

**BERKSHIRE COMMUNITY
COLLEGE**

(an agency of the Commonwealth of Massachusetts)

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

JUNE 30, 2016 AND 2015

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

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

June 30, 2016 and 2015

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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 "College") which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Berkshire Community College Foundation, Inc. (the "Foundation") as of June 30, 2016 and 2015 as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely upon the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the net position of Berkshire Community College as of June 30, 2016 and 2015, and the respective changes in net position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-15, the schedule of the College's proportionate share of the net pension liability on page 43, the schedule of the College's contributions on page 44, and the notes to the required supplementary information on page 45 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, on our consideration of Berkshire Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Berkshire Community College's internal control over financial reporting and compliance.

O'Connor and Duen, P.C.

Certified Public Accountants

Braintree, Massachusetts

October 10, 2016

BERKSHIRE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2016 and 2015 as well as the results of its operations for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereto, which are also presented in this document.

Introduction

Berkshire Community College (the "College") is a public institution of higher education serving 1,235 FTE students with 56 full-time faculty, 120 part-time faculty, and 126 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 FY15 to FY16 is indicated by the following:

- Total net position in FY16 increased \$13,889,402 or 92.4% as compared to an increase of \$1,331,007 or 9.7% in FY15.
- Unrestricted net position in FY16 increased \$345,282 or 58.3% as compared to an increase of \$413,147 or 230.7% in FY15.
- Total operating revenues in FY16 increased \$381,372 or 3.0% as compared to a decrease of \$1,119,627 or 8.0% in FY15.
- Net student fees in FY16 increased \$41,628 or 0.9% as compared to a decrease of \$517,229 or 9.6% in FY15.
- Operating grants and contributions in FY16 increased \$191,963 or 2.7% as compared to a decrease of \$581,526 or 7.4% in FY15.
- FTE enrollments decreased 4.6% in FY16.
- Operating expenses in FY16 increased \$615,960 or 2.3% as compared to a decrease of \$25,652 or 0.1% in FY15.

BERKSHIRE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

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 *Statements 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 *Statements of Revenues, Expenses and 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 *Statements of Cash Flows* are 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 16 to 19 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
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

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 20 to 42 of this report.

Financial Analysis

Net Position

The following table presents a summary of the College's net position. Detailed statements of net position may be found in the financial statements on page 16 of this report.

| | June 30, | | |
|--------------------------------|-----------------------------|----------------------|----------------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Current assets | \$ 8,041,708 | \$ 6,787,805 | \$ 6,413,558 |
| Non-current assets | <u>29,099,275</u> | <u>14,945,074</u> | <u>14,037,932</u> |
| Total assets | <u>37,140,983</u> | <u>21,732,879</u> | <u>20,451,490</u> |
| Deferred outflows of resources | <u>307,872</u> | <u>78,006</u> | <u>-</u> |
| Current liabilities | 4,556,298 | 3,358,355 | 3,258,573 |
| Non-current liabilities | <u>2,953,923</u> | <u>2,508,193</u> | <u>1,331,904</u> |
| Total liabilities | <u>7,510,221</u> | <u>5,866,548</u> | <u>4,590,477</u> |
| Deferred inflows of resources | <u>1,021,605</u> | <u>916,710</u> | <u>-</u> |
| Investment in capital assets | 27,865,851 | 14,359,255 | 13,411,566 |
| Restricted - expendable | 113,727 | 76,203 | 106,032 |
| Unrestricted | <u>937,451</u> | <u>592,169</u> | <u>2,343,415</u> |
| Total net position | <u>\$ 28,917,029</u> | <u>\$ 15,027,627</u> | <u>\$ 15,861,013</u> |

The measurement of net position can serve over time as a useful indicator of the College's financial position. Net position increased \$13,889,402 for the year ended June 30, 2016 and increased \$1,331,007 for the year ended June 30, 2015.

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

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 \$27,865,851 at June 30, 2016, representing 96.4% of total net position. Net position investment in capital assets increased by \$13,506,596 in FY16. The College received capital appropriations from the Commonwealth totaling \$13,616,175. 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 6 on page 28 of the Notes to the Financial Statements.

The College's long-term debt consists of Clean Renewable Energy Bonds (CREB) of \$438,671, capital lease obligations of \$506,044, 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 7 on page 29 of the Notes to the Financial Statements for more information on long-term liabilities.

A portion of the College's net position, \$113,727 in FY16 (\$76,203 in FY15), represents resources that are subject to external restrictions on how they must be used. The unrestricted net position of \$937,451 in FY16 (\$592,169 in FY15) may be used to meet the College's ongoing obligations to its stakeholders.

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

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

| | For Fiscal Years Ended | | |
|---|-------------------------------|----------------------|----------------------|
| | 2016 | 2015 | 2014 |
| Operating revenues: | | | |
| Tuition and fees, net of tuition waivers and remissions | \$ 4,937,260 | \$ 4,895,632 | \$ 5,412,861 |
| Operating grants and contributions | 7,417,138 | 7,225,175 | 7,806,701 |
| Other sources | 853,275 | 705,494 | 726,366 |
| Total operating revenues | <u>13,207,673</u> | 12,826,301 | 13,945,928 |
| Total operating expenses | <u>26,899,464</u> | 26,283,504 | 26,309,156 |
| Net operating loss | <u>(13,691,791)</u> | <u>(13,457,203)</u> | <u>(12,363,228)</u> |
| Non-operating and other revenues (expenses): | | | |
| State appropriations | 27,561,752 | 14,784,246 | 12,578,221 |
| Net investment income | 38,172 | 24,201 | 21,381 |
| Interest expense | (18,731) | (20,237) | (21,793) |
| Total non-operating and other revenues | <u>27,581,193</u> | 14,788,210 | 12,577,809 |
| Increase in net position | <u>13,889,402</u> | 1,331,007 | 214,581 |
| Net position - beginning of year | <u>15,027,627</u> | 13,696,620 | 15,646,432 |
| Net position - end of year | <u>\$ 28,917,029</u> | <u>\$ 15,027,627</u> | <u>\$ 15,861,013</u> |

BERKSHIRE COMMUNITY COLLEGE

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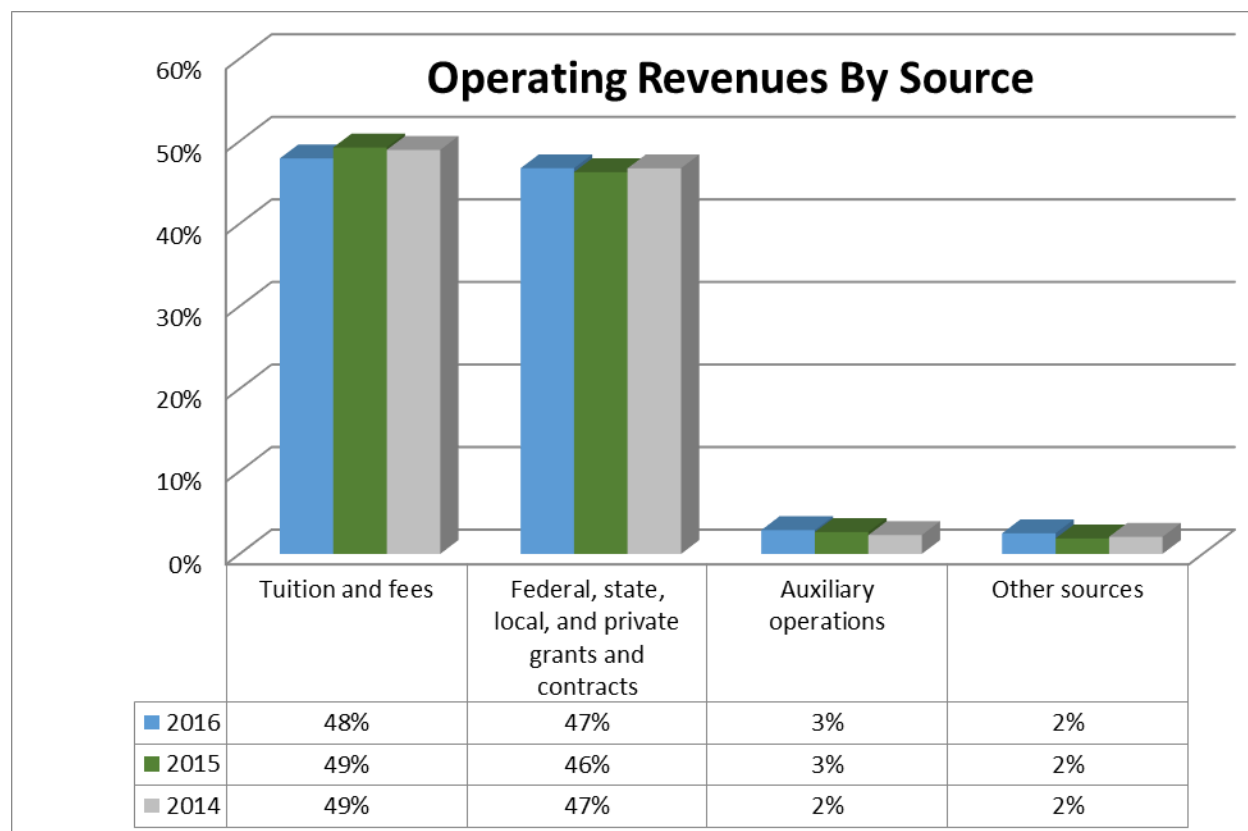
Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

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, 2016, 2015, and 2014.



- **Total operating revenues** in FY16 increased \$381,372 or 3.0% as compared to a decrease of \$1,119,627 or 8.0% in FY15.
- **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 FY16 increased \$41,628 or 0.9% as compared to a decrease of \$517,229 or 9.6% in FY15.

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

June 30, 2016 and 2015

Financial Analysis – Continued

Operating Revenue Highlights – Continued

- **Operating grants and contributions** in FY16 increased \$191,963 or 2.7% as compared to a decrease of \$581,526 or 7.4% in FY15. See the table below for further discussion regarding grants received in FY16.
- **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 FY16 increased \$147,781 or 20.9% as compared to a decrease of \$20,872 or 2.87 % in FY15.
- FY16 operating grants and contracts included the following:

| Grant Name | Funding Source | Amount | Purpose |
|---|-----------------------|---------------|---|
| Federal SEOG | US DOE | \$69,139 | Need-based funds awarded at school discretion according to packaging policies. |
| Pell | US DOE | \$3,315,134 | Entitlement fund based upon demonstrated financial need. |
| Federal Work Study | US DOE | \$83,340 | Federal allocation providing on- and off-campus work opportunities. |
| College Access Challenge | Mass. BOHE | \$100,000 | Activities and services that support college access and retention of low-income and underrepresented students. Total of \$150,000 with \$50,000 awarded to MCLA. |
| Title III Strengthening Institutions Grant | US DOE | \$424,169 | 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. First year of five-year award. |

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

June 30, 2016 and 2015

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 | \$207,271 | Second year of three-year award to support Guided Pathways To Success in STEM project. |
| TAA Workforce Grant Navigator | US DOL | \$63,007 | Support College and Career Navigator position to build partnerships between College and Career Center. |
| Berkshire Enterprises | USDA | \$48,000 | Rural Business Enterprise grant to fund technical assistance for small businesses. |
| AMP IT UP Program | Mass. Manufacturing Partnership | \$10,000 | Support education of students, families, and advisors regarding opportunities in advanced manufacturing. |
| ABE Adult Community Learning Center | Mass. DESE | \$213,492 | Support Adult Community Learning Center at South County Center. |
| ABE Project Link | Mass. DESE | \$87,260 | Provide foundation of services within Massachusetts community colleges, which enable adult learners to transition and ultimately complete postsecondary education. |
| Mass. Life Sciences | Mass. Life Sciences Foundation | \$500,000 | Purchase equipment and supplies for program to train students for work in Life Sciences. |
| STEM Starter Academy | Mass. BOHE | \$300,000 | Provide support services and transition programming to STEM students. |

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

June 30, 2016 and 2015

Financial Analysis – Continued

Operating Revenue Highlights – Continued

| Grant Name | Funding Source | Amount | Purpose |
|---|---------------------------------------|---------------|---|
| Perkins | Mass. DOE | \$119,443 | Support CVTE linkage activities and career technical program. |
| TRIO | US DOE | \$247,584 | Student support services. First year of five-year award. |
| Dual Enrollment | Mass. DHE | \$42,000 | Support dual enrollment program, which allows qualified high school students to take college courses. |
| Early Childhood Professional Development | Springfield Preschool Enrichment Team | \$27,500 | Help early childhood educators serve early education and related needs of out-of-force workforce in three core areas: educator and provider planning, coaching and mentoring, and competency development. |
| Mass. Skills Capital Grant | Mass. Workforce Skills Cabinet | \$465,119 | Upgrade and modernize manufacturing and engineering program capabilities by purchasing new equipment to provide students with hands-on training. |

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

June 30, 2016 and 2015

Financial Analysis - Continued

Operating Expense Highlights

Total operating expenses increased \$615,960 from FY15 to FY16. Of this amount, salary costs increased \$248,603 or 1.72% and fringe benefit costs increased \$367,357 or 11.07%. Functional expense classifications and dollar amounts are shown below. Expense percentage shares are shown in the accompanying chart.

| | For Fiscal Years Ended | | |
|------------------------------------|-------------------------------|----------------------|----------------------|
| | 2016 | 2015 | 2014 |
| Operating expenses: | | | |
| Instruction | \$ 9,810,474 | \$ 9,774,539 | \$ 10,290,101 |
| Academic support | 3,290,501 | 2,887,484 | 2,464,927 |
| Student services | 3,424,412 | 3,140,401 | 3,162,786 |
| Scholarships and fellowships | 2,121,292 | 2,705,745 | 2,888,933 |
| Operation and maintenance of plant | 2,496,905 | 2,639,910 | 2,420,236 |
| Institutional support | 4,059,182 | 3,874,982 | 3,883,725 |
| Depreciation and amortization | 1,210,640 | 832,582 | 770,594 |
| Auxiliary operations | 486,058 | 427,861 | 427,854 |
| Total operating expenses | <u>\$ 26,899,464</u> | <u>\$ 26,283,504</u> | <u>\$ 26,309,156</u> |

- **Instruction** – Costs directly related to the classroom (i.e., faculty salaries, instructional supplies, and equipment) increased \$35,935 or 0.4% in FY16 and decreased \$515,562 or 5.0% in FY15.
- **Academic Support** – Expenses that provide administrative and management support for academic programs increased \$403,017 or 14.0% in FY16 and increased \$422,557 or 17.1% in FY15.
- **Student Services** – Admissions, Registrar, and Financial Aid offices as well as counseling, tutoring, interpreters, and all other student support services increased \$284,011 or 9.0% in FY16 and decreased \$22,385 or 0.7% in FY15.
- **Scholarships and Fellowships** – Student aid, including federal, state, and private grants (i.e., Pell, SEOG, Massachusetts State Cash Grants, and Massachusetts State Scholarships) decreased \$584,453 or 21.6% in FY16 and decreased \$183,188 or 6.3% in FY15.

BERKSHIRE COMMUNITY COLLEGE

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Management’s Discussion and Analysis (Unaudited) - Continued

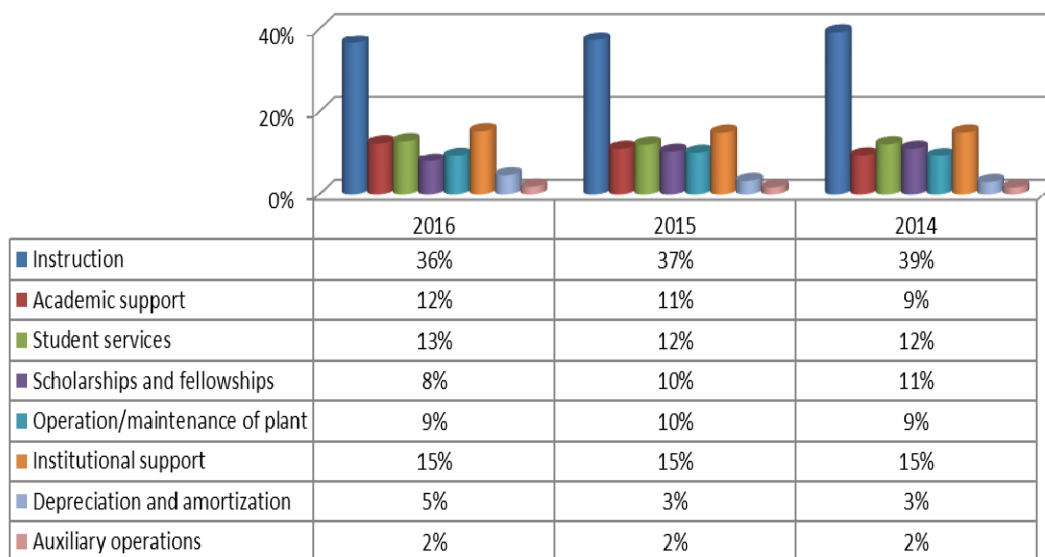
June 30, 2016 and 2015

Financial Analysis - Continued

Operating Expense Highlights – Continued

- **Operation and Maintenance of Plant** – Spending on the operation and direct maintenance of the physical plant and grounds decreased \$143,005 or 5.4% in FY16 and increased \$219,674 or 9.1% in FY15.
- **Institutional Support** – Collectively, spending by all administrative functions increased \$184,200 or 4.8% in FY16 and decreased \$8,743 or 0.2% in FY15.
- **Depreciation and Amortization** – This non-cash expense increased \$378,058 or 45.4% in FY16 and increased \$61,988 or 8.0% in FY15.
- **Auxiliary Operations** – Food services increased \$58,196 or 13.6% in FY16 and increased \$7 or 0.0% in FY15.

Operating Expenses By Function



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

June 30, 2016 and 2015

Financial Analysis - 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 \$699,288 or 5.3% in FY16 and increased \$1,005,322 or 8.2% in FY15. Investment income increased \$13,971 or 57.7% in FY16 and increased \$2,820 or 13.2% in FY15.

Loss from Operations and State Appropriations

Due to the economics of public higher education and accounting requirements, institutions actually incur a loss from operations, because results from operations are reported before state budget appropriations are taken into consideration. The Commonwealth's Board of Higher Education establishes the tuition. The College sets student fees and other fees. Commonwealth appropriations to the College defray the loss from operations covered by tuition and fee revenue. 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, 2016, 2015, and 2014, respectively.

| | For Fiscal Years Ended | | |
|---|-------------------------------|----------------------|----------------------|
| | 2016 | 2015 | 2014 |
| Gross Commonwealth operating appropriations | \$ 11,026,230 | \$ 10,610,254 | \$ 9,863,483 |
| Plus fringe benefits* | 3,092,833 | 2,830,391 | 2,520,169 |
| | <u>14,119,063</u> | <u>13,440,645</u> | <u>12,383,652</u> |
| Less tuition remitted | <u>(173,486)</u> | <u>(194,356)</u> | <u>(142,685)</u> |
| Net Commonwealth operating appropriations | 13,945,577 | 13,246,289 | 12,240,967 |
| Gross Commonwealth capital appropriations | <u>13,616,175</u> | <u>1,537,957</u> | <u>337,254</u> |
| Net Commonwealth appropriations | <u>\$ 27,561,752</u> | <u>\$ 14,784,246</u> | <u>\$ 12,578,221</u> |

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

Financial Analysis - Continued

Loss from Operations and State Appropriations - Continued

* 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.

Economic Factors, Outlook, and Tuition and Student Fee Rates

The College's net state appropriations increased \$12,777,506 in FY16 and increased \$2,206,025 in FY15. The increase in FY16 was the result of a general appropriations increase of \$699,288 and capital appropriations increase of \$12,078,218.

For FY17, state appropriations are expected to increase \$108,777 as compared to FY16. An increase in the technology fee of \$7 per credit was implemented for FY16 as well as a registration fee of \$20 per student per semester. An increase in the college service fee of \$6 per credit is being implemented for FY17. 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
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

| | Primary Government | | Component Unit | |
|--|----------------------|----------------------|---------------------|---------------------|
| | 2016 College | 2015 College | 2016 Foundation | 2015 Foundation |
| Current Assets: | | | | |
| Cash and equivalents | \$ 3,900,135 | \$ 4,441,792 | \$ 1,374,164 | \$ 1,080,124 |
| Cash held by State Treasurer | 1,695,057 | 282,614 | - | - |
| Restricted cash and equivalents | 102,116 | 376,277 | - | - |
| Short-term investments | 659,163 | 656,530 | - | - |
| Accounts receivable, net | 1,433,948 | 719,434 | 100,000 | 100,000 |
| Inventory and other current assets | 251,289 | 311,158 | 1,038 | 1,971 |
| Total Current Assets | <u>8,041,708</u> | <u>6,787,805</u> | <u>1,475,202</u> | <u>1,182,095</u> |
| Non-Current Assets: | | | | |
| Long-term investments | 76,162 | 59,414 | 7,400,230 | 7,888,260 |
| Capital assets, net of accumulated depreciation | 29,023,113 | 14,885,660 | 391,577 | 412,168 |
| Total Non-Current Assets | <u>29,099,275</u> | <u>14,945,074</u> | <u>7,791,807</u> | <u>8,300,428</u> |
| Total Assets | <u>37,140,983</u> | <u>21,732,879</u> | <u>9,267,009</u> | <u>9,482,523</u> |
| Deferred Outflows of Resources: | | | | |
| Change in plan actuarial assumptions | 203,104 | 13,503 | - | - |
| Contributions made after measurement date | 81,586 | 64,503 | - | - |
| Differences between expected and actual experience | 23,182 | - | - | - |
| Total Deferred Outflows of Resources | <u>307,872</u> | <u>78,006</u> | <u>-</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 37,448,855</u> | <u>\$ 21,810,885</u> | <u>\$ 9,267,009</u> | <u>\$ 9,482,523</u> |

Liabilities, Deferred Inflows of Resources and Net Position

| | | | | |
|--|----------------------|----------------------|---------------------|---------------------|
| Current Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 417,131 | \$ 776,958 | \$ 56,960 | \$ 12,101 |
| Accrued payroll | 857,296 | 773,987 | - | - |
| Compensated absences | 1,202,057 | 1,238,475 | - | - |
| Workers' compensation | 40,362 | 40,587 | - | - |
| Student deposits and unearned revenues | 227,919 | 101,055 | - | - |
| Other unearned revenues | 1,598,986 | 383,426 | - | - |
| Current portion of bond payable | 43,867 | 43,867 | - | - |
| Current portion of capital lease obligations | 168,680 | - | - | - |
| Current portion of debt | - | - | 36,990 | 50,940 |
| Total Current Liabilities | <u>4,556,298</u> | <u>3,358,355</u> | <u>93,950</u> | <u>63,041</u> |
| Non-Current Liabilities: | | | | |
| Compensated absences | 685,485 | 678,877 | - | - |
| Workers' compensation | 150,928 | 145,591 | - | - |
| Non-current portion of bond payable | 438,671 | 482,538 | - | - |
| Non-current portion of capital lease obligations | 506,044 | - | - | - |
| Non-current portion of debt | - | - | - | 38,357 |
| Net pension liability | 1,172,795 | 1,201,187 | - | - |
| Total Non-Current Liabilities | <u>2,953,923</u> | <u>2,508,193</u> | <u>-</u> | <u>38,357</u> |
| Total Liabilities | <u>7,510,221</u> | <u>5,866,548</u> | <u>93,950</u> | <u>101,398</u> |
| Deferred Inflows of Resources: | | | | |
| Changes in proportion | 947,142 | 670,168 | - | - |
| Differences between projected and actual earnings on plan investments | 33,701 | 246,542 | - | - |
| Service concession arrangement | 40,762 | - | - | - |
| Total Deferred Inflows of Resources | <u>1,021,605</u> | <u>916,710</u> | <u>-</u> | <u>-</u> |
| Net Position: | | | | |
| Net investment in capital assets | 27,865,851 | 14,359,255 | 354,587 | 322,871 |
| Restricted: | | | | |
| Nonexpendable | - | - | 6,113,884 | 5,938,056 |
| Expendable | 113,727 | 76,203 | 2,169,127 | 2,616,819 |
| Unrestricted | 937,451 | 592,169 | 535,461 | 503,379 |
| Total Net Position | <u>28,917,029</u> | <u>15,027,627</u> | <u>9,173,059</u> | <u>9,381,125</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 37,448,855</u> | <u>\$ 21,810,885</u> | <u>\$ 9,267,009</u> | <u>\$ 9,482,523</u> |

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

| | <u>Primary Government</u> | | <u>Component Unit</u> | |
|--|---------------------------|-------------------------|----------------------------|----------------------------|
| | <u>2016 College</u> | <u>2015 College</u> | <u>2016 Foundation</u> | <u>2015 Foundation</u> |
| Operating Revenues: | | | | |
| Tuition and fees | \$ 7,605,841 | \$ 7,691,193 | \$ - | \$ - |
| Less: scholarship allowances | <u>(2,668,581)</u> | <u>(2,795,561)</u> | - | - |
| Net student fees | 4,937,260 | 4,895,632 | - | - |
| Gifts and contributions | - | - | 532,841 | 489,218 |
| Federal, state, local and private grants and contracts | 7,417,138 | 7,225,175 | - | - |
| Other auxiliary operations | 456,932 | 412,950 | - | - |
| Other sources | <u>396,343</u> | <u>292,544</u> | <u>303,473</u> | <u>299,681</u> |
| Total Operating Revenues | <u>13,207,673</u> | <u>12,826,301</u> | <u>836,314</u> | <u>788,899</u> |
| Operating Expenses: | | | | |
| Instruction | 9,810,474 | 9,774,539 | - | - |
| Academic support | 3,290,501 | 2,887,484 | - | - |
| Student services | 3,424,412 | 3,140,401 | - | - |
| Scholarships and fellowships | 2,121,292 | 2,705,745 | 449,702 | 704,637 |
| Operation and maintenance of plant | 2,496,905 | 2,639,910 | 121,364 | 133,631 |
| Institutional support | 4,059,182 | 3,874,982 | 144,157 | 157,334 |
| Depreciation and amortization | 1,210,640 | 832,582 | 39,921 | 39,380 |
| Auxiliary operations | <u>486,058</u> | <u>427,861</u> | - | - |
| Total Operating Expenses | <u>26,899,464</u> | <u>26,283,504</u> | <u>755,144</u> | <u>1,034,982</u> |
| Net Operating Income (Loss) | <u>(13,691,791)</u> | <u>(13,457,203)</u> | <u>81,170</u> | <u>(246,083)</u> |
| Non-Operating Revenues (Expenses): | | | | |
| State appropriations - unrestricted, net | 13,945,577 | 13,246,289 | - | - |
| Net investment income (loss) | 38,172 | 24,201 | (286,224) | 116,718 |
| Interest expense | <u>(18,731)</u> | <u>(20,237)</u> | <u>(3,012)</u> | <u>(5,331)</u> |
| Net Non-Operating Revenues (Expenses) | <u>13,965,018</u> | <u>13,250,253</u> | <u>(289,236)</u> | <u>111,387</u> |
| Income (Loss) Before Capital Appropriations | 273,227 | (206,950) | (208,066) | (134,696) |
| Capital appropriations | <u>13,616,175</u> | <u>1,537,957</u> | - | - |
| Increase (Decrease) in Net Position | 13,889,402 | 1,331,007 | (208,066) | (134,696) |
| Net Position, Beginning of Year | <u>15,027,627</u> | <u>13,696,620</u> | <u>9,381,125</u> | <u>9,515,821</u> |
| Net Position, End of Year | <u>\$ 28,917,029</u> | <u>\$ 15,027,627</u> | <u>\$ 9,173,059</u> | <u>\$ 9,381,125</u> |

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

| | <u>2016</u> <u>College</u> | <u>2015</u> <u>College</u> |
|--|-------------------------------|-------------------------------|
| Cash Flows from Operating Activities: | | |
| Tuition and fees | \$ 4,994,889 | \$ 4,952,070 |
| Grants and contracts | 6,800,788 | 7,110,110 |
| Payments to suppliers | (6,083,009) | (5,022,381) |
| Payments to employees | (14,827,157) | (14,705,985) |
| Payments to students | (2,121,292) | (2,705,745) |
| Other auxiliary operations | 450,437 | 412,450 |
| Other sources | <u>1,630,226</u> | <u>391,490</u> |
| Net Cash Applied to Operating Activities | <u>(9,155,118)</u> | <u>(9,567,991)</u> |
| Cash Flows from Non-Capital Financing Activities: | | |
| State appropriations | 11,026,230 | 10,756,933 |
| 9C Reduction | - | (146,679) |
| Tuition remitted to State | <u>(173,486)</u> | <u>(194,356)</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>10,852,744</u> | <u>10,415,898</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Purchases of capital assets | (888,518) | (198,447) |
| Principal paid on capital lease obligations | (168,680) | - |
| Principal paid on bond payable | (43,867) | (43,867) |
| Interest paid on bond payable | <u>(18,731)</u> | <u>(20,237)</u> |
| Net Cash Applied to Capital and Related Financing Activities | <u>(1,119,796)</u> | <u>(262,551)</u> |
| Cash Flow from Investing Activity: | | |
| Interest on investments | <u>18,795</u> | <u>18,260</u> |
| Net Increase in Cash and Equivalents | 596,625 | 603,616 |
| Cash and Equivalents, Beginning of Year | <u>5,100,683</u> | <u>4,497,067</u> |
| Cash and Equivalents, End of Year | <u>\$ 5,697,308</u> | <u>\$ 5,100,683</u> |

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

| | <u>2016</u> <u>College</u> | <u>2015</u> <u>College</u> |
|---|-------------------------------|-------------------------------|
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | | |
| Net operating loss | \$ (13,691,791) | \$ (13,457,203) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | | |
| Depreciation | 1,210,640 | 832,582 |
| Service concession arrangement | 40,762 | - |
| Net pension activity | (194,125) | (124,502) |
| Bad debts | 31,134 | 11,331 |
| Fringe benefits provided by State | 3,092,833 | 2,830,391 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (745,648) | 189,352 |
| Inventory and other current assets | 59,869 | 31,307 |
| Accounts payable and accrued liabilities | (359,827) | 542,557 |
| Accrued employee compensation and benefits | 58,611 | (262,942) |
| Student deposits and unearned revenues | 126,864 | (47,846) |
| Other deferred revenues | <u>1,215,560</u> | <u>(113,018)</u> |
| Net Cash Applied to Operating Activities | <u>\$ (9,155,118)</u> | <u>\$ (9,567,991)</u> |
| Reconciliation of Cash and Equivalents to Statements of Net Position, End of Year: | | |
| Cash and equivalents | \$ 3,900,135 | \$ 4,441,792 |
| Cash held by State Treasurer | 1,695,057 | 282,614 |
| Restricted cash and equivalents | <u>102,116</u> | <u>376,277</u> |
| | <u>\$ 5,697,308</u> | <u>\$ 5,100,683</u> |
| Non-Cash Transactions: | | |
| Fringe benefits provided by State appropriations | <u>\$ 3,092,833</u> | <u>\$ 2,830,391</u> |
| Capital improvements provided by capital appropriations | <u>\$ 13,616,175</u> | <u>\$ 1,537,957</u> |
| Capital assets provided by capital lease obligations | <u>\$ 843,400</u> | <u>\$ -</u> |
| Interest and dividends reinvested | <u>\$ 5,849</u> | <u>\$ 5,603</u> |

See accompanying notes to the financial statements.

BERKSHIRE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2016 and 2015

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 United States of America Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (“GASB”). Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College’s policy defines operating activities in the Statements of Revenues, Expenses and Changes in Net Position as those that generally result from exchange transactions such as payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth of Massachusetts (the “Commonwealth”), net investment income, and interest expense.

Berkshire Community College Foundation (the “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 the activities of the College by the donors. Because these resources held by the Foundation can only be used by, or are for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Basis of Presentation - Continued

With reliance upon guidance issued by the Massachusetts Board of Higher Education, the College and its discretely presented component unit have classified the prior matching contributions from the Commonwealth of Massachusetts to the Endowment Incentive Program, as well as the underlying gift from the donor, in accordance with either the donor's original intent or this previously issued guidance. Accordingly, these amounts may be classified as restricted non-expendable, restricted expendable, or unrestricted.

Net Position

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

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.

Restricted non-expendable: Net position subject to externally imposed conditions such 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 positions may be designated by actions of the College's Board of Trustees.

Trust Funds

In accordance with the requirements of the Commonwealth of Massachusetts, the College's operations are accounted 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 state agencies on behalf of the College.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Restricted Cash

Restricted cash 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, 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 in the loan portfolio, estimated value of underlying collateral, and current economic conditions.

Inventories and Other Assets

Inventories consist of food service materials, and other assets consist of prepaid expenses. Inventories are stated at the lower of cost or market, and cost is determined using the first-in, first-out method.

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 are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 40 years.

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

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

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, 2016 and 2015

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

Fringe Benefits

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

Pensions

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

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 June 30 of each year. Pursuant to statewide experience on sick pay buyback agreements applicable to state employees, the College accrues sick leave to a level representing 20 percent of amounts earned by those eligible employees with ten or more years of state service at the end of the fiscal year. Upon retirement, these employees are entitled to receive payment of this accrued balance.

Workers' Compensation

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

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 unearned and are recorded as revenues are earned.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Student Fees

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses. The actual outcome of these estimates could differ from those estimates made in the preparation of financial statements.

New Governmental Accounting Pronouncements

GASB Statement 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this standard had no effect on financial position.

GASB Statement 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

New Governmental Accounting Pronouncements - Continued

The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The provisions of this Statement applicable to the College are effective for periods beginning after June 15, 2015. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 68 is effective for the fiscal year ended June 30, 2015. Implementation of this standard had no effect on financial position.

Note 2 - **Cash and Equivalents**

Custodial credit risk is associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the depositor would not be able to recover its balances in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The College's deposit policy for custodial credit risk requires the depository institution to purchase additional insurance to cover deposits in excess of the FDIC insured amount. As of June 30, 2016 and 2015, none of the College's bank balances, net of deposits and disbursements in transit, of approximately \$5,082,000 and \$5,554,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$1,695,057 and \$282,614 at June 30, 2016 and 2015, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently used for these liabilities.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Investments**

Investments of the College

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

| | <u>2016</u> | <u>2015</u> |
|--------------------|-------------------|-------------------|
| Money market funds | \$ 659,163 | \$ 656,530 |
| Equity securities | <u>76,162</u> | <u>59,414</u> |
| Total | <u>\$ 735,325</u> | <u>\$ 715,944</u> |

The College categorizes investments according to the level of risk assumed by the College. At June 30, 2016 and 2015, 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 market 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.

College Fair Value Hierarchy

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

Money market funds: Valued at the current available closing price reported or based on values obtained on comparable funds.

Equity securities: Valued based on quoted prices in active markets of similar instruments.

At June 30, 2016 and 2015, all investments are categorized in Level 1 of the fair value hierarchy.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Investments - Continued**

Investments of the Foundation

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

| | <u>2016</u> | <u>2015</u> |
|--------------------|---------------------|---------------------|
| Stocks | \$ 4,896,955 | \$ 5,561,034 |
| Bonds | 2,092,790 | 2,162,053 |
| Money market funds | <u>410,485</u> | <u>165,173</u> |
| Total | <u>\$ 7,400,230</u> | <u>\$ 7,888,260</u> |

The following schedule summarizes the Foundation's investment income and its classification in the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|---------------------|-------------------|
| Investment income | \$ 159,628 | \$ 139,500 |
| Unrealized losses | (410,637) | (380,758) |
| Realized gain (loss) | <u>(35,215)</u> | <u>357,976</u> |
| Net investment income (loss) | <u>\$ (286,224)</u> | <u>\$ 116,718</u> |

Note 5 - **Accounts Receivable**

Accounts receivable is comprised of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|-------------------|
| Student accounts receivable | \$ 1,309,123 | \$ 1,208,754 |
| Grants receivable | 711,237 | 121,552 |
| Other receivables | <u>99,162</u> | <u>43,568</u> |
| | 2,119,522 | 1,373,874 |
| Less: allowance for doubtful accounts | <u>(685,574)</u> | <u>(654,440)</u> |
| Accounts receivable, net | <u>\$ 1,433,948</u> | <u>\$ 719,434</u> |

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 6 - **Capital Assets**

Capital assets of the College consist of the following:

| <u>June 30, 2016</u> | | | | | | |
|---|---------------------------------------|------------------------------|----------------------|--------------------|--------------------------|-----------------------|
| | <u>Estimated Lives (in years)</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
| Capital assets not depreciated: | | | | | | |
| Construction in progress | | \$ 1,873,777 | \$ 13,611,730 | \$ - | \$ (267,653) | \$ 15,217,854 |
| Land | | <u>474,888</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>474,888</u> |
| Total not depreciated | | <u>2,348,665</u> | <u>13,611,730</u> | <u>-</u> | <u>(267,653)</u> | <u>15,692,742</u> |
| Capital assets depreciated: | | | | | | |
| Buldings and improvements | 20 - 40 | 33,555,058 | - | - | 267,653 | 33,822,711 |
| Furnishings and equipment (including cost of capital leases) | 5 - 10 | <u>1,452,167</u> | <u>1,736,363</u> | <u>(38,307)</u> | <u>-</u> | <u>3,150,223</u> |
| Total depreciated | | <u>35,007,225</u> | <u>1,736,363</u> | <u>(38,307)</u> | <u>267,653</u> | <u>36,972,934</u> |
| Less: accumulated depreciation: | | | | | | |
| Buldings and improvements | | <u>(21,312,663)</u> | <u>(755,232)</u> | <u>-</u> | <u>-</u> | <u>(22,067,895)</u> |
| Furnishings and equipment | | <u>(1,157,567)</u> | <u>(455,408)</u> | <u>38,307</u> | <u>-</u> | <u>(1,574,668)</u> |
| Total accumulated depreciation | | <u>(22,470,230)</u> | <u>(1,210,640)</u> | <u>38,307</u> | <u>-</u> | <u>(23,642,563)</u> |
| Capital assets, net | | <u>\$ 14,885,660</u> | <u>\$ 14,137,453</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 29,023,113</u> |
| <u>June 30, 2015</u> | | | | | | |
| | <u>Estimated Lives (in years)</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
| Capital assets not depreciated: | | | | | | |
| Construction in progress | | \$ 349,334 | \$ 1,679,443 | \$ - | \$ (155,000) | \$ 1,873,777 |
| Land | | <u>474,888</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>474,888</u> |
| Total not depreciated | | <u>824,222</u> | <u>1,679,443</u> | <u>-</u> | <u>(155,000)</u> | <u>2,348,665</u> |
| Capital assets depreciated: | | | | | | |
| Buldings and improvements | 20 - 40 | 33,555,058 | - | - | - | 33,555,058 |
| Furnishings and equipment (including cost of capital leases) | 5 - 10 | <u>1,343,782</u> | <u>56,961</u> | <u>(103,576)</u> | <u>155,000</u> | <u>1,452,167</u> |
| Total depreciated | | <u>34,898,840</u> | <u>56,961</u> | <u>(103,576)</u> | <u>155,000</u> | <u>35,007,225</u> |
| Less: accumulated depreciation: | | | | | | |
| Buldings and improvements | | <u>(20,564,122)</u> | <u>(748,541)</u> | <u>-</u> | <u>-</u> | <u>(21,312,663)</u> |
| Furnishings and equipment | | <u>(1,177,102)</u> | <u>(84,041)</u> | <u>103,576</u> | <u>-</u> | <u>(1,157,567)</u> |
| Total accumulated depreciation | | <u>(21,741,224)</u> | <u>(832,582)</u> | <u>103,576</u> | <u>-</u> | <u>(22,470,230)</u> |
| Capital assets, net | | <u>\$ 13,981,838</u> | <u>\$ 903,822</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 14,885,660</u> |

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 7 - **Long-Term Liabilities**

Long-term liabilities consist of the following:

| | <u>June 30, 2016</u> | | | | | |
|-------------------------------------|------------------------------|-------------------|-----------------------|---------------------------|----------------------------|--------------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> | <u>Non-Current Portion</u> |
| Bond and leases payable: | | | | | | |
| Bond payable | \$ 526,405 | \$ - | \$ (43,867) | \$ 482,538 | \$ 43,867 | \$ 438,671 |
| Capital lease obligations | - | 843,404 | (168,680) | 674,724 | 168,680 | 506,044 |
| Other long-term liabilities: | | | | | | |
| Compensated absences | 1,917,352 | - | (29,810) | 1,887,542 | 1,202,057 | 685,485 |
| Workers' compensation | 186,178 | 5,112 | - | 191,290 | 40,362 | 150,928 |
| Net pension liability | 1,201,187 | - | (28,392) | 1,172,795 | - | 1,172,795 |
| | <u>\$ 3,831,122</u> | <u>\$ 848,516</u> | <u>\$ (270,749)</u> | <u>\$ 4,408,889</u> | <u>\$ 1,454,966</u> | <u>\$ 2,953,923</u> |
| | | | | | | |
| | <u>June 30, 2015</u> | | | | | |
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> | <u>Non-Current Portion</u> |
| Bond and leases payable: | | | | | | |
| Bond payable | \$ 570,272 | \$ - | \$ (43,867) | \$ 526,405 | \$ 43,867 | \$ 482,538 |
| Other long-term liabilities: | | | | | | |
| Compensated absences | 1,867,844 | 49,508 | - | 1,917,352 | 1,238,475 | 678,877 |
| Workers' compensation | 190,535 | - | (4,357) | 186,178 | 40,587 | 145,591 |
| Net pension liability | 2,259,565 | - | (1,058,378) | 1,201,187 | - | 1,201,187 |
| | <u>\$ 4,888,216</u> | <u>\$ 49,508</u> | <u>\$ (1,106,602)</u> | <u>\$ 3,831,122</u> | <u>\$ 1,322,929</u> | <u>\$ 2,508,193</u> |

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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, 2016 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|--------------------------|-------------------|-------------------|-------------------|
| 2017 | \$ 43,867 | \$ 17,123 | \$ 60,990 |
| 2018 | 43,867 | 15,566 | 59,433 |
| 2019 | 43,867 | 14,010 | 57,877 |
| 2020 | 43,867 | 12,488 | 56,355 |
| 2021 | 43,867 | 10,897 | 54,764 |
| 2022 - 2026 | 219,335 | 31,151 | 250,486 |
| 2027 | 43,868 | 1,557 | 45,425 |
| | <u>\$ 482,538</u> | <u>\$ 102,792</u> | <u>\$ 585,330</u> |

Capital Lease Obligations

In fiscal year 2016, 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, 2016:

| Years Ending June 30, | Lease Payments |
|--------------------------|-------------------|
| 2017 | \$ 168,680 |
| 2018 | 168,680 |
| 2019 | 168,680 |
| 2020 | 168,684 |
| | <u>\$ 674,724</u> |

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Capital Lease Obligations - Continued

Leased equipment under capital leases recorded in capital assets at June 30, 2016, include the following:

| | | |
|--------------------------------|----|--------------------------|
| Equipment | \$ | 843,404 |
| Less: accumulated depreciation | | <u>(168,680)</u> |
| Total | | <u><u>\$ 674,724</u></u> |

Foundation Debt

Foundation debt for the fiscal years ended June 30 is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|------------------|
| Mortgage note payable to Greylock Federal Credit Union; monthly payments of \$4,610 with interest at 4.5%. Substantially all land, building, and improvements are pledged as collateral. | \$ 36,990 | \$ 89,297 |
| Current portion of debt | <u>(36,990)</u> | <u>(50,940)</u> |
| Non-current portion of debt | \$ <u> -</u> | \$ <u>38,357</u> |

Future principal payments are as follows at June 30, 2016:

| | |
|-----------------|-----------|
| Years Ending | |
| <u>June 30,</u> | |
| 2017 | \$ 36,990 |

The Foundation has established borrowing ability through a line of credit. The total line of credit is \$175,000 with the entire amount available to be borrowed.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **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 non-expendable net position consists of endowment funds to be held in perpetuity, whose income is mainly used for various scholarships and program support.

Unrestricted Net Position

The College's unrestricted net position has been designated by the College's Board of Trustees for deferred maintenance, information technology, and academic equipment and materials.

The Foundation's unrestricted net position designated by the Foundation's Board of Directors is for the purpose of information technology.

Note 9 - **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 \$315,483 and \$343,129 for the years ended June 30, 2016 and 2015, respectively. The following schedule summarizes future minimum payments due under non-cancelable operating leases as of June 30, 2016:

| Year Ending June 30, | Lease Payments |
|-------------------------|-------------------|
| 2017 | \$ 306,420 |
| 2018 | 121,014 |
| 2019 | <u>30,768</u> |
| | <u>\$ 458,202</u> |

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 10 - **Operating Expenses**

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

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|----------------------|----------------------|
| Compensation and benefits | \$ 17,784,480 | \$ 17,148,932 |
| Supplies and services | 5,783,052 | 5,596,245 |
| Scholarships and fellowships | 2,121,292 | 2,705,745 |
| Depreciation and amortization | <u>1,210,640</u> | <u>832,582</u> |
| Total | <u>\$ 26,899,464</u> | <u>\$ 26,283,504</u> |

Note 11 - **Pensions**

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$1,002,078 and \$1,033,515 for the years ended June 30, 2016 and 2015, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement system. Annual covered payroll was approximately 81% and 80% of total related payroll for fiscal years ended June 30, 2016 and 2015, respectively.

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 a stand-alone financial statement.

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 11 - **Pensions - Continued**

Benefit Provisions

SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (“MGL”) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated based on the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member’s age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the 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 cannot retire prior to age 60.

Contributions

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

| <u>Hire Date</u> | <u>Percentage of Compensation</u> |
|-------------------------|---|
| Prior to 1975 | 5% of regular compensation |
| 1975 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 |

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 11 - **Pensions - Continued**

Contributions - Continued

The College is required to contribute at an actuarially determined rate; the rate was 9.45% and 10.39% of annual covered payroll for the fiscal years ended June 30, 2016 and 2015, respectively. The College contributed \$81,586 and \$64,503 for the fiscal years ended June 30, 2016 and 2015, respectively, equal to 100% of the required contributions for each year.

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

At June 30, 2016 and 2015, the College reported a liability of \$1,172,795 and \$1,201,187, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability was measured as of June 30, 2015, 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, 2015 rolled forward to June 30, 2015. 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 fiscal year 2015. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2015 relative to total contributions of all participating employers for that fiscal year. At June 30, 2015 and 2014, the College's proportion was 0.010% and 0.018%, respectively.

For the years ended June 30, 2016 and 2015, the College recognized a pension benefit of \$111,201 and \$59,999, respectively.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 11 - **Pensions - Continued**

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

At June 30, 2016 and 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| <u>Deferred Outflows of Resources</u> | | |
| Change in plan actuarial assumptions | \$ 203,104 | \$ 13,503 |
| Contributions made after the measurement date | 81,586 | 64,503 |
| Differences between expected and actual experience | <u>23,182</u> | <u>-</u> |
| Total | <u>\$ 307,872</u> | <u>\$ 78,006</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Changes in proportion | \$ 947,142 | \$ 670,168 |
| Differences between projected and actual earnings on plan investments | <u>33,701</u> | <u>246,542</u> |
| Total | <u>\$ 980,843</u> | <u>\$ 916,710</u> |

The College's contributions of \$81,586 and \$64,503 made during the fiscal years ending 2016 and 2015, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

| <u>Year Ending</u> <u>June 30,</u> | |
|---------------------------------------|---------------------|
| 2017 | \$ (205,043) |
| 2018 | (205,043) |
| 2019 | (205,043) |
| 2020 | (167,876) |
| 2021 | <u>28,448</u> |
| | <u>\$ (754,557)</u> |

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 11 - **Pensions - 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, 2015 | June 30, 2014 |
| Inflation | 3.00% | 3.00% |
| Salary increases | 3.50% to 9.00% | 3.50% to 9.00% |
| Investment rate of return | 7.50% | 8.00% |
| Investment rate credited to annuity savings fund | 3.50% | 3.50% |

For measurement dates June 30, 2015 and 2014, mortality rates were based on the pre-retirement of RP-2000 Employees table projected 20 years with Scale BB and Scale AA, (gender distinct), respectively, and post-retirement of Healthy Annuitant table projected 15 years with Scale BB and AA (gender distinct), respectively. The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of an actuarial experience study performed as of January 1, 2015.

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 weighing 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, 2015 are summarized in the following table:

| Asset Class | 2016 | | 2015 | |
|---------------------------------|-------------------|--|-------------------|--|
| | Target Allocation | Long-Term Expected Real Rate of Return | Target Allocation | Long-Term Expected Real Rate of Return |
| Global Equity | 40.0% | 6.9% | 43.0% | 7.2% |
| Core Fixed Income | 13.0% | 2.4% | 13.0% | 2.5% |
| Private Equity | 10.0% | 8.5% | 10.0% | 8.8% |
| Real Estate | 10.0% | 6.5% | 10.0% | 6.3% |
| Value Added Fixed Income | 10.0% | 5.8% | 10.0% | 6.3% |
| Hedge Funds | 9.0% | 5.8% | 10.0% | 5.5% |
| Portfolio Completion Strategies | 4.0% | 5.5% | 0.0% | 0.0% |
| Timber / Natural Resources | 4.0% | 6.6% | 4.0% | 5.0% |
| Total | 100.0% | | 100.0% | |

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 11 - **Pensions - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.50% and 8.00%, respectively, at June 30, 2015 and 2014. 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 net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate of 7.50% and 8.00%, respectively, 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 (table references measurement dates).

| <u>June 30, 2015</u> | | |
|---------------------------|----------------------------------|---------------------------|
| 1.00% Decrease (6.50%) | Current Discount Rate (7.50%) | 1.00% Increase (8.50%) |
| \$ 1,594,202 | \$ 1,172,795 | \$ 809,310 |
| <u>June 30, 2014</u> | | |
| 1.00% Decrease (7.00%) | Current Discount Rate (8.00%) | 1.00% Increase (9.00%) |
| \$ 1,738,978 | \$ 1,201,187 | \$ 739,567 |

Note 12 - **Fringe Benefits Provided by State**

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 and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth, and currently the liability is borne by the Commonwealth as are any effects on net position and the results of current year operations, due to the adoption of GASB 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 12 - **Fringe Benefits Provided by State - Continued**

Fringe Benefits - Continued

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of College employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all non-student employees.

In addition to providing pension benefits, 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 is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of eligible authorities and non-state agencies.

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 the personnel of housing and redevelopment agencies, 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 administers a plan included within the State Retirement Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums, benefits, or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines contribution rates for employees and retirees.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 12 - **Fringe Benefits Provided by State - Continued**

Group Insurance Commission - Continued

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance and 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 years ended June 30, 2016 and 2015, 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 of its 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 case assistance program (for active employees only).

Note 13 - **Deferred Inflow of Resources**

Service Concession Arrangement

Deferred inflows of resources include a one-time payment of \$50,953 received by the College during fiscal year 2016 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 on June 30, 2020. At June 30, 2016, the unamortized portion of the payment was \$40,762.

Note 14 - **Contingencies**

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.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 14 - **Contingencies - Continued**

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 individual's enrollment at the College. The effect of this Program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the College.

The College 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.

Note 15 - **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*.

BERKSHIRE COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 15 - **Massachusetts Management Accounting and Reporting System - Continued**

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

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Directed unrestricted appropriations | \$ 11,026,230 | \$ 10,756,933 |
| Fringe benefits for benefited employees on the state payroll | 3,092,833 | 2,830,391 |
| Less: | | |
| 9C reduction | - | (146,679) |
| Day school tuition remitted to the state and included in tuition and fee revenues | <u>(173,486)</u> | <u>(194,356)</u> |
| Total unrestricted appropriations | 13,945,577 | 13,246,289 |
| Capital appropriations | <u>13,616,175</u> | <u>1,537,957</u> |
| Total appropriations | <u>\$ 27,561,752</u> | <u>\$ 14,784,246</u> |

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

| | <u>2016</u> | <u>2015</u> |
|---------------------|----------------------|----------------------|
| Revenue per MMARS | <u>\$ 18,090,369</u> | <u>\$ 16,534,006</u> |
| Revenue per College | <u>\$ 18,090,369</u> | <u>\$ 16,534,006</u> |

Note 16 - **Pass-Through Grants**

The College distributed \$3,021,937 and \$3,774,263 for the fiscal years ended June 30, 2016 and 2015, respectively, 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.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

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

Employees' Retirement System

| | | |
|--|-----------------|-----------------|
| Valuation date | January 1, 2015 | January 1, 2014 |
| Measurement date | June 30, 2015 | June 30, 2014 |
| College's proportion of the net pension liability | 0.010% | 0.018% |
| College's proportionate share of the net pension liability | \$ 1,172,795 | \$ 1,201,187 |
| College's covered-employee payroll | \$ 620,818 | \$ 1,200,107 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 188.91% | 100.09% |
| Plan fiduciary net position as a percentage of the total pension liability | 67.87% | 76.32% |

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedules of Contributions (Unaudited)

For the Years Ended June 30,

| | 2016 | 2015 |
|--|------------|------------|
| Contractually required contribution | \$ 81,586 | \$ 64,503 |
| Contributions in relation to the contractually required contribution | (81,586) | (64,503) |
| Contribution excess | \$ - | \$ - |
| College's covered-employee payroll | \$ 863,051 | \$ 620,818 |
| Contribution as a percentage of covered-employee payroll | 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

For Years Ended June 30, 2016 and 2015 (Unaudited)

Note 1 - **Changes in Assumptions**

Changes in assumptions about the discount rate from 8.00% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion to be charged to income over an amortization period of 5.5 years beginning in the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million to be charged to income over an amortization period of 5.5 years beginning in the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the Statements of Net Position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.010% and 0.018% in fiscal years 2016 and 2015, respectively, as shown on the Schedule of the College's Proportionate Share of Net Pension Liability, and represent the relationship of contributions made by the College to total contributions by all participating State Agencies.

The College's portion of these amounts is as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|-------------------|------------------|
| Changes in assumption | \$ 256,567 | \$ 16,503 |
| Accumulated amortization | <u>(53,463)</u> | <u>(3,000)</u> |
| Changes in assumptions, net | <u>\$ 203,104</u> | <u>\$ 13,503</u> |

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



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

To the Board of Trustees of
Berkshire Community College
Pittsfield, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Berkshire Community College (the "College"), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Berkshire Community College's basic financial statements and have issued our report thereon dated October 10, 2016. Our report includes a reference to other auditors who audited the financial statements of Berkshire Community College Foundation, Inc. as described in our report on Berkshire Community College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connell and Duen, P.C.

Certified Public Accountants

Braintree, Massachusetts

October 10, 2016