

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

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2014 College	2013 College (Restated)	2014 Foundation	2013 Foundation
Current Assets:				
Cash and equivalents (Note 3)	\$ 1,135,859	\$ 653,289	\$ 194,774	\$ 660,575
Cash held by State Treasurer (Note 4)	666,675	240,422	-	-
Short-term investments (Note 3)	18,347,266	18,491,979	-	-
Deposits with bond trustee - restricted (Note 3)	69,702	71,802	-	-
Accounts receivable, net (Note 5)	3,433,926	2,436,378	33,066	21,632
Other assets	<u>326,583</u>	<u>276,938</u>	<u>-</u>	<u>-</u>
Total Current Assets	<u>23,980,011</u>	<u>22,170,808</u>	<u>227,840</u>	<u>682,207</u>
Non-Current Assets:				
Cash and equivalents - restricted (Note 3)	-	125,751	-	-
Long-term investments (Note 3)	3,518,845	4,120,021	5,550,218	4,867,933
Loans receivable, net	-	7,536	-	-
Capital assets, net of accumulated depreciation (Note 6)	<u>34,161,255</u>	<u>34,026,923</u>	<u>-</u>	<u>-</u>
Total Non-Current Assets	<u>37,680,100</u>	<u>38,280,231</u>	<u>5,550,218</u>	<u>4,867,933</u>
Total Assets	<u>61,660,111</u>	<u>60,451,039</u>	<u>\$ 5,778,058</u>	<u>5,550,140</u>
Deferred outflows of resources (Note 8)	<u>1,302,006</u>	<u>1,284,959</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 62,962,117</u>	<u>\$ 61,735,998</u>	<u>\$ 5,778,058</u>	<u>\$ 5,550,140</u>

Liabilities and Net Position

Current Liabilities:				
Accounts payable and accrued liabilities	\$ 4,134,525	\$ 3,691,667	\$ 132,305	\$ 1,827
Accrued payroll	1,778,672	1,678,383	-	-
Compensated absences and workers' compensation (Note 7)	2,732,387	2,552,927	-	-
Unearned revenues	418,679	258,904	-	-
Students' deposits	2,637,236	3,386,136	-	-
Funds held for others	771,160	1,004,079	-	-
Current portion of bonds payable (Note 7)	210,000	210,000	-	-
Current portion of liability for energy project (Note 7)	<u>120,970</u>	<u>116,315</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>12,803,629</u>	<u>12,898,411</u>	<u>132,305</u>	<u>1,827</u>
Non-Current Liabilities:				
Bonds payable (Note 7)	6,829,702	7,041,802	-	-
Liability for derivative instrument (Note 8)	1,302,006	1,284,959	-	-
Liability for energy project (Note 7)	2,981,357	3,102,327	-	-
Compensated absences and workers compensation (Note 7)	1,736,837	1,803,497	-	-
Grant refundable (Notes 7 and 9)	<u>-</u>	<u>93,331</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>12,849,902</u>	<u>13,325,916</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>25,653,531</u>	<u>26,224,327</u>	<u>132,305</u>	<u>1,827</u>
Net Position:				
Investment in capital assets, net	23,956,616	23,386,220	-	-
Restricted (Note 10):				
Expendable	-	39,957	3,099,936	3,551,950
Non-expendable	-	-	1,477,145	1,412,854
Unrestricted (Note 11)	<u>13,351,970</u>	<u>12,085,494</u>	<u>1,068,672</u>	<u>583,509</u>
Total Net Position	<u>37,308,586</u>	<u>35,511,671</u>	<u>5,645,753</u>	<u>5,548,313</u>
Total Liabilities and Net Position	<u>\$ 62,962,117</u>	<u>\$ 61,735,998</u>	<u>\$ 5,778,058</u>	<u>\$ 5,550,140</u>

See accompanying notes to the financial statements.

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,

	Primary Government		Component Unit	
	2014 College	2013 College (Restated)	2014 Foundation	2013 Foundation
Operating Revenues:				
Tuition and fees	\$ 42,784,284	\$ 42,002,038	\$ -	\$ -
Less: scholarship allowance	<u>(16,638,532)</u>	<u>(16,168,528)</u>	-	-
Net tuition and fees	26,145,752	25,833,510	-	-
Federal, state, local and private grants and contracts	36,131,398	33,282,185	376,694	738,903
Other auxiliary enterprises	526,567	506,982	-	-
Other sources	<u>1,548,818</u>	<u>1,735,371</u>	<u>217,831</u>	<u>260,402</u>
Total Operating Revenues	<u>64,352,535</u>	<u>61,358,048</u>	<u>594,525</u>	<u>999,305</u>
Operating Expenses (Note 13):				
Instruction	35,506,159	33,022,239	-	-
Academic support	10,517,674	10,444,746	-	-
Student services	11,347,953	11,548,402	-	-
Scholarships	15,058,596	14,021,009	114,484	140,039
Operation and maintenance of plant	7,122,799	7,701,501	-	-
Institutional support	10,429,108	9,172,062	-	-
Depreciation and amortization	1,561,082	1,489,864	-	-
Other operating expenses	<u>264,352</u>	<u>136,126</u>	<u>104,825</u>	<u>105,113</u>
Total Operating Expenses	<u>91,807,723</u>	<u>87,535,949</u>	<u>219,309</u>	<u>245,152</u>
Operating (Loss) Income	<u>(27,455,188)</u>	<u>(26,177,901)</u>	<u>375,216</u>	<u>754,153</u>
Non-Operating Revenues (Expenses):				
State appropriations (Note 14)	27,349,042	23,110,219	-	-
Payments between Foundation and College	1,116,436	97,610	(1,116,436)	(97,610)
Net investment income	1,126,725	638,259	838,660	449,719
Other non-operating expense	(39,957)	-	-	-
Interest expense	<u>(441,124)</u>	<u>(460,624)</u>	-	-
Net Non-Operating Revenues	<u>29,111,122</u>	<u>23,385,464</u>	<u>(277,776)</u>	<u>352,109</u>
Change in Net Position Before Capital Appropriations	1,655,934	(2,792,437)	97,440	1,106,262
Capital appropriations (Note 14)	<u>140,981</u>	<u>82,845</u>	-	-
Total Change in Net Position	<u>1,796,915</u>	<u>(2,709,592)</u>	<u>97,440</u>	<u>1,106,262</u>
Net Position, Beginning of Year, as previously stated	35,511,671	37,473,693	5,548,313	4,442,051
Prior period adjustment (Note 2)	-	<u>747,570</u>	-	-
Net Position, End of Year, as restated	<u>\$ 37,308,586</u>	<u>\$ 35,511,671</u>	<u>\$ 5,645,753</u>	<u>\$ 5,548,313</u>

See accompanying notes to the financial statements.

BUNKER HILL COMMUNITY COLLEGE

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Statements of Cash Flows

For the Years Ended June 30,

	Primary Government	
	2014 College	2013 College
Cash Flows from Operating Activities:		
Tuition, residence, dining and other student fees	\$ 41,689,337	\$ 42,009,512
Grants and contracts	35,317,782	33,009,431
Payments to suppliers	(35,313,137)	(35,662,244)
Payments to employees	(48,046,332)	(46,530,947)
Payments to students	(15,635,352)	(14,021,009)
Other cash receipts and payments	<u>1,068,487</u>	<u>2,203,918</u>
Net Cash Applied to Operating Activities	<u>(20,919,215)</u>	<u>(18,991,339)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	21,477,114	18,223,543
Other receipts/payments	<u>7,733</u>	<u>88,858</u>
Net Cash Provided by Non-Capital Financing Activities	<u>21,484,847</u>	<u>18,312,401</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	140,981	82,845
Purchases of capital assets	(1,554,433)	(749,580)
Principal payments on capital debt	(326,317)	(200,000)
Interest payments on capital debt	<u>(521,404)</u>	<u>(467,664)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(2,261,173)</u>	<u>(1,334,399)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	81,568,212	71,412,038
Purchases of investments	(79,062,446)	(69,058,461)
Interest on investments	<u>42,747</u>	<u>88,477</u>
Net Cash Provided by Investing Activities	<u>2,548,513</u>	<u>2,442,054</u>
Net Increase in Cash and Equivalents	852,972	428,717
Cash and Equivalents, Beginning of the Year	<u>1,019,264</u>	<u>590,547</u>
Cash and Equivalents, End of the Year	\$ 1,872,236	\$ 1,019,264
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (27,455,188)	\$ (26,177,901)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization	1,561,082	1,489,864
Fringe benefits provided by the State	5,871,928	4,886,676
Other noncash operating expenses	873,545	233,736
Changes in assets and liabilities:		
Accounts receivable, net	(1,113,257)	(222,225)
Other assets	(42,106)	(34,897)
Accounts payable and accrued liabilities	373,034	355,303
Accrued payroll, compensated absences, and workers' compensation	217,761	200,846
Student deposits	(748,900)	18,632
Funds held for others	(232,919)	474,652
Unearned revenues	<u>(224,195)</u>	<u>(216,025)</u>
Net Cash Applied to Operating Activities	<u>\$ (20,919,215)</u>	<u>\$ (18,991,339)</u>
Non-Cash Transaction:		
Fringe benefits provided by the State	<u>\$ 5,871,928</u>	<u>\$ 4,886,676</u>
Purchases funded with capital appropriations	<u>\$ 140,981</u>	<u>\$ 82,845</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2014 and 2013

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

Organization

Bunker Hill Community College (the "College") is the largest community college in Massachusetts. The College's main campus is located in Charlestown, and it has a branch campus in Chelsea. In addition, it has four satellite campuses located in the Greater Boston area. The College provides instruction and training in a variety of liberal arts and sciences, allied health, engineering technologies and business fields of study. The College also offers, through the Division of Continuing Education, credit and noncredit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

Basis of Presentation

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

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

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

Bunker Hill Community College Foundation, Inc. (the "Foundation") is a not-for-profit corporation established in July 1986. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. The Foundation is located at the College's Charlestown campus. The Foundation is considered a component unit of the College because of the nature and significance of its relationship with the College as of June 30, 2014 and 2013 and is therefore discretely presented in the College's financial statements. During the years ended June 30, 2014 and 2013, the Foundation distributed \$1,116,436 and \$97,610, respectively, to the College for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained from: Bunker Hill Community College Foundation, 250 New Rutherford Avenue, Boston, Massachusetts 02129.

Net Position

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

Invested in Capital Assets, Net of Related Debt – 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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Cash and Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less 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, expenses, and changes in net position. Gains and losses on the disposition of investments are determined based on specific identification of securities sold. Investment income is recognized when earned. The College has no donor restricted endowments.

Capital Assets

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

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

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

Fringe Benefits

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2014 and 2013. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2014 and 2013. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Workers' Compensation

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

Students' Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred and are recorded as student deposits and unearned revenues.

Derivative Instruments

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

Student Fees

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

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.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Use of Estimates

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

New Governmental Accounting Pronouncements

GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Management is in the process of reviewing this statement and its potential effect upon their financial reporting.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB 68* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon their financial reporting.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - **Prior Period Adjustment**

Net position at June 30, 2012 has been restated to correct the effect of capital appropriations, construction in progress, and the related liability that should have been recorded during the year ended June 30, 2012. Net position was increased by \$747,570 to correct this misstatement. Construction in progress was increased by \$3,460,701 and the related liability was increased by \$2,713,131 at June 30, 2013 to reflect the proper balances.

The effect of the restatement on the net position and revenues, expenses, and changes in net position as of and for the years ended June 30, 2013 and 2012 are as follows:

	2013	
	<u>As previously reported</u>	<u>Restated</u>
Capital assets, net of depreciation	\$ 30,566,222	\$ 34,026,923
Liability for energy project	505,511	3,218,642
Net position: unrestricted	11,337,924	12,085,494
	2012	
	<u>As previously reported</u>	<u>Restated</u>
Net position: unrestricted	\$ 14,257,806	\$ 15,005,376

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - **Cash and Investments**

Overall Deposits and Investments Descriptions

Deposits and investments consist of the following at June 30:

<u>Investment type</u>	<u>2014</u>	<u>2013</u>
Cash in bank	\$ 1,135,859	\$ 653,289
Proprietary money market funds - restricted	69,702	71,802
Cash in bank – restricted	—	125,751
Total Deposits	<u>1,205,561</u>	<u>850,842</u>
Certificate of deposit	3,399,941	4,396,314
Money market funds	4,276,924	3,605,523
Massachusetts Municipal Depository Trust Funds	3,327,583	4,104,619
Corporate debt	3,814,670	4,270,021
Other bonds funds	1,449,898	3,423,596
Absolute return funds (hedge funds)	—	389,433
Federal agency securities	1,614,987	—
Equity investments	3,982,108	2,422,494
Total Investments	<u>21,866,111</u>	<u>22,612,000</u>
Total Deposits and Investments	\$ <u>23,071,672</u>	\$ <u>23,462,842</u>

The proprietary money market funds of \$69,702 represent unspent proceeds of a Pool M3-C Series bond issues through Mass HEFA, which was converted to a MHEFA Pool 'O' Series bond.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Cash and Investment - Continued

Concentration of Credit Risk

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

2014			
Issuer	Investment type	Fair value	Percentage of the total
Commonwealth of Massachusetts	Massachusetts Municipal Depository Trust Funds	\$ 3,307,457	14%
Citizens Bank	Certificate of deposit	1,360,992	6
Sovereign Bank	Money market funds	3,624,423	16
Peoples United Bank	Certificate of deposit	2,038,949	9
2013			
Issuer	Investment type	Fair value	Percentage of the total
Commonwealth of Massachusetts	Massachusetts Municipal Depository Trust Funds	\$ 4,084,531	17%
Citizens Bank	Certificate of deposit	1,357,551	6
Sovereign Bank	Money market funds	3,105,894	13
Peoples United Bank	Certificate of deposit	2,025,623	9

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. Deposits are made in domestic banks that are federally insured and in some banks that are Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. The College's bank balances, including certificates of deposit, as of June 30, 2014 and 2013 were \$8,948,324 and \$8,959,208, respectively. Of these balances, \$7,888,370 and \$7,878,766, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

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.

Interest Rate Risk

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

Investment type	Fair value	2014 Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 1,614,987	\$ —	\$ 1,614,987	\$ —	\$ —
Corporate bonds	3,814,670	229,474	2,529,100	1,056,096	—
	<u>5,429,657</u>	<u>\$ 229,474</u>	<u>\$ 4,144,087</u>	<u>\$ 1,056,096</u>	<u>\$ —</u>
Cash in bank	1,135,859				
Money market funds	4,276,924				
Certificate of deposits	3,399,941				
Proprietary money market funds	69,702				
Mutual funds	872,732				
Massachusetts Municipal depository system	3,327,583				
Other investments	577,166				
Equity securities – domestic	3,355,063				
Equity securities – international	627,045				
	<u>\$ 23,071,672</u>				

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Cash and Investment - Continued

Interest Rate Risk - Continued

The College's net investment income of \$1,126,725 for the year ended June 30, 2014 consisted of interest and dividend income and realized and unrealized gains and losses.

<u>Investment type</u>	<u>Fair value</u>	2013 <u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Debt securities:					
U.S. Treasury securities	\$ 692,469	\$ —	\$ 692,469	\$ —	\$ —
Federal agencies	745,986	—	745,986	—	—
Municipal bonds	89,336	30,045	31,311	27,980	—
Corporate bonds	2,742,230	122,485	1,735,345	653,292	231,108
	4,270,021	\$ 152,530	\$ 3,205,111	\$ 681,272	\$ 231,108
Other cash and investments:					
Cash in bank	779,040				
Certificate of deposit	4,396,314				
Proprietary money market funds	71,802				
Equity securities					
Domestic	2,113,671				
International	308,823				
Mutual funds	3,423,596				
Massachusetts Municipal Depository Account	4,104,619				
Money market funds	3,605,523				
Hedge fund	389,433				
Total	\$ 23,462,842				

The College's net investment income of \$638,259 for the year ended June 30, 2013 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, 2014 and 2013

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:

Rated debt investments	Fair value	2014 Quality ratings				
		Aaa	A1	A2	A3	Aa1
U.S. agencies	\$ 1,614,987	\$ 1,614,987	\$ —	\$ —	\$ —	\$ —
Corporate debt	3,814,670	670,330	143,393	573,637	422,191	243,124
Total	\$ 5,429,657	\$ 2,285,317	\$ 143,393	\$ 573,637	\$ 422,191	\$ 243,124

Rated debt investments	Fair value	2014 Quality ratings				
		Aa2	Aa3	Baa1	Baa2 & 3	Unrated
U.S. agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate debt	—	146,784	128,371	728,217	758,623	—
Total	\$ —	\$ 146,784	\$ 128,371	\$ 728,217	\$ 758,623	\$ —

Rated debt investments	Fair value	2013 Quality ratings				
		Aaa	A1	A2	A3	Aa2
U.S. Treasury securities	\$ 692,469	\$ 692,469	\$ —	\$ —	\$ —	\$ —
Federal agencies securities	745,986	745,986	—	—	—	—
Municipal bonds	89,336	—	—	31,311	—	—
Corporate bonds	2,742,230	—	326,532	186,846	585,764	36,758
Total	\$ 4,270,021	\$ 1,438,455	\$ 326,532	\$ 218,157	\$ 585,764	\$ 36,758

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Cash and Investment - Continued

Disclosure of Credit Risk of Debt Securities - Continued

<u>Rated debt investments</u>	2013 Quality ratings			
	<u>Aa3</u>	<u>Baa</u>	<u>BBB</u>	<u>Unrated</u>
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —
Federal agencies securities	—	—	—	—
Municipal bonds	27,980	30,045	—	—
Corporate bonds	—	725,535	243,485	637,310
Total	\$ 27,980	\$ 755,580	\$ 243,485	\$ 637,310

Investments of the Foundation

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

	Fair value	
	<u>2014</u>	<u>2013</u>
Mutual funds	\$ 4,239,152	\$ 3,612,685
Corporate bonds	1,311,066	1,255,248
	\$ 5,550,218	\$ 4,867,933

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

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 88,116	\$ 86,383
Realized gain	472,073	51,046
Unrealized gain on investments	278,471	312,290
	\$ 838,660	\$ 449,719

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Accounts payable and accrued salaries to be funded from state appropriated funds totaled \$666,675 and \$240,422 at June 30, 2014 and 2013, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

Note 5 - **Accounts Receivable**

Accounts receivable include the following at June 30:

	<u>2014</u>		<u>2013</u>
Student accounts receivable	\$ 630,442	\$	414,737
Grants receivable	1,620,724		653,607
Financial aid receivable	605,961		599,688
Other receivables	<u>853,056</u>		<u>873,454</u>
	3,710,183		2,541,486
Less: allowance for doubtful accounts	<u>(276,257)</u>		<u>(105,108)</u>
	<u>\$ 3,433,926</u>	\$	<u>2,436,378</u>

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Capital Assets

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

	Estimated lives (in years)	2014			Ending balance
		Beginning balance	Additions	Reclassifications	
Capital assets not depreciated:					
Land	—	\$ 208,827	\$ —	\$ —	\$ 208,827
Capital work in progress	—	4,365,961	337,277	(37,268)	4,665,970
Total not depreciated		4,574,788	337,277	(37,268)	4,874,797
Capital assets depreciated:					
Building, including improvements	20 – 40	48,493,522	990,737	37,268	49,521,527
Furnishings and equipment	3 – 10	4,307,802	367,400	—	4,675,202
Motor vehicles	3 – 10	407,600	—	—	407,600
Books	5	614,858	—	—	614,858
Total depreciated		53,823,782	1,358,137	37,268	55,219,187
Less accumulated depreciation:					
Building, including improvements	—	(20,124,841)	(1,242,760)	—	(21,367,601)
Furnishings and equipment	—	(3,415,344)	(266,972)	—	(3,682,316)
Motor vehicles	—	(216,604)	(51,350)	—	(267,954)
Books	—	(614,858)	—	—	(614,858)
Total accumulated depreciation		(24,371,647)	(1,561,082)	—	(25,932,729)
Capital assets, net		\$ 34,026,923	\$ 134,332	\$ —	\$ 34,161,255

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Capital Assets - Continued

	Estimated lives (in years)	2013 (Restated)			Ending balance
		Beginning Balance	Additions	Reclassifications	
Capital assets not depreciated:					
Land	—	\$ 208,827	\$ —	\$ —	\$ 208,827
Capital work in progress	—	4,261,014	104,947	—	4,365,961
Total not depreciated		4,469,841	104,947	—	4,574,788
Capital assets depreciated:					
Building, including improvements	20 – 40	47,993,024	500,498	—	48,493,522
Furnishings and equipment	3 – 10	4,251,208	56,594	—	4,307,802
Motor vehicles	3 – 10	237,214	170,386	—	407,600
Books	5	614,858	—	—	614,858
Total depreciated		53,096,304	727,478	—	53,823,782
Less accumulated depreciation:					
Building, including improvements	—	(18,918,399)	(1,206,442)	—	(20,124,841)
Furnishings and equipment	—	(3,161,694)	(253,650)	—	(3,415,344)
Motor vehicles	—	(186,832)	(29,772)	—	(216,604)
Books	—	(614,858)	—	—	(614,858)
Total accumulated depreciation		(22,881,783)	(1,489,864)	—	(24,371,647)
Capital assets, net		\$ 34,684,362	\$ (657,439)	\$ —	\$ 34,026,923

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - Long-Term Liabilities

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

	2014				
	Beginning balance (Restated)	Additions	Reductions	Ending balance	Current portion
Other long-term liabilities:					
Bonds payable	\$ 7,251,802	\$ —	\$ (212,100)	\$ 7,039,702	\$ 210,000
Energy project liability	3,218,642	—	(116,315)	3,102,327	120,970
Grant refundable	93,331	—	(93,331)	—	—
Sick and vacation	3,925,301	1,276,208	(1,158,736)	4,042,773	2,598,092
Workers' compensation	431,123	72,627	(77,299)	426,451	134,295
Total long-term liabilities	<u>\$ 14,920,199</u>	<u>\$ 1,348,835</u>	<u>\$ (1,657,781)</u>	<u>\$ 14,611,253</u>	<u>\$ 3,063,357</u>
	2013 (Restated)				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Other long-term liabilities:					
Bonds payable	\$ 7,454,565	\$ —	\$ (202,763)	\$ 7,251,802	\$ 210,000
Energy project liability	3,330,486	—	(111,844)	3,218,642	116,317
Grant refundable	93,040	291	—	93,331	—
Sick and vacation	3,819,913	1,914,849	(1,809,461)	3,925,301	2,435,579
Workers' compensation	472,043	45,944	(86,864)	431,123	117,348
Total long-term liabilities	<u>\$ 15,170,047</u>	<u>\$ 1,961,084</u>	<u>\$ (2,210,932)</u>	<u>\$ 14,920,199</u>	<u>\$ 2,879,244</u>

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Operating Leases

The College leases computer equipment, software and copiers for various departments. Additionally, the College has leased one vehicle. On January 22, 2013, the College, acting through the commissioner of the Division of Capital Asset Management and Maintenance, entered into an agreement with Hood Business Park LLC to lease 25,284 square feet of building space for a term of seven years with annual payments ranging from \$706,600 in the first year to \$745,158 in the seventh year. The premises are used for classroom instruction, workforce training, meeting space and educational administration. Rental expense for operating leases was \$1,008,187 and \$581,295 for the years ended June 30, 2014 and 2013, respectively.

The following schedule summarizes future minimum payments due under the non-cancelable operating leases as of June 30, 2014:

<u>Years ending June 30,:</u>	
2015	\$ 917,561
2016	888,192
2017	743,273
2018	738,171
2019	745,158
2020	414,644
	<hr/>
	\$ 4,446,999
	<hr/> <hr/>

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 7 - Long-Term Liabilities - Continued

Bonds

The following schedule summarizes future principal and interest payments, on the College's February 2007 variable rate bond as of June 30, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swap, net*</u>	<u>Total</u>
<u>Years ending June 30:</u>				
2015	\$ 210,000	\$ 4,236	\$ 280,037	\$ 494,273
2016	220,000	4,110	270,925	495,035
2017	230,000	3,978	261,398	495,376
2018	240,000	3,840	251,457	495,297
2019	250,000	3,695	241,102	494,797
2020 – 2024	1,430,000	16,085	1,037,763	2,483,848
2025 – 2029	1,750,000	11,410	704,929	2,466,339
2030 – 2032	2,709,702	1,634	303,989	3,015,325
	<u>\$ 7,039,702</u>	<u>\$ 48,988</u>	<u>\$ 3,351,600</u>	<u>\$ 10,440,290</u>

* In conjunction with its February 2007 issuance of variable rate bonds, the College entered into an agreement with a financial institution counterparty to synthetically fix the interest rate on the bonds at 4.18%. This column represents the projected net amounts the College would have to pay the counterparty under the swap contract if interest rates were to remain unchanged from their value at June 30, 2014 during the remaining life of the swap. See note 8 for more information. The variable rate on the bonds as of June 30, 2014 was 0.060%.

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," at which it remained as of June 30, 2011. 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 2014, the short-term rating of the bank remains at A-2 at status.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Clean Energy Investment Project

In fiscal year 2012, the College entered into an agreement with Department of Capital Asset Management (DCAM) to participate in the Massachusetts Clean Energy Investment Program (CEIP). Under the program, DCAM is responsible for construction of specific energy conservation projects at the College funded by CEIP funds and proceeds of bonds issued by the Commonwealth. Upon completion of the construction, the College will be responsible for reimbursing the Commonwealth for the CEIP funding of \$3.3 million plus interest. The interest rate on this obligation is 4% and semi-annual payments began in January 2013 and run through 2032.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Years ending June 30:</u>			
2015	\$ 120,970	\$ 124,093	\$ 245,063
2016	125,809	119,254	245,063
2017	130,841	114,222	245,063
2018	136,075	108,988	245,063
2019	141,518	103,545	245,063
2020 – 2024	797,166	428,149	1,225,315
2025 – 2029	969,875	255,440	1,225,315
2030 – 2032	680,073	55,117	735,190
	<u>\$ 3,102,327</u>	<u>\$ 1,308,808</u>	<u>\$ 4,411,135</u>

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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 a bank in connection with its Pool M3-C Series tax-exempt variable rate bond in February 2007. This bond was replaced during fiscal year 2010 with a MHEFA Pool 'O' Series bond. The purpose of the swap agreement was to synthetically create a fixed rate on the underlying debt, and not for any speculative purposes.

The swap agreement, as amended in October 2010, is scheduled to mature on June 15, 2031. The swap's notional amount at inception was \$7,920,000 and will amortize in line with each payment of principal on the bonds. The notional amount at June 30, 2014 was \$7,750,000. 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 (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, 2014 was a liability of \$1,302,006 compared to \$1,284,959 at June 30, 2013, which is recorded in the College's statement of net position. The change in the fair value of the interest rate swap was \$17,047 and \$711,873 for the years ending June 30, 2014 and 2013, respectively. The College has determined its interest rate swap to be an effective hedge and has recorded a corresponding deferred outflow in the statement of net position.

Credit Risk

The College is reliant upon the performance of the counterparty to perform according to the terms of the interest rate swap agreement. The College monitors the counterparty's (CBMA) credit rating, which is currently rated at A- by S&P. The College is not exposed to credit risk at June 30, 2014 or 2013 because the interest rate swap had a negative value. The Letter of Credit with the bank expires December 31, 2014.

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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 - **Grant Refundable**

The College participated in the Federal Perkins Loan Program. This program was audited and terminated during fiscal year 2014.

Note 10 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds were comprised of \$39,957 in restricted and expendable funds at June 30, 2013.

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 11 - Unrestricted Net Position

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

	<u>2014</u>	<u>2013</u> (Restated)
Net assets designated by the College's Board of Trustees for the following purposes:		
Capital repairs	\$ 920,116	\$ 1,250,000
Plant fund	3,873,144	2,427,349
Capital development plan	2,543,252	3,590,920
Technology upgrade	4,224,671	1,989,475
Instructional equipment	728,657	1,402,750
Academic programs	772,899	1,050,000
Student support services (Life map, Success Coaches, etc.)	239,231	325,000
SGA Health & Wellness Center	50,000	50,000
Total Unrestricted Net Assets	<u>\$ 13,351,970</u>	<u>\$ 12,085,494</u>

Note 12 - Contingencies

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - **Contingencies - Continued**

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

Note 13 - **Operating Expenses**

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

	2014	2013
Compensation and benefits	\$ 56,324,100	\$ 53,656,486
Supplies and services	18,863,943	18,368,590
Depreciation and amortization	1,561,084	1,489,864
Scholarships	15,058,596	14,021,009
	\$ 91,807,723	\$ 87,535,949

Note 14 - **State Appropriations**

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

	2014	2013
Direct unrestricted appropriations	\$ 21,477,114	\$ 18,393,373
Add fringe benefits for benefited employees on the state payroll	5,871,928	4,886,676
Less day school tuition remitted to the state and included in tuition and fee revenue	—	(169,830)
Total unrestricted state support	27,349,042	23,110,219
Capital appropriation	140,981	82,845
Total state support	\$ 27,490,023	\$ 23,193,064

BUNKER HILL COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 15 - Fringe Benefit Program

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

Retirement Plan

The Commonwealth is statutorily responsible for the pension benefits of College employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all nonstudent employees. The College is charged for the cost of these fringe benefits by the Commonwealth. Such pension expense amounted to \$2,385,614 and \$1,834,079 for the years ended June 30, 2014 and 2013, respectively. The increase is due to the percentage increase in pension benefits from 6.76% in the year 2013 to 7.93% in the year 2014. Employees who contribute a percentage of their regular compensation fund the annuity portion of the Retirement System. Annual covered payroll for the years ended June 30, 2014 and 2013 was 62% and 61% of annual total payroll for the College, respectively.

Insurance

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

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

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 15 - **Fringe Benefit Program - Continued**

Other Employee Benefits

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

Note 16 - **Pass-Through Grants**

The College distributed \$6,641,704 and \$6,497,456 for student loans through the U.S. Department of Education Federal Direct Lending Program for the years ended June 30, 2014 and 2013, respectively. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bunker Hill Community College (the "College"), which comprise the statements of net position as of June 30, 2014 and 2013, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and we have issued our report thereon dated October 6, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 6, 2014