KPMG

NORTH SHORE COMMUNITY COLLEGE

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

NORTH SHORE COMMUNITY COLLEGE

Financial Statements

June 30, 2015 and 2014

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November 12, 2015

The Members of the Board of Trustees
North Shore Community College

Ladies and Gentlemen:

North Shore Community College (NSCC) management is providing FY2015 financial statement results that demonstrate management of College operations within the context of continuing challenging environments. Credit enrollments during FY15 declined for another year, reflecting national and regional trends. The College lived within budget by administrative and sustainability efficiencies, not filling approximately ten positions that became vacant due to retirements/resignations, and holding down administrative expense. The graduating class of 2015 continued essentially level with 2014. Although staff and resources have been stretched, efforts continue to provide access to programs and services, and maintain retention. The College expects further slight decline in enrollment levels in FY2016, which requires additional attention to revenue estimates, programs and services, scheduling of classes in limited space, and efficiencies in operations. Planning for the next Strategic Planning cycle (2017-2021) will be the major focus of FY2016 across the institution.

The preliminary FY15 budget was approved in May 2014 by the Board of Trustees, raising fees by $10 per credit. The funding formula had a base allocation to each Massachusetts public community college, an allocation based primarily on enrollment and weighted course distribution, and an allocation based on several performance factors. For FY15, the additional system-wide increase in appropriation was tied to the performance factors, with a minimum guarantee percent. Due to the results of the performance factors, NSCC received the minimum increase (approximately $638k). In addition, however, there were State-wide Executive Order "9C" reductions of $302k to our appropriation in January 2015, as well as reductions in some restricted grant appropriations in the Fall, 2014, which negatively impacted overall programs and services. As a result of implementing the Performance-based funding formula, additional appropriations were also funded system-wide for public higher education in Massachusetts, however at a declining overall trend: for FY16, a total of only $9m was added for performance funding for the entire community college system, substantially less than the $20m allocated for performance funding for the system in FY14 and $14m allocated for FY15. Consequentially, the FY15 and FY16 budgets reflect declining revenue from demographic enrollment trends (declining high school age population) and smaller overall State funding, making revenue issues critical for the future funding of institutional needs. The FY16 operational budget was approved by the Board of Trustees in March 2015 with a slight increase in student fees effective for Summer 1 (Spring 2015) and some additional program fees for high cost programs effective for Fall 2015. The FY16 budget was projected with budget revenue and expenditures to balance with small operational increase in cash reserves.

The FY15 and FY16 budgets reflect the priorities of the College's FY2014-16 Strategic Plan: Pathways, Partnerships, and Performance. Some funding from reserves was designated by the Trustees in FY14 to lease and renovate space at the Middleton Business Center for the Culinary and Cosmetology Programs that had to move due to building/opening of the new Regional Voc Tech at the former Essex Agricultural and Technical High School. Following a search for an alternative space for the programs, the College entered into a revocable license agreement with North Shore Business Center in Middleton (former North Shore Voc Tech High School) in July, 2014, to house the Culinary and Cosmetology programs for the short term (one year license with two additional years optional renewal). The long-term space for these programs will be addressed in the Facilities Master Plan process.

Two other long-term leases are up for renewal in FY16: The noncredit corporate training and community services space at the Cummings Center, Beverly, and the MBTA space at Lynn. In the process of renegotiating these space leases, a review of current space available in Danvers and Lynn was considered by College management, as long-term space leases are a cost that the College would like to reduce (and eventually eliminate). Due to the construction at the Lynn campus and need for swing space until the construction is completed, the College and DCAMM have negotiated a reduction in square footage and cost at the MBTA building for a three year period, starting September, 2015. For the noncredit operations, a decision was made to end the lease in Beverly and move the operation to the Danvers campus, utilizing and renovating available space in the Math/Science building. After a short extension (to January, 2016) to accommodate the renovation and facilitate the Fall class schedule, the operation formerly in the Cummings Center will move to the Danvers campus for the Spring, 2016 semester, providing significant cost savings ($250k annually) as well as improved services co-located with credit programs on campus.

The College, with the concurrence of the Trustee Finance Committee, continues to be conservative with reserves and expenses, anticipating a continuing economic recovery but uncertain trending enrollment decline beyond FY16. Budget and organizational right-sizing will be a challenge for the next several budget cycles, but College management expects to address this with continued attention to enrollment management and revenue building, through pricing analysis/adjustment and fund-raising. These will be key strategies to provide stability and potentially growth in resources for the priorities identified in the next Strategic Plan.

The College included in the FY15 operational budget $200k for self-funding an update to its Facilities Master Plan. That process began in October, 2014 and will be completed by November 2015 to provide an overall plan for the future, especially with a focus on the Lynn campus, where the College has buildable space and a documented space deficit. The Facilities Master Plan will be coordinated with and based on priorities of a college Academic Master Plan, also started in FY15 and expected to be completed in FY16.

With the completion of the Danvers HPSS building, the College turns its sights and focus on space needs on the Lynn campus. $20.7m had been allocated in the 2008 State Bond bill to expand and renovate the Lynn campus, and the College received approval for self-funding a study for this Lynn campus expansion. That study was completed in August 2013 and certified in Spring 2014, for a three story addition to the Lynn Campus McGee building of approximately 37,000 sq. ft., including 10 general purpose classrooms, a Student Success Center, Testing Center, and administrative office space. The addition was approved for detailed design and construction phase by inclusion on the FY16 State Capital Spending Plan, released in late June, 2015. The construction schedule started in July, 2015 with hiring of a construction company, DeIulis Brothers of Lynn, to be followed by 18 months of construction, with an anticipated completion of construction by December, 2016. A formal ground-breaking event is planned for September 22, 2015.

A shift of focus to Lynn activities (Lynn is a Gateway City) will continue in the next several years as this is a demographic population (immigrant and diversity) of expected growth and workforce need, and a key strategic direction for the College. President Gentile has begun implementation of a concept called the CommUniverCity at Lynn, a collaboration led by State Senator Thomas McGee (D, Lynn) with the Lynn K-12 School district, Salem State University, NSCC, The City of Lynn, the North Shore Workforce Investment Board, and the Lynn Community Health Center to increase pathways and partnerships that benefit the education of citizens in the City of Lynn. The College expects future space requirements at the Lynn campus to be outlined in the Facilities Master Plan update process with consideration of the CommUniverCity concept (Early College and academic pathways to careers and transfer), Academic Master Plan, overall reduction of leased space, and consideration for 21st century program facilities (workforce and STEM).

FY16 is the last year of the College’s Strategic Plan 2014-2016 and is expected to be a full planning year, with a major activity for a process and collaboration to develop a college-wide Strategic Plan for the next five years (2017-2021). This plan will include a review of mission, vision and values, as well as goals and strategies for the entire institution that also incorporates the goals and requirements of the MA Department of Higher Education.

The 2015 audit also includes an A-133 audit of Federal funds, which had previously been provided by the State of Massachusetts through a State Single Audit. The State mandated implementation this year of GASB 68, allocation of unfunded pension liability, affects the overall FY15 College financial statements, but is a mandate that affects all institutions and remains a liability funded by the State. Without this new requirement, the College would have seen an additional $1.2m in available unrestricted funds and an additional $654,323 in total net position on its financial statements.

Overall, these financial statements reflect that we met our FY15 Key Performance targets and ambitious institutional objectives, despite many fiscal and organizational challenges in the past fiscal year. In FY15, President Gentile completed hires for her senior management team with the addition of a new VP of Academic Affairs in July, 2014, VP of Institutional Advancement in December, 2014, and VP of Student Affairs in Spring 2015. These senior staff, in addition to longtime VP of Human Resources and VP of Administration and Finance, will generate new ideas and emphasis on areas that can build capacity for the future, especially for enrollment management and fundraising activities. A substantial redesign of Academic Affairs organization also occurred in January 2015, and consolidated five credit academic divisions into four with more defined academic “pathways,” also a basis for future “guided pathways” for student success. College management looks forward to FY2016, and the integration of various long-range college plans in process (Facilities Master Plan, Enrollment Management Plan, Academic Master Plan, Technology Plan) with the overall new Strategic Plan. With the ground-breaking of the Lynn campus addition, completion of the celebration of our 50th year, restructuring of college programs and services, and design of a new Strategic Plan under the leadership of President Gentile, the College is ready to address the challenges and opportunities for the next decade.

Sincerely,

North Shore Community College

The following discussion and analysis provides management's view of the financial position of North Shore Community College, (the College) as of June 30, 2015 and 2014, and the results of 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.

North Shore Community College is a public institution of higher education serving almost 14,700 credit and noncredit students annually with 125 full time faculty, 168 part time faculty, 302 full time staff and 148 part time staff members. Campuses are located in Danvers, Beverly, and Lynn, Massachusetts. In addition, the College offers programs and courses in offsite locations throughout the greater North Shore area. The College offers over 80 credit programs leading to Associate of Arts, Associate of Science, and Associate of Applied Science degrees and one year certificates. In addition, North Shore offers approximately 650 noncredit workforce development and recreational courses.

Financial Highlights

- At June 30, 2015 and 2014, the College's assets and deferred outflows of $85,939,637 and $86,448,359, respectively, exceeded its liabilities and deferred inflows of $25,715,885 and $19,193,040 by $60,223,752 and $67,255,320, respectively. The resulting net position is summarized into the following categories: net investment in capital assets, restricted (expendable and nonexpendable), and unrestricted.
- The restricted, expendable net position of $308,123 at June 30, 2015 may be expended, but only for the purposes for which the donor or grantor intended.
- The College's total net position decreased by $7,031,568 in 2015, including the GASB 68 restatement, compared to a decrease of $767,008 in 2014.
- The unrestricted net position for FY2015 decreased by $6,653,911 to $(2,022,779). Unrestricted net position for FY2014 decreased by $2,353,151 to $4,631,132.

The sharp decrease in the unrestricted net position in FY15 was due to the implementation of GASB 68, the recording our net pension liability. Without GASB 68, the College would have shown an increase in its unrestricted net position for FY2015 resulting from careful oversight of spending as well as benefiting from the refinancing of the Series E and Series F bonds in FY14.

Overview of the Financial Statements

The College's financial statements comprise two primary components: (1) the financial statements and (2) the notes to the financial statements. Additionally, the financial statements focus on the College as a whole, rather than upon individual funds or activities. The College follows principles established by the Governmental Accounting Standards Board (GASB).

North Shore Community College Foundation (the Foundation) is a legally separate tax-exempt affiliated unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and 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.

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

The Financial Statements

The financial statements are designed to provide readers with a broad overview of North Shore Community College's finances and are comprised of three basic statements.

The Statement of Net Position presents information on all of the North Shore Community 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 North Shore Community College is improving or deteriorating.

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

The Statement of Cash Flows is reported on 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). GASB requires this method to be used. The Foundation is not required to present the statement of cash flows.

The financial statements can be found on pages 18 to 20 of this report.

The College reports its activity as a business-type activity using the economic resources measurement focus and full accrual basis of accounting. The College is also part of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position, and its cash flows are also included in the Commonwealth's Comprehensive Annual Financial Report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 21 to 39 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the College's financial position. In the case of the North Shore Community College, assets and deferred outflows exceeded liabilities and deferred inflows by $60,223,752 and $67,255,320 at the close of FY 2015 and 2014, respectively.

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Net investment in capital assets represents capital assets net of related debt, and is by far the largest portion of the College's net position in fiscal year 2015 and 2014, representing, 100.03% and 92% or $61,938,408 and $61,989,375, respectively. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Also, in addition to the debt 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, which are obligations of the Commonwealth, are not reflected in these financial statements.

Condensed Financial Information

		2015	2014	2013
Current assets	$	14,700,365	15,244,187	15,390,880
Noncurrent assets		70,218,189	71,204,173	75,154,144
Deferred outflows		1,021,083	—	—
Total assets and deferred outflows	$	85,939,637	86,448,359	90,545,024
Current liabilities	$	7,924,611	9,132,071	9,487,416
Noncurrent liabilities		16,307,222	10,060,969	13,035,280
Deferred inflows		1,484,052	—	—
Total liabilities and deferred inflows	$	25,715,885	19,193,040	22,522,696
Net position:				
Invested in capital assets	$	61,938,408	61,989,375	60,837,957
Restricted, expendable		308,123	634,814	200,088
Unrestricted		(2,022,779)	4,631,132	6,984,283
Total net position	$	60,223,752	67,255,320	68,022,328

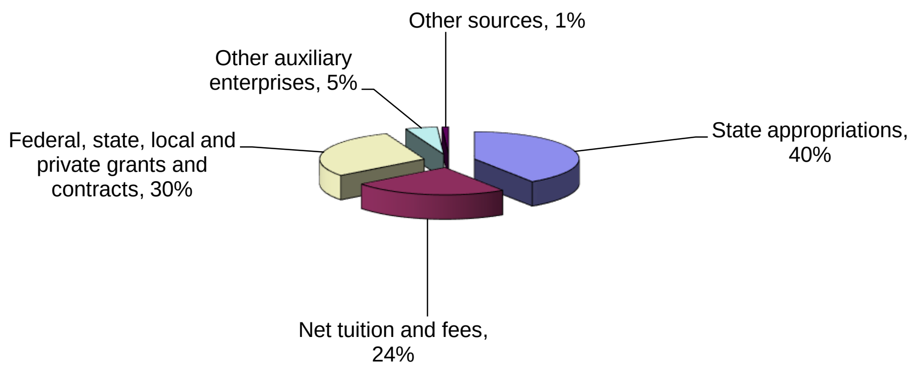
(Continued)

Condensed Financial Information

		2015	2014	2013
Total operating revenues	$	37,871,775	39,097,936	39,536,634
Total operating expenses		64,612,156	65,262,747	62,866,897
Net operating loss		(26,740,381)	(26,164,811)	(23,330,263)
Net nonoperating revenues		26,465,781	24,907,735	22,291,441
Change in net position before capital appropriations		(274,600)	(1,257,076)	(1,038,822)
Capital appropriation		997,565	813,054	1,092,239
Increase in net position		722,965	(444,022)	53,417
Restatement of net position		(7,754,533)	(322,986)	—
Net position – beginning, as restated		67,255,320	68,022,328	67,968,911
Net position – ending	$	60,223,752	67,255,320	68,022,328

Major sources of revenue for the College are Tuition and Fees and the State Appropriation. Tuition is set by the Board of Higher Education at $25.00 per credit for both FY2015 and 2014. Fees are set by the College's board of trustees at $154.00 for FY2015 and $144.00 for FY2014, per credit for the Fall and Spring semesters.

Source of Operating and Nonoperating Revenues
2015



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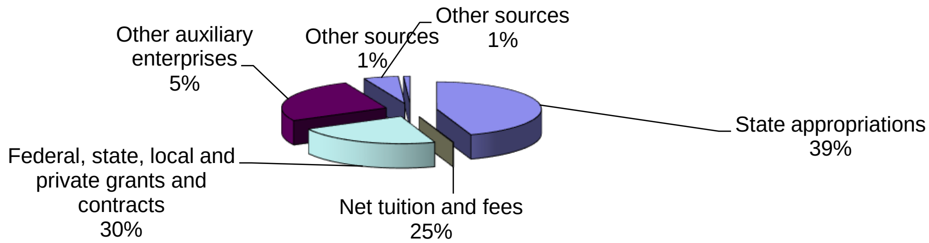
Source of Operating and Nonoperating Revenues
2014



Highlights of operating revenue activity include:

- A decrease of 3% or $838,378 in FY2015 in tuition and fees before scholarship allowances. This is primarily due to a decline in enrollment and credit hours for the Fall 2014 and Spring 2015 semesters. This compares to a decrease of 2% or $649,194 in FY2014 in tuition and fees before scholarship allowances. This was primarily due no increase in tuition or fees and a decline in enrollment and credit hours for the Fall 2013 and Spring 2014 semesters.

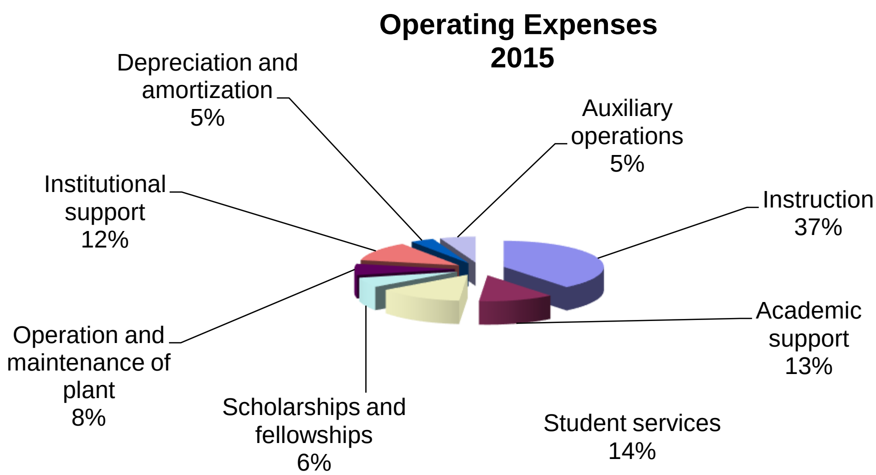
		June 30		
		2015	**2014**	**2013**
Tuition and fees	$	26,413,325	27,251,703	27,900,897
Tuition remitted		312,157	352,254	1,034,407

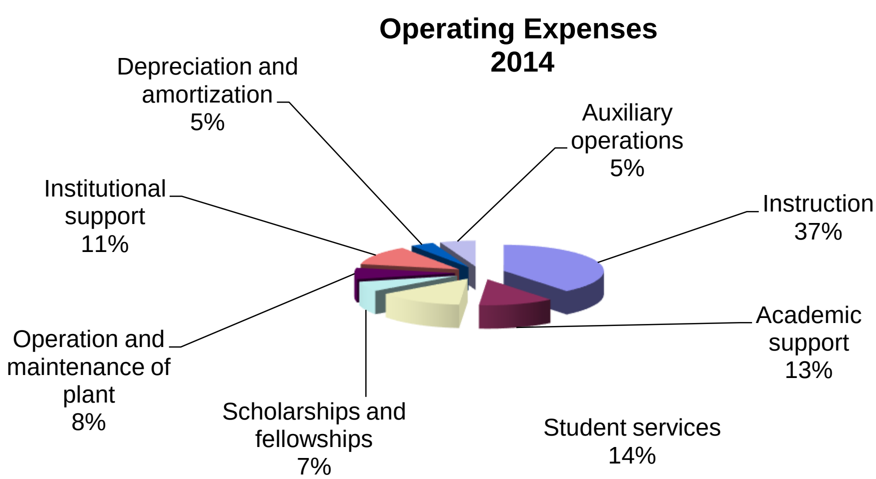
- An increase of 0.74% or $140,813 in federal, state, local, and private grants and contracts, compared to an increase of 1.56% or $291,196 in FY2014. This change is primarily due to an increase in state and local grants.
- Major grants and contracts received by North Shore Community College for the year included the following:
- Vocational Education grant from the Massachusetts Department of Education – award amount – $345,655
- Upward Bound grant from the U.S. Department of Education – award amount – $380,280
- Student Support Services grant from the U.S. Department of Education – award amount $477,726
- Talent Search from the U.S. Department of Education – award amount – $230,000
- Massachusetts Education and Career Opportunities, Inc. – award amount – $150,378

- PROJECT YES, City of Lynn, $111,456 for FY15
- Region 3 Educators Support – $826,119
- Trade Adjustment Assistance Community College & Career Training (TAACCCT) from the U.S. Department of Labor – $727,523 over 3 years
- Adult Learning Center – MA DHE – $183,773
- CCAP College and Career Access Project – award amount – $51,934
- MLSC from the MA Life Science Center – award amount – $500,000
- Essential Skills grant from Commonwealth Corp – award amount – $199,100
- Advanced Manufacturing from North Shore WIB – award amount $128,900
- Adult Career Pathways grant from North Shore WIB – award amount $100,000
- Working Cities grant from North Shore WIB – award amount $74,247
- Social and Emotional Development grant from MA Early Education – award amount $59,218
- STEM Starter Academy – award amount – $647,200

Other auxiliary enterprises include the operations of the student bookstore service. The revenue generated from these operations for FY2015 was $3,189,375, a decrease of $263,589 or 8% from FY2014. The revenue generated from these operations for FY2014 was $3,452,964, a decrease of $112,498 or 3% from FY2013. Auxiliary operations expenses for FY2015 totaled $2,910,412, a decrease of 7% or $198,290 from FY2014. Auxiliary operations expenses for FY2014 totaled $3,108,742, a decrease of 8% or $294,431 from FY2013.

In both FY15 and FY14, there was a decrease in sales revenue, due to a decrease in new text book sales, augmented by decreases in enrollment. However in FY2015, there was an increase of 14% from FY2014 in merchandise sales. Recognizing the growth potential of this revenue segment, the Bookstore engaged in facility and fixture renovations as well as re-branding initiatives totaling about $70,000. This, in addition to continued efforts in streamlining operations, while maintaining focus on optimum student service, resulted in a net income from auxiliary operations enterprise for FY2015 of $278,923 compared to $344,222 in FY2014.





Highlights of operating expense activity include:

- An increase of 0.77% or $182,686 in instruction expenditures in FY2015 due to previously vacant executive and dean positions being filled throughout the year. This compares to a decrease of 1% or $239,176 in FY2014, which was due to vacant executive and dean positions throughout the year.

- A decrease of 2.28% or $196,791 in academic support expenditures in FY2015, primarily due to careful spending on supplies and equipment. This compares to an increase of 9.38% or $741,431 in FY2014, primarily due to increases for full time salaries.
- A decrease of 5.13% or $474,026 in student services expenditures in FY2015, primarily due to executive and dean positions being vacant throughout most of the year. This compares to an increase of 5.83% or $509,266 in FY2014, primarily due to increases for full time salaries.
- A decrease of 25.12% or $1,209,998 in scholarships and fellowships in FY2015 due to higher fees and lower enrollment. By comparison, there was a slight increase of 0.85% or $40,791 in FY2014, mainly due to an increase in student loans, resulting in more refunds to students.
- A decrease of 38.76% or $119,311 in public service expenditures in FY2015 due to the program being phased out. In FY2014, there had been an increase of 8.94% or $25,256 in public service expenditures.
- An increase of 5.29% or $264,533 in operation and maintenance of plant expenditures in FY2015, due to additional expenses incurred for the Lynn self study, moving the Culinary and Cosmetology programs to the new Middleton site and a harsh winter. By comparison, there was an increase of 3.63% or $175,097 in FY2014, due to additional expenses incurred for renovations to the math and science building and a harsh winter.
- An increase of 15.82% or $1,156,302 in institutional support expenditures in FY2015, primarily due to additional retirement payouts of compensated absences, audits including A-133, and subsidizing a 9C cut which amounted to over $300,000. In FY2014, there was an increase of 19.50% or $1,193,115 primarily due to an increase in the areas of retirement payouts of compensated absences, audits including A-133, HEFA related insurance and equipment and one-time expenses associated with the HEFA bond refinancing according to GASB 65 standards.

For nonoperating revenues and expenses, the Commonwealth's total appropriations increased by 5% or $1,344,697 compared to an increase of 10% or $2,488,379, in FY2015 and 2014, respectively. The College received a capital appropriation of $997,565 for post construction improvements to the new Health Professions and Student Services building on the Danvers Campus and completion of the Clean Energy Investment Project.

The Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll increased in FY2015 by 9% or $486,274 to $5,651,242, compared to 10% or $507,116 to $5,164,968 in FY2014. The fringe benefit rate increased by 1.18 points to 28.86% from 27.68% for FY2014 compared to an increase of 1.70 points to 27.68% from 25.98% for FY2013, respectively. The Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll increased in FY2014 by 10% or $507,116 to $5,164,968 compared to a decrease of 20.59% or $1,207,783 to $4,657,852 in FY2013. The fringe benefit rate increased by 1.70 points to 27.68% from 25.98% for FY2013 compared to a decrease of 7 points to 25.98% from 32.98% for FY2013, respectively.

Tuition remitted to the Commonwealth decreased by 11% or $40,097 in FY2015, compared to a decrease of 65.94% or $682,153 in FY2014. This decrease was due to the decrease in enrollment.

Investment income decreased in FY2015 by 8.89% or $1,450 compared to a decrease of 10.54% or $1,921 in FY2014.

Loss from Operations

Because generally accepted accounting principles requires state appropriations to be presented as nonoperating revenues, the College incurred a loss from operations in FY2015 and 2014. The Massachusetts Board of Higher Education presets tuition rates, and the College's board of trustees sets fees and other charges. Commonwealth appropriations to the College made up the loss from operations not made up by tuition and fees.

The College, with the purpose of balancing educational and operational needs with tuition and fee revenues, approves budgets to mitigate losses after Commonwealth Appropriations.

Capital Assets and Debts of the College

Capital Assets

The College's investment in capital assets as of June 30, 2015 and 2014 amounts to $70,218,187 and $71,204,171, respectively, net of accumulated depreciation. The College recognized $997,565 in capital appropriations in FY 2015 primarily for additional improvements to infrastructure to the new Health Professions and Student Services building in Danvers, expansion of the Lynn Campus McGee Building and completion of the Clean Energy Investment Project. This investment in capital assets includes land, building (including improvements), furnishings, and equipment.

Debt

The College carries long-term debt and accruals for pensions, compensated absences, workers compensation, and other long-term settlement obligations. Included in debt are $7,675,000 Series B bonds issued in March of 1998, which are payable semiannually through FY2022 in principal repayment amounts between $170,000 and $555,000. Interest is payable semiannually (April 2 and October 2) at fixed rates between 3.5% and 5.0%.

In December, 2013, a refinancing of the Massachusetts Health and Educational Facilities Series B and Series C bonds was completed through Massachusetts Development Finance Agency. After the RFP process, Century Bank proved to offer the best new financing for the debt obligations. Series B bonds were rolled into the new Series E bonds and Series C bonds were rolled into the new Series F bonds. The Series B and Series C bonds were liquidated, and the escrows were used to pay down the new debt. Century Bank offered the best fixed interest rates at 3.08% for the Series E obligations and 3.79% for the Series F obligations. Interest is payable monthly and principle is payable semi annually. The terms on the debt did not change and will end in October, 2022 for the Series E bonds and in October, 2026 for the Series F bonds. Refinancing at the lower rates will save North Shore Community College $1.7 million over the life of the debt.

In 2012, the College added $1,966,772 to its debt obligations for a 10 year note for the Clean Energy Investment Program (CEIP). The first payment for the note, in February of 2012, was in the amount of $97,532 for interest only. The note represents 53% of the anticipated total obligation of $3,686,772 for equipment, design, and installation of mechanical, electrical, controls and plumbing conservation measures at the Lynn and Danvers Campuses. The remaining 47% or $1,600,000 will be paid for by the Department of Capital Asset Management (DCAM).

In 2011, the College issued $148,050 of Series 2010A-9 bonds through the Massachusetts Development Finance Agency for a Clean Renewal Energy Bond. Principal is payable annually and interest is payable semi-annually commencing on November 1, 2010 through May 1, 2027. The Bond is designated a "clean renewable energy bond" pursuant to Section 54C of the Internal revenue Code of 1986 and shall bear interest at a rate of 3.5%. The debt is to fund a project for a 77 kilowatt photovoltaic system for the Danvers campus Berry building. The total project cost is estimated to be $559,000, which will be funded from two sources: (1) grants from Division of Capital Asset Management (DCAM) in the amount of $410,950 and (2) a financing agreement with Century Bank and Trust Company, CREB financing secured by the College in the amount of $148,050.

In 2008, the College issued $190,600 of Series 2007A bonds through the Massachusetts Development Finance Agency for a Clean Renewal Energy Bond. Principal is payable annually commencing on December 31, 2007 through December 31, 2021 and does not bear interest. The bond proceeds plus a grant in the amount of $358,100 from the Massachusetts Technology Collaborative was used to fund a project for a 62.2 kilowatt solar photovoltaic grid-tied panel on the roof of the Lynn Campus gymnasium.

The noncurrent accrual for pensions and compensated absences consists of the long-term portion of the net pension liability as well as sick and vacation pay relating to employees on the College's payroll.

Requests for Information

This financial report is designed to provide a general overview of the College's financial position for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, North Shore Community College, One Ferncroft Road, Danvers, Massachusetts 01923.

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
North Shore Community College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of North Shore Community College (the College) as of and for the years ended June 30, 2015 and 2014, 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 U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

The financial statements of the College are intended to present the financial position, the changes in financial position and cash flows that are attributable to the transactions of the College. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in notes 1 and 14 to the financial statements, in 2015, the College adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5–14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Letter of Transmittal is presented for purposes of additional analysis and is not a required part of the basic financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

KPMG LLP

November 12, 2015

NORTH SHORE COMMUNITY COLLEGE

Statements of Net Position

June 30, 2015 and 2014

		North Shore Community College		North Shore Community College Foundation	
Assets and deferred outflows		**2015**	**2014**	**2015**	**2014**
Current assets:					
Cash and cash equivalents (note 2)	$	10,079,740	10,966,466	328,583	301,735
Cash held by State Treasurer (note 3)		88,112	913,778	—	—
Investments (note 2)		949,961	945,769	—	—
Accounts receivable, net (note 4)		2,544,233	1,477,595	78,282	67,397
Inventory and other current assets		1,038,319	940,579	4,412	—
Total current assets		14,700,365	15,244,187	411,277	369,132
Noncurrent assets:					
Funds held by bond trustee – restricted (note 2)		2	2	—	—
Investments (note 2)		—	—	6,998,558	6,559,876
Capital assets, net of accumulated depreciation (note 5)		70,218,187	71,204,171	—	—
Total noncurrent assets		70,218,189	71,204,173	6,998,558	6,559,876
Total assets		84,918,554	86,448,359	7,409,835	6,929,008
Deferred Outflows of resources related to pensions (note 14)		1,021,083	—	—	—
Total assets and deferred outflows	$	85,939,637	86,448,359	7,409,835	6,929,008
Liabilities and deferred inflows					
Current liabilities:					
Accounts payable and accrued liabilities	$	784,858	899,593	408,172	205,070
Accrued payroll		2,180,599	3,200,691	—	—
Compensated absences and workers comp (note 6)		2,496,789	2,797,156	—	—
Accrued interest payable		—	—	—	—
Students' deposits and unearned revenues		1,213,286	1,013,522	—	—
Funds held for others		205,049	189,139	55,707	41,988
Current portion of bonds payable (note 6)		732,550	732,550	—	—
Current portion of note payable (note 6)		311,480	299,420	—	—
Total current liabilities		7,924,611	9,132,071	463,879	247,058
Noncurrent liabilities:					
Compensated absences and workers comp (note 6)		1,697,567	1,630,207	—	—
Net pension liability (notes 6 and 14)		7,222,922	—	—	
Note payable (note 6)		1,224,652	1,536,132	—	—
Bonds payable (note 6)		6,162,081	6,894,630	—	—
Total noncurrent liabilities		16,307,222	10,060,969	—	—
Total liabilities		24,231,833	19,193,040	463,879	247,058
Deferred inflows of resources related to pensions		1,484,052	—	—	—
Total liabilities and deferred outflows	$	25,715,885	19,193,040	463,879	247,058
Net Position					
Investment in capital assets	$	61,938,408	61,989,375	—	—
Restricted:					
Expendable (note 7)		308,123	634,814	2,231,476	2,175,532
Nonexpendable		—	—	2,108,456	1,826,091
Unrestricted (note 8)		(2,022,779)	4,631,132	2,606,024	2,680,327
Contingencies (note 9)					
Total net position	$	60,223,752	67,255,320	6,945,956	6,681,950

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

	North Shore Community College		North Shore Community College Foundation	
	2015	**2014**	**2015**	**2014**
Operating revenues:				
Tuition and fees	$ 26,413,325	27,251,703	—	—
Less scholarship allowances	(10,877,006)	(10,633,819)	—	—
Net student fees	15,536,319	16,617,884	—	—
Grants and contracts	19,059,598	18,918,785	—	—
Auxiliary operations	3,189,375	3,452,964	—	—
Other sources	86,483	108,303	—	—
Total operating revenues	37,871,775	39,097,936	—	—
Operating expenses (note 10):				
Instruction	23,804,323	23,621,637	—	—
Academic support	8,451,223	8,648,014	—	—
Student services	8,772,803	9,246,829	—	—
Scholarships and fellowships	3,607,193	4,817,191	191,145	259,231
Public service	188,520	307,831	—	—
Operation and maintenance of plant	5,261,458	4,996,925	—	—
Institutional support	8,467,408	7,311,106	173,191	62,766
Depreciation and amortization	3,148,776	3,204,472	—	—
Auxiliary operations	2,910,452	3,108,742	—	—
Total operating expenses	64,612,156	65,262,747	364,336	321,997
Operating loss	(26,740,381)	(26,164,811)	(364,336)	(321,997)
Nonoperating revenues (expenses):				
State appropriations – unrestricted (note 11)	26,235,007	24,617,411	—	—
State appropriations – restricted (note 11)	276,796	549,695	—	—
Gifts, grants and contributions		—	698,244	531,491
Net investment income (note 2)	14,855	16,305	201,457	922,927
Interest expense	(332,236)	(510,603)	—	—
Payments between the College and the Foundation	271,359	234,927	(271,359)	(234,927)
Net nonoperating revenues	26,465,781	24,907,735	628,342	1,219,491
Changes in net position before capital appropriations	(274,600)	(1,257,076)	264,006	897,494
Capital appropriations (note 11)	997,565	813,054	—	—
Change in net position	722,965	(444,022)	264,006	897,494
Net position, beginning of year, as previously reported	67,255,320	68,022,328	6,681,950	5,784,456
Effect of adoption of new GASB statements (notes 1 and 14)	(7,754,533)	(322,986)	—	—
Net position, beginning of year, as restated	59,500,787	67,699,342	6,681,950	5,784,456
Net position, end of year	$ 60,223,752	67,255,320	6,945,956	6,681,950

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Statements of Cash Flows

Years ended June 30, 2015 and 2014

		North Shore Community College	
		2015	2014
Cash flows from operating activities:			
Tuition, residence, dining, and other student fees	$	14,669,445	16,758,250
Grants and contracts		19,059,598	18,918,785
Payments to suppliers		(12,900,031)	(12,760,371)
Payments to employees		(40,741,389)	(39,876,820)
Payments to students		(3,607,193)	(4,817,191)
Other cash receipts		3,178,118	3,631,726
Net cash used by operating activities		(20,341,452)	(18,145,621)
Cash flows from noncapital financing activities:			
State appropriations		20,860,561	20,002,138
Funds held for others		15,910	30,523
Principal payments on notes payable		(299,420)	(287,840)
Contributions from Foundation		271,359	234,927
Net cash provided by noncapital financing activities		20,848,410	19,979,748
Cash flows from capital and related financing activities:			
Purchases of capital assets		(2,157,527)	(1,386,902)
Capital state appropriation		997,565	813,054
Cash paid by bond trustee		—	2,719,679
Proceeds of new debt		—	7,690,052
Deposits into reserve account/Deferred Outflows		(5,266)	(570,314)
Principle paid on capital debt		(732,549)	(10,376,979)
Interest paid on capital debt		(332,236)	(638,998)
Net cash used by capital financing activities		(2,230,013)	(1,750,408)
Cash flows from investing activities:			
Investment purchases		(4,192)	(4,612)
Interest on investments		14,855	16,305
Net cash provided by investing activities		10,663	11,693
Net change in cash and cash equivalents		(1,712,392)	95,412
Cash and cash equivalents (including cash held by State Treasurer), beginning of year		11,880,244	11,784,832
Cash and cash equivalents (including cash held by State Treasurer), end of year	$	10,167,852	11,880,244
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(26,740,381)	(26,164,811)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation and amortization		3,148,776	3,204,472
Fringe benefits provided by the State		5,651,242	5,164,968
Changes in assets and liabilities:			
Accounts receivable, net		(1,066,638)	65,265
Inventory and other current assets		(97,740)	(10,645)
Accounts payable and accrued liabilities		(114,735)	(181,870)
Accrued payroll		(1,020,092)	142,296
Compensated absences and workers comp		(233,006)	(521,502)
Students’ deposits and unearned revenues		199,764	75,101
Pension obligations		(68,642)	—
Other		—	81,105
Net cash used by operating activities	$	(20,341,452)	(18,145,621)
Noncash transactions:			
Fringe benefits provided by state and federal	$	5,651,242	5,164,968

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

North Shore Community College (the College) is a state-supported comprehensive college that offers a quality education leading to associate degrees in the arts and sciences as well as one-year certificate programs. With campuses located in Danvers, Beverly, Middleton and Lynn, Massachusetts, 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 day and evening credit and noncredit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

(b) Basis of Presentation

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

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

In fiscal 2014, the College adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of adoption of GASB 65 is the reduction in net position as of July 1, 2013, by $322,986. Restatement of the net position as of July 1, 2012 was not practical.

In 2015, the College implemented GASB 68, *Accounting and Financial Reporting for Pensions*, as amended, which required recording of the net pension liability. The restatement decreased the FY14 net position by $7,754,533.

North Shore Community College Foundation (the Foundation) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and 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

(Continued)

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.

During the year ended June 30, 2015 and 2014, the Foundation distributed $271,359 and $234,927, respectively, to the College for both restricted and unrestricted purposes.

Complete financial statements for the Foundation can be obtained from the College at: One Ferncroft Road, Danvers, MA 01923.

(c) Net Position

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

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 – nonexpendable: Net assets subject to externally imposed conditions that the College must maintain them in perpetuity.

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

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by actions of the College's board of trustees.

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

(d) Cash Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

(e) Investments

Investments in marketable securities, including funds held by bond trustee, are stated at fair value.

The College has no donor-restricted endowments.

(Continued)

(f) Capital Assets

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

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

(g) Fringe Benefits

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

(h) Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2015 and 2014. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2015 and 2014. Upon retirement, these employees are entitled to receive payment for this accrued balance.

(i) Workers' Compensation

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

(j) Students' Deposits and Unearned Revenue

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

(k) Student Fees

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

(l) Tax Status

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

(Continued)

(m) Use of Estimates

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

(n) 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 (SERS) and additions to/deductions from SERS's 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. Investment of assets in the SERS is with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. Investments are reported at fair value as described in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Massachusetts.

(2) Cash and Investments

(a) Investment Policy

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

The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the Massachusetts Municipal Depository Trust (MMDT), a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. MMDT operates as a Rule 2a-7-like pool and the value of the College's investment in the MMDT represents its value of the pool's shares.

(b) Summary of Deposits and Investments

Deposits and investments consist of the following at June 30:

Deposits and investments		2015	2014
Cash in bank	$	8,735,512	9,624,920
Massachusetts Municipal Depository Trust (MMDT)		1,344,228	1,341,546
Total cash and cash equivalents		10,079,740	10,966,466
Certificates of deposit		949,961	945,769
Century Bank		2	2
Total deposits and investments	$	11,029,703	11,912,237

(c) Concentration of Credit Risk

Concentration of credit risk is assumed to arise when the amount of investments that the College has with one issuer exceeds 5% or more of the total value of the College's investments. The College does not have a formal policy for concentration of credit risk and has no investments exceeding the 5% threshold.

(d) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. Deposits are made in domestic banks that are federally insured and in some banks that are Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. As of June 30, 2015 and 2014, $2,330,044 and $2,000,559, respectively, of the College's bank balances of $7,938,198 and $8,341,636, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College does not have a written policy regarding interest rate risk. At June 30, 2015 and 2014, all of the College's investments have maturities of one year or less.

(f) Disclosure of Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counter party to a debt security will not fulfill its obligations. The College does not have a policy for credit risk of debt securities. The following is a listing of credit quality ratings of the College's investments in debt securities as of June 30:

		2015		
			Quality ratings	
Rated debt investments		**Fair value**	**AAA**	**Unrated**
Certificates of deposit	$	949,961	—	949,961
MMDT		1,344,228	—	1,344,228
Total	$	2,294,189	—	2,294,189

		2015		
			Quality ratings	
Rated debt investments		**Fair value**	**AAA**	**Unrated**
Certificates of deposit	$	945,769	—	945,769
MMDT		1,341,546	—	1,341,546
Total	$	2,287,315	—	2,287,315

(g) Investments of the Foundation

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

		2015	**2014**
Mutual funds	$	6,658,779	5,943,080
Corporate equities		3,923	4,236
Money market funds		177,306	344,408
Corporate debt securities		158,550	268,152
	$	6,998,558	6,559,876

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

		2015	**2014**
Interest and dividend income, net of amortization	$	113,890	99,705
Realized gain on sale of securities		36,641	40,634
Unrealized net gain on investments		50,926	782,588
	$	201,457	922,927

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled $88,112 and $913,778 at June 30, 2015 and 2014, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

(4) Accounts Receivable

Accounts receivable include the following at June 30:

		2015	2014
Student accounts receivable	$	3,130,994	3,708,354
Grants receivable		1,814,575	447,063
Other receivables		78,139	120,681
		5,023,708	4,276,098
Less allowance for doubtful accounts		(2,479,475)	(2,798,503)
	$	2,544,233	1,477,595

(5) Capital Assets

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

			2015				
	Estimated lives (in years)		Beginning balance	Additions	Retirements	Reclassifications	Ending balance
Capital assets not being depreciated:							
Land		$	13,842,077	—	—	—	13,842,077
Construction in progress			1,105,617	1,676,902	—	(10,392)	2,772,127
Total not being depreciated			14,947,694	1,676,902	—	(10,392)	16,614,204
Capital assets being depreciated:							
Building, including improvements	20–40		93,143,749	—	—	—	93,143,749
Furnishings and equipment	3–10		9,442,064	480,625	—	10,392	9,933,081
Books	5		505,463	—	—	—	505,463
Total being depreciated			103,091,276	480,625	—	10,392	103,582,293
Less accumulated depreciation:							
Building, including improvements			(38,164,661)	(2,660,455)	—	—	(40,825,116)
Furnishings and equipment			(8,164,674)	(483,057)	—	—	(8,647,731)
Books			(505,463)	—	—	—	(505,463)
Total accumulated depreciation			(46,834,798)	(3,143,512)	—	—	(49,978,310)
Total being depreciated, net			56,256,478	(2,662,887)	—	10,392	53,603,983
Capital assets, net		$	71,204,171	(985,984)	—	—	70,218,187

	2014					
	Estimated lives (in years)	**Beginning balance**	**Additions**	**Retirements**	**Reclassifications**	**Ending balance**
Capital assets not being depreciated:						
Land		$ 13,842,077	—	—	—	13,842,077
Construction in progress		1,249,285	731,117	—	(874,785)	1,105,617
Total not being depreciated		15,091,362	731,117	—	(874,785)	14,947,694
Capital assets being depreciated:						
Building, including improvements	20–40	91,970,158	486,653	—	686,938	93,143,749
Furnishings and equipment	3–10	9,085,085	169,132	—	187,847	9,442,064
Books	5	505,463	—	—	—	505,463
Total being depreciated		101,560,706	655,785	—	874,785	103,091,276
Less accumulated depreciation:						
Building, including improvements		(35,450,185)	(2,714,476)	—	—	(38,164,661)
Furnishings and equipment		(7,691,643)	(473,031)	—	—	(8,164,674)
Books		(505,463)	—	—	—	(505,463)
Total accumulated depreciation		(43,647,291)	(3,187,507)	—	—	(46,834,798)
Total being depreciated, net		57,913,415	(2,531,722)	—	874,785	56,256,478
Capital assets, net		$ 73,004,777	(1,800,605)	—	—	71,204,171

(6) Long-Term Liabilities

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

	2015					
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Current portion**	**Long-term portion**
Bonds payable:						
Revenue bonds payable	$ 7,427,618	—	711,134	6,716,484	711,134	6,005,350
CREB bonds payable	199,562	—	21,415	178,147	21,416	156,731
Total bonds payable, net	7,627,180	—	732,549	6,894,631	732,550	6,162,081
Other long-term liabilities:						
Note payable	1,835,552	—	299,420	1,536,132	311,480	1,224,652
Accrued sick and vacation	4,071,830	—	163,378	3,908,452	2,447,798	1,460,654
Workers' compensation	355,533	—	69,629	285,904	48,991	236,913
Net pension liability	—	8,326,817	1,103,895	7,222,922	—	7,222,922
Total other liabilities	6,262,915	8,326,817	1,636,322	12,953,410	2,808,269	10,145,141
Total long-term liabilities	$ 13,890,095	8,326,817	2,368,871	19,848,041	3,540,819	16,307,222

	2014					
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Current portion**	**Long-term portion**
Bonds payable:						
Revenue bonds payable	$ 10,000,000	7,783,185	10,355,567	7,427,618	711,134	6,716,484
CREB bonds payable	220,974	—	21,412	199,562	21,416	178,146
Less unamortized discount on revenue bonds payable	(135,523)	—	(135,523)	—	—	—
Total bonds payable, net	10,085,451	7,783,185	10,241,456	7,627,180	732,550	6,894,630
Other long-term liabilities:						
Note payable	2,123,392	—	287,840	1,835,552	299,420	1,536,132
Accrued sick and vacation	4,612,725	—	540,895	4,071,830	2,727,417	1,344,413
Workers' compensation	336,139	19,394	—	355,533	69,739	285,794
Total other liabilities	7,072,256	19,394	828,735	6,262,915	3,096,576	3,166,339
Total long-term liabilities	$ 17,157,707	7,802,579	11,070,191	13,890,095	3,829,126	10,060,969

In December 30, 2013 the College issued $3,288,490 of Series E and $4,494,695 of Series F bonds with fixed rates of 3.08% and 3.79%, respectively (at a true cost of 3.685%). The bonds were issued through the Massachusetts Development Finance Agency for the purpose of refunding, together with other funds available for such purpose, the outstanding principal amount of the Series B and Series C bonds. Principal is payable semi-annually through October 1, 2026 for the Series E bonds and October 1, 2022 for the Series F bonds. Interest is payable monthly. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $56,460. The College completed the refunding to reduce its total debt service payments over the next 14 years by $1,391,155 and to obtain an economic gain of $697,971.

In fiscal 2011, the College entered an agreement with the Commonwealth's Division of Capital Asset Management (DCAM) to participate in the Massachusetts Clean Energy Investment Program (CEIP). Under the program, DCAM was responsible for construction of specific energy conservation projects at the College funded by CEIP Funds and proceeds of bonds issued by the Commonwealth. In 2012, the College added $1,966,772 to its debt obligations for a 10 year note for the Clean Energy Investment Program (CEIP). The note represents 53% of the total obligation of $3,686,772 for equipment, design and installation of mechanical, electrical, controls and plumbing conservation measures at the Lynn and Danvers Campuses. The remaining 47% or $1,600,000 balance of the obligation is being paid for by the Department of Capital Asset Management (DCAM).

In 2011, the College issued $148,050 of Series 2010A-9 bonds through the Massachusetts Development Finance Agency for a Clean Renewal Energy Bond. Principal is payable annually and interest is payable semi-annually commencing on November 1, 2010 through May 1, 2027 and bears interest at a rate of 3.5%. The debt proceeds plus a grant of $410,950 from DCAM will be used to fund a project for a 77 kilowatt photovoltaic system for the Danvers campus Berry building.

In 2008, the College issued $190,600 of Series 2007A bonds through the Massachusetts Development Finance Agency for a Clean Renewal Energy Bond. Principal is payable annually through December 31, 2021 and does not bear interest. The bond proceeds plus a grant in the amount of $358,100 from the Massachusetts Technology Collaborative was used to fund a project for a 62.2 kilowatt solar photovoltaic grid-tied panel on the roof of the Lynn Campus gymnasium.

As a result of a 2009 settlement with the Federal Department of Education (DOE), the College incurred a long-term liability of $650,000, with a repayment schedule of monthly payments for a period of seven years beginning January 2010 and ending December 2016. The interest rate on the note payable to DOE is 3% for the periods ending June 30, 2015 and 2014.

As of June 30, 2015, principal and interest due on notes and bonds payable for the next five years and in subsequent five-year periods are as follows:

		Principal	Interest
Year ending June 30:			
2016	$	1,044,030	297,367
2017		1,004,734	259,497
2018		963,600	224,095
2019		973,997	188,693
2020		984,862	164,797
2021–2025		2,938,811	326,108
2026–2030		520,729	17,075
	$	8,430,763	1,477,632

Total interest expense for 2015 and 2014 was $332,236 and $510,603, respectively.

The following schedule summarizes future minimum payments due under noncancelable operating leases as of June 30, 2015:

Year ending June 30:		
2016	$	381,237
2017		49,632
	$	430,869

Rental expense for operating leases was $666,010 and $482,367 for the years ended June 30, 2015 and 2014, respectively.

(7) Restricted Net Position

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are composed of the following at June 30:

		2015	2014
Restricted – expendable:			
Instructional and departmental uses	$	308,123	634,814
	$	308,123	634,814

(8) Unrestricted Net Position

The College's unrestricted net position at June 30, 2014, had been designated for the following purposes:

		2014
Debt service	$	1,000,000
Deferred maintenance		200,000
Institutional financial aid		360,000
Contingencies		350,000
Reserve for replacement of capital assets		779,132
Master Plan Update		160,000
Culinary and Cosmetology start up costs (rent and equip)		600,000
Reserve for strategic initiatives including grant institutional requirements, CommUniversity, IT & LMS system		550,000
Collective bargaining costs		632,000
	$	4,631,132

As if June 30, 2015, the College's unrestricted net position was a deficit of $2,022,779 due to the implementation of GASB 68. Accordingly, no designation could be made.

(9) Contingencies

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

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

The College participates in the Massachusetts College Savings Prepaid Tuition Program (the Program). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election

(Continued)

to participate, increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept as payment of tuition the amount determined by this Program without regard to the standard tuition rate in effect at the time of the individual's enrollment at the College. The effect of this program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the College.

(10) Operating Expenses

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

		2015	2014
Compensation and benefits	$	45,070,891	44,662,582
Supplies and services		12,785,296	12,578,501
Depreciation and amortization		3,148,776	3,204,472
Scholarships and fellowships		3,607,193	4,817,191
	$	64,612,156	65,262,747

(11) State Appropriation

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

		2015	2014
Direct unrestricted appropriations	$	20,910,123	19,838,121
Add fringe benefits for employees on the state payroll		5,637,041	5,131,544
Less day school tuition remitted to the state and included in tuition and fee revenue		(312,157)	(352,254)
Total unrestricted appropriations		26,235,007	24,617,411
Restricted appropriations		262,595	516,271
Add fringe benefits for employees on the state payroll		14,201	33,424
Total restricted appropriations		276,796	549,695
Capital appropriations		997,565	813,054
Total appropriations	$	27,509,368	25,980,160

The College classified the 9C Cut paid to the Commonwealth of $302,175 in operating expenses as part of institutional support.

(12) Fringe Benefit Program

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

(a) Retirement Plan

The Commonwealth of Massachusetts is statutorily responsible for the pension benefits of College employees who participate in the Massachusetts State Employees' Retirement System (the Retirement System). The Retirement System, a cost sharing defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all nonstudent employees. The College is charged for the cost of these fringe benefits by the Commonwealth. The pension amounts paid were $2,259,204 and $2,187,681 for the years ended June 30, 2015 and 2014, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System.

(b) Insurance

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

(c) Other Employee Benefits

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

(Continued)

(13) Pass-Through Grants

The College distributed $7,309,813 and $8,770,855 during 2015 and 2014, respectively, for student loans through the U.S. Department of Education federal direct lending 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.

(14) Net Pension Liability

General Information about the Pension Plan

Plan description. All employees of the College are provided with pension benefits through the Massachusetts State Employees Retirement System (SERS) – a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts State Retirement Board SERS does not issue a stand-alone publicly available financial report, but its activities are included as a pension trust fund in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Massachusetts that can be obtained at http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html.

Benefits provided. SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes the benefit and contribution requirements for SERS. 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 on the basis of 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, and 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. The retirement systems' 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.

Contributions: SERS funding policies have been established by Chapter 32 of the MGL. The Massachusetts Legislature has the authority to amend these policies. Member contributions for SERS vary depending on the most recent date of membership from 5% of regular compensation for hire dates prior to 1975 to 11% of regular compensation for hire dates after July 1, 2001. For members hired after 1979, an additional contribution of 2% of regular compensation in excess of $30,000 is also required.

Contributions to SERS are made by the College through a Fringe Benefit charge from the Commonwealth. The total fringe rate for pensions was 10.39% and 7.93% of employee payroll paid out of 'local funds' of the College or $664,272 and $572,284 for the years ended June 30, 2015 and 2014.

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

At June 30, 2015, the College reported a liability of $7,222,922 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 (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, 2014 and rolled forward to the Measurement Date. The College's proportion of the net pension liability was based on actual contributions made by the College out of 'local funds'. At June 30, 2014, the College's proportion was 0.106% which was an increase of 0.004% age points from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the College recognized pension expense of $595,629 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred inflows	Deferred outflows
Net difference between projected and actual earnings on pension plan investments	$	1,482,496	—
Changes in proportion and differences between College contributions and proportionate share of contributions		1,555	275,618
Changes in assumptions		—	81,193
Total	$	1,484,051	356,811

The deferred outflows of resources of $664,272 related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		Net in/outflows
Year:		
2016	$	281,810
2017		281,810
2018		281,810
2019		281,811
Total	$	1,127,241

Actuarial assumptions. The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.5% to 9.0% depending on group and length service
Investment rate of return	8.0%, net of pension plan investment expense, including inflation; 3.5% interest rate credited the annuity savings fund
Cost of living increase	3.0% per year

Mortality rates were based on the following:

- Pre-retirement – reflects RP-2000 Employees Table projected 20 years with Scale AA (gender distinct)
- Post-retirement – reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
- Disability – the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years

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 real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric rates of return for each major asset class included in the Pension Reserve Investment Trust (PRIT) Fund's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target allocation	Long-Term expected real rate of return
Core fixed income	13%	2.5%
Value added fixed income	10	6.3
Global equity	43	7.2
Real estate	10	6.3
Private equity	10	8.8
Hedge Funds	10	5.5
Timber/natural resource	4	5.0
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 College's proportionate share of the net pension liability to changes in the discount rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

		One percent decrease	Discount rate	One percent increase
College's proportionate share of the net pension liability	$	10,456,729	7,222,922	4,447,126

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the Commonwealth's financial report.

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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*

The Board of Trustees
North Shore Community College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of North Shore Community College (the College) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated November 12, 2015. Our report includes an emphasis of matter paragraph describing the adoption of a new pension standard and a reference to other auditors who audited the financial statements of the North Shore Community College Foundation, Inc., as described in our report on the 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 audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

KPMG LLP

November 12, 2015