26,393,065
Capital appropriations	**5,203,965**	3,227,994
Total appropriations	**$ 32,964,188**	$ 29,621,059

A reconciliation between the College and MMARS as of June 30, 2019 is as follows (unaudited):

Revenue per MMARS	**$ 50,230,440**
Revenue per College	**50,230,440**
Difference	**$ -**

Note 18 - **Pass-Through Grants**

The College distributed approximately $5,500,000 and $5,700,000 for student loans through the U.S. Department of Education Federal Direct Lending Program during the year ended June 30, 2019 and 2018, respectively. These distribution and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Year ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Valuation date	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the collective net pension liability	0.083%	0.080%	0.082%	0.105%
Proportionate share of the collective net pension liability	$ 10,973,238	$ 10,315,396	$ 11,288,307	$ 11,931,702
Covered payroll	$ 6,438,676	$ 6,319,979	$ 6,218,504	$ 6,316,080
Proportionate share of the net pension liability as a percentage of its covered payroll	170.43%	163.22%	181.53%	188.91%
Plan fiduciary net position as a percentage of the plan's total pension liability	67.91%	67.21%	63.48%	67.87%

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	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Contractually required contribution	$ 478,772	$ 758,476	$ 628,838	$ 587,850
Contributions in relation to the contractually required contribution	478,772	758,476	628,838	587,850
Contribution excess	$ -	$ -	$ -	$ -
Covered payroll	$ 3,969,917	$ 6,438,676	$ 6,319,979	$ 6,218,504
Contribution as a percentage of covered payroll	12.06%	11.78%	9.95%	9.45%

Notes:

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

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

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information - Pension (Unaudited)

June 30, 2019

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

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.

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.

See Independent Auditors' Report.

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

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 Net OPEB Liability (Unaudited)

State Retirees' Benefit Trust

Year ended	June 30, 2019	June 30, 2018
Measurement date	June 30, 2018	June 30, 2017
Valuation date	January 1, 2018	January 1, 2017
Proportion of the collective net OPEB liability	0.129%	0.115%
Proportionate share of the collective net OPEB liability	$ 19,274,122	$ 20,063,487
College's covered payroll	$ 6,438,676	$ 6,319,979
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	299.35%	317.46%
Plan fiduciary net position as a percentage of the total OPEB liability	7.38%	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,

	2019	2018
Statutorily required contribution	$ 349,118	$ 574,256
Contributions in relation to the statutorily required contribution	(349,118)	(574,256)
Contribution (excess)/deficit	$ -	$ -
College's covered payroll	$ 3,969,917	$ 6,438,676
Contribution as a percentage of covered payroll	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.

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2019

Assumptions:
Change in Trend on Future Costs
The healthcare trend rate decreased from 8.5% to 8.0%, which impact 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.

Fiscal year June 30, 2018

Assumptions:
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*

O'Connor & Drew P.C.
Certified Public Accountants

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

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

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

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

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

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

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

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

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

December 4, 2019