

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

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

JUNE 30, 2018

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

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

June 30, 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matters

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

As discussed in Note 2 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated November, 19, 2018. Subsequent to the issuance of the financial statements, management of the State Retiree's Benefit Trust alerted the College that the calculation of postemployment benefits other than pensions as of June 30, 2018 and June 30, 2017 was misstated.

Our opinion is not modified with respect to these matters.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of Bunker Hill Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bunker Hill Community College's internal control over financial reporting and compliance.

O'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 19, 2018 (except for Management's Discussion and Analysis, Note 2, Note 7, Note 10, Note 12, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is March 25, 2019)

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

The following discussion and analysis provides management's view of the financial position of Bunker Hill Community College (the College) as of June 30, 2018 and 2017, and the changes in net position for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereto, which are also presented in this document.

The College is a public institution of higher education that served over 13,000 students in fall 2017 semester, with 151 full time faculty, 639 adjunct faculty, and 334 staff members for the year ended June 30, 2018. Campuses are located in Boston and Chelsea, Massachusetts. In addition, the College offers programs at four off campus locations throughout the greater Boston area. The College offers 63 programs leading to associate degrees including two concentrations that prepare students to enter technical programs and 49 certificate programs. Through our initiatives the College seeks to empower and inspire students, faculty and staff from diverse backgrounds to make meaningful contributions to our local and global communities.

Financial Highlights

- At June 30, 2018, the College's assets and deferred outflows were \$89,697,642 and its liabilities and deferred inflows were \$67,696,790 resulting in net position of \$22,000,852. This represents a decrease in net position of \$202,990 for fiscal year 2018. By contrast, at June 30, 2017, the College's assets and deferred outflows were \$77,823,440 and its liabilities and deferred inflows were \$55,619,598 resulting in net position of \$22,203,842.

	<u>June 30</u>	
	<u>2018</u>	<u>2017</u>
Invested in capital assets, net of related liabilities	\$ 32,948,525	\$ 30,548,047
Unrestricted	<u>(10,947,673)</u>	<u>(8,344,205)</u>
Total net position	<u>\$ 22,000,852</u>	<u>\$ 22,203,842</u>

- The decrease in the College's net position of \$202,990 in fiscal year 2018 and \$12,522,984 in fiscal year 2017 was due to implementation of GASB 75 Postemployment Benefits other than pension ("OPEB") liabilities in fiscal years 2017 and 2018.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Overview of the Financial Statements

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

Bunker Hill Community College Foundation (Foundation) is a legally separate tax exempt component unit of Bunker Hill Community College. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and consists of business and civic leaders in the greater Boston area. Although the College does not control the timing or the amount of receipts from the Foundation, the resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

Management's Discussion and Analysis is required to focus on the College, not its component unit.

The Financial Statements – The financial statements are designed to provide readers with a broad overview of the College's finances and comprise three basic statements:

The Statement of Net Position presents information on all of the College's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the College's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences or the receipt of amounts due from students and others for services rendered).

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Overview of the Financial Statements - Continued

The Statement of Cash Flows is reported on the direct method. The direct method of cash flows reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and other student fees) and disbursements (e.g., payments to employees). GASB Statement No. 34 and No. 35 require this method to be used. In accordance with GASB Statement No. 39, the Foundation is not required to present the statement of cash flows.

The financial statements can be found on pages 28-32 of this report.

The College reports its activity as a business type activity using the economic resources measurement focus and full accrual basis of accounting. The College is an agency of the Commonwealth of Massachusetts (the Commonwealth). Therefore, the results of the College's operations, its net assets and its cash flows are also summarized in the Commonwealth's Annual Financial Report in its government wide financial statements.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 33-70 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. At the close of fiscal year 2018, assets exceeded liabilities by \$22,000,852 compared to \$22,203,842 in fiscal year 2017.

The College's FY 2018 net position of \$22,000,852 includes investment in capital assets of \$32,948,525 (e.g., land, buildings and improvements, and equipment), less any related liabilities such as capital leases used to acquire those assets. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related liabilities, it should be noted that the resources needed to repay these liabilities must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the liabilities noted above, which are reflected in the College's financial statements, the Commonwealth regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings by the Commonwealth are not reflected in these financial statements.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

	Summary of the College's Net Position			
	June 30		Between 2018 and 2017	
	2018	2017	Dollar change	Change percentage
Current assets	\$ 29,138,658	\$ 26,309,405	\$ 2,829,253	11%
Noncurrent assets	47,408,902	46,620,143	788,759	2%
Deferred outflows	13,150,082	4,893,892	8,256,190	169%
Total assets and deferred outflows	89,697,642	77,823,440	11,874,202	15%
Current liabilities	15,221,275	13,799,168	1,422,107	10%
Noncurrent liabilities	47,528,671	39,753,228	7,775,443	20%
Deferred inflows	4,946,884	2,067,202	2,879,682	139%
Total liabilities	67,696,830	55,619,598	12,077,232	22%
Net position:				
Invested in capital assets, net of related debt	32,948,525	30,548,047	2,400,478	8%
Unrestricted	(10,947,673)	(8,344,205)	(2,603,468)	31%
Total net position	\$ 22,000,852	\$ 22,203,842	\$ (202,990)	-1%

- As stated earlier, the decrease in the College's net position of \$202,990 in fiscal year 2018 and \$12,522,984 in fiscal year 2017 was due to implementation of GASB 75 OPEB liabilities in FY 2017 and 2018.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>percentage</u>
Operating:				
Tuition and fees, net of scholarship allowances	\$ 30,490,034	\$ 30,954,658	\$ (464,624)	(2)%
Grants and contracts	31,940,929	32,374,544	(433,615)	(1)
Other operating revenues	<u>2,520,179</u>	<u>2,561,305</u>	<u>(41,126)</u>	<u>(2)</u>
Total operating revenues	64,951,142	65,890,507	(939,365)	(1)
Total operating expenses	<u>102,931,031</u>	<u>114,958,943</u>	<u>(12,027,912)</u>	<u>(10)</u>
Operating loss	(37,979,889)	(49,068,436)	11,088,547	(23)
Nonoperating:				
Total state support	36,540,880	35,231,433	1,309,447	4
Net other nonoperating	<u>1,236,019</u>	<u>1,314,019</u>	<u>(78,000)</u>	<u>(6)</u>
Total change in net position	(202,990)	(12,522,984)	12,319,994	(98)
Net position, beginning of year	<u>22,203,842</u>	<u>34,726,826</u>	<u>(12,522,984)</u>	<u>(36)</u>
Net position, end of year	<u>\$ 22,000,852</u>	<u>\$ 22,203,842</u>	<u>\$ (202,990)</u>	<u>(1)%</u>

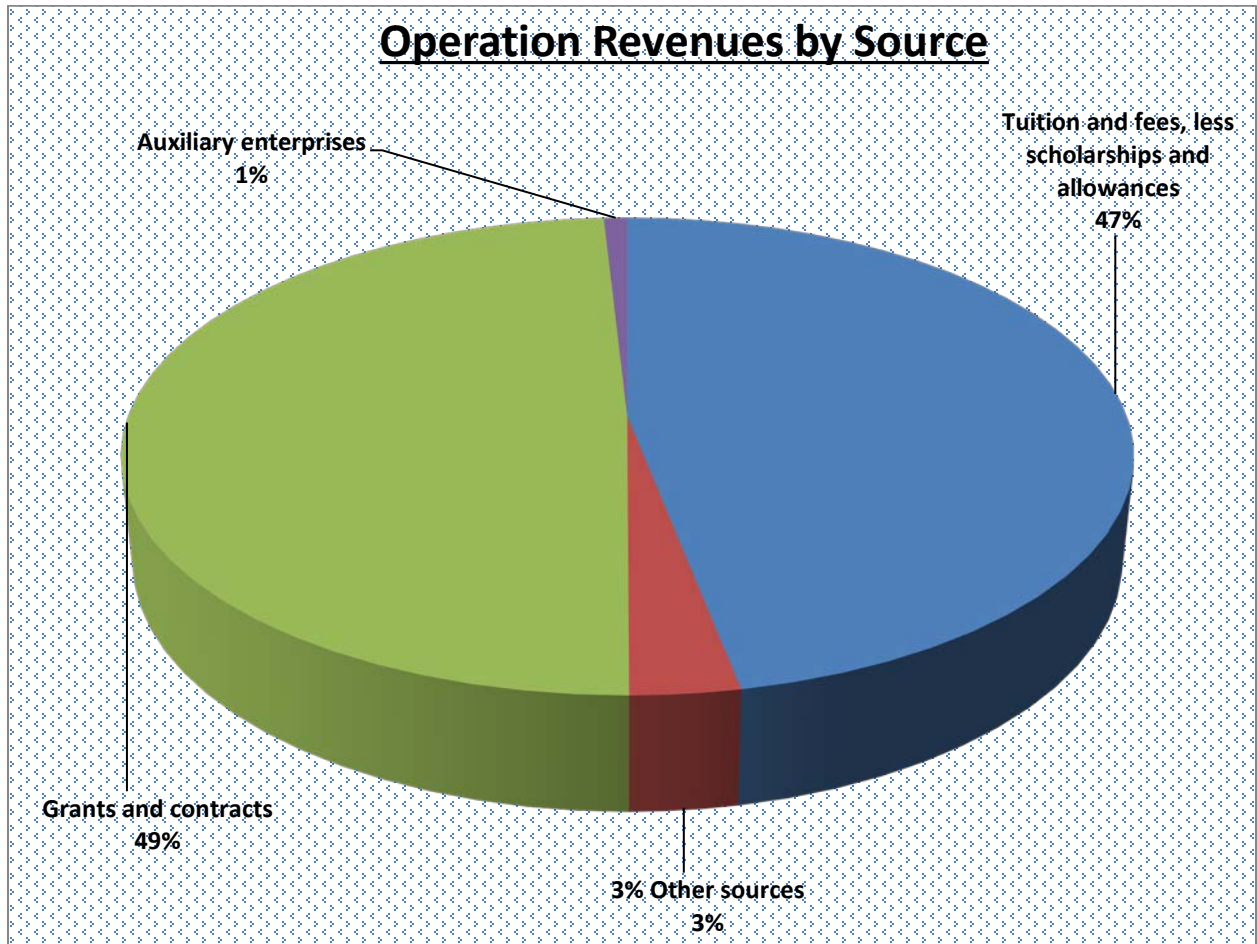
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



Tuition and fees, less scholarships and allowances decreased by 2% in fiscal year 2018 compared to an increase of 12% in fiscal year 2017. Tuition and fees, less scholarship allowances were 47% of total operating revenues in both fiscal years 2018 and 2017. Federal, State, Local and Private Grants and contracts revenue decreased by 1% compared to fiscal year 2017 and was 49% of total operating revenue in fiscal year 2018.

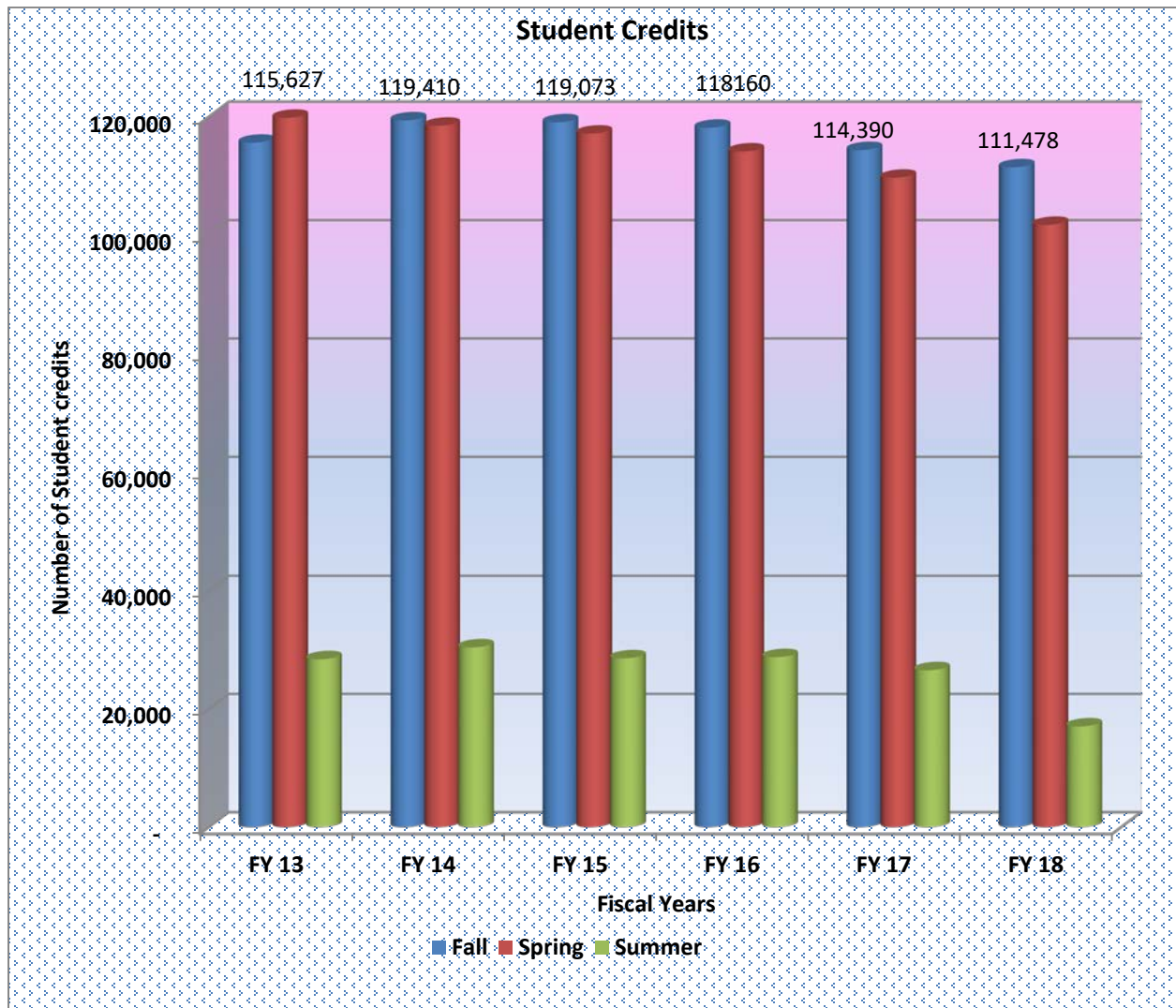
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



Although the student enrollment has declined in fiscal years 2017 and 2018, the College maintains its position as the largest of the fifteen Community Colleges in the Commonwealth of Massachusetts.

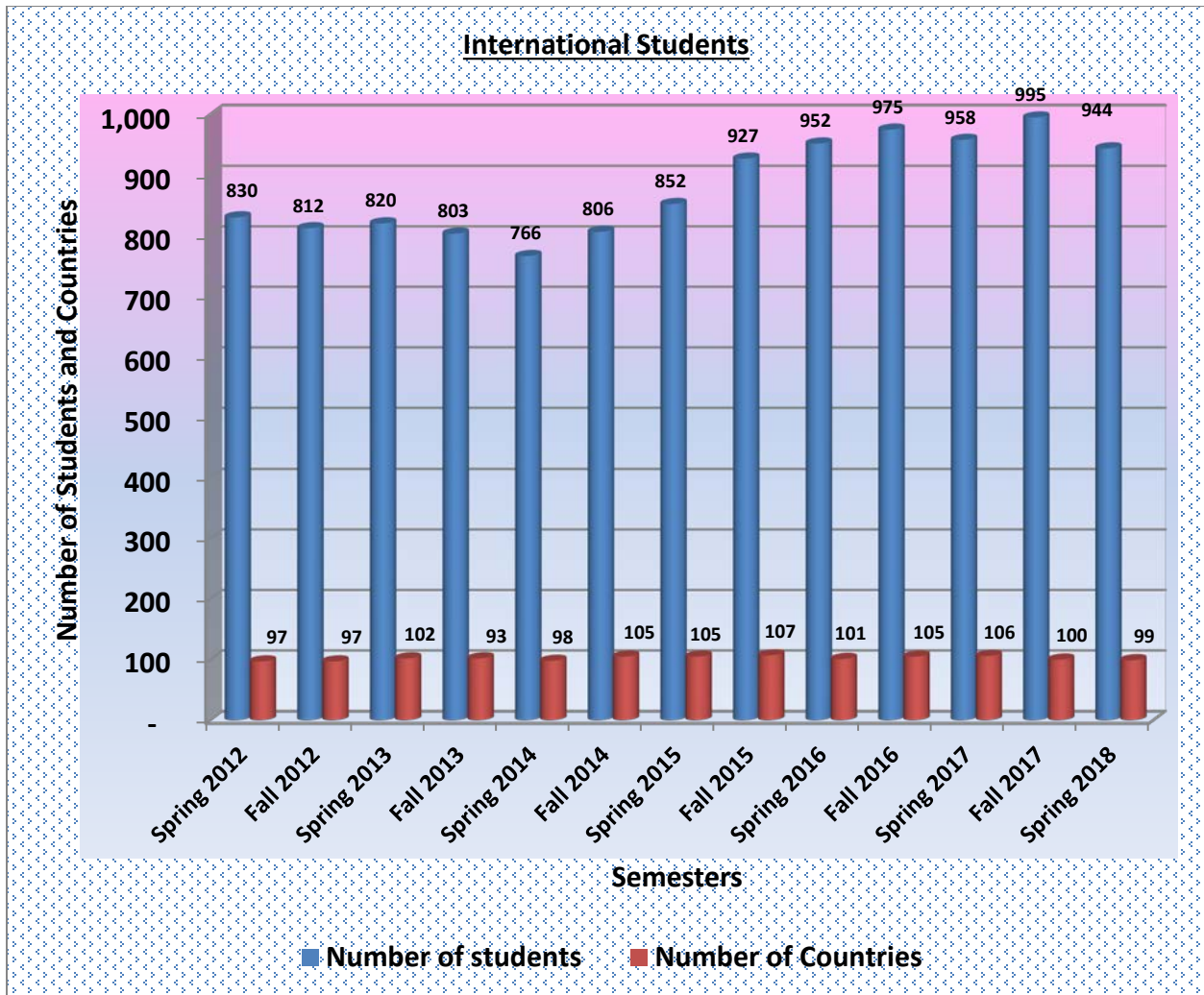
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



The College anticipates the international student enrollments to be steady.

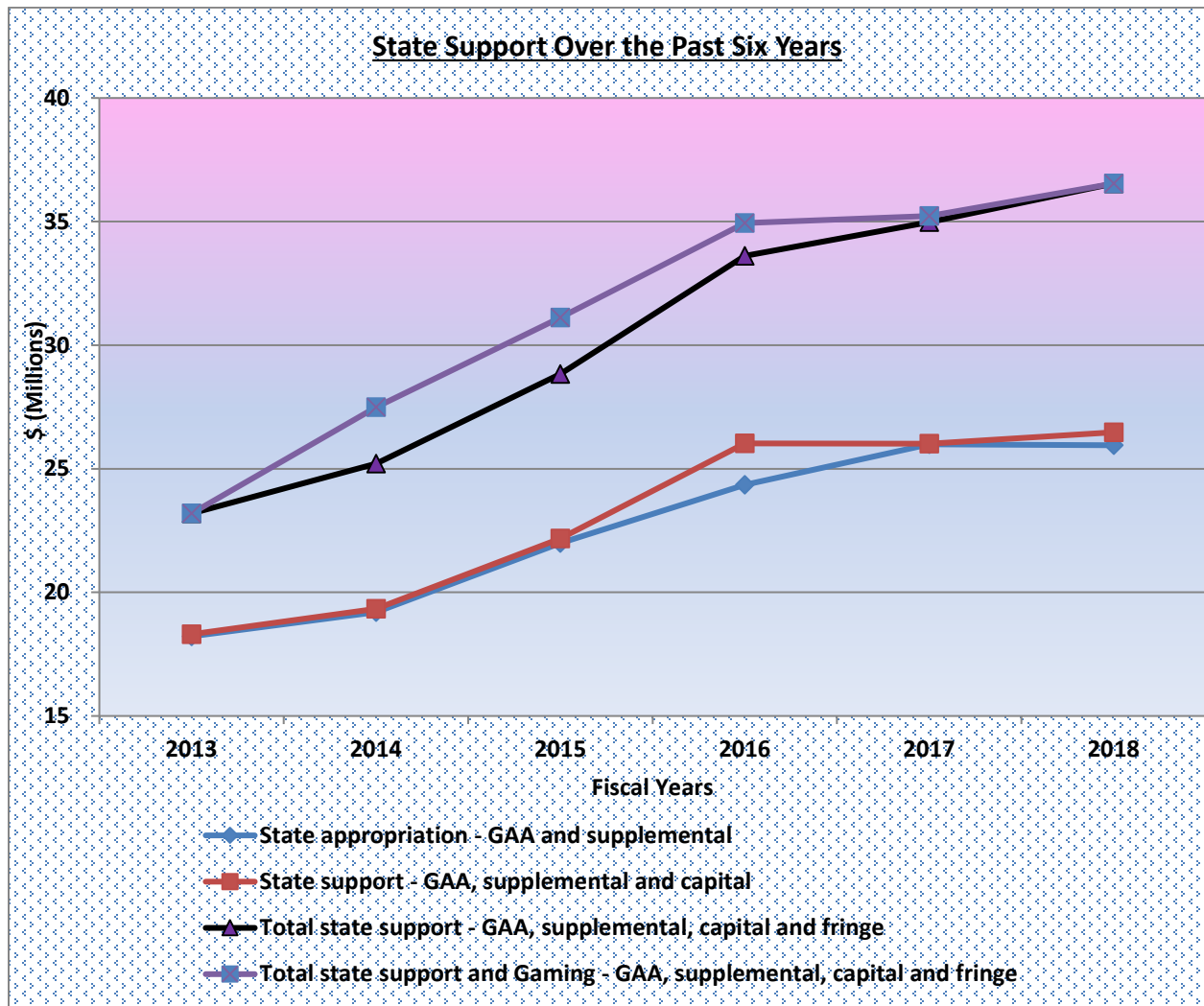
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



The six-year trend analysis shows that for the year ended June 30, 2018, there has been a slight increase in general and supplemental state appropriation. The analysis also shows that there has been an increase in capital appropriation.

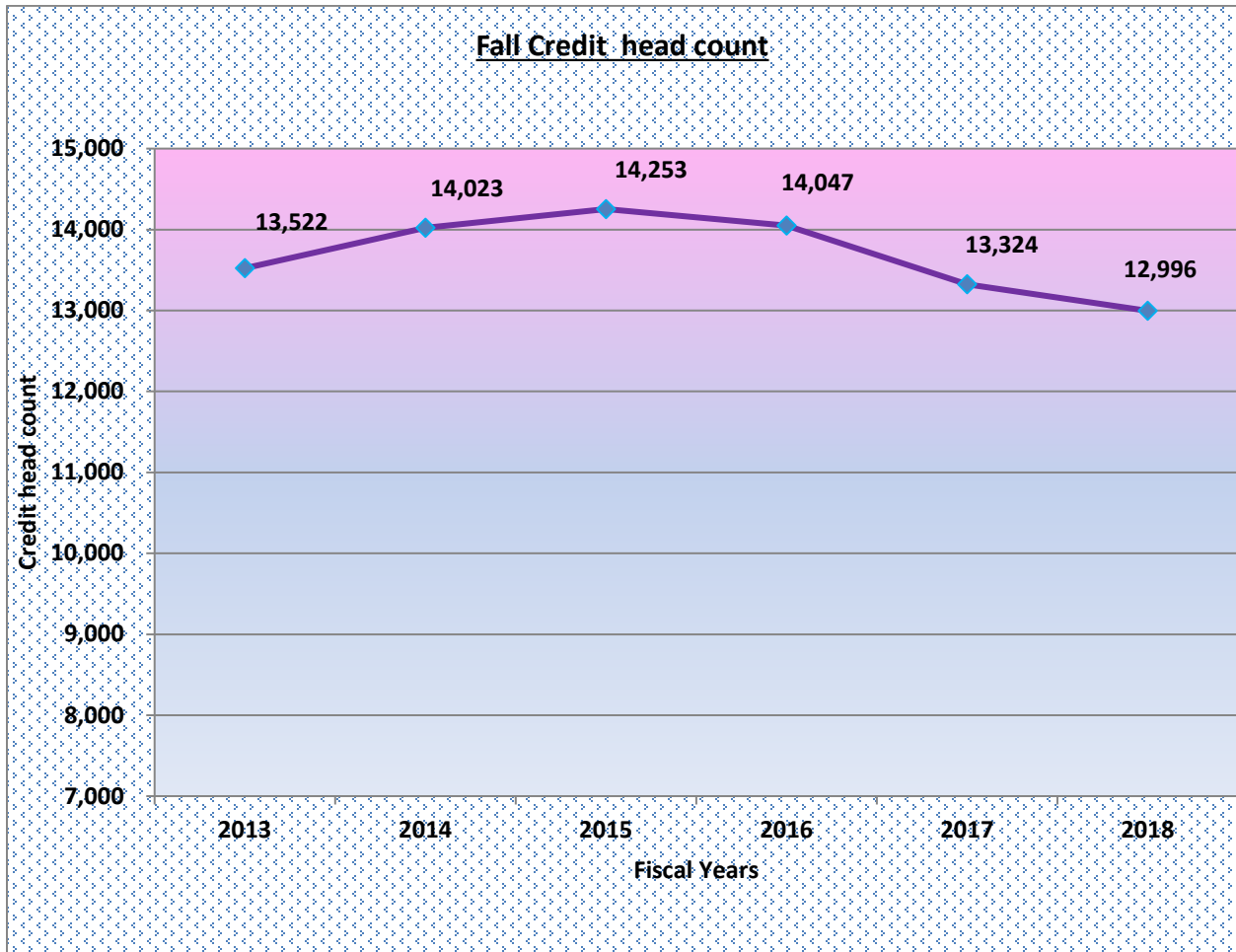
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



The College's head count has increased consistently over the years to over 14,000 students in Fall 2015 semester and declined marginally to slightly above 13,000 students by Fall 2017.

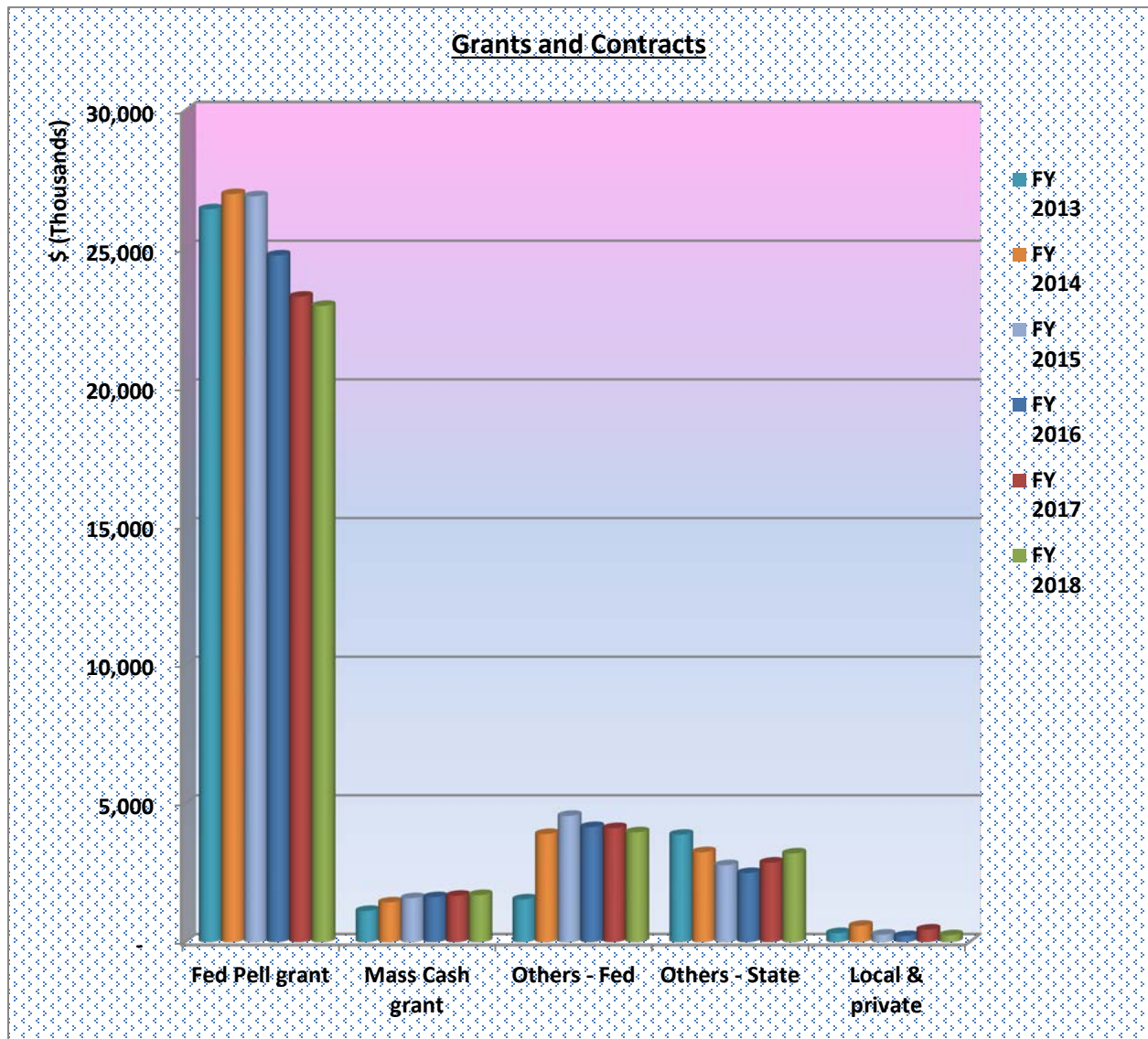
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



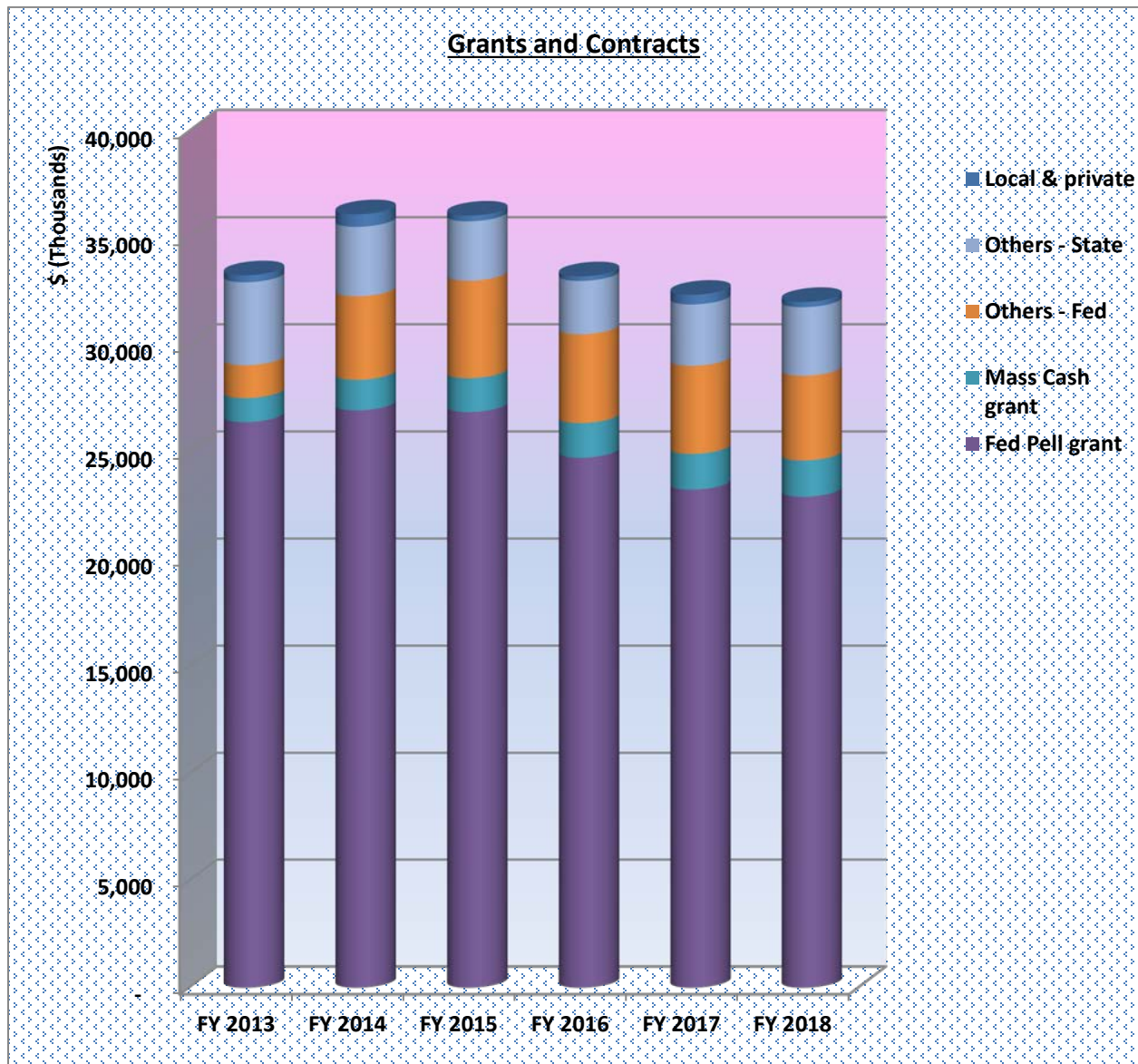
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

Major grants and contracts received by the College for 2018 included the following:

- PELL grant from US Department of Education in the amount of \$22,948,165 for student financial aid. This is a decrease of \$332,508 (1.4%) from 2017 and a decrease of \$1,819,013 (7%) from 2016.
- SEOG grant from US Department of Education in the amount of \$579,762 for student financial aid. This is an increase of \$36,171 from 2017 and an increase of \$106,904 from 2016.
- Nursing grant from US Department of Health and Human Services in the amount of \$285,155 for student financial aid. This is a decrease of \$14,845 from 2017 and also \$14,845 from 2016.
- MASS CASH grant from Massachusetts Board of Higher Education in the amount of \$1,692,466 for student financial aid. This is an increase of \$23,449 from 2017 and an increase of \$74,135 from 2016.
- MASS grant from Massachusetts Board of Higher Education in the amount of \$1,102,551 for student financial aid. This is a decrease of \$23,132 from 2017 but an increase of \$83,739 from 2016.
- TRIO grant from U.S. Department of Education of \$501,336. This is an increase of \$866 from 2017 but a decrease of \$7,019 from 2016.
- Grants and contracts from other sources in the amount of \$4,881,830 for specific purposes. This is a decrease of \$290,913 from 2017 and a decrease of \$1,013,779 from 2016. Grants were received for following specific purposes:
 - State Appropriated grants received for MCAS of \$199,382.
 - Department of Higher Education grants received for Adult Basic Education of \$709,172, Perkins Vocational grant of \$71,421 and TITLE III grant of \$468,047.
 - Local grants received from the Center for Allied Health of \$31,598.
- Auxiliary enterprises (Workforce development contracts) revenue decreased by 34% or \$189,754 in fiscal year 2018. Mainly due to decrease in contracts with Metro North Regional Employment Board and Merrimack Valley Workforce Investment Board.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

Tuition and fees received by the College included the following:

	<u>Year Ended June 30</u>		<u>Between 2018 and 2017</u>	
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Change percentage</u>
Tuition	\$ 12,044,929	\$ 12,810,444	\$ (765,515)	(6)%
Student fees	37,812,031	37,075,344	736,687	2
Waivers	<u>(1,570,242)</u>	<u>(1,327,332)</u>	<u>(242,910)</u>	<u>18</u>
Tuition and fees, net	<u>\$ 48,286,718</u>	<u>\$ 48,558,456</u>	<u>\$ (271,738)</u>	<u>(1)%</u>

	<u>Year Ended June 30</u>		<u>Between 2017 and 2016</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Change percentage</u>
Tuition	\$ 12,810,444	\$ 12,492,913	\$ 317,531	3%
Student fees	37,075,344	33,924,949	3,150,395	9
Waivers	<u>(1,327,332)</u>	<u>(1,603,955)</u>	<u>276,623</u>	<u>(17)</u>
Tuition and fees, net	<u>\$ 48,558,456</u>	<u>\$ 44,813,907</u>	<u>\$ 3,744,549</u>	<u>8%</u>

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

Comparison of Expenses by Function

	Year Ended June 30		Between 2018 and 2017	
	2018	(Restated) 2017	Change	Change percentage
Instruction	\$ 37,482,302	\$ 45,823,685	\$ (8,341,383)	(18)%
Academic support	14,446,670	15,246,887	(800,217)	(5)
Student services	15,374,037	15,592,373	(218,336)	(1)
Scholarships and fellowships	10,363,044	10,784,082	(421,038)	(4)
Operation and maintenance of plant	8,960,094	9,912,270	(952,176)	(10)
Institutional support and other	12,774,850	14,580,755	(1,805,905)	(12)
Depreciation and amortization	3,530,034	3,018,891	511,143	17
	<u>\$ 102,931,031</u>	<u>\$ 114,958,943</u>	<u>\$ (12,027,912)</u>	<u>(10)%</u>

	Year Ended June 30		Between 2017 and 2016	
	(Restated) 2017	2016	Change	Change percentage
Instruction	\$ 45,823,685	\$ 37,331,673	\$ 8,492,012	23%
Academic support	15,246,887	11,956,651	3,290,236	28
Student services	15,592,373	11,951,175	3,641,198	30
Scholarships and fellowships	10,784,082	12,511,212	(1,727,130)	(14)
Operation and maintenance of plant	9,912,270	7,883,555	2,028,715	26
Institutional support and other	14,580,755	11,297,093	3,283,662	29
Depreciation and amortization	3,018,891	2,422,185	596,706	25
	<u>\$ 114,958,943</u>	<u>\$ 95,353,544</u>	<u>\$ 19,605,399</u>	<u>21%</u>

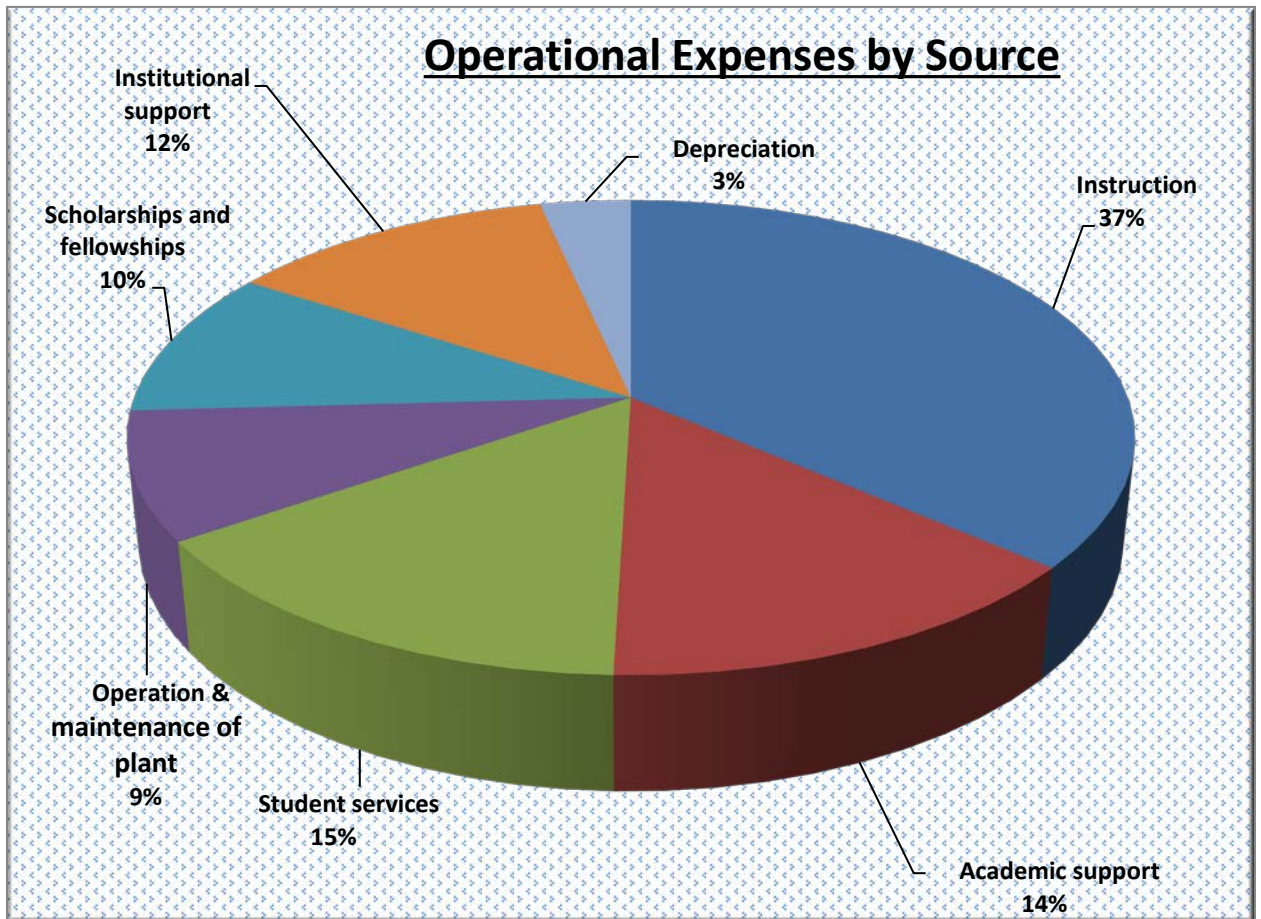
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



Highlights of operating expense activity:

Of the total operating expenses in fiscal year 2018 of \$102,931,031, 75% relates to instruction, academic support, student services, and scholarship and fellowships. Of the total operating expenses in fiscal year 2017 of \$114,958,943, 88% relates to instruction, academic support, student services, and scholarship and fellowships.

BUNKER HILL COMMUNITY COLLEGE

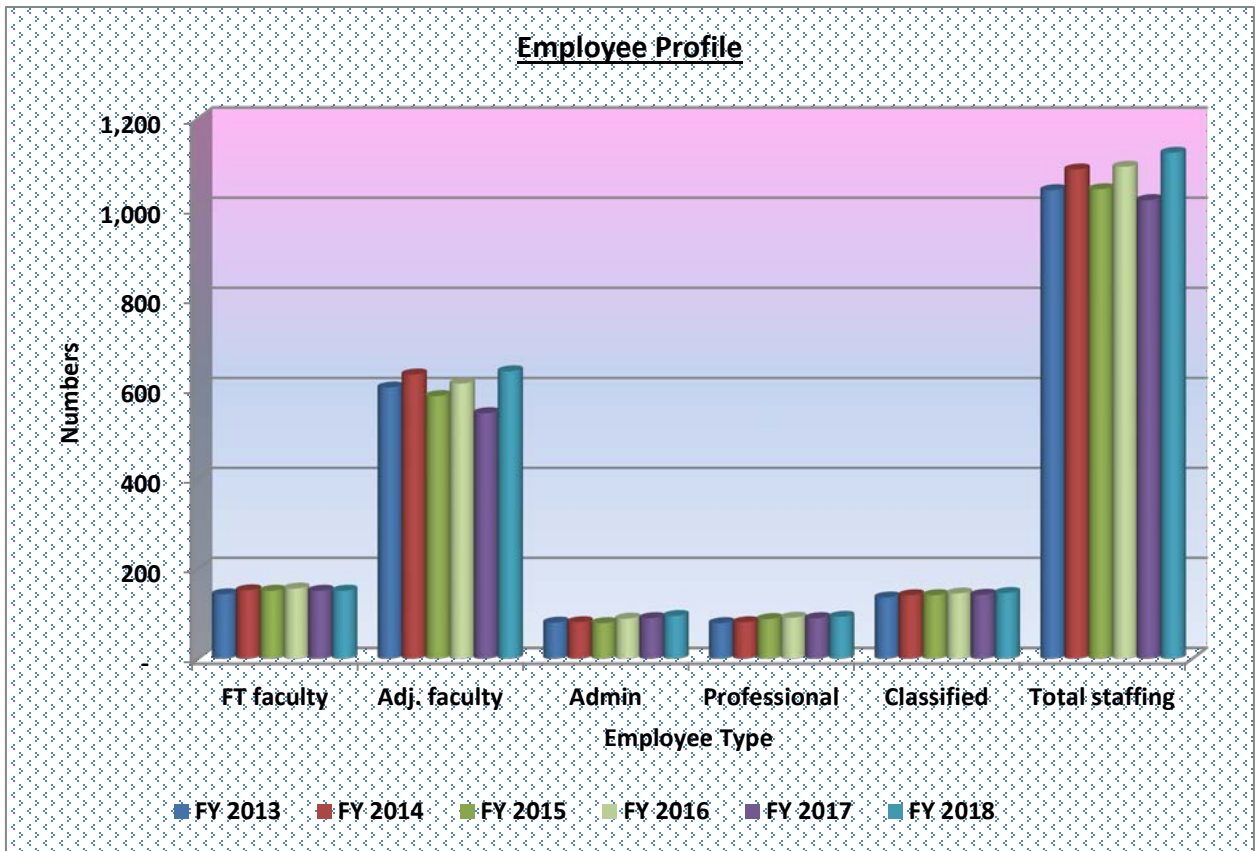
Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

The expenditure on scholarships and fellowships decreased by 4% or \$421,038 in fiscal year 2018 due to an overall decrease in grant aid other than those applied to tuition and fees. In fiscal year 2017, the decrease was 14% or \$1,727,130.



BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

Loss from Operations

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

	Year Ended June 30		Between 2018 and 2017	
	2018	(Restated) 2017	Change	Change percentage
Tuition and fees	\$ 48,286,718	\$ 48,558,456	\$ (271,738)	(1)%
Less scholarship allowances	(17,796,684)	(17,603,798)	(192,886)	1
Net tuition and fees	30,490,034	30,954,658	(464,624)	(2)
Grants and contracts	31,940,929	32,374,544	(433,615)	(1)
Other revenue	2,520,179	2,561,305	(41,126)	(2)
Operating expenses	(102,931,031)	(114,958,943)	12,027,912	(10)
Operating loss	\$ (37,979,889)	\$ (49,068,436)	\$ 11,088,547	(23)%

	Year Ended June 30		Between 2017 and 2016	
	(Restated) 2017	2016	Change	Change percentage
Tuition and fees	\$ 48,558,456	\$ 44,813,907	\$ 3,744,549	8%
Less scholarship allowances	(17,603,798)	(17,072,023)	(531,775)	3
Net tuition and fees	30,954,658	27,741,884	3,212,774	12
Grants and contracts	32,374,544	33,234,439	(859,895)	(3)
Other revenue	2,561,305	2,363,996	197,309	8
Operating expenses	(114,958,943)	(95,353,544)	(19,605,399)	21
Operating loss	\$ (49,068,436)	\$ (32,013,225)	\$ (17,055,211)	53%

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued

Pursuant to Governmental Accounting Standards Board (GASB) Statements No. 34 and 35, the State appropriation is not classified as operating revenue. Therefore, institutions of public higher education generally incur a loss from operations. The Commonwealth's Department of Higher Education sets tuition while the College's Board of Trustees sets general course fees. Commonwealth appropriations and other state support to the College reduced the loss from operations. The College, with the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

Non-Operating Revenues and Expenses

	Year Ended June 30		Between 2018 and 2017	
	2018	(Restated) 2017	Change	Change percentage
Operating loss	\$ (37,979,889)	\$ (49,068,436)	\$ 11,088,547	(23)%
Nonoperating:				
Total state support	36,540,880	35,231,433	1,309,447	4
Net other nonoperating	1,236,019	1,314,019	(78,000)	(6)
Increase (decrease) in net position	\$ (202,990)	\$ (12,522,984)	\$ 12,319,994	(98)%

	Year Ended June 30		Between 2017 and 2016	
	(Restated) 2017	2016	Change	Change percentage
Operating loss	\$ (49,068,436)	\$ (32,013,225)	\$ (17,055,211)	53%
Nonoperating:				
Total state support	35,231,433	34,945,847	285,586	1
Net other nonoperating	1,314,019	(444,360)	1,758,379	(396)
Increase (decrease) in net position	\$ (12,522,984)	\$ 2,488,262	\$ (15,011,246)	(603)%

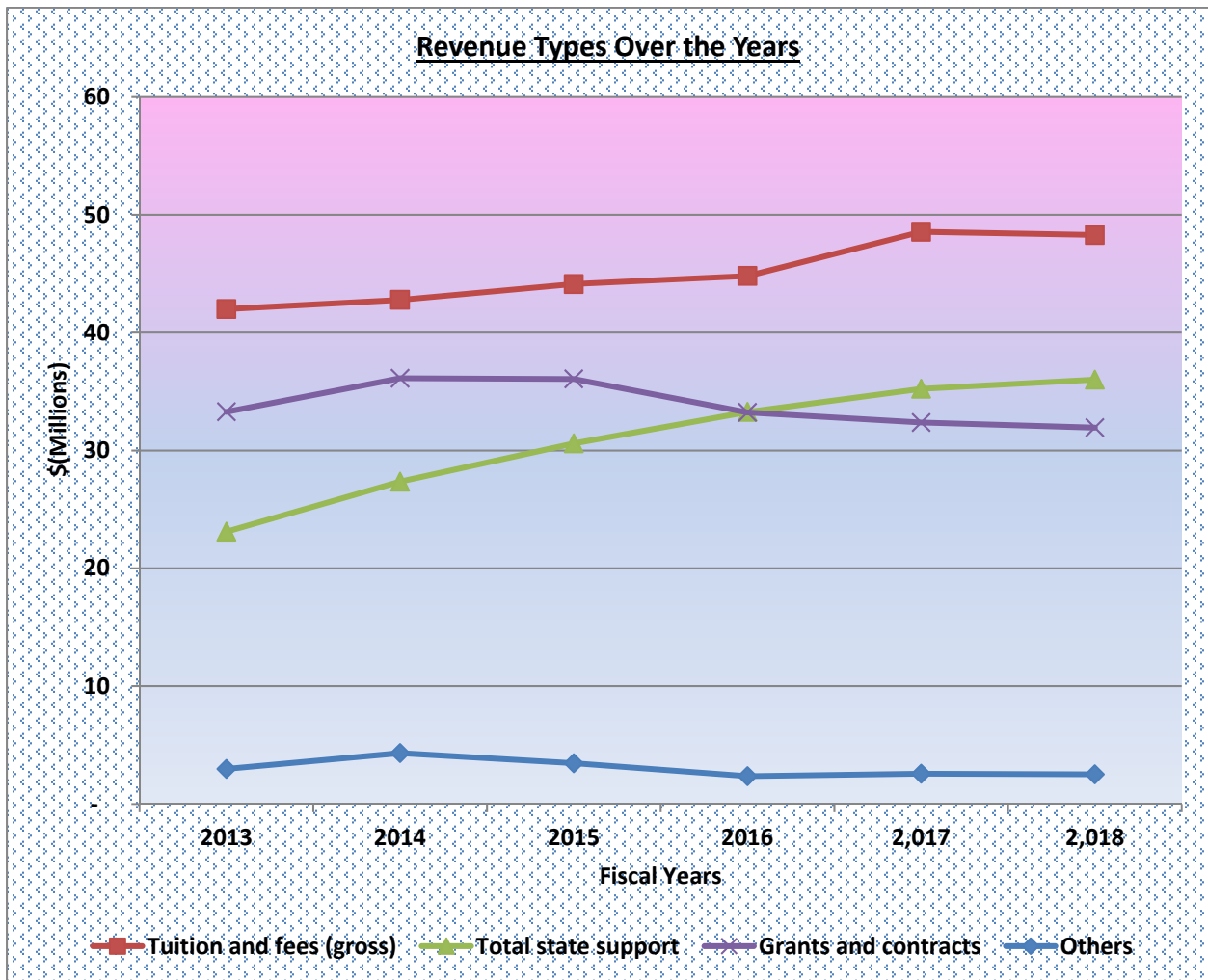
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



Gross tuition and fees net of waivers for FY 2018 was the largest single source of revenue at \$48,286,718 or 41% followed by State appropriation of \$36,012,273 or 30% and Grants and Contracts at \$31,940,929 or 27%.

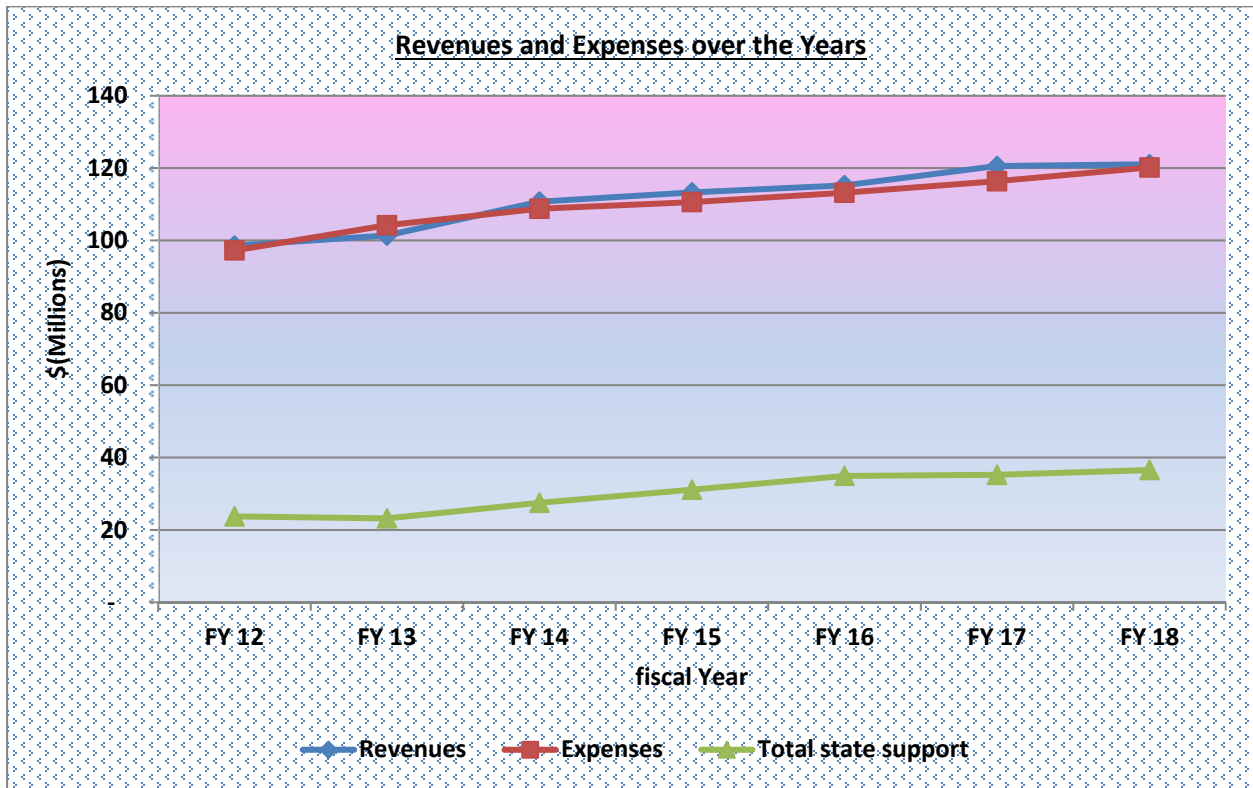
BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Financial Analysis - Continued



The seven year trend analysis shows that from FY 2014 revenues have gradually exceeded expenses each year and in FY 2018, the revenues and expenses break even. This analysis does not include the effect of additional OPEB expense for FY 17 and 18.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Capital Assets of the College

The College's capital assets as of June 30, 2018 amounted to \$42,282,486, net of accumulated depreciation. The capital assets include land, buildings and improvements, furnishings, and equipment. Capital assets net of depreciation increased from \$40.3 million in FY 2017 to \$42.3 million in FY 2018. This was mainly due to improvements to buildings at a cost of \$1,791,490, addition to capital construction in progress of \$2,570,547 and addition to capital software working progress of \$686,394. The total addition to fixed assets during fiscal year 2018 was \$5,529,183 while the total depreciation amounted to \$3,530,034.

The Board of Trustees approves capital asset purchases. Additional information about the College's capital assets can be found in note 6.

Long-Term Liabilities of the College

During the fiscal year 2007, the College participated in a Pool M3-C Series, tax exempt, variable rate bond issued through Massachusetts Health and Educational Facilities Authority Capital Assets Program (HEFA) to finance the construction of the Health and Wellness Center. Of the Pool M3-C Series, tax exempt bond of \$8,000,000, a sum of \$60,702 is held as a debt service reserve fund at the Peoples United Bank.

The College also entered into an interest rate swap agreement with Citizens Bank to manage (hedge) cash flows associated with the variable rate bond. The terms of the swap transaction are as follows:

Trade date	February 9, 2007
Effective date	February 11, 2007
Termination date	June 15, 2031
Rate paid by College	4.18%
Rate paid by counterparty	SIFMA Swap Index
Fair value – liability at June 30, 2018	\$ 954,970

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Long-Term Liabilities of the College - Continued

In November 2011, the College participated in a clean energy (savings) program which was administered by the Department of Capital Asset Management and Maintenance (DCAM). This project, DCAM project number BHC 1001-EC1 was funded in part by a loan from the Clean Energy Investment program (CEIP) funds and in part by a General Obligation Bond through DCAM. The status of the CEIP funds as June 30, 2018 is as follows:

Date of note	November 29, 2011
Original amount of note	\$3,330,488
Unpaid principal balance	\$2,588,632
Maturity date	January 01, 2032
Interest rate	4.00%
Date to which interest has been paid	January 01, 2017

During fiscal year 2016, the College leased equipment which was funded through Key Finance Government to upgrade Colleges computer network infrastructure. The capital lease obligations at June 30, 2018 are as follows.

Asset value	\$1,160,596
Interest	\$ 69,101
Period of the lease	60 months
Annual payment	\$ 245,939
Lease obligation at June 30, 2018	\$ 675,329

Economic Factors and Decisions Affecting Next Year's Tuition and Student Fee Revenues

The seasonally adjusted unemployment rate for the Commonwealth within which the College primarily draws students, decreased from 4.3% in June 2017 to 3.5% in June 2018, according to the United States Department of Labor, Bureau of Labor Statistics. The seasonally adjusted unemployment rate on a national level decreased from 4.4% in June 2017 to 4.0% in June 2018. The trend is that unemployment will continue to decrease if the performance of the economy improves and vice versa. It is difficult for the College to predict the extent to which enrollment may vary in the current environment.

BUNKER HILL COMMUNITY COLLEGE

Management Discussion and Analysis - Continued

June 30, 2018 and 2017

(Unaudited)

Requests for Information

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

BUNKER HILL COMMUNITY COLLEGE

Statement of Net Position

June 30, 2018

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

Statement of Net Position

June 30, 2018

Assets and Deferred Outflows of Resources

	<u>College</u>	<u>Foundation</u>
Current Assets:		
Cash and equivalents	\$ 1,149,135	\$ 461,852
Deposits held by State Treasurer	2,951,456	-
Cash held by State Treasurer	281,682	-
Restricted cash	1,059,855	790,202
Short-term investments	18,850,077	-
Deposits with bond trustee - restricted	60,702	-
Accounts receivable, net	4,365,703	64,368
Other assets	<u>420,048</u>	<u>-</u>
Total Current Assets	<u>29,138,658</u>	<u>1,316,422</u>
Non-Current Assets:		
Long-term investments	5,126,416	5,722,517
Capital assets, net of accumulated depreciation	<u>42,282,486</u>	<u>-</u>
Total Non-Current Assets	<u>47,408,902</u>	<u>5,722,517</u>
Total Assets	<u>76,547,560</u>	<u>7,038,939</u>
Deferred Outflows of Resources		
Interest rate swap	954,970	-
Pension related, net	4,834,718	-
OPEB related, net	<u>7,360,394</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>13,150,082</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 89,697,642</u>	<u>\$ 7,038,939</u>

The accompanying notes are an integral part of the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>College</u>	<u>Foundation</u>
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 4,928,275	\$ 68,169
Accrued payroll	1,844,933	-
Compensated absences and workers' compensation	3,446,640	-
Unearned revenues	250,460	-
Students' deposits	2,560,097	-
Funds held for others	1,518,504	-
Current portion of capital lease obligations	280,848	-
Current portion of bonds payable	250,000	-
Current portion of liability for energy project	<u>141,518</u>	<u>-</u>
Total Current Liabilities	<u>15,221,275</u>	<u>68,169</u>
Non-Current Liabilities:		
Compensated absences and workers' compensation	2,044,698	-
Net pension liability	12,158,456	-
Net OPEB liability	23,648,250	-
Capital lease obligations	394,481	-
Bonds payable	5,880,702	-
Liability for energy project	2,447,114	-
Liability for derivative instrument	<u>954,970</u>	<u>-</u>
Total Non-Current Liabilities	<u>47,528,671</u>	<u>-</u>
Total Liabilities	<u>62,749,946</u>	<u>68,169</u>
Deferred Inflows of Resources		
Pension related, net	2,170,919	-
OPEB related, net	<u>2,775,925</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>4,946,844</u>	<u>-</u>
Net Position:		
Investment in capital assets, net	32,948,525	-
Restricted:		
Expendable	-	4,152,460
Non-expendable	-	1,775,869
Unrestricted	<u>(10,947,673)</u>	<u>1,042,441</u>
Total Net Position	<u>22,000,852</u>	<u>6,970,770</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 89,697,642</u>	<u>\$ 7,038,939</u>

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statement of Revenues and Expenses

For the Year Ended June 30, 2018

	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 48,286,718	\$ -
Less: scholarship allowance	<u>(17,796,684)</u>	<u>-</u>
Net tuition and fees	30,490,034	-
Federal, state, local and private grants and contracts	31,940,929	1,307,180
Other auxiliary enterprises	568,908	-
Other sources	<u>1,951,271</u>	<u>304,273</u>
Total Operating Revenues	<u>64,951,142</u>	<u>1,611,453</u>
Operating Expenses:		
Instruction	37,482,302	-
Academic support	14,446,670	-
Student services	15,374,037	-
Scholarships	10,363,044	372,409
Operation and maintenance of plant	8,960,094	-
Institutional support	12,774,850	-
Depreciation and amortization	3,530,034	-
Other operating expenses	<u>-</u>	<u>147,985</u>
Total Operating Expenses	<u>102,931,031</u>	<u>520,394</u>
Operating Income (Loss)	<u>(37,979,889)</u>	<u>1,091,059</u>
Non-Operating Revenues (Expenses):		
State appropriations	36,012,273	-
Payments between Foundation and College	139,975	(167,735)
Net investment income	1,623,311	537,537
Interest expense	<u>(527,267)</u>	<u>-</u>
Net Non-Operating Revenues	<u>37,248,292</u>	<u>369,802</u>
Change in Net Position Before Capital Appropriations	(731,597)	1,460,861
Capital appropriations	<u>528,607</u>	<u>-</u>
Change in Net Position	<u>\$ (202,990)</u>	<u>\$ 1,460,861</u>

The accompanying notes are an integral part of the financial statements.

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

Statement of Changes in Net Position

For the Year Ended June 30, 2018

	College			
	<u>Investment in Capital Assets, net</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2017 (as previously reported)	\$ 30,548,047	\$ -	\$ 8,392,488	\$ 38,940,535
Prior period adjustment - Correction of an error (Note 2)	-	-	310,137	310,137
Prior period adjustment - Implementation of a newly effective accounting standard (Note 2)	-	-	<u>(17,046,830)</u>	<u>(17,046,830)</u>
Balance, June 30, 2017, (as restated)	30,548,047	-	(8,344,205)	22,203,842
Changes in net position	<u>2,400,478</u>	-	<u>(2,603,468)</u>	<u>(202,990)</u>
Balance, June 30, 2018	<u>\$ 32,948,525</u>	<u>\$ -</u>	<u>\$ (10,947,673)</u>	<u>\$ 22,000,852</u>
	Foundation			
	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Non-expendable</u>	<u>Total</u>
Balance, June 30, 2017	\$ 943,872	\$ 2,884,628	\$ 1,681,409	\$ 5,509,909
Changes in net position	<u>98,569</u>	<u>1,267,832</u>	<u>94,460</u>	<u>1,460,861</u>
Balance, June 30, 2018	<u>\$ 1,042,441</u>	<u>\$ 4,152,460</u>	<u>\$ 1,775,869</u>	<u>\$ 6,970,770</u>

The accompanying notes are an integral part of the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2018

	<u>College</u>
Cash Flows from Operating Activities:	
Tuition and fees	\$ 30,203,827
Grants and contracts	31,610,877
Payments to suppliers	(10,961,780)
Payments to students	(10,363,044)
Payments to employees	(63,356,293)
Other operating revenues	<u>2,029,877</u>
Net Cash Applied to Operating Activities	<u>(20,836,536)</u>
Cash Flows from Non-Capital Financing Activities:	
State appropriations	25,947,933
Funds held for others	379,659
Contributions from Foundation	<u>139,975</u>
Net Cash Provided by Non-Capital Financing Activities	<u>26,467,567</u>
Cash Flows from Capital Financing Activities:	
Purchases of capital assets	(4,742,484)
Principal payments on capital debt	(661,821)
Interest paid on capital debt	<u>(527,267)</u>
Net Cash Applied to Capital Financing Activities	<u>(5,931,572)</u>
Cash Flows from Investing Activities:	
Proceeds from sale of investments	64,801,486
Interest and dividends on investments, net	20,950
Purchases of investments	<u>(64,314,538)</u>
Net Cash Provided by Investing Activities	<u>507,898</u>
Net Increase in Cash and Equivalents	207,357
Cash and Equivalents, Beginning of Year	<u>5,295,473</u>
Cash and Equivalents, End of Year	<u>\$ 5,502,830</u>

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

Statement of Cash Flows - Continued

For the Year Ended June 30, 2018

	<u>College</u>
Reconciliation of Net Operating Loss to	
Net Cash Applied to Operating Activities:	
Net operating loss	\$ (37,979,889)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	3,530,034
Bad debts	(30,861)
Net pension activity	506,514
Net OPEB activity	2,016,951
Fringe benefits paid by state	10,064,340
Changes in assets and liabilities:	
Accounts receivable	(402,126)
Other current assets	136,892
Accounts payable and accrued expenses	1,401,060
Accrued salaries and wages	114,995
Accrued compensated absences and workers' compensation	479,128
Student deposits	(563,901)
Unearned revenues	<u>(109,673)</u>
 Net Cash Applied to Operating Activities	 <u><u>\$ (20,836,536)</u></u>
 Reconciliation of Cash and Equivalents Balance to the Statement of Net Position:	
Cash and equivalents	\$ 1,149,135
Deposits held by State Treasurer	2,951,456
Cash held by State Treasurer	281,682
Restricted cash	1,059,855
Deposits with bond trustee - restricted	<u>60,702</u>
 Cash and Equivalents, End of Year	 <u><u>\$ 5,502,830</u></u>
 Non-Cash Transactions:	
Fringe benefits provided by the state	<u><u>\$ 10,064,340</u></u>
Capital assets acquired through state appropriation	<u><u>\$ 528,607</u></u>
Capital assets acquired through capital leases	<u><u>\$ 258,092</u></u>

The accompanying notes are an integral part of the financial statements.

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

Notes to the Financial Statements

June 30, 2018

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

Organization

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

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with 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 College’s policy for defining operating activities in the statement of revenues and expenses, are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services and certain grants and contracts. Certain other transactions are reported as non-operating activities. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts, and interest expense.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Component Unit

Bunker Hill Community College Foundation, Inc. (the "Foundation") is a legally separate tax-exempt organization established in July 1986. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. The Foundation is located at the College's Charlestown campus. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College as of June 30, 2018 and is therefore discretely presented in the College's financial statements.

The Foundation is a private not-for-profit organization that reports under FASB standards, including ASC 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, and ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. Accordingly, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2018, the Foundation distributed \$167,735, of which approximately \$28,000 has been recorded as due to the Foundation from the College, pending completion of the project for which these funds were donated. The Foundation distributes funds to the College for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained from Bunker Hill Community College Foundation at 250 New Rutherford Avenue, Suite H150, Charlestown, Massachusetts 02129.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Net Position

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

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

Restricted – Nonexpendable: Net position subject to externally imposed conditions that the College must maintain in perpetuity.

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

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

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

Cash and Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less, cash and deposits held by state agencies on behalf of the College, cash held by the College on behalf of another agency and deposits with bond trustee to be cash equivalents.

Investments

Investments in marketable securities are stated at fair value. Dividends, interest, and net realized and unrealized gains or losses on investments are reported in the statements of revenues and expenses. Gains and losses on the disposition of investments are determined based on specific identification of securities sold. Investment income is recognized when earned. The College has no donor-restricted endowments as of June 30, 2018.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Allowance for Doubtful Accounts

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

Capital Assets

Real estate, including improvements, furnishings, equipment, and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period. College capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

Students' Deposits and Unearned Revenues

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

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.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Workers' Compensation

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through year end. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2018. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Pensions

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

Postemployment Benefits Other Than Pensions ("OPEB")

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

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Student Fees

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

Derivative Instruments

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

Tax Status

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

Use of Estimates

The preparation of financial statements in conformity with 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 revenue 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 the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, determining the fair value of the interest rate swap, and determining the net pension and OPEB liabilities.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

New Governmental Accounting Pronouncements

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2018

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

New Governmental Accounting Pronouncements - continued

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

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

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

Funds Held for Others

The College maintains the records of the Massachusetts Community College Executive Office (“Executive Office”). During the course of evaluating compensated absences liabilities, the College determined that the portion of the liabilities related to the Executive Office was improperly expensed during fiscal year 2017 resulting in an overstatement of expenses of \$310,137 for the year ended June 30, 2017. Net position was restated to reflect this correction.

Implementation of New Accounting Standard

As a result of implementing GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, net position was also restated to reflect the net OPEB liability as of June 30, 2017.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

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

Implementation of New Accounting Standard - continued

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

The table below presents the effects of implementing GASB 75, the correction to the previously issued financial statements, and the correction to Funds held for others.

	As Previously Reported <u>at June 30, 2017</u>	Implementation of <u>GASB 75</u>	As Previously Reported <u>at July 1, 2017</u>	Correction of <u>Errors</u>	As Restated <u>at July 1, 2017</u>
Statement of Net Position:					
Funds held for others	\$ 1,448,982	-	1,448,982	(310,137)	\$ 1,138,845
Deferred outflows related to OPEB	\$ -	595,311	595,311	-	\$ 595,311
Net OPEB liability	\$ -	20,325,148	20,325,148	(2,683,007)	\$ 17,642,141
Unrestricted net position	\$ 8,392,488	(19,729,837)	(11,337,349)	2,993,144	\$ (8,344,205)
	As Previously Reported <u>at June 30, 2018</u>	Correction of <u>Error</u>	As Restated <u>at June 30, 2018</u>		
Statement of Net Position:					
Deferred outflows related to OPEB	\$ 8,366,376	(1,005,982)	\$ 7,360,394		
Net OPEB liability	\$ 26,746,116	(3,097,866)	\$ 23,648,250		
Deferred inflows related to OPEB	\$ 3,559,975	(784,050)	\$ 2,775,925		
Unrestricted net position	\$ (13,823,607)	2,875,934	\$ (10,947,673)		
Statement of Revenues and Expenses:					
Operating expenses	\$ 103,123,958	(192,927)	\$ 102,931,031		

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Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investments**

Overall Deposits and Investments Descriptions

Deposits and investments consist of the following at June 30, 2018:

<u>Investment type</u>	
Cash in bank	\$ 1,149,135
Cash in bank - restricted	1,059,855
Proprietary money market funds - restricted	<u>60,702</u>
Total Deposits	<u>2,269,692</u>
Money market funds	481,014
Corporate bonds	3,908,439
Mutual funds	1,122,186
Federal agencies	1,274,651
Equity securities	<u>17,190,203</u>
Total Investments	<u>23,976,493</u>
Total Deposits and Investments	<u>\$ 26,246,185</u>

The proprietary money market funds represent unspent proceeds of a Pool M3-C Series bond issue through Mass HEFA, which was converted to a MHEFA Pool 'O' Series bond.

Restricted Cash - College

The College accepts funds and makes payments on behalf of the Executive Office. The cash balance that belongs to the Executive Office has been classified as restricted on the statement of net position.

Restricted Cash - Foundation

During the year ended June 30, 2018, the Foundation received a three-year \$2.4 million grant from the Richard and Susan Smith Family Foundation on behalf of the College to be used to fund the College's Early College Program. The Foundation is the fiscal agent of the grant funds and as the College incurs costs related to this program funds will be released by the Foundation.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investments - Continued**

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. The College's bank balances, including money market funds, as of June 30, 2018 were \$3,003,330. Of these balances, \$2,530,233 was exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policy

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

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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investments - Continued**

Fair Value Hierarchy - continued

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

Following is a description of the valuation methodologies used for assets measured at fair value. With the adoption of GASB Statement 72, there have been no changes in the methodologies used to measure fair value.

Federal agencies, corporate bonds and equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at daily closing prices as reported by the fund. Mutual funds held by the College are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the College are deemed to be actively traded.

Money market funds: Valued based on the net asset value per share.

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

The following table sets forth, by level, the College's investments:

	NAV per share	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:					
Federal agencies	\$ -	\$ 1,274,651	\$ -	\$ -	\$ 1,274,651
Corporate bonds	-	-	3,908,439	-	3,908,439
Money market funds	481,014	-	-	-	481,014
Mutual funds	-	1,122,186	-	-	1,122,186
Equity securities	-	<u>17,190,203</u>	-	-	<u>17,190,203</u>
 Total marketable securities at fair value	 <u>\$ 481,014</u>	 <u>\$ 19,587,040</u>	 <u>\$ 3,908,439</u>	 <u>\$ -</u>	 <u>\$ 23,976,493</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investments - Continued**

Interest Rate Risk

Maturities of investments exposed to interest rate risk were as follows at June 30, 2018:

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 1,274,651	\$ 318,336	\$ 956,315	\$ -	\$ -
Corporate bonds	3,908,439	219,353	1,762,542	1,926,544	-
	5,183,090	<u>\$ 537,689</u>	<u>\$ 2,718,857</u>	<u>\$ 1,926,544</u>	<u>\$ -</u>
Cash in bank	2,208,990				
Money market funds	481,014				
Proprietary money market funds	60,702				
Mutual funds	1,122,186				
Equity securities	<u>17,190,203</u>				
	<u>\$ 26,246,185</u>				

Fixed income investments consist of bond mutual funds with fair market values of \$289,873 as of June 30, 2018. The weighted average maturity of underlying securities were as follows as June 30, 2018:

Pimco 0-5 Year High Yield Corporate Bond EFT	3.22 Years
Eaton Vance Floating-Rate Fund	5.38 Years
Eaton Vance Short Duration High Income Fund	3.12 Years
Eaton Vance Income Fund of Boston	5.74 Years

The College's net investment income of \$1,623,311 for the year ended June 30, 2018, consisted of interest and dividend income and realized and unrealized gains and losses.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Investment - Continued**

Disclosure of Credit Risk of Debt Securities

Credit risk disclosures of debt securities were as follows at June 30, 2018:

Rated debt investments	Fair value	Quality ratings			
		Aaa	A1	A2	A3
Federal agencies	\$ 1,274,651	\$ 1,274,651	\$ -	\$ -	\$ -
Corporate bonds	<u>3,908,439</u>	<u>-</u>	<u>483,144</u>	<u>380,998</u>	<u>1,263,493</u>
Total	<u>\$ 5,183,090</u>	<u>\$ 1,274,651</u>	<u>\$ 483,144</u>	<u>\$ 380,998</u>	<u>\$ 1,263,493</u>

Rated debt investments	Quality ratings			
	Aa1	Aa3	Baa1,2,3	Unrated
Federal agencies	\$ -	\$ -	\$ -	\$ -
Corporate bonds	<u>44,282</u>	<u>55,027</u>	<u>1,653,386</u>	<u>28,109</u>
Total	<u>\$ 44,282</u>	<u>\$ 55,027</u>	<u>\$ 1,653,386</u>	<u>\$ 28,109</u>

Investments of the Foundation

The Foundation's long-term investments at fair value consist of the following at June 30, 2018:

Corporate equities	\$ 2,743,783
Mutual funds	1,822,410
Corporate and other bonds	<u>1,156,324</u>
	<u>\$ 5,722,517</u>

The Foundation's investment income consisted of the following for the year ended June 30, 2018:

Interest and dividend income	\$ 146,492
Realized gain	48,713
Change in unrealized gain	<u>342,332</u>
	<u>\$ 537,537</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

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

Accounts payable and accrued salaries to be funded by cash forwarded by the College to, and held by, the State Treasurer for payment of so-called 'non-appropriated' liabilities at June 30, 2018 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sum of \$2,951,456.

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$281,682 at June 30, 2018. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

Note 5 - **Accounts Receivable**

Accounts receivable include the following at June 30, 2018:

Student accounts receivable	\$ 674,585
Grants receivable	763,408
Financial aid receivable	1,609,654
Other receivables	<u>1,433,931</u>
	4,481,578
Less: allowance for doubtful accounts	<u>(115,875)</u>
	<u>\$ 4,365,703</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 6 - **Capital Assets**

Capital assets of the College consist of the following at June 30, 2018:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not depreciated:						
Land		\$ 208,827	\$ -	\$ -	\$ -	\$ 208,827
Construction in progress		768,126	3,256,941	-	-	4,025,067
Total not depreciated		<u>976,953</u>	<u>3,256,941</u>	-	-	<u>4,233,894</u>
Capital assets depreciated:						
Building, including improvements	20-40	59,062,511	1,791,490	-	-	60,854,001
Furnishings and equipment	3-10	8,322,332	480,752	-	-	8,803,084
Software	5	4,144,957	-	-	-	4,144,957
Motor vehicles	3-10	172,176	-	-	-	172,176
Books	5	614,858	-	-	-	614,858
Total depreciated		<u>72,316,834</u>	<u>2,272,242</u>	-	-	<u>74,589,076</u>
Less accumulated depreciation:						
Building, including improvements		(26,004,631)	(1,789,315)	-	-	(27,793,946)
Furnishings and equipment		(5,647,163)	(884,686)	-	-	(6,531,849)
Software		(637,639)	(828,991)	-	-	(1,466,630)
Motor vehicles		(106,159)	(27,042)	-	-	(133,201)
Books		(614,858)	-	-	-	(614,858)
Total accumulated depreciation		<u>(33,010,450)</u>	<u>(3,530,034)</u>	-	-	<u>(36,540,484)</u>
Capital assets, net		<u>\$ 40,283,337</u>	<u>\$ 1,999,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,282,486</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Long-Term Liabilities**

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

	(Restated)				
	Beginning			Ending	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Other long-term liabilities:					
Compensated absences	4,601,941	401,184	-	5,003,125	3,286,424
Workers' compensation	410,269	77,944	-	488,213	160,216
Net OPEB liability	17,642,141	6,006,109	-	23,648,250	-
Net pension liability	9,915,602	2,242,854	-	12,158,456	-
Capital lease obligations	700,583	258,092	(283,346)	675,329	280,848
Bonds payable	6,373,102	-	(242,400)	6,130,702	250,000
Energy Project Liability	2,724,707	-	(136,075)	2,588,632	141,518
Derivative instrument	<u>1,303,920</u>	<u>-</u>	<u>(348,950)</u>	<u>954,970</u>	<u>-</u>
	<u>\$43,672,265</u>	<u>\$ 8,986,183</u>	<u>\$ (1,010,771)</u>	<u>\$51,647,677</u>	<u>\$ 4,119,006</u>

Capital Leases

During 2016, the College leased Cisco network server equipment from Presidio Networked Solutions at a cost of \$1,160,596.

The College leased data storage equipment from EchoStar Technologies at a cost of \$258,092 during the fiscal year 2018. The five-year lease was financed by De Lage Landen Public Finance LLC.

The following reports the cost and accumulated depreciation for equipment under lease agreements at June 30, 2018:

Cost	\$ 1,418,688
Less: Accumulated depreciation	<u>593,203</u>
	<u>\$ 825,485</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Long-Term Liabilities - Continued**

Capital Leases - continued

The following schedule summarizes future minimum payments due under the non-cancelable capital leases as of June 30, 2018:

Years Ending June 30,	Principal	Interest	Total
2019	\$ 280,848	\$ 20,955	\$ 301,803
2020	289,122	12,682	301,804
2021	51,618	4,246	55,864
2022	53,741	2,122	55,863
	<u>\$ 675,329</u>	<u>\$ 40,005</u>	<u>\$ 715,334</u>

Operating Leases

The College has multiple leases for building space to be used for classrooms, workforce training, meeting space and educational administration under agreements expiring through January 2027. Each of these leases have varying payment terms, including graduated payments over the term of the lease. In addition, the College leases computer equipment, software and copiers for various departments and has a three-year lease agreement for a vehicle expiring in 2019. Rent expense under these operating leases was \$2,634,052 for the year ended June 30, 2018.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Long-Term Liabilities - Continued**

Operating Leases - continued

Future minimum rental payments due under operating leases as of June 30, 2018 is as follows:

Years Ending June 30,	
2019	\$ 2,669,084
2020	2,604,049
2021	2,468,303
2022	2,385,707
2023	2,416,037
2024-2027	<u>6,240,106</u>
	<u>\$ 18,783,286</u>

Bonds Payable

During fiscal year 2010, the College issued Pool O-1 Series bonds through Mass Development, formerly the Massachusetts Health and Educational Facilities Authority (“MHEFA”), to refinance the Pool M3-C Series tax-exempt variable rate bond that was previously issued by the College to finance the construction of the Health and Wellness Center and other projects.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Long-Term Liabilities - Continued**

Bonds Payable - continued

The bonds are payable in annual installments and are due July 2031. The following schedule summarizes future principal and interest payments on bonds payable as of June 30, 2018:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap, net*</u>	<u>Total</u>
2019	\$ 250,000	\$ 69,434	\$ 179,368	\$ 498,802
2020	260,000	66,611	171,408	498,019
2021	270,000	63,676	163,143	496,819
2022	290,000	60,627	154,265	504,892
2023	300,000	57,353	145,081	502,434
2024 – 2028	1,680,000	233,364	575,095	2,488,459
2029 – 2031	<u>3,080,702</u>	<u>92,014</u>	<u>150,481</u>	<u>3,323,197</u>
	<u>\$ 6,130,702</u>	<u>\$ 643,079</u>	<u>\$ 1,538,841</u>	<u>\$ 8,312,622</u>

* In conjunction with its February 2007 issuance of variable rate bonds, the College entered into an agreement with a financial institution counterparty to synthetically fix the interest rate on the bonds at 4.18% (see note 8). This column represents the projected net amounts the College would have to pay the counterparty under the swap contract if interest rates were to remain unchanged from their value at June 30, 2018 during the remaining life of the swap. The variable rate on the bonds as of June 30, 2018 was 1.13%.

The bank provides credit enhancement in the form of a Direct Pay Letter of Credit on the tax-exempt bonds issued under the MHEFA Pool O bond. The College is a Pool O borrower. The short-term rating of the bank was lowered by S&P in March 2009 to “A-2 status”. This downgrade resulted in the weekly interest rate on the pool bonds increasing by 200 – 300 basis points. In order to reduce the weekly interest rate on the pool bonds, the bank arranged to have the Federal Home Loan Bank of Boston provide a confirming Letter of Credit for the Pool O bonds. The Pool O bonds, with the bank’s Letter of Credit and the FHLB confirming Letter of Credit are rated AA+/A-1+ by S&P. During the fiscal year 2018, the short-term rating of the bank remained at A-2 status.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 7 - **Long-Term Liabilities - Continued**

Clean Energy Investment Project

The College has an agreement with the Department of Capital Asset Management (“DCAM”) to participate in the Massachusetts Clean Energy Investment Program (“CEIP”). Under the program, DCAM was responsible for construction of specific energy conservation projects at the College funded by CEIP funds and proceeds of bonds issued by the Commonwealth. Upon completion of the construction in 2013, the College is now responsible for reimbursing the Commonwealth for the CEIP funding of \$3.3 million plus interest. The interest rate on this obligation is 4% with semi-annual payments that run through 2032.

Years Ending June 30,	Principal	Interest	Total
2019	\$ 141,518	\$ 103,545	\$ 245,063
2020	147,178	97,885	245,063
2021	153,066	91,997	245,063
2022	159,188	85,875	245,063
2023	165,556	79,507	245,063
2024 – 2028	932,572	292,744	1,225,316
2029 – 2032	889,554	90,699	980,253
	<u>\$ 2,588,632</u>	<u>\$ 842,252</u>	<u>\$ 3,430,884</u>

Note 8 - **Interest Rate Swap**

Objective and Terms

As a means to manage cash flows and lower its borrowing costs, the College entered into a fixed interest rate swap agreement with Citizens Bank in connection with its Pool M3-C Series tax-exempt variable rate bond in February 2007. This bond was replaced during fiscal year 2010 with a MHEFA Pool ‘O’ Series bond. The purpose of the swap agreement was to synthetically create a fixed rate on the underlying debt, and not for any speculative purposes.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Interest Rate Swap - Continued**

Objective and Terms - continued

The swap agreement, as amended in October 2010, is scheduled to mature on June 15, 2031. The swap's notional amount at inception was \$7,920,000 and will amortize in line with each payment of principal on the bonds. The notional amount at June 30, 2018 was \$6,070,000. Under the swap agreement, on the first day of each month, the College pays the counterparty monthly payments based on the fixed rate of 4.18% and the counterparty pays the bond trustee the floating rate, which is the Securities Industry and Financial Markets Association Swap Index ("SIFMA"), on the same day.

Fair Value

The fair value of the swap was estimated using the zero-coupon method. This method calculates the future net settlement payment required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The fair value of the College's interest rate swap at June 30, 2018 was a liability of \$954,970, which is recorded in the College's statement of net position. The change in the fair value of the interest rate swap was (\$348,950) for the year ending June 30, 2018. The College has determined its interest rate swap to be an effective hedge and has recorded a corresponding deferred outflow in the statement of net position.

Credit Risk

The College is reliant upon the performance of the counterparty to perform according to the terms of the interest rate swap agreement. The College monitors the counterparty's (Citizens Bank N.A.) credit rating, which is currently rated at A-2 by S&P. The College is not exposed to credit risk at June 30, 2018 because the interest rate swap had a negative value. As discussed further in Note 7, the counterparty has guaranteed the debt with a Letter of Credit that expires July 1, 2020.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Interest Rate Swap - Continued**

Basis Risk

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

Termination Risk

The College or the counterparty may terminate the interest rate swap if the other party fails to perform under the terms of the contract. If, at the time of termination, the interest rate swap is in a liability position, the College would be liable to the counterparty for a payment approximating the liability, subject to netting arrangements.

Note 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 is available on-line from the Office of State Comptroller’s website.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Pensions - Continued**

Benefit Provisions

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

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

Contributions

The SERS’ funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. Member contributions for SERS vary depending on the most recent date of membership:

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

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Pensions - Continued**

Contributions - continued

The Commonwealth does not require the College to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$3,400,973, \$2,663,382 and \$2,454,262, for the years ended June 30, 2018, 2017 and 2016, 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 11.78%, 9.45% and 10.39% of annual covered payroll for the fiscal years ended June 30, 2018, 2017 and 2016, respectively. The College contributed \$984,723, \$741,193, and \$516,365 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively. equal to 100% of the required contributions for each year. Annual covered payroll was approximately 68%, 63% and 68%, of total related payroll for fiscal years end 2018, 2017 and 2016, respectively.

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

At June 30, 2018, the College reported a liability of \$12,158,456, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2018 relative to total contributions of all participating employers for the fiscal years. At June 30, 2018, the College's proportion was 0.095%.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Pensions - Continued**

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

For the year ended June 30, 2018, the College recognized pension expense of \$1,491,236. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30, 2018:

Deferred Outflows of Resources Related to Pension

Contributions made subsequent to the measurement date	\$ 984,723
Differences between expected and actual experience	470,095
Changes in proportion from Commonwealth	41,643
Changes in plan actuarial assumptions	1,265,273
Changes in proportions due to internal allocations	<u>2,072,984</u>
Total	<u>\$ 4,834,718</u>

Deferred Inflows of Resources Related to Pension

Differences between expected and actual experience	\$ 330,801
Changes in proportion from Commonwealth	4,334
Changes in proportions due to internal allocations	1,690,916
Differences between projected and actual investment earnings on plan investments	<u>144,868</u>
Total	<u>\$ 2,170,919</u>

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Pensions - Continued**

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

The College's contribution of \$984,723 made during the fiscal year ending June 30, 2018, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2019	\$ 506,401
2020	858,786
2021	432,115
2022	(109,428)
2023	<u>(8,798)</u>
	<u>\$ 1,679,076</u>

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

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

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Pensions - Continued**

Actuarial Assumptions

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

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

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

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Pensions - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	June 30, 2018	
	Current	
	Discount Rate	Discount Rate
	1.00% Decrease	1.00% Increase
	(6.50%)	(8.50%)
	\$ 16,559,311	\$ 12,158,456
		\$ 8,613,462

Note 10 - **OPEB**

General Information about the OPEB Plan

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").

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Plan Description - continued

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

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

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

Benefits Provided

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

Contributions

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Contributions - continued

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

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.92% of annual covered payroll for the fiscal year ended June 30, 2018. The College contributed \$745,553 for the fiscal year ended June 30, 2018 equal to 100% of the required contribution for the year.

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

At June 30, 2018, the College reported a liability of \$23,648,250 for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal year 2017. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal year 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.135%.

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Contributions - continued

For the year ended June 30, 2018, the College recognized OPEB expense of \$2,799,585. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30, 2018:

Deferred Outflows of Resources Related to OPEB

Contributions made after the measurement date	\$ 745,553
Changes in proportion from Commonwealth	49,493
Changes in proportion due to internal allocation	<u>6,565,348</u>
Total	<u>\$ 7,360,394</u>

Deferred Inflows of Resources Related to OPEB

Differences between projected and actual investment earnings on pension plan investments	\$ 43,145
Changes in plan actuarial assumptions	2,678,408
Differences between projected and actual experience	<u>54,372</u>
Total	<u>\$ 2,775,925</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Contributions - continued

The College's contribution of \$745,553 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending <u>June 30,</u>		
2019	\$	799,663
2020		799,663
2021		799,663
2022		799,663
2023		<u>640,264</u>
	\$	<u><u>3,838,916</u></u>

Actuarial Assumptions

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

Measurement date	June 30, 2017
Inflation	3.00%
Salary increases	4.5% per year
Investment rate of return	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Actuarial Assumptions - continued

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

The participation rates are actuarially assumed as below:

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

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Actuarial Assumptions - continued

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

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2018, are the same as discussed in the Pension footnote number 9.

Discount Rate

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

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

1.00% Decrease (2.63%)	Current Discount Rate (3.63%)	1.00% Increase (4.63%)
\$ 28,072,364	\$ 23,648,250	\$ 20,130,734

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **OPEB - Continued**

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

1.00% Decrease (B)	Current Healthcare Cost Trend Rate (A)	1.00% Increase (C)
\$ 19,565,919	\$ 23,648,250	\$ 29,020,350

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

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

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

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

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

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

Note 11 - **Contingencies**

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

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Contingencies - Continued**

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

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.

The College has evaluated the requirements of GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* ("GASB 49"), and has determined that asbestos containing material was used to fireproof some of its buildings. Currently, there are no obligating events, as defined within GASB 49 that require the College to measure and report this pollution remediation obligation. The College has implemented a program to remediate this pollutant.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 12 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, consisted of the following for the years ended June 30, 2018:

Compensation and benefits	\$ 73,628,902
Supplies and services	15,409,051
Depreciation and amortization	3,530,034
Scholarships and fellowships	<u>10,363,044</u>
	<u>\$ 102,931,031</u>

Note 13 - **State Appropriations**

The College's total state support is composed of the following for the year ended June 30, 2018:

Direct unrestricted appropriations	\$ 25,947,933
Add fringe benefits for benefited employees on the state payroll	<u>10,064,340</u>
Total unrestricted state support	36,012,273
Capital appropriation	<u>528,607</u>
Total state support	<u>\$ 36,540,880</u>

Note 14 - **Other 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.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 14 - **Other Fringe Benefits - Continued**

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, 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

Other Retirement Plans

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

Note 15 - **Pass-Through Loans**

The College distributed \$5,526,249 for student loans through the U.S. Department of Education Federal Direct Lending Program for the year ended June 30, 2018. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

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

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.095%	0.072%	0.091%	0.104%
Proportionate share of the collective net pension liability	\$ 12,158,456	\$ 9,915,602	\$ 10,411,537	\$ 7,723,013
College's covered payroll	\$ 7,449,176	\$ 5,464,180	\$ 5,511,376	\$ 7,716,356
College's proportionate share of the net pension liability as a percentage of its covered payroll	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	67.21%	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
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Schedule of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 984,723	\$ 741,193	\$ 516,365	\$ 572,632
Contributions in relation to the statutorily required contribution	<u>(984,723)</u>	<u>(741,193)</u>	<u>(516,365)</u>	<u>(572,632)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 8,359,278	\$ 7,449,176	\$ 5,464,180	\$ 5,511,376
Contribution as a percentage of covered payroll	11.78%	9.95%	9.45%	10.39%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an 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, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Required Supplementary Information - Pension (Unaudited)

June 30, 2018

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

Fiscal year June 30, 2018

Change of Benefits:

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

Assumptions:

The mortality rates were changed as follows:

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

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

Fiscal year June 30, 2017

Change of Benefits:

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

Fiscal year June 30, 2016

Change of Benefits:

Chapter 19 of the Acts of 2015 established an ERI program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

See Independent Auditor’s Report.

BUNKER HILL COMMUNITY COLLEGE
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**Notes to the Required Supplementary Information -Pension (Unaudited) -
Continued**

June 30, 2018

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

Assumptions:

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

The mortality rates were changed as follows:

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

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

Fiscal year June 30, 2015

Assumptions:

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

See Independent Auditor's Report.

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

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

Year ended	June 30, 2018
Measurement date	June 30, 2017
Valuation date	January 1, 2017
Proportion of the collective net OPEB liability	0.135%
Proportionate share of the collective net OPEB liability	\$ 23,648,250
College's covered payroll	\$ 7,449,173
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	317.46%
Plan fiduciary net position as a percentage of the total OPEB liability	5.39%

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - OPEB (Unaudited)

Massachusetts State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2018</u>
Statutorily required contribution	\$ 745,553
Contributions in relation to the statutorily required contribution	<u>(745,553)</u>
Contribution excess	<u>\$ -</u>
Covered payroll	\$ 8,358,217
Contribution as a percentage of covered payroll	8.92%

Notes:

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

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

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information - OPEB (Unaudited)

June 30, 2018

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2018

Assumptions:

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

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bunker Hill Community College (the "College"), which comprise the statements of net position as of June 30, 2018, the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and we have issued our report thereon with a dual date of November 19, 2018 and March 25, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Duen, P.C.

Certified Public Accountants

Braintree, Massachusetts

November 19, 2018 (except for Management's Discussion and Analysis, Note 2, Note 7, Note 10, Note 12, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is March 25, 2019)