



NORTH SHORE COMMUNITY COLLEGE

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

NORTH SHORE COMMUNITY COLLEGE

Financial Statements
June 30, 2013 and 2012

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October 10, 2013

Members of the Board of Trustees
North Shore Community College

Ladies and Gentlemen:

North Shore Community College (NSCC) management is providing FY2013 financial statement results that demonstrate continued success in managing College operations. Credit enrollments during FY13 continued to be essentially stable. The College lived within budget by administrative and sustainability efficiencies, and holding down administrative expense. The graduating class of 2013 continued strong but level with 2012. Although staff and resources have been stretched, efforts continued to provide access to programs and services and maintain retention. The College expects consistent enrollment levels in FY2014, which requires additional attention to revenue estimates, improved programs and services, scheduling of classes in limited space, and efficiencies in operations to address the demand and retention without loss of quality.

The preliminary FY13 budget was approved in May 2012 by the Board of Trustees, assuming that the College would raise fees slightly and utilize some fund balance carried forward. The FY13 budget reflects the priorities of the College's Strategic Plan, such as Green initiatives and support for Student Success. FY13 institutional budget development included level State appropriation, but no adjustment for the prior years' ARRA supplements, leaving the college with a need to raise fees and reduce expense budget. In addition, a mid-year 1% reduction of \$176k was mandated, reducing the appropriation further and shifting payroll and additional fringe benefit expense to local funds. Approximately \$800k from reserves was designated by the Trustees to renovate space vacated by Student Services Staff that moved into the Health Professions and Student Services Building the prior year – the renovated spaces, finished in August 2013, included a new Veterans' Center, consolidated Tutoring Center, large meeting room, a fitness area, and an additional Math Redesign classroom. The Board of Trustees approved a student fee increase of \$7 per credit in May 2012 plus approximately \$600k in reserves to assist in balancing the FY13 budget and also to provide for increased operational costs. The level enrollment increase in FY13 coupled with reduction of expenditures due to utilities savings, marketing efficiencies, technology efficiencies, keeping close watch on savings across all components, and capital improvements, led to a small increase in net position by the end of FY13, reflected and supported by the financial statements.

The College, with the concurrence of the Trustee Finance Committee, continues to be conservative with reserves and expenses, anticipating a continuing uncertain economic recovery through FY14 and possibly beyond. Because there was not sufficient bond funds available from the new building project (originally planned), the College received approval to spend some reserves in FY13 to renovate the Math and Science building areas that were vacated when Student Services staff moved to the new HPSS building - a study was funded by the College in FY12 to plan to utilize these spaces for other College priorities, such as consolidating Tutoring Services and increasing classroom and other learning space capacity. The College received Emergency funds of \$350k from DCAM at the end of FY 12 towards upgrading the HVAC system of the Math and Science building, a project that was completed in FY13 and was a requirement for the renovations of space. We will be requesting another round of DCAM funds to complete the HVAC system of the Math and Science Building, which will allow us to move forward with Phase 2 of the renovations in FY14 in this building, to include a small renovation of the College Bookstore, Mailroom, and IT deployment area.

The FY2009-2013 Strategic Plan was developed under the direction of the College's governance structure and utilized a data-driven approach with broad institutional and community input. The FY2009-2013 Strategic Plan was approved institution-wide and by the College's Board of Trustees in May 2008. The Plan has six major goals with objectives and specific core activities: Institutional Culture, LearnerCenteredness, Teaching and Academic Programs, Engagement, Environmental Sustainability, and Resources for Growth. While these goals had foundations in the prior College Strategic Plan (FY2008 was the fifth year of the Strategic Plan 2004-2008), core activities were intended to build upon successes of the last five years and bring the College to the next level. Engagement and Environmental Sustainability were new goals for the College, and reflect an institutional commitment to integrate these 21st century values into the life of the College. This Strategic Plan was completed in FY13, and the next Strategic Plan 2014-2016 was completed and approved in May 2013, unanimously, by the College Governance Coordinating Council, full Faculty/Staff meeting, and Board of Trustees. The fact it had unanimous approval is a testament to the collaborative model and governance-infused process, guided by a cross-component Strategic Plan Steering Committee.

In FY2013, North Shore Community College continued to make progress in planning and implementation of sustainable environmental practices with sustainability projects through DCAM, in addition to completion of the new Health Professions and Student Services building. The College completed an agreement with the State for an Energy Performance Grant/Bond through DCAM - these funds, anticipated to provide significant energy improvements and savings at both the Lynn and Danvers campuses, will be paid (bond portion) through savings over next several years. Significant utilities savings were also seen due to late acceptance of the new building HVAC systems, and a relatively mild winter season overall. Environmental sustainability will continue as a strong future strategic direction and commitment of the College.

The Capital Facilities Master Plan process under the purview of the BHE/DCAM started in FY07 and was completed in FY08. The NSCC Capital Facilities Master Plan outlines the priority building projects and options for completing the Danvers and Lynn campuses, and formed the basis for \$52.6m allocations for Danvers and Lynn campuses included in the State Capital Higher Education Bond bill. With the completion of the Danvers HPSS building, the College turns its sights and focus on space needs on the Lynn campus. \$20.7m has been allocated in the State Bond bill to expand and renovate the Lynn campus, and the College received approval for self-funding a study for Lynn campus expansion at the end of FY10. An Interdepartmental Service Agreement for \$175k between DCAM and NSCC was in place in Fall FY11, the State Designer Selection Board approved a Project Manager and Design Firm (Shepley Bullfinch) in March 2011, the Study commenced in April 2011. An additional \$200k from the College was placed in amendment to the ISA so the Study continued with more detail (including study of potential sustainability options such as solar and wind technologies) through FY13, with the study at ST04 stage by August 2012. This is the next major building initiative critical to meeting NSCC's documented space needs within the next five-ten years. It is hoped that the Lynn Expansion and Renovation Study project will be approved for construction phase by inclusion on the FY14 State Capital Spending Plan, which is expected to be released in the Fall of 2013.

The College also began a collaboration and signed an agreement for a public/private partnership with Higher Education Partners, a private equity firm, to find space in Lynn close to the Lynn campus that could be repurposed for the Culinary and Cosmetology programs that must be vacated from the Essex Aggie property by Fall 2014, to accommodate the construction schedule for a new Regional Vocational Technical High School. The HEP partnership would establish a Culinary and Cosmetology Center on Union Street in Lynn, is being planned during FY14, and is expected to be ready for opening for the Fall 2014 semester.

This space would also provide some general classrooms and workforce training. 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.

North Shore Community College continues to be a leader in regional collaborations, K12 partnerships and regional workforce development, maintaining a reputation for providing quality education programs specifically designed to meet regional needs. The Division of Corporate and Community Education increased corporate training contracts during FY2013. Workforce development and better relationship between industry needs and community college academic programming remains another major focus by Massachusetts Governor Patrick and the Department of Higher Education Vision Project goals. The College also collaborated as an active participant in a system-wide three-year \$20m grant from the Federal Dept. of Labor to strengthen the community colleges ability to respond to workforce needs and increase graduates in specific job categories; NSCC's share will provide additional support for Re-Design of Developmental Math, including renovation of classrooms and faculty training, to increase the rate and shorten time of students moving through to College level Math proficiency, and for expansion of the Career Pathways project begun under a FIPSE grant.

As part of the FY13 State Budget legislation, several sections and language is changing the governance and appropriation process for Massachusetts Community Colleges. Intended to strengthen the coordination of the community colleges, legislation also mandated that the Department of Higher Education (in consultation with Community College Presidents) develop a budget allocation formula for the FY 14 appropriation based on enrollments and performance factors. The College Board of Trustees retains its authority over local fees. As a result of implementing a pilot of Performance-based funding formula, additional funds were approved for public higher education appropriations in Massachusetts, with the caveat that fees would not increase for FY14. NSCC received approximately a 3.5% increase in its appropriation for FY14, plus an amount for collective bargaining – the College therefore did not raise fees for FY14. The FY14 Budget also includes an estimate for savings (there will also be long term major savings for the College) expected from re-financing the College's Series B and C HEFA bonds, for which bids were received through Mass Development and closing is expected by end of October, 2013.

A large impact during FY13 was the announcement of substantial leadership change in January, 2013. President Wayne Burton, after 13 years in office, announced his retirement effective July 31, 2013, and subsequently there was the announcement that VP of Academic Affairs, Paul Frydrych, after 42 years at the College, would be retiring effective August 15, 2013. This set in motion a Presidential Search process by the College Board of Trustees, under the new requirements for Presidential Search by the State Department of Higher Education. That Presidential Search is expected to recommend a final candidate to be approved by the DHE in October, 2013. In May, 2013, the Board of Trustees approved an Interim President (the CFO) and Interim VP of Academic Affairs (Dean of Liberal Arts) to be in place effective when the two retired during summer, 2013, and providing continuity in Executive leadership during the transition to a new President. The Interim President would serve until such time as a new President could be hired and available on campus, hopefully by January, 2014. At the time of this audit, the Presidential Search is on schedule.

The 2013 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 Comptroller changed the process for public Higher Education institutions for FY 12 and beyond - each college will now be responsible for including an annual A-133 audit as part of their annual College audit and Financial Statements.

Members of the Board of Trustees
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Overall, these financial statements reflect that we met or exceeded our FY13 Key Performance targets and ambitious institutional objectives, despite many fiscal challenges in the past fiscal year. College management looks forward to FY2014, the first year of the new three-year Strategic Plan 2014-2016, even as we all face the economic challenges and potential political changes of the coming year.

Sincerely,

North Shore Community College

NORTH SHORE COMMUNITY COLLEGE

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2013 and 2012
(Unaudited)

The following discussion and analysis provides management's view of the financial position of North Shore Community College, (the College) as of June 30, 2013 and 2012, 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 16,000 credit and noncredit students annually with 135 full time faculty, 374 part time faculty, 294 full time staff and 175 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 approximately 100 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 almost 1,000 noncredit workforce development and recreational courses.

Financial Highlights

- At June 30, 2013 and 2012, the College's assets of \$90,545,024 and \$91,699,114, respectively, exceeded its liabilities of \$22,522,696 and \$23,730,203 by \$68,022,328 and \$67,968,911, respectively. The resulting net position is summarized into the following categories: net investment in capital assets, restricted (expendable and nonexpendable), and unrestricted.
- The College's Trustees may use the unrestricted net position of \$6,984,283 at June 30, 2013 to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net position of \$200,088 at June 30, 2013 may also be expended, but only for the purposes for which the donor or grantor intended.
- The College's total net position increased by \$53,417 in 2013 compared to an increase of \$7,351,228 in 2012. The 2013 decline is attributed to a decrease in capital appropriations due to the completion of a new academic building on the Danvers campus in 2012.
- Unrestricted net position for FY2013 decreased by \$404,166 to \$6,984,283. Unrestricted net position for FY2012 increased by \$974,022 to \$7,388,449.

This decrease in unrestricted net position for FY2013 resulted from the use of planned budgetary expenditures for the new academic building.

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 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

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Required Supplementary Information Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

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 19 to 21 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 summarized 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 22 to 36 of this report.

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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 exceeded liabilities by \$68,022,328 and \$67,968,911 at the close of FY 2013 and 2012, respectively.

Net investment in capital assets represents capital assets net of related debt and capital leases used to acquire those assets, and is by far the largest portion of the College's net position in fiscal year 2013 and 2012, representing, 89.44% and 88.89% or \$60,837,957 and \$60,423,655, 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.

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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

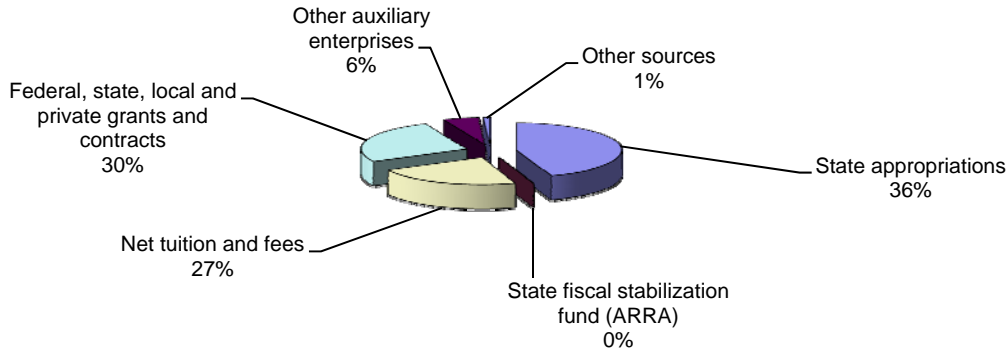
	2013	2012	2011
Current assets	\$ 15,390,880	16,431,675	16,934,028
Noncurrent assets	75,154,144	75,267,439	65,243,216
Total assets	\$ 90,545,024	91,699,114	82,177,244
Current liabilities	\$ 9,487,416	10,060,347	8,915,717
Noncurrent liabilities	13,035,280	13,669,856	12,643,844
Total liabilities	\$ 22,522,696	23,730,203	21,559,561
Net Position:			
Invested in capital assets	\$ 60,837,957	60,423,655	51,770,513
Restricted, expendable	200,088	156,807	484,699
Unrestricted	6,984,283	7,388,449	8,362,471
Total net position	\$ 68,022,328	67,968,911	60,617,683
Total operating revenues	\$ 39,536,634	37,764,483	38,569,376
Total operating expenses	62,866,897	61,262,173	60,280,538
Net operating loss	(23,330,263)	(23,497,690)	(21,711,162)
Net nonoperating revenues	22,291,441	22,926,116	24,351,152
Change in net position before capital appropriations	(1,038,822)	(571,574)	2,639,990
Capital appropriation	1,092,239	7,922,802	16,103,096
Increase in net position	53,417	7,351,228	18,743,086
Net position – beginning	67,968,911	60,617,683	41,874,597
Net position – ending	\$ 68,022,328	67,968,911	60,617,683

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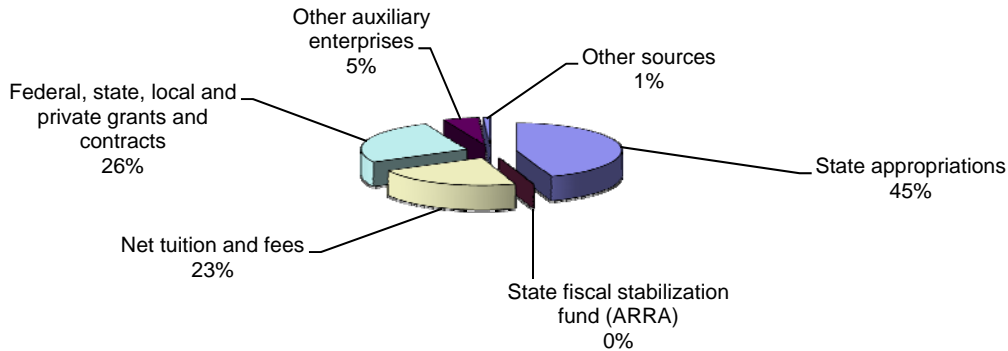
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Major sources of revenue for the College are Tuition and Fees and the State Appropriation. Tuition is set by the Board of Higher Education at \$25.00 per credit for both FY2013 and 2012. Fees are set by the College's board of trustees at \$144.00 for FY2013 and \$137 for FY2012, per credit for the Fall and Spring semesters.

Source of Operating and Nonoperating Revenues 2013



Source of Operating and Nonoperating Revenues 2012



Highlights of operating revenue activity include:

- An increase of 3.38% or \$912,212 in FY2013 in tuition and fees before scholarship allowances. This is primarily due to a \$7 per credit increase effective the Fall 2012 semester offset by little or no change in enrollment numbers for the Fall 2012 semester and the Spring 2013 semester. This compares to an increase

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of 1.5% or \$397,997 in FY2012 in tuition and fees before scholarship allowances. This was primarily due to a \$7 per credit increase effective the Fall 2011 semester offset by decreases in enrollment of 1.0% in the Fall 2011 semester and of 3.3% in the Spring 2012 semester.

	June 30		
	2013	2012	2011
Tuition and fees	\$ 27,900,897	26,988,685	26,590,688
Tuition remitted	1,034,407	725,758	900,000

- An increase of 1.65% or \$303,176 in federal, state, local, and private grants and contracts, compared to an increase of 1.16% or \$210,720 in FY2012. This change is primarily due to an increase in federal aid accounts.

Major grants and contracts received by North Shore Community College for the year included the following:

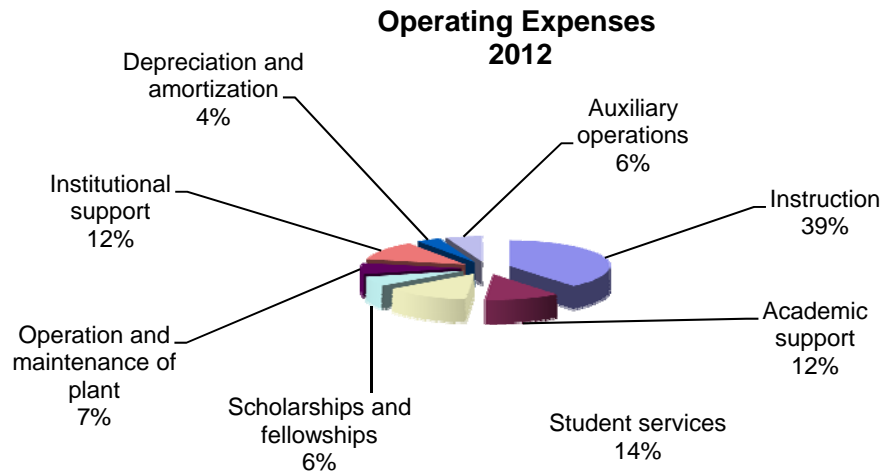
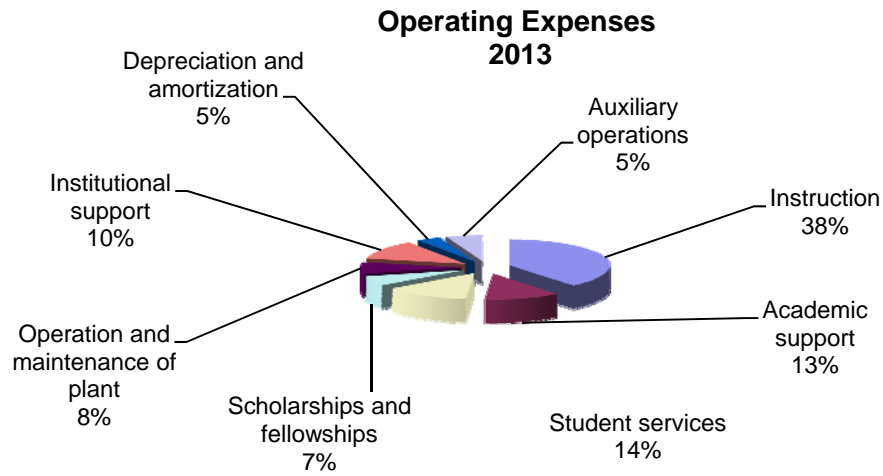
- Vocational Education grant from the Massachusetts Department of Education – award amount – \$334,492
- Upward Bound grant from the U.S. Department of Education – award amount – \$380,280
- Student Support Services grant from the U.S. Department of Education – award amount \$477,726
- Talent Search from the U.S. Department of Education – award amount – \$230,000
- Colleges of Worcester Consortium, Inc. – award amount – \$150,378
- FIPSE – \$380,000 over 2 years, \$120,000 for FY13
- OJJDP – \$400,000 over 3 years, \$104,754 for FY13
- Region 3 Educators Support – \$795,319
- Trade Adjustment Assistance Community College & Career Training (TAACCCT) from the U.S. Department of Labor - \$785,000 over 3 years, \$400,000 for FY13
- Veterans Education & Job Training Project - \$400,000 over 2 years, including no cost ext. \$152,781 in FY13
- Project Access Bridge to the Future - \$187,083 for 3 years, \$88,796 for FY13
- Adult Learning Center – MA DHE - \$183,773

Other auxiliary enterprises include the operations of the student bookstore service. The revenue generated from these operations for FY2013 was \$3,565,462, a decrease of \$179,491 or 4.79% from FY2012. The revenue generated from these operations for FY2012 was \$3,744,953, an increase of \$70,943 or 1.93% from FY2011. Auxiliary operations expenses for FY2013 totaled \$3,403,173, a decrease of 2.71% or \$94,839 from FY2012. Auxiliary operations expenses for FY2012 totaled \$3,498,012, an increase of 0.23% or \$8,142 from FY2011.

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In FY2012, there was decrease in sales revenue, due a decrease in new text book sales. In FY2012, there was a slight increase in sales revenue, due to increased costs of textbooks. Also, new federal legislation effective July 1, 2010 required bookstores to post ISBN numbers on their website; this factor allowed students to purchase their textbooks at alternate sites, including other online stores, resulting in sustained decreases in sales. These changes resulted in a net income from auxiliary operations enterprises for fiscal year 2013 of \$162,289, compared to \$246,941 in fiscal year 2012.



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Highlights of operating expense activity include:

- A decrease of 0.13% or \$31,818 in instruction expenditures in FY2013. This slight decrease is primarily due to a decrease in the fringe benefit rate from 32.98% in FY2012 to 25.98% in FY2013, which helped to offset an increase in full-time salaries from collective bargaining increases. This compares to an increase of 4.93% or \$1,121,799 in FY2012, which was due to an increase in the fringe rate from 31.82% to 32.98%, as well as an increase in enrollments and resulting part-time faculty expenses.
- An increase of 6.90% or \$510,136 in academic support expenditures in FY2013, primarily due to collective bargaining increases for full-time salaries. This compares to an increase of 2.53% or \$182,530 in FY2012, primarily due to an increase in federal grant expenses, and an increase in the fringe benefit rate from 31.82% to 32.98%.
- An increase of 4.29% or \$359,170 in student services expenditures in FY2013, primarily due to a collective bargaining increases for full-time salaries. This compares to an increase of 3.06% or \$249,051 in FY2012, primarily due to an increase in the fringe benefit rate from 31.82% to 32.98% as well as collective bargaining increases for full-time salaries.
- An increase of 27.11% or \$1,018,745 in scholarships and fellowships in FY2013, mainly due to an increase in student loans, resulting in more refunds to students. By comparison, there was a decrease of 24.13%, or \$1,195,148 in FY2012, mainly due to an increase in student aid applied to tuition and fees resulting in lower refunds to students.
- A decrease of 8.20% or \$25,244 in public service expenditures in FY2013. In FY2012, there had been an increase of .067% or \$2,048 mainly due to the slightly increased activity.
- An increase of 11.18% or \$540,799 in operation and maintenance of plant expenditures in FY2013, due to additional expenses incurred for renovations to the math and science building. By comparison, there was a decrease of 6.99% or \$321,524 in FY2012, due to a decrease in utilities expense of \$277,000 and a decrease in snow removal due to a mild winter.
- A decrease of 21.43% or \$1,304,832 in institutional support expenditures in FY2013, primarily due to a decrease in the fringe benefit rate from 32.98% in FY2012 to 25.98% in FY2013 which helped to offset the increases in expenses from FY2012 and FY2013 in the areas of retirement payouts of compensated absences, audit including A-133, HEFA related insurance and equipment. In FY2012, there was an increase of 14.65% or \$948,243 due to an increase in the fringe benefit rate from 31.82% in FY2011 to 32.98% in FY2012.

For non-operating revenues and expenses, the Commonwealth's total appropriations decreased by 2.89% or \$670,981 compared to an increase of 3.27% or \$740,333, in FY2013 and 2012, respectively. The College received a capital appropriation of \$1.1 million 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.

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The Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll decreased in FY2013 by 20.59% or \$1,207,783 to \$4,657,852 compared to 5.26% or \$293,181 to \$5,865,635 in FY2012. The fringe benefit rate decreased by 7 points to 25.98% from 32.98% for FY2012 compared to an increase of 1.16 points to 32.98% from 31.82% for FY2012, respectively. The Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll increased in FY2012 by 5.26% or \$293,181 to \$5,865,635 compared to \$5,572,454 in FY11. The fringe benefit rate increased by 1.16 points to 32.98% from 31.82% for FY2012 compared to an increase of 5.4 points to 31.82% for FY2011, respectively.

Tuition remitted to the Commonwealth increased by 42.53% or \$308,649 in FY2013, compared to a decrease of 19.36% or \$174,242 in FY2012, this decrease was due to an increase in net student fees.

Investment income decreased in FY2013 by 26.62% or \$6,612 compared to an increase of 5.41% or \$1,275 in FY2012. The decrease is related to declining interest rates and lower balances in interest bearing accounts. The "Temporary Full FDIC Insurance Coverage for Noninterest-Bearing Transaction Accounts" expired on December 31, 2012 limiting insured deposits to \$250,000 per institution effective January 1, 2013.

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 FY2013 and 2012. 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, 2013 and 2012 amounts to \$73,004,777 and \$73,103,328, respectively, net of accumulated depreciation. The College recognized \$1.1 million in capital appropriations in FY 2013 primarily for additional improvements to infrastructure to the new Health Professions and Student Services building in Danvers and completion of the Clean Energy Investment Project. This investment in capital assets includes land, building (including improvements), furnishings, and equipment (including the cost of capital leases).

Debt

The College carries long-term debt, other than accruals for 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%.

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In December 2000, the College issued \$7,610,000 of Series C bonds through the Health and Education Facilities Authority. Principal is payable semiannually through FY2002 through 2026 in amounts ranging from \$175,000 to \$540,000. Interest is payable semiannually at fixed rates, ranging between 4.30% and 5.25%.

The College is required to maintain an escrow sufficient to pay one year's principal and interest on the bonds. This amount is included in deposits with bond trustee. The bonds are collateralized by certain property.

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 compensated absences consists of the long-term portion of 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, 2013 and 2012, 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 audit. 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. 5

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, 2013 and 2012, 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, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the year 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 - 15 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 October 10, 2013 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

October 10, 2013

NORTH SHORE COMMUNITY COLLEGE

Statements of Net Position

June 30, 2013 and 2012

Assets	North Shore Community College		North Shore Community College Foundation	
	2013	2012	2013	2012
Current assets:				
Cash and cash equivalents (note 2)	\$ 11,007,669	11,902,172	271,427	155,023
Cash held by State Treasurer (note 3)	777,163	762,360	—	—
Investments (note 2)	941,155	936,105	—	—
Accounts receivable, net (note 4)	1,542,860	1,677,899	92,642	146,932
Inventory and other current assets	1,122,033	1,153,139	—	—
Total current assets	<u>15,390,880</u>	<u>16,431,675</u>	<u>364,069</u>	<u>301,955</u>
Noncurrent assets:				
Funds held by bond trustee – restricted (notes 2 and 6)	2,149,367	2,164,111	—	—
Investments (note 2)	—	—	5,646,460	5,181,525
Capital assets, net of accumulated depreciation (notes 5 and 6)	73,004,777	73,103,328	—	—
Total noncurrent assets	<u>75,154,144</u>	<u>75,267,439</u>	<u>5,646,460</u>	<u>5,181,525</u>
Total assets	<u>\$ 90,545,024</u>	<u>91,699,114</u>	<u>6,010,529</u>	<u>5,483,480</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities (note 3)	\$ 1,081,463	2,272,784	197,782	181,637
Accrued payroll (note 3)	3,058,394	3,193,115	—	—
Compensated absences and workers comp (note 6)	3,187,444	2,523,185	—	—
Accrued interest payable	128,095	135,513	—	—
Students' deposits and unearned revenues	938,421	870,149	—	—
Funds held for others	158,616	176,741	28,291	22,597
Current portion of bonds payable (note 6)	647,143	612,142	—	—
Current portion of note payable (note 6)	287,840	276,718	—	—
Total current liabilities	<u>9,487,416</u>	<u>10,060,347</u>	<u>226,073</u>	<u>204,234</u>
Noncurrent liabilities:				
Compensated absences and workers comp (note 6)	1,761,420	1,445,706	—	—
Note payable (note 6)	1,835,552	2,123,392	—	—
Bonds payable (note 6)	9,438,308	10,100,758	—	—
Total noncurrent liabilities	<u>13,035,280</u>	<u>13,669,856</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>\$ 22,522,696</u>	<u>23,730,203</u>	<u>226,073</u>	<u>204,234</u>
Net Position				
Investment in capital assets	\$ 60,837,957	60,423,655	—	—
Restricted:				
Expendable (note 7)	200,088	156,807	1,823,611	1,601,917
Nonexpendable	—	—	1,769,888	1,734,950
Unrestricted (note 8)	6,984,283	7,388,449	2,190,957	1,942,379
Contingencies (note 9)	—	—	—	—
Total net position	<u>\$ 68,022,328</u>	<u>67,968,911</u>	<u>5,784,456</u>	<u>5,279,246</u>

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Statements of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2013 and 2012

	North Shore Community College		North Shore Community College Foundation	
	2013	2012	2013	2012
Operating revenues:				
Tuition and fees	\$ 27,900,897	26,988,685	—	—
Less scholarship allowances	(10,645,444)	(11,358,071)	—	—
Net student fees	17,255,453	15,630,614	—	—
Grants and contracts	18,627,589	18,324,413	—	—
Auxiliary operations	3,565,462	3,744,953	—	—
Other sources	88,130	64,503	—	—
Total operating revenues	39,536,634	37,764,483	—	—
Operating expenses (note 10):				
Instruction	23,860,813	23,892,631	—	—
Academic support	7,906,583	7,396,447	—	—
Student services	8,737,563	8,378,393	—	—
Scholarships and fellowships	4,776,400	3,757,655	193,621	320,064
Public service	282,575	307,819	—	—
Operation and maintenance of plant	4,821,828	4,281,029	—	—
Institutional support	6,117,991	7,422,823	72,617	63,447
Depreciation and amortization	2,959,971	2,327,364	—	—
Auxiliary operations	3,403,173	3,498,012	—	—
Total operating expenses	62,866,897	61,262,173	266,238	383,511
Operating loss	(23,330,263)	(23,497,690)	(266,238)	(383,511)
Nonoperating revenues (expenses):				
State appropriations – unrestricted (note 11)	21,931,979	23,042,578	—	—
State appropriations – restricted (note 11)	746,748	307,130	—	—
Federal grants (ARRA)	—	55,790	—	—
Gifts, grants and contributions	—	—	377,126	446,009
Net investment income (note 2)	18,226	24,838	630,644	43,148
Interest expense	(641,834)	(675,249)	—	—
Payments between the College and the Foundation	236,322	171,029	(236,322)	(171,029)
Net nonoperating revenues	22,291,441	22,926,116	771,448	318,128
Changes in net position before capital appropriations	(1,038,822)	(571,574)	505,210	(65,383)
Capital appropriations (note 11)	1,092,239	7,922,802	—	—
Change in net position	53,417	7,351,228	505,210	(65,383)
Net position, beginning of year	67,968,911	60,617,683	5,279,246	5,344,629
Net position, end of year	\$ 68,022,328	67,968,911	5,784,456	5,279,246

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Statements of Cash Flows Years ended June 30, 2013 and 2012

	North Shore Community College	
	2013	2012
Cash flows from operating activities:		
Tuition, residence, dining, and other student fees	\$ 17,458,764	15,631,614
Grants and contracts	18,482,860	18,344,182
Payments to suppliers	(12,615,447)	(11,858,802)
Payments to employees	(38,246,444)	(36,775,635)
Payments to students	(4,776,400)	(3,757,654)
Other cash receipts	3,871,999	3,718,787
Net cash used by operating activities	<u>(15,824,668)</u>	<u>(14,697,508)</u>
Cash flows from noncapital financing activities:		
State appropriations	17,995,882	17,466,009
Federal grants (ARRA)	—	55,790
Funds held for others	(18,125)	(9,433)
Principal payments on notes payable	(276,718)	(88,617)
Contributions from Foundation	236,322	171,029
Net cash provided by noncapital financing activities	<u>17,937,361</u>	<u>17,594,778</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(2,834,831)	(10,364,695)
Capital state appropriation	1,092,239	7,922,802
Cash held by bond trustee	14,744	(8,548)
Principal paid on capital debt	(636,722)	(596,416)
Interest paid on capital debt	(645,936)	(677,971)
Net cash used by capital financing activities	<u>(3,010,506)</u>	<u>(3,724,828)</u>
Cash flows from investing activities:		
Interest on investments	18,113	24,182
Net cash provided by investing activities	<u>18,113</u>	<u>24,182</u>
Net change in cash and cash equivalents	<u>(879,700)</u>	<u>(803,376)</u>
Cash and cash equivalents (including cash held by State Treasurer), beginning of year	12,664,532	13,467,908
Cash and cash equivalents (including cash held by State Treasurer), end of year	<u>\$ 11,784,832</u>	<u>12,664,532</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (23,330,263)	(23,497,690)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	2,959,971	2,327,364
Fringe benefits provided by the State	4,657,852	5,865,635
Changes in assets and liabilities:		
Accounts receivable, net	135,039	(158,750)
Inventory and other current assets	31,106	(129,999)
Accounts payable and accrued liabilities	(1,107,050)	471,874
Accrued payroll	(134,719)	499,557
Compensated absences and workers comp	979,973	(244,086)
Students' deposits and unearned revenues	68,272	84,160
Deferred revenues	(84,849)	84,427
Net cash used by operating activities	<u>\$ (15,824,668)</u>	<u>(14,697,508)</u>
Noncash transactions:		
Fringe benefits provided by state and federal	\$ 4,657,852	5,865,635
CEIP debt financing	—	1,966,772

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(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, and Lynn, 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 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.

During 2013, the College implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which resulted in no material changes to the accompanying financial statements.

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 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, 2013 and 2012, the Foundation distributed \$236,322 and \$171,029, respectively, to the College for both restricted and unrestricted purposes.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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.

(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.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(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, 2013 and 2012. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2013 and 2012. 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 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 deferred and are recorded as revenues when 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.

(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.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(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 his 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.

The Short Term Asset Reserve (STAR) fund is designed as an investment vehicle for bond proceeds of organizations that borrow through the Massachusetts Development Finance Agency. The STAR fund operates as a Rule 2a-7-like pool and the value of the College's investment in the STAR fund represents its value of the pool's shares. The custodian of the invested funds is U.S. Bank.

(b) *Summary of Deposits and Investments*

Deposits and investments consist of the following at June 30:

Deposits and investments	2013	2012
Cash in bank	\$ 9,668,676	10,566,076
Massachusetts Municipal Depository Trust (MMDT)	1,338,993	1,336,096
Total cash and cash equivalents	11,007,669	11,902,172
Certificates of deposit	941,155	936,105
US Bank - STAR Fund	2,149,365	2,129,941
Century Bank	2	34,169
Total deposits and investments	\$ 14,098,191	15,002,387

(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

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

does not have a formal policy for concentration of credit risk. Investments representing more than 5% of the College's total investments at June 30 consist of:

2013			
<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage of the total</u>
U.S. Bank	Government investment pool	2,149,365	49
Commonwealth of Massachusetts	MMDT	1,338,993	30
	Total	\$ 3,488,358	79%

2012			
<u>Issuer</u>	<u>Investment type</u>	<u>Fair value</u>	<u>Percentage of the total</u>
U.S. Bank	Government investment pool	2,129,941	48
Commonwealth of Massachusetts	MMDT	1,336,096	30
	Total	\$ 3,466,037	78%

(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, 2013 and 2012, \$1,804,211 and \$1,086,096, respectively, of the College's bank balances of \$6,922,091 and \$9,070,270, 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, 2013 and 2012, all of the College's investments have maturities of one year or less except for a certificate of deposit for \$150,000 with a maturity of 5 years.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(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:

Rated debt investments	Fair value	2013	
		Quality ratings	
		AAA	Unrated
US Bank Fund	\$ 2,149,365	2,149,365	
Century Bank	2		2
Certificates of deposit	941,155		941,155
MMDT	1,338,993		1,338,993
Total	\$ 4,429,515	2,149,365	2,280,150

Rated debt investments	Fair value	2012	
		Quality ratings	
		AAA	Unrated
STAR Fund	\$ 2,129,941	2,129,941	
Century Bank	34,169	—	34,169
Certificates of deposit	936,105	—	936,105
MMDT	1,336,096	—	1,336,096
Total	\$ 4,436,311	2,129,941	2,306,370

(g) Investments of the Foundation

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

	2013	2012
Mutual funds	\$ 5,120,399	4,473,249
Money market funds	146,512	218,718
Corporate debt securities	379,549	489,558
	\$ 5,646,460	5,181,525

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income, net of amortization	\$ 105,867	104,573
Realized gain on sale of securities	40,806	5,944
Unrealized net gain (loss) on investments	483,971	(67,369)
	<u>\$ 630,644</u>	<u>43,148</u>

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$777,163 and \$762,360 at June 30, 2013 and 2012, 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:

	<u>2013</u>	<u>2012</u>
Student accounts receivable	\$ 3,878,110	3,985,897
Grants receivable	506,078	446,288
Other receivables	27,339	42,122
	4,411,527	4,474,307
Less allowance for doubtful accounts	(2,868,667)	(2,796,408)
	<u>\$ 1,542,860</u>	<u>1,677,899</u>

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(5) Capital Assets

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

		2013				
	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		4,951,538	667,374	(2,077)	(4,367,550)	1,249,285
Total not being depreciated		18,793,615	667,374	(2,077)	(4,367,550)	15,091,362
Capital assets being depreciated:						
Building, including improvements	20 – 40	86,385,793	1,580,733		4,003,632	91,970,158
Furnishings and equipment	3 – 10	8,134,443	586,724		363,918	9,085,085
Books	5	505,463				505,463
Total being depreciated		95,025,699	2,167,457	—	4,367,550	101,560,706
Less accumulated depreciation:						
Building, including improvements		(32,927,127)	(2,523,058)			(35,450,185)
Furnishings and equipment		(7,283,396)	(408,247)			(7,691,643)
Books		(505,463)				(505,463)
Total accumulated depreciation		(40,715,986)	(2,931,305)	—	—	(43,647,291)
Total being depreciated, net		54,309,713	(763,848)	—	4,367,550	57,913,415
Capital assets, net		\$ 73,103,328	(96,474)	(2,077)	—	73,004,777

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

		2012				
	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		25,581,778	4,130,018		(24,760,258)	4,951,538
		<u>39,423,855</u>	<u>4,130,018</u>	<u>—</u>	<u>(24,760,258)</u>	<u>18,793,615</u>
Total not being depreciated						
		<u>39,423,855</u>	<u>4,130,018</u>	<u>—</u>	<u>(24,760,258)</u>	<u>18,793,615</u>
Capital assets being depreciated:						
Building, including improvements	20 – 40	53,625,525	8,000,010		24,760,258	86,385,793
Furnishings and equipment	3 – 10	7,933,004	201,439			8,134,443
Books	5	505,463				505,463
		<u>62,063,992</u>	<u>8,201,449</u>	<u>—</u>	<u>24,760,258</u>	<u>95,025,699</u>
Total being depreciated						
		<u>62,063,992</u>	<u>8,201,449</u>	<u>—</u>	<u>24,760,258</u>	<u>95,025,699</u>
Less accumulated depreciation:						
Building, including improvements		(31,028,301)	(1,898,826)			(32,927,127)
Furnishings and equipment		(6,883,526)	(399,870)			(7,283,396)
Books		(505,463)				(505,463)
		<u>(38,417,290)</u>	<u>(2,298,696)</u>	<u>—</u>	<u>—</u>	<u>(40,715,986)</u>
Total accumulated depreciation						
		<u>(38,417,290)</u>	<u>(2,298,696)</u>	<u>—</u>	<u>—</u>	<u>(40,715,986)</u>
Total being depreciated, net						
		<u>23,646,702</u>	<u>5,902,753</u>	<u>—</u>	<u>24,760,258</u>	<u>54,309,713</u>
Capital assets, net						
		<u>\$ 63,070,557</u>	<u>10,032,771</u>	<u>—</u>	<u>—</u>	<u>73,103,328</u>

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(6) Long-Term Liabilities

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

		2013					
		Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Bonds payable:							
Revenue bonds payable	\$	10,600,000		600,000	10,000,000	635,000	9,365,000
CREB bonds payable		257,696		36,722	220,974	21,416	199,558
Less unamortized discount on revenue bonds payable		(144,796)		(9,273)	(135,523)	(9,273)	(126,250)
Total bonds payable, net		10,712,900	—	627,449	10,085,451	647,143	9,438,308
Other long-term liabilities:							
Note payable		2,400,110		276,718	2,123,392	287,840	1,835,552
Accrued sick and vacation		3,656,453	956,272		4,612,725	3,136,653	1,476,072
Workers' compensation		312,438	23,701		336,139	50,791	285,348
Total other liabilities		6,369,001	979,973	276,718	7,072,256	3,475,284	3,596,972
Total long-term liabilities	\$	17,081,901	979,973	904,167	17,157,707	4,122,427	13,035,280
		2012					
		Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
Bonds payable:							
Revenue bonds payable	\$	11,175,000	—	575,000	10,600,000	600,000	10,000,000
CREB bonds payable		279,112	—	21,416	257,696	21,416	236,280
Less unamortized discount on revenue bonds payable		(154,069)	—	(9,273)	(144,796)	(9,274)	(135,522)
Total bonds payable, net		11,300,043	—	587,143	10,712,900	612,142	10,100,758
Other long-term liabilities:							
Note payable		521,955	1,966,772	88,617	2,400,110	276,718	2,123,392
Accrued sick and vacation		3,889,459	—	233,006	3,656,453	2,476,069	1,180,384
Workers' compensation		323,518	—	11,080	312,438	47,116	265,322
Total other liabilities		4,734,932	1,966,772	332,703	6,369,001	2,799,903	3,569,098
Total long-term liabilities	\$	16,034,975	1,966,772	919,846	17,081,901	3,412,045	13,669,856

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

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 is 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 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 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 December 2000, the College issued \$7,610,000 of Series C bonds at fixed rates ranging from 4.3% to 5.25%. The bonds were issued through the Commonwealth's Health and Education Facilities Authority (HEFA) to partially finance the construction of a new classroom building on the Danvers campus. In March 1998, the College issued \$7,675,000 of Series B bonds through HEFA at fixed rates ranging from 3.5% to 5% to advance-refund the remaining balance of Series A bonds. The bonds are collateralized by certain property.

The College is required to maintain escrows sufficient to pay one year's principal and interest on the bonds. These escrows amounted to \$2,149,365 and \$2,164,111 as of June 30, 2013 and 2012, respectively, and are included as funds held by bond trustee on the statements of net assets.

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, 2013 and 2012.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

As of June 30, 2013, 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:		
2014	944,255	589,966
2015	980,836	545,701
2016	1,027,895	499,318
2017	1,028,600	450,542
2018	1,022,466	401,555
2019 – 2023	4,335,789	1,198,994
2024 – 2028	3,004,525	218,910
	\$ 12,344,366	3,904,986

Total interest expense for 2013 and 2012 was \$641,834 and \$675,249, respectively.

The following schedule summarizes future minimum payments due under non-cancelable operating leases as of June 30, 2013:

2014	\$ 495,971
2015	499,918
2016	100,215
2017	19,968
	\$1,116,072

Rental expense for operating leases was \$466,882 and \$467,218 for the years ended June 30, 2013 and 2012, 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:

	2013	2012
Restricted – expendable:		
Instructional and departmental uses	\$ 200,088	156,807
	\$ 200,088	156,807

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(8) Unrestricted Net Position

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

	<u>2013</u>	<u>2012</u>
A restricted reserve equivalent to two years of the Series B and C Bond repayment for the Allied Health Building in Danvers	\$ 2,255,633	2,258,720
Deferred maintenance	250,000	250,000
Institutional financial aid	360,000	375,000
Contingencies	290,650	226,897
Reserve for replacement of capital assets	2,300,000	2,300,000
Science renovations	140,000	900,000
Reserve for strategic initiatives including grant institutional requirements	300,000	250,000
Presidential search	60,000	
Campus safety initiatives	175,000	134,000
Collective bargaining costs	853,000	693,832
	<u>\$ 6,984,283</u>	<u>7,388,449</u>

(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 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.

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

(10) Operating Expenses

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

	2013	2012
Compensation and benefits	\$ 43,749,549	42,896,742
Supplies and services	11,380,977	12,280,412
Depreciation and amortization	2,959,971	2,327,364
Scholarships and fellowships	4,776,400	3,757,655
	\$ 62,866,897	61,262,173

(11) State Appropriation

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

	2013	2012
Direct unrestricted appropriations	\$ 18,342,857	17,945,564
Add fringe benefits for employees on the state payroll	4,623,529	5,822,772
Less day school tuition remitted to the state and included in tuition and fee revenue	(1,034,407)	(725,758)
Total unrestricted appropriations	21,931,979	23,042,578
Restricted appropriations	712,425	264,267
Add fringe benefits for employees on the state payroll	34,323	42,863
Total restricted appropriations	746,748	307,130
Capital appropriations	1,092,239	7,922,802
Total appropriations	\$ 23,770,966	31,272,510

(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 single employer defined benefit public employee

NORTH SHORE COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013 and 2012

retirement system, is administered by the Commonwealth and covers substantially all nonstudent employees. The College is charged for the cost of these fringe benefits by the Commonwealth. Such pension expense amounted to \$2,106,367 and \$2,002,728 for the years ended June 30, 2013 and 2012, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 83% and 77% of annual total payroll for the College in 2013 and 2012, respectively.

(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.

(13) Pass-Through Grants

The College distributed \$8,796,344 and \$7,022,907 during 2013 and 2012, 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.



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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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 10, 2013. Our report includes 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

October 10, 2013