

**BERKSHIRE COMMUNITY
COLLEGE**

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS

JUNE 30, 2018

BERKSHIRE 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
Berkshire Community College
Pittsfield, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of Berkshire Community College (an agency of the Commonwealth of Massachusetts, the "Commonwealth") (the "College"), and its discretely presented component unit, the Berkshire Community College Foundation, Inc. (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, where applicable, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof 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.

As discussed in Note 2 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated October 12, 2018. Subsequent to the issuance of the financial statements, it was discovered that the calculation of postemployment benefits other than pensions as of June 30, 2018 and July 1, 2017 was misstated.

Our opinion is not modified with respect to these matters.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, on our consideration of the 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 Berkshire Community College's internal control over financial reporting and compliance.

Certified Public Accountants
Braintree, Massachusetts

October 12, 2018 (except for Management's Discussion and Analysis, Note 2, Note 8, Note 10, Note 13, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is XXXXX, XX, XXXX)

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2018 as well as the results of its operations for the year 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.

Introduction

Berkshire Community College (the "College") is a public institution of higher education serving 1,055 FTE students with 54 full-time faculty, 99 part-time faculty, and 121 full-time staff members. The College is located in Pittsfield, Massachusetts. In addition, the College offers credit and non-credit programs at the South County Center in Great Barrington, the Conte Educational Center in downtown Pittsfield, and McCann Technical School in North Adams. The College offers 55 degree and certificate programs plus a wide range of non-credit workforce development training options.

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

Financial Highlights

The College's financial performance from FY17 to FY18 is indicated by the following:

- Total net position in FY18 increased \$3,697,548 or 9.4% as compared to an increase of \$13,305,505 or 46.0% in FY17.
- Unrestricted net position in FY18 decreased \$29,791 or 2.1% as compared to an increase of \$352,487 or 37.6% in FY17.
- Total operating revenues in FY18 increased \$510,699 or 4.4% as compared to a decrease of \$1,548,525 or 11.7% in FY17.
- Net student fees in FY18 decreased \$55,853 or 1.2% as compared to a decrease of \$133,383 or 2.7% in FY17.
- Operating grants and contributions in FY18 increased \$395,282 or 6.6% as compared to a decrease of \$1,415,815 or 19.1% in FY17.
- FTE enrollments decreased 6.4% in FY18 as compared to a decrease of 8.4% in FY17.
- Operating expenses in FY18 decreased \$1,747,423 or 5.8% as compared to a decrease of \$942 or 0.0% in FY17.

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

June 30, 2018

Financial Highlights - Continued

The Berkshire Community College Foundation is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fundraising 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 primarily consists of graduates and friends 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 activities of the College by the donors. Because 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.

The *Statement of Net Position* present 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 and Expenses* and the *Statement of Changes in Net Position* present information that shows how the College's net position changed during the most recent fiscal years. 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 only 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).

The *Statement of Cash Flows* is reported using the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and fees) and disbursements (e.g., cash paid to employees for services). The Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 35 require this method to be used.

The financial statements can be found on pages 17 to 21 of this report.

The College reports its activity as a business-type activity, using the accrual basis of accounting. The College is a component unit of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position, and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

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

June 30, 2018

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data shown in the financial statements. The notes provide information regarding both the accounting policies and procedures that the College has adopted as well as additional detail about certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 22 to 53 of this report.

Financial Analysis

Net Position

The following table presents a summary of the College's net position. Detailed statement of net position may be found in the financial statements on page 17 of this report.

	June 30,	
	2018	(As Restated) 2017
Current assets	\$ 8,100,307	\$ 9,096,327
Noncurrent assets	45,350,301	41,838,631
Total assets	53,450,608	50,934,958
Deferred outflows of resources	640,224	514,141
Current liabilities	4,484,853	5,421,147
Noncurrent liabilities	5,522,809	5,867,666
Total liabilities	10,007,662	11,288,813
Deferred inflows of resources	880,147	654,811
Investment in capital assets	44,555,466	40,824,172
Restricted - expendable	104,468	108,423
Unrestricted	(1,456,911)	(1,427,120)
Total net position	\$ 43,203,023	\$ 39,505,475

The measurement of net position can serve over time as a useful indicator of the College's financial position. Net position increased \$3,697,548 for the year ended June 30, 2018 and increased \$13,305,505 for the year ended June 30, 2017.

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

June 30, 2018

Financial Analysis - Continued

Net Position - Continued

By far, the largest portion of the College's net position is its investment in capital assets, including land, buildings, machinery and equipment, less any related debt, including capital leases, used to acquire those assets. Net position investment in capital assets was \$44,555,466 at June 30, 2018, representing 103.1% of total net position. Net position investment in capital assets increased by \$3,731,294 in FY18. The College received capital appropriations from the Commonwealth totaling \$4,998,911. The College uses capital assets to provide services to students, faculty, and staff; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, note that the resources needed to repay this debt must be provided from non-capital sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the capital asset activity noted above, which is reflected in the College's financial statements, the Commonwealth of Massachusetts 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. Additional information about the College's capital assets can be found in Note 7 on page 33 of the Notes to the Financial Statements.

The College's long-term debt consists of Clean Renewable Energy Bonds (CREB) of \$394,803, capital lease obligations of \$337,362, and accruals for compensated absences and workers compensation. The accrual for compensated absences consists of the long-term portion of vacation and sick pay relating to employees on the College's payroll. See Note 8 on page 34 of the Notes to the Financial Statements for more information on long-term liabilities.

A portion of the College's net position, \$104,468 in FY18 (\$108,423 in FY17), represents resources that are subject to external restrictions on how they must be used.

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

June 30, 2018

Financial Analysis - Continued

Net Position - Continued

The table and narrative below present the College's changes in net position, including a review of operating revenues and expenses as well as non-operating and other revenues and expenses.

Condensed Changes In Net Position

	June 30,	
	2018	(As Restated) 2017
Operating revenues:		
Tuition and fees, net of tuition waivers and remissions	\$ 4,748,024	\$ 4,803,876
Operating grants and contributions	6,396,605	6,001,323
Other sources	1,025,218	853,948
Total operating revenues	<u>12,169,847</u>	<u>11,659,147</u>
Total operating expenses	<u>28,299,974</u>	<u>30,047,397</u>
Net operating loss	<u>(16,130,127)</u>	<u>(18,388,250)</u>
Non-operating and other revenues (expenses):		
State appropriations	19,828,057	28,547,865
Net investment income	15,185	14,137
Interest expense	(15,567)	(17,123)
Total non-operating and other revenues	<u>19,827,675</u>	<u>28,544,879</u>
Increase in net position	<u>3,697,548</u>	10,156,629
Net position - beginning of year	<u>39,505,475</u>	<u>29,348,846</u>
Net position - end of year	<u>\$ 43,203,023</u>	<u>\$ 39,505,475</u>

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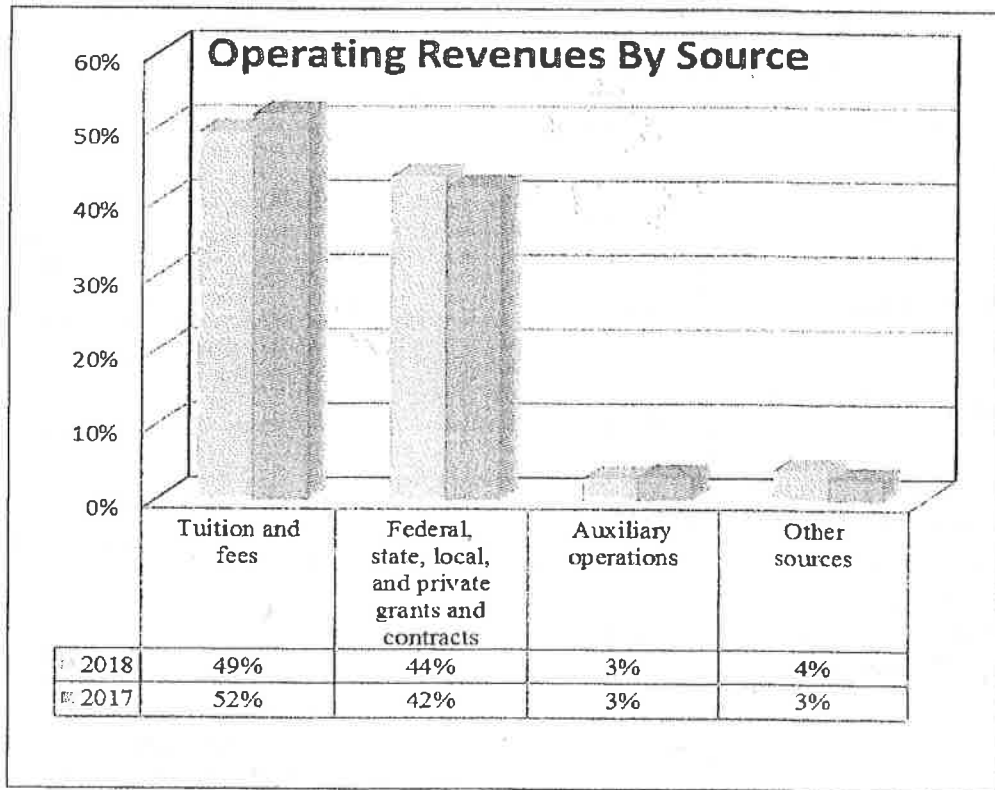
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Financial Analysis - Continued

Operating Revenue Highlights

The following is a graphic illustration of operating revenues by source, which were used to fund the College's activities for the years ended June 30, 2018 and 2017.



- **Total operating revenues** in FY18 increased \$510,700 or 4.4% as compared to a decrease of \$1,548,525 or 11.7% in FY17.
- **Tuition and fees** received by the College include tuition, college service fee, technology fee, and other credit and non-credit fees less scholarship allowances. Net student tuition and fees in FY18 decreased \$55,853 or 1.2% as compared to a decrease of \$133,383 or 2.7% in FY17.

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

June 30, 2018

Financial Analysis - Continued

Operating Revenue Highlights - Continued

- **Operating grants and contributions** in FY18 increased \$395,282 or 6.6% as compared to a decrease of \$1,415,815 or 19.1% in FY17. See the table below for further discussion regarding grants received in FY18.
- **Other sources** of revenue include auxiliary operations, parking and other fines, facilities use fees, special function charges, user fees, and direct contributions to the College. Total other sources of revenue in FY18 increased \$171,270 or 20.1% as compared to an increase of \$673 or 0.08 % in FY17.
- FY18 operating grants and contracts included the following:

Grant Name	Funding Source	Amount	Purpose
Federal SEOG	US DOE	\$67,814	Need-based funds awarded at school discretion according to packaging policies.
Pell	US DOE	\$3,088,606	Entitlement fund based upon demonstrated financial need.
Federal Work Study	US DOE	\$83,340	Federal allocation providing on- and off-campus work opportunities.
Title III Strengthening Institutions Grant	US DOE	\$422,902	Help institutions expand their capacity to serve low-income students by providing funds to improve and strengthen academic quality, institutional management, and fiscal stability of eligible institutions. Third year of five-year award.

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

June 30, 2018

Financial Analysis - Continued

Operating Revenue Highlights - Continued

Grant Name	Funding Source	Amount	Purpose
Workforce Incentive Funding	Mass. Office of Workforce Development	\$50,000	Support Director of Corporate Training in Office of Workforce Development.
TAA Workforce Grant	US DOL	\$93,976	Extension of three-year award to support Guided Pathways To Success in STEM project.
TAA Workforce Grant Navigator	US DOL	\$44,860	Support College and Career Navigator position to build partnerships between College and Career Center. Extension of three-year award.
ABE Adult Community Learning Center	Mass. DESE	\$208,334	Support Adult Community Learning Center at South County Center.
STEM Starter Academy	Mass. BOHE	\$261,000	Provide support services and transition programming to STEM students.
Perkins	Mass. DOE	\$105,671	Support CVTE linkage activities and career technical program.
TRIO	US DOE	\$261,387	Student support services. Third year of five-year award.
Dual Enrollment	Mass. DHE	\$38,186	Support dual enrollment program, which allows qualified high school students to take college courses.
Performance Incentive Fund	Mass. DHE	\$10,159	Develop faculty capacity to deliver competency-based education (CBE) that aligns with early childhood education (ECE) competencies and standards.

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

June 30, 2018

Financial Analysis - Continued

Operating Revenue Highlights - Continued

Grant Name	Funding Source	Amount	Purpose
Mass. Humanities Center	Mass. Humanities Foundation NEA	\$20,680	Supports activities associated with establishment of Humanities Center and humanities-based programs at BCC.
Mass. Skill Capital	Mass. EOE	\$100,091	Supports purchase of Anatomage table for Allied Health and Nursing programs.

Operating Expense Highlights

Total operating expenses decreased \$1,747,423 from FY17 to FY18. Of this amount, salary costs decreased \$266,434 or 1.8% and fringe benefit costs increased \$165,755 or 4.0%. Functional expense classifications and dollar amounts are shown below. Expense percentage shares are shown in the accompanying chart.

	June 30,	
	2018	(As Restated) 2017
Operating expenses:		
Instruction	\$ 9,815,819	\$ 11,170,982
Academic support	3,309,791	3,631,738
Student services	4,000,751	4,484,006
Scholarships and fellowships	1,888,405	1,658,352
Operation and maintenance of plant	2,792,271	2,687,252
Institutional support	4,183,655	4,704,612
Depreciation and amortization	1,806,854	1,128,368
Auxiliary operations	502,428	582,090
	<u>\$ 28,299,974</u>	<u>\$ 30,047,400</u>
Total operating expenses		

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

June 30, 2018

Financial Analysis - Continued

Operating Expense Highlights - Continued

- **Instruction** – Costs directly related to the classroom (i.e., faculty salaries, instructional supplies, and equipment) decreased \$1,355,163 or 12.1% in FY18 and decreased \$213,931 or 2.2% in FY17.
- **Academic Support** – Expenses that provide administrative and management support for academic programs decreased \$321,947 or 8.9% in FY18 and decreased \$131,095 or 4.0% in FY17.
- **Student Services** – Admissions, Registrar, and Financial Aid offices as well as counseling, tutoring, interpreters, and all other student support services decreased \$483,255 or 10.8% in FY18 and increased \$587,263 or 17.1% in FY17.
- **Scholarships and Fellowships** – Student aid, including federal, state, and private grants (i.e., Pell, SEOG, Massachusetts State Cash Grants, and Massachusetts State Scholarships) increased \$230,053 or 13.9% in FY18 and decreased \$462,940 or 21.8% in FY17.
- **Operation and Maintenance of Plant** – Spending on the operation and direct maintenance of the physical plant and grounds increased \$105,019 or 3.9% in FY18 and increased \$127,369 or 5.1% in FY17.
- **Institutional Support** – Collectively, spending by all administrative functions decreased \$520,957 or 11.1% in FY18 and increased \$173,099 or 4.3% in FY17.
- **Depreciation and Amortization** – This non-cash expense increased \$678,486 or 60.1% in FY18 and decreased \$82,272 or 6.8% in FY17.
- **Auxiliary Operations** – Food services decreased \$79,662 or 13.7% in FY18 and increased \$1,565 or 0.3% in FY17.

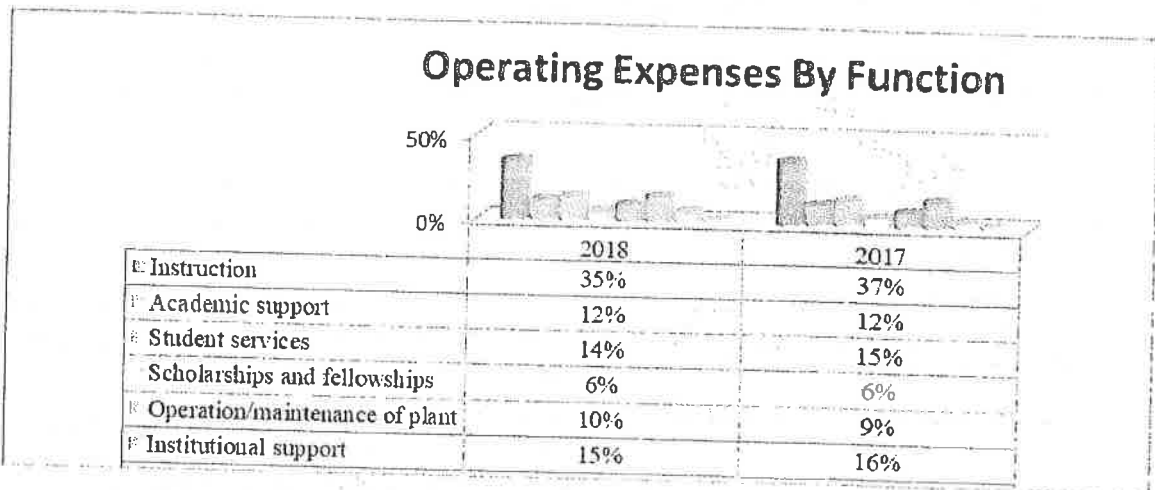
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Financial Analysis - Continued

Operating Expense Highlights - Continued



Non-Operating Revenues and Expenses

The Commonwealth's net operating appropriations, which are composed of operating appropriations and fringe benefits less tuition remitted, increased \$34,066 or 0.2% in FY18 and increased \$849,503 or 6.1% in FY17. Investment income increased \$1,048 or 7.4% in FY18 and decreased \$24,035 or 63.0% in FY17.

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

June 30, 2018

Financial Analysis - Continued

Loss from Operations and State Appropriations

The College, in order to balance educational and operational needs with tuition and fee revenue, approves budgets to mitigate losses after Commonwealth appropriations.

Unless otherwise permitted by the Massachusetts Legislature, the College is required to remit tuition to the Commonwealth. Therefore, the College collects student tuition on behalf of the Commonwealth and remits it to the Commonwealth's General Fund. There is no direct connection between the amount of tuition revenues collected by the College and the amount of state funds appropriated in any given year. The following table provides a summary of the unrestricted appropriations and capital appropriations received by the College from the Commonwealth for the fiscal years ended June 30, 2018 and 2017, respectively.

	June 30,	
	2018	2017
Gross Commonwealth operating appropriations	\$ 11,188,164	\$ 11,262,702
Plus: fringe benefits*	3,790,969	3,664,547
	14,979,133	14,927,249
Less: tuition remitted	(149,988)	(132,169)
Net Commonwealth operation appropriations	14,829,145	14,795,080
Gross Commonwealth capital appropriations	4,998,911	13,752,785
Net Commonwealth appropriations	\$ 19,828,056	\$ 28,547,865

* The Commonwealth pays the fringe benefit cost for College employees paid from Commonwealth appropriations. Therefore, such fringe benefit support is added to the "state appropriations" line item presented in the above table. The College pays the Commonwealth for the fringe benefit cost of College employees paid from funding sources other than Commonwealth appropriations.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Economic Factors, Outlook, and Tuition and Student Fee Rates

The College's net state appropriations decreased \$8,719,808 in FY18 and increased \$986,113 in FY17. The decrease in FY18 was the result of a general appropriations increase of \$34,066 and capital appropriations decrease of \$8,753,874.

For FY19, state appropriations are expected to increase 1% as compared to FY18. An increase in the college service fee of \$10 per credit and various program fees were implemented for FY19. These fees are used to support the mission and operations of the College. The College remains concerned about the local economy, a declining population in Berkshire County, and future budget appropriations from the Commonwealth.

Requests for Information

This financial report is designed to provide a general overview of the College's finances for any interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Berkshire Community College, Vice President for Administration & Finance, 1350 West Street, Pittsfield, MA 01201.

BERKSHIRE COMMUNITY COLLEGE
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Statement of Net Position

June 30, 2018

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Current Assets:		
Cash and equivalents	\$ 5,683,735	\$ 1,309,977
Cash held by State Treasurer	1,246,883	-
Restricted cash and equivalents	58,205	-
Accounts receivable, net	900,464	312,000
Other current assets	211,020	-
Total Current Assets	<u>8,100,307</u>	<u>1,621,977</u>
Noncurrent Assets:		
Investments	62,670	9,060,051
Capital assets, net of accumulated depreciation	45,287,631	326,458
Total Noncurrent Assets	<u>45,350,301</u>	<u>9,386,509</u>
Total Assets	<u>53,450,608</u>	<u>11,008,486</u>
Deferred Outflows of Resources:		
Deferred outflows related to pension	365,692	-
Deferred outflows related to OPEB	274,532	-
Total Deferred Outflows of Resources	<u>640,224</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 54,090,832</u>	<u>\$ 11,008,486</u>

Liabilities, Deferred Inflows of Resources, and Net Position

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 909,080	\$ 123,264
Accrued payroll	922,469	-
Compensated absences	1,205,980	-
Workers' compensation	32,032	-
Student deposits	143,035	-
Unearned revenues	1,059,709	-
Current portion of capital lease obligations	168,681	-
Current portion of bond payable	43,867	-
	<hr/>	<hr/>
Total Current Liabilities	4,484,853	123,264
	<hr/>	<hr/>
Noncurrent Liabilities:		
Compensated absences	648,650	-
Workers' compensation	119,061	-
Capital lease obligations	168,681	-
Bond payable	350,936	-
Net pension liability	1,438,196	-
Net OPEB liability	2,797,285	-
	<hr/>	<hr/>
Total Noncurrent Liabilities	5,522,809	-
	<hr/>	<hr/>
Total Liabilities	10,007,662	123,264
	<hr/>	<hr/>
Deferred Inflows of Resources:		
Deferred inflows related to pension	531,410	-
Deferred inflows related to OPEB	328,356	-
Service concession arrangement	20,381	-
	<hr/>	<hr/>
Total Deferred Inflows of Resources	880,147	-
	<hr/>	<hr/>
Net Position:		
Net investment in capital assets	44,555,466	326,458
Restricted:		
Nonexpendable	-	6,183,159
Expendable	104,468	4,004,416
Unrestricted	(1,456,911)	371,189
	<hr/>	<hr/>
Total Net Position	43,203,023	10,885,222
	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 54,090,832	\$ 11,008,486
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See accompanying notes to the financial statements.

BERKSHIRE COMMUNITY COLLEGE
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Statement of Revenues and Expenses

For Year Ended June 30, 2018

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 7,268,383	\$ -
Less: scholarship allowances	<u>(2,520,359)</u>	<u>-</u>
Net student fees	4,748,024	-
Contributions and gifts	-	791,903
Federal, state, local, and private grants and contracts	6,396,605	-
Other auxiliary operations	426,726	-
Other sources	<u>598,492</u>	<u>298,750</u>
Total Operating Revenues	<u>12,169,847</u>	<u>1,090,653</u>
Operating Expenses:		
Instruction	9,815,819	-
Academic support	3,309,791	-
Student services	4,000,751	-
Scholarships and fellowships	1,888,405	232,895
Operation and maintenance of plant	2,792,271	226,372
Institutional support	4,183,655	478,965
Depreciation and amortization	1,806,854	37,469
Auxiliary operations	<u>502,428</u>	<u>-</u>
Total Operating Expenses	<u>28,299,974</u>	<u>975,701</u>
Operating Income (Loss)	<u>(16,130,127)</u>	<u>114,952</u>
Non-Operating Revenues (Expenses):		
State appropriations - unrestricted	14,829,146	-
Investment income, net	15,185	538,873
Interest expense	<u>(15,567)</u>	<u>-</u>
Net Non-Operating Revenues	<u>14,828,764</u>	<u>538,873</u>
Change in Net Position Before Capital Appropriation	<u>(1,301,363)</u>	653,825
Capital appropriations	<u>4,998,911</u>	<u>-</u>
Change in Net Position	<u>\$ 3,697,548</u>	<u>\$ 653,825</u>

See accompanying notes to the financial statements.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statement of Changes in Net Position

For the Year Ended June 30, 2018

Primary Government - College

	<u>Net Investment in Capital Assets</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance at June 30, 2017, as previously reported	\$ 40,824,172	\$ -	\$ 108,423	\$ 1,289,939	\$ 42,222,534
Prior period adjustment - See Note 2	-	-	-	(2,717,059)	(2,717,059)
Balance at June 30, 2017, as restated	40,824,172	-	108,423	(1,427,120)	39,505,475
Changes in net position	3,731,294	-	(3,955)	(29,791)	3,697,548
Balance at June 30, 2018	<u>\$ 44,555,466</u>	<u>\$ -</u>	<u>\$ 104,468</u>	<u>\$ (1,456,911)</u>	<u>\$ 43,203,023</u>

Component Unit - Foundation

	<u>Net Investment in Capital Assets</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance at June 30, 2017	\$ 363,927	\$ 6,147,436	\$ 3,285,493	\$ 434,541	\$ 10,231,397
Changes in net position	(37,469)	35,723	718,923	(63,352)	653,825
Balance at June 30, 2018	<u>\$ 326,458</u>	<u>\$ 6,183,159</u>	<u>\$ 4,004,416</u>	<u>\$ 371,189</u>	<u>\$ 10,885,222</u>

See accompanying notes to the financial statements.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows

For Year Ended June 30, 2018

	<u>Primary Government</u>
	<u>College</u>
Cash Flows from Operating Activities:	
Tuition and fees	\$ 4,919,412
Grants and contracts	5,103,767
Payments to suppliers	(5,544,150)
Payments to employees	(14,890,661)
Payments to students	(1,888,405)
Other auxiliary operations	416,536
Other sources	<u>534,560</u>
Net Cash Applied to Operating Activities	<u>(11,348,941)</u>
Cash Flows from Non-Capital and Related Financing Activities:	
State appropriations	11,038,177
Tuition remitted to State	<u>(149,988)</u>
Net Cash Provided by Non-Capital and Related Financing Activities	<u>10,888,189</u>
Cash Flows from Capital and Related Financing Activities:	
Purchases of capital assets	(326,687)
Principal paid on capital lease obligations	(168,682)
Principal paid on bond payable	(43,868)
Interest paid on bond payable	<u>(15,567)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(554,804)</u>
Cash Flows from Investing Activity:	
Investment income	<u>15,185</u>
Net Decrease in Cash and Equivalents	(1,000,371)
Cash and Equivalents, Beginning of Year	<u>7,989,194</u>
Cash and Equivalents, End of Year	<u>\$ 6,988,823</u>

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows - Continued

For Year Ended June 30, 2018

	<u>Primary Government</u>
	<u>College</u>
Reconciliation of Net Operating Loss to Net Cash	
Applied to Operating Activities:	
Net operating loss	\$ (16,130,127)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	1,806,854
Service concession arrangement	(10,190)
Net pension activity	(143,274)
Net OPEB activity	134,050
Bad debts	99,896
Unrealized investment loss	7,075
Fringe benefits provided by State	3,790,969
Tuition remitted to State	149,988
Changes in assets and liabilities:	
Accounts receivable	(206,746)
Other current assets	102,499
Accounts payable and accrued liabilities	294,990
Accrued employee compensation and benefits	(9,330)
Student deposits and unearned revenues	(156,528)
Other deferred revenues	(1,079,067)
	(11,348,941)
Net Cash Applied to Operating Activities	\$ (11,348,941)
Reconciliation of Cash and Equivalents to Statement of Net Position, End of Year:	
Cash and equivalents	\$ 5,683,735
Cash held by State Treasurer	1,246,883
Restricted cash and equivalents	58,205
	\$ 6,988,823
Noncash Transactions:	
Fringe benefits provided by State appropriations	\$ 3,790,969
Capital improvements provided by capital appropriations	\$ 4,998,911
Dividends reinvested	\$ 3,704

See accompanying notes to the financial statements.

BERKSHIRE 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

Berkshire Community College (the "College") is a state-supported comprehensive two-year college that offers a quality education leading to associate degrees as well as various certificate programs. From its primary campus located in Pittsfield, Massachusetts, along with other satellite campuses, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies, and business fields of study. The College also offers, through the Division of Continuing Education, credit and non-credit 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

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

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

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

The College's policy for defining operating activities in the statements of revenues and expenses; and changes in net assets 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 in accordance with GASB Statement No. 35. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts (the "Commonwealth"), net investment income (loss), and interest expense.

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

Berkshire Community College Foundation (the "Foundation") is a legally separate tax-exempt organization. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends 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 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.

Complete financial statements for the Foundation can be obtained from Berkshire Community College Foundation, Inc. at 1350 West Street, Pittsfield, Massachusetts, 01201.

Net Position

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

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

BERKSHIRE 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 - Continued

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

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

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

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

Trust Funds

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

Cash and Equivalents

The College has defined cash and equivalents to include cash on hand, demand deposits, and cash and deposits held by the State Treasurer on behalf of the College.

Restricted Cash and Equivalents

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

Investments

Investments in marketable securities are stated at fair market value. Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the statements of revenues and expenses; and changes in net position.

Allowance for Doubtful Accounts

Accounts receivable are periodically evaluated for collectability based on past history with students. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

BERKSHIRE 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

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment, and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of \$50,000 or more 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 5 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized.

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

Student Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs, as well as 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 health insurance, unemployment, pension, workers' compensation, and certain post-retirement benefits. Health insurance, unemployment, and pension costs are billed through a fringe benefit rate charged to the College.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave, along with compensatory time. 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.

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

Pensions

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

Student Fees

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

Tax Status

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

BERKSHIRE 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

Use of Estimates

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

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.

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

GASB Statement 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Placements* is effective for years beginning after June 30, 2019. 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.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

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

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

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

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

	<u>As Previously Reported at June 30, 2017</u>	<u>Implementation of GASB 75</u>	<u>As Previously Reported at July 1, 2017</u>	<u>Correction of the Error</u>	<u>As Restated at July 1, 2017</u>
Statement of Net Position:					
Deferred outflows related to OPEB	\$ -	70,418	70,418	-	\$ 70,418
Net OPEB liability	\$ -	3,211,395	3,211,395	(423,918)	\$ 2,787,477
Unrestricted net position	\$ 1,289,939	(3,140,977)	(1,851,038)	423,918	\$ (1,427,120)

	<u>As Previously Reported at June 30, 2018</u>	<u>Correction of the Error</u>	<u>As Restated at June 30, 2018</u>
Statement of Net Position:			
Deferred outflows related to OPEB	\$ 305,377	(30,845)	\$ 274,532
Net OPEB liability	\$ 3,163,723	(366,438)	\$ 2,797,285
Deferred inflows related to OPEB	\$ 421,100	(92,744)	\$ 328,356
Unrestricted net position	\$ (1,885,248)	428,337	\$ (1,456,911)

Statement of Revenues and Expenses:			
Operating expenses	\$ 28,304,393	(4,419)	\$ 28,299,974

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 3 - **Cash and Equivalents**

The College periodically maintains cash balances in excess of Federal Deposit Insurance Corporation ("FDIC") insurable limits. The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured depository institution. The College's deposit policy for custodial credit risk requires the depository institution to purchase additional insurance to cover deposits in excess of FDIC-insured amounts. Management monitors the financial condition of banking institutions, along with its cash balances, to keep this potential risk to a minimum. As of June 30, 2018 none of the College's bank balances, net of deposits and disbursements in transit, of approximately \$5,876,000 were exposed to custodial credit risk as uninsured and uncollateralized.

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled approximately \$1,247,000 at June 30, 2018. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently used for these liabilities.

Note 5 - **Investments**

Fair Value Measurements

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active or inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. Level 3 inputs are unobservable and significant to the fair value measurement. The asset or liability'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 5 - **Investments - Continued**

Fair Value Measurements - Continued

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

Corporate Equity Securities: Valued at quoted market value of the shares held at fiscal year-end.

Corporate and Government Bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value ("NAV") of the shares held at fiscal year-end. Mutual funds consist of open-ended mutual funds that "strike a NAV" at the close of each day the financial markets are open and are available to purchase by the general public through brokerage houses.

Certificates of Deposit and Money Market Funds: Valued based upon redemption value.

At June 30, 2018, all investments of the College and the Foundation are categorized in Level 1 of the fair value hierarchy.

Investments of the College

The College's investments consist of the following at June 30, 2018:

Corporate equity securities	\$ 62,670
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The College categorizes investments according to the level of risk assumed by the College. At June 30, 2018, the entire balance of investments is insured, registered, or held by the College's agent in the College's name. The entire balance of investments is stated at fair value and is unrated in terms of credit risk quality ratings. The College currently follows investment policies largely defined by the Commonwealth of Massachusetts as well as internal College investment policies.

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 5 - Investments - Continued

Investments of the College - Continued

The following schedule summarizes the College's net investment income for the fiscal year ended June 30, 2018:

Interest	\$ 18,556
Dividends	3,704
Net unrealized losses	<u>(7,075)</u>
Total	<u>\$ 15,185</u>

Investments of the Foundation

Foundation investments, which are carried at fair market value, are as follows at June 30, 2018:

Corporate equity securities	\$ 5,344,030
Corporate bonds	1,016,332
Government bonds	1,014,671
Mutual funds	644,078
Certificates of deposit	752,097
Money market funds	<u>288,843</u>
Total	<u>\$ 9,060,051</u>

The following schedule summarizes the Foundation's net investment income for the fiscal year ended June 30, 2018:

Interest and dividends	\$ 190,132
Investment fees	(64,042)
Net unrealized gains	100,427
Net realized gains	<u>312,356</u>
Total	<u>\$ 538,873</u>

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 6 - Accounts Receivable

Accounts receivable are expected to be collected within one year and is comprised of the following at June 30, 2018:

Student accounts receivable	\$ 1,198,186
Grants receivable	176,372
Other receivables	<u>140,115</u>
	1,514,673
Less: allowance for doubtful accounts	<u>(614,209)</u>
Total	<u>\$ 900,464</u>

Note 7 - 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:						
Construction in progress		\$ 28,968,843	\$ 5,223,234	\$ -	\$ (30,724,330)	\$ 3,467,747
Land		474,888	-	-	-	474,888
Total not depreciated		<u>29,443,731</u>	<u>5,223,234</u>	<u>-</u>	<u>(30,724,330)</u>	<u>3,942,635</u>
Capital assets depreciated:						
Buildings and improvements	20 - 40	33,945,864	-	-	30,724,330	64,670,194
Furnishings and equipment (including cost of capital leases)	5 - 10	3,132,272	102,364	-	-	3,234,636
Total depreciated		<u>37,078,136</u>	<u>102,364</u>	<u>-</u>	<u>30,724,330</u>	<u>67,904,830</u>
Less: accumulated depreciation:						
Buildings and improvements		(22,740,856)	(1,382,641)	-	-	(24,123,497)
Furnishings and equipment		(2,012,124)	(424,213)	-	-	(2,436,337)
Total accumulated depreciation		<u>(24,752,980)</u>	<u>(1,806,854)</u>	<u>-</u>	<u>-</u>	<u>(26,559,834)</u>
Capital assets, net		<u>\$ 41,768,887</u>	<u>\$ 3,518,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,287,631</u>

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - Long-Term Liabilities

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

	(Restated) Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bond and leases payable:						
Bond payable	\$ 438,671	\$ -	\$ (43,868)	\$ 394,803	\$ 43,867	\$ 350,936
Capital lease obligations	506,044	-	(168,682)	337,362	168,681	168,681
Other long-term liabilities:						
Compensated absences	1,899,690	-	(45,060)	1,854,630	1,205,980	648,650
Workers' compensation	161,146	-	(10,053)	151,093	32,032	119,061
Net pension liability	1,566,671	-	(128,475)	1,438,196	-	1,438,196
Net OPEB liability	<u>2,787,477</u>	<u>9,808</u>	<u>-</u>	<u>2,797,285</u>	<u>-</u>	<u>2,797,285</u>
	<u>\$ 7,359,699</u>	<u>\$ 9,808</u>	<u>\$ (396,138)</u>	<u>\$ 6,973,369</u>	<u>\$ 1,450,560</u>	<u>\$ 5,522,809</u>

Bond Payable

The College has a New Clean Renewable Energy Bond outstanding with Century Bank and Trust Company. Principal is payable annually, and interest is payable semi-annually at a rate of 3.5%. Maturities of the bond payable subsequent to June 30, 2018 are as follows:

Years Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 43,867	\$ 14,010	\$ 57,877
2020	43,867	12,488	56,355
2021	43,867	10,897	54,764
2022	43,867	9,340	53,207
2023	43,867	7,784	51,651
2024-2027	<u>175,468</u>	<u>15,584</u>	<u>191,052</u>
	<u>\$ 394,803</u>	<u>\$ 70,103</u>	<u>\$ 464,906</u>

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - Long-Term Liabilities - Continued

Capital Lease Obligations

The College entered into two capital lease agreements under which the related networking and telephone system equipment will become property of the College when all terms of the lease agreements are satisfied. Both capital lease arrangements are for five-year terms and are interest-free obligations. Interest has not been imputed due to a lack of materiality. The following presents future minimum lease payments subsequent to June 30, 2018:

<u>Years Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payments</u>
2019	\$ 168,681
2020	<u>168,681</u>
Total	\$ <u>337,362</u>

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

Equipment	\$ 843,404
Less: accumulated depreciation	<u>(506,042)</u>
Total	\$ <u>337,362</u>

Foundation Line of Credit

The Foundation has available a \$175,000 revolving line of credit expiring in December 2049. The line of credit is collateralized by real estate owned by the Foundation. There were no draws on the line of credit during the fiscal year ended June 30, 2018.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension

Defined Benefit Plan Description

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

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

Benefit Provisions

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

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

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension - Continued

Contributions

The SERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for SERS vary depending on the most recent date of membership:

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

The Commonwealth does not require the College to contribute funding from its local trust funds for employees paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$94,717, \$87,674, and \$81,586 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%, 9.95%, and 9.45% of annual covered payroll for the fiscal years ended June 30, 2018, 2017, and 2016, respectively. The College contributed \$94,717, \$87,674, and \$81,586 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 81%, 81%, and 81% of total related payroll for fiscal years end 2018, 2017, and 2016, respectively.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension - Continued

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

At June 30, 2018, the College reported a liability of \$1,438,196 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.011%.

For the years ended June 30, 2018 and 2017, the College recognized pension benefit of \$48,561 and \$9,729, respectively. 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

Changes in plan actuarial assumptions	\$ 149,666
Contributions subsequent to the measurement date	94,717
Changes in proportions due to internal allocation	60,777
Differences between expected and actual experience	55,606
Changes in proportion from the Commonwealth	<u>4,926</u>
Total	<u>\$ 365,692</u>

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension - Continued

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

<u>Deferred Inflows of Resources Related to Pension</u>	
Changes in proportion due to internal allocation	\$ 474,630
Differences between expected and actual experience	39,130
Differences between projected and actual investment earnings on plan investments	17,136
Changes in proportion from the Commonwealth	<u>514</u>
Total	<u>\$ 531,410</u>

The College's contributions of \$94,717 made during the fiscal year ending 2018 subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Year Ending <u>June 30,</u>	
2019	\$ (54,881)
2020	(13,217)
2021	(63,665)
2022	(127,695)
2023	<u>(977)</u>
	<u>\$ (260,435)</u>

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension - Continued

Actuarial Assumptions

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

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

For measurement 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").

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension - Continued

Actuarial Assumptions - Continued

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40%	5.00%
Core Fixed Income	12%	1.10%
Private Equity	11%	6.60%
Real Estate	10%	3.60%
Portfolio Completion Strategies	13%	3.60%
Value Added Fixed Income	10%	3.80%
Timber / Natural Resources	4%	3.20%
Total	<u>100%</u>	

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.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - Pension - Continued

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.

1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 1,958,763	\$ 1,438,196	\$ 1,018,867

Note 10 - OPEB

Plan Description

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

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

Management of the SRBT is vested with the Board of Trustees, which consists of 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 their 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 stand-alone audited financial statements but is reflected as a fiduciary fund in the Commonwealth's audited financial statements.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - OPEB - Continued

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.

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 among 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 \$71,712 for the fiscal year ended June 30, 2018, which is equal to 100% of the required contribution for the year.

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - OPEB - Continued

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 \$2,797,285 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 among 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 0.017%.

For the year ended June 30, 2018, the College recognized OPEB expense of \$210,146. 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

Changes in proportion due to internal allocation	\$ 196,966
Contributions subsequent to the measurement date	71,712
Changes in proportion from the Commonwealth	<u>5,854</u>
Total	<u>\$ 274,532</u>

Deferred Inflows of Resources Related to OPEB

Changes in OPEB plan actuarial assumptions	\$ 316,821
Differences between expected and actual experience	6,431
Net differences between projected and actual investment earnings on OPEB plan investments	<u>5,104</u>
Total	<u>\$ 328,356</u>

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - OPEB - Continued

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

The College's contribution of \$71,712 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 as increases (decreases) in OPEB expense as follows:

Year Ending June 30,	
2019	\$ (26,419)
2020	(26,419)
2021	(26,419)
2022	(26,419)
2023	(19,860)
	<u>\$ (125,536)</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
Healthcare 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

BERKSHIRE 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").

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.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - OPEB - Continued

Actuarial Assumptions - Continued

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 one-percentage-point lower or one-percentage-point higher than the current discount rate:

1.00% Decrease (2.63%)	Current Discount Rate (3.63%)	1.00% Increase (4.63%)
\$ 3,320,601	\$ 2,797,285	\$ 2,381,208

BERKSHIRE COMMUNITY COLLEGE
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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)
\$ 2,314,398	\$ 2,797,285	\$ 3,432,736

- (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 1.0% 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 1.0% increase are as follows:
10.0% for Medicare, 6.0% for EGWP and 6.0% for administration costs.

Note 11 - Net Position

Restricted Net Position

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

The Foundation's restricted nonexpendable net position consists of endowment funds to be held in perpetuity, whose income is primarily utilized for scholarships and grants and academic technology.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 12 - Operating Leases

The College leases classrooms and office space for its Great Barrington and Conte Federal Building locations. It also leases copiers and a vehicle under operating leases. Rental expense for operating leases was approximately \$323,000 for the year ended June 30, 2018. The following schedule summarizes future minimum payments due under non-cancelable operating leases as of June 30, 2018:

<u>Years Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payments</u>
2019	\$ 101,521
2020	<u>7,141</u>
Total	\$ <u>108,662</u>

Note 13 - Operating Expenses

The College's operating expenses, on a natural classification basis, are composed of the following for the fiscal year ended June 30, 2018:

Compensation and benefits	\$ 18,663,076
Supplies and services	5,941,639
Scholarships and fellowships	1,888,405
Depreciation and amortization	<u>1,806,854</u>
Total	\$ <u>28,299,974</u>

Note 14 - 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.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 14 - **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, as well as 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 as well as 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 pre-tax 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 Internal Revenue Code ("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 obligations for any future pay-outs.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 15 - Service Concession Arrangement

Deferred inflows of resources include a one-time payment received by the College that is subject to amortization over the life of the agreement. The College's bookstore operations are managed under an agreement by an outside party. The arrangement was effective July 1, 2015 and expires June 30, 2020. At June 30, 2018, the unamortized portion of the payment was \$20,381.

Note 16 - Massachusetts Management Accounting and Reporting System

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus-based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System ("MMARS") on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. Management believes the amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Education Audited Financial Statements*.

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

Directed unrestricted appropriations	\$ 11,188,165
Fringe benefits for benefited employees on the state payroll	3,790,969
Less:	
Day school tuition remitted to the state and included in tuition and fee revenues	<u>(149,988)</u>
Total unrestricted appropriations	14,829,146
Capital appropriations	<u>4,998,911</u>
Total appropriations	\$ <u>19,828,057</u>

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 16 - Massachusetts Management Accounting and Reporting System - Continued

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

Revenue per MMARS	\$ <u>14,325,989</u>
Revenue per College	\$ <u>14,325,989</u>

Note 17 - Pass-Through Loans

The College distributed approximately \$2,447,000 for the fiscal year ended June 30, 2018, for student loans through the U.S. Department of Education's Direct Loan Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

Note 18 - Contingencies, Risks, and Uncertainties

Various lawsuits are pending or threatened against the College that arose in the ordinary course of operations. In the opinion of management, no litigation is 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"). Individuals pay into the Program in advance for future tuition at the cost of tuition at the time of election to participate, which is increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept from the Program as payment of tuition the amount determined by this Program without regard to the standard tuition rate in effect at the time of the individuals 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.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2018

Note 18 - Contingencies, Risks and Uncertainties - Continued

The College is continuing the process of replacing exterior caulking in many of its buildings due to the presence of polychlorinated biphenyls ("PCBs"). The cost of the remediation project is the responsibility of the Commonwealth, and all liabilities required in accordance with GASB 40, *Accounting and Financial Reporting for Pollution Remediation Obligations*, will be reported by the Commonwealth.

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

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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	\$ 94,717	\$ 87,674	\$ 81,586	\$ 64,503
Contributions in relation to the statutorily required contribution	<u>(94,717)</u>	<u>(87,674)</u>	<u>(81,586)</u>	<u>(64,503)</u>
Contribution excess	\$ _____	\$ _____	\$ _____	\$ _____
Covered payroll	\$ 804,051	\$ 881,145	\$ 863,051	\$ 620,818
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.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - Pension (Unaudited)

June 30, 2018

Note 1 - Change in Plan 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.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

June 30, 2018

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

Fiscal year June 30, 2016 - 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.

BERKSHIRE COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

State Retirees' Benefit Trust

Year ended	June 30, 2018
Measurement date	June 30, 2017
Valuation date	January 1, 2017
Proportion of the collective net OPEB liability	0.017%
Proportionate share of the collective net OPEB liability	\$ 2,797,285
College's covered payroll	\$ 881,145
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.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions - OPEB (Unaudited)

State Retirees' Benefit Trust

For the Years Ended June 30,

	<u>2018</u>
Statutorily required contribution	\$ 71,712
Contributions in relation to the statutorily required contribution	<u>(71,712)</u>
Contribution (excess)/deficit	<u>\$ -</u>
College's covered payroll	\$ 804,051
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

See accompanying notes to the required supplementary information.

BERKSHIRE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - SRBT (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.

See Independent Auditor's Report.