NORTH SHORE COMMUNITY COLLEGE

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors’ Report Thereon)

NORTH SHORE COMMUNITY COLLEGE

Financial Statements

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October 3, 2014

Members of the Board of Trustees
North Shore Community College

Ladies and Gentlemen:

North Shore Community College (NSCC) management is providing FY2014 financial statement results that demonstrate continued success in managing College operations. Credit enrollments during FY14 declined slightly, reflecting national and regional trends. The College lived within budget by administrative and sustainability efficiencies, and holding down administrative expense. The graduating class of 2014 continued strong but level with 2013. Although staff and resources have been stretched, efforts continued to provide access to programs and services and maintain retention. The College expects further decline in enrollment levels in FY2015, 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 FY14 budget was approved in May 2013 by the Board of Trustees, assuming that the College would not raise fees for FY14 under an agreement by the Presidents of the Massachusetts Community Colleges, in return for a system-wide increase in appropriation based on the first year of a DHE funding formula. This 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 FY14, the additional system-wide increase in appropriation was tied to the performance factors, with a minimum guarantee of 3.5% increase. Due to the results of the performance factors, NSCC received the minimum increase (approximately $658,000.). As a result of implementing the Performance-based funding formula, additional appropriations were also funded system-wide for public higher education in Massachusetts for FY15, however approximately half the FY14 increase, with the NSCC receiving only $350k additional in its appropriation for FY15, plus an amount for collective bargaining – the College Board of Trustees therefore did raise fees by $10/credit for FY15. The FY15 Budget reflects several retirement positions that were not replaced and also includes other estimated savings, for example an estimate for annual 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 occurred December 2013. The FY15 operational budget was approved by the Board of Trustees in May 2014 and was projected with budget revenue and expenditures to balance with level or very small operational increase in cash reserves.

The FY14 and FY15 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 FY13 to renovate space vacated by Student Services Staff that moved into the Health Professions and Student Services Building the prior year – the renovated spaces were finished in August 2013, including a new Veterans' Center, consolidated Tutoring Center, large meeting room, a fitness area, and an additional Math Redesign classroom. There was an enrollment decline in FY14, which was offset by a reduction of expenditures due to utilities savings, marketing efficiencies, technology efficiencies, keeping close watch on savings across all components and capital improvements. Also during FY14, the College's bond debt was refinanced to reduce future expenses. The cumulative effect of the bond refinancing resulted in one-time expenses which include the cumulative effect of GASB Standard 65 and contributed to a decrease in net position by the end of FY14, 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 economic recovery but uncertain trending enrollment decline through FY15 and possibly beyond. Budget and organizational right-sizing will be a challenge for the next budget cycle but College management expects to address this over the 2014-2015 academic year – during the next year, we intend to align institutional organization priorities and academic, enrollment and facilities plans. The College included in the FY15 operational budget $200k for self-funding an update to its Facilities Master Plan. That process will begin in October, 2014 and 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.

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 30,000 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 FY15 State Capital Spending Plan, released in late June, 2014. The construction schedule anticipates a groundbreaking in Spring 2015, followed by 18 months of construction, with an anticipated completion for opening Fall 2016 semester.

The College also began a collaboration and signed an agreement for a public/private partnership with Higher Education Partners (HEP), 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 had to be vacated from the Essex Aggie property by Fall 2014, to accommodate the construction schedule for a new Regional Vocational Technical High School. The collaboration agreement between HEP and North Shore Community College was vacated by mutual agreement in

December 2013, because the project became fiscally unfeasible during the late Fall, 2013. 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 referenced above.

A large impact during FY14 was the announcement of substantial leadership change: 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. In May 2013, the NSCC Board of Trustees approved an Interim President (College CFO Janice Forsstrom) and Interim VP of Academic Affairs (Maureen O'Neill, former Dean of Liberal Arts) to be in place effective summer, 2013. These interim appointments provided continuity in Executive leadership during the transition to a new President. The Presidential Search Committee and NSCC Board of Trustees recommended a final candidate, Dr. Patricia Gentile, who in October, 2013 was approved by the BHE as NSCC's fourth permanent President, effective January 2014. Once President Gentile started at the College in January 2014, a search commenced for a permanent replacement for the VP of Academic Affairs. In July, 2014, Dr. Karen Hynick was appointed as VP of Academic Affairs. With this appointment, and some re-structuring of administrative positions, College Executive leadership is in place with a blend of continuity and new vision and energy.

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, as it takes substantial shape over the next year as well.

During FY14, the College engaged a large number of faculty and staff in the completion of a Five Year Interim NEASC (New England Association of Schools and Colleges) accreditation report (next ten year accreditation will be in 2019). That report addressed each of the NEASC standards for accreditation provided data forms, as well as reporting progress on specific issues in the last 2009 accreditation report. In addition, a new requirement for an Institutional

"Reflective Essay" on Student Outcomes Assessment was completed. The complete Interim report will be submitted to the accrediting agency, NEASC, by the August 31, 2014 due date. In addition a Substantial Change Report to NEASC was submitted in August for approval from the accrediting agency for the new Culinary Arts and Cosmotology site in Middleton.

The 2014 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 is now responsible for including an annual A-133 audit as part of their annual College audit and Financial Statements.

Overall, these financial statements reflect that we met or exceeded our FY14 Key Performance targets and ambitious institutional objectives, despite many fiscal and organizational challenges in the past fiscal year. College management looks forward to FY2015, the second year of the new three-year Strategic Plan 2014-2016, as we enter the College's 50th year of existence. During the next year, the College will celebrate its 50th year, starting with the Installation of President Gentile in September, 2014, and embark on a new and exciting journey into the future.

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, 2014 and 2013, 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, 2014 and 2013, the College's assets of $86,448,359 and $90,545,024, respectively, exceeded its liabilities of $19,193,040 and $22,522,696 by $67,255,320 and $68,022,328, 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 $4,631,132 at June 30, 2014 to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net position of $634,814 at June 30, 2014 may also be expended, but only for the purposes for which the donor or grantor intended.
- The College's total net position decreased by $767,008 in 2014 compared to an increase of $53,417 in 2013. The 2014 decline is attributed to a decrease in capital appropriations due to the completion of a new academic building on the Danvers campus in 2013.
- Unrestricted net position for FY2014 decreased by $2,353,151 to $4,631,132. Unrestricted net position for FY2013 decreased by $404,166 to $6,984,283.

This decrease in unrestricted net position for FY2014 resulted from the use of Series B and Series C bond reserves held by the bond trustees to reduce debt on new obligations as well as the use of planned budgetary expenditures.

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).

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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.

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.

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 $67,255,320 and $68,022,328 at the close of FY 2014 and 2013, 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 2014 and 2013, representing, 92% and 89.44% or $61,989,375 and $60,837,957, 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

		2014	2013	2012
Current assets	$	15,244,187	15,390,880	16,431,675
Noncurrent assets		71,204,173	75,154,144	75,267,439
Total assets	$	86,448,359	90,545,024	91,699,114
Current liabilities	$	9,132,071	9,487,416	10,060,347
Noncurrent liabilities		10,060,969	13,035,280	13,669,856
Total liabilities	$	19,193,040	22,522,696	23,730,203
Net Position:				
Invested in capital assets	$	61,989,375	60,837,957	60,423,655
Restricted, expendable		634,814	200,088	156,807
Unrestricted		4,631,132	6,984,283	7,388,449
Total net position	$	67,255,320	68,022,328	67,968,911
Total operating revenues	$	39,097,936	39,536,634	37,764,483
Total operating expenses		65,262,747	62,866,897	61,262,173
Net operating loss		(26,164,811)	(23,330,263)	(23,497,690)
Net nonoperating revenues		24,907,735	22,291,441	22,926,116
Change in net position before capital appropriations		(1,257,076)	(1,038,822)	(571,574)
Capital appropriation		813,054	1,092,239	7,922,802
Increase in net position		(444,022)	53,417	7,351,228
Net position – beginning, as restated		67,699,342	67,968,911	60,617,683
Net position – ending	$	67,255,320	68,022,328	67,968,911

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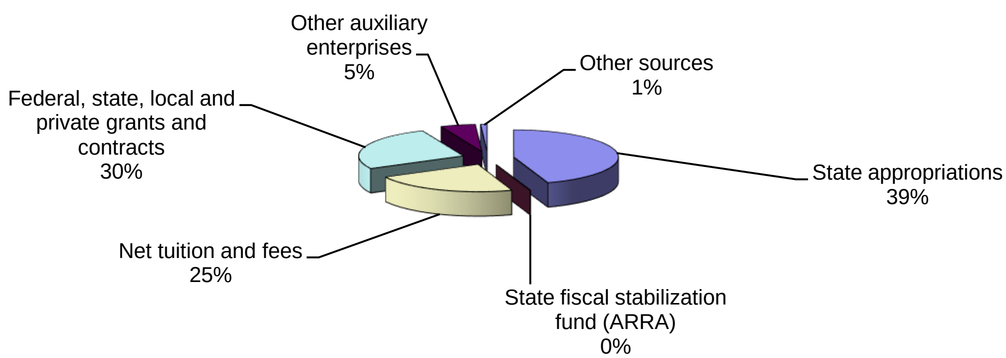
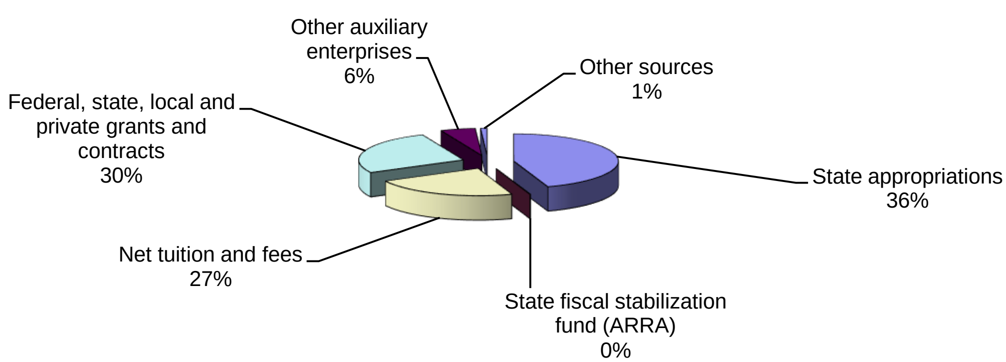
Major sources of revenue for the College are Tuition and Fees and the State Appropriation. Tuition is set by the Board of Higher Education at $25.00 per credit for both FY2014 and 2013. Fees are set by the College's board of trustees at $144.00 for FY2014 and $144.00 for FY2013, per credit for the Fall and Spring semesters.

Source of Operating and Nonoperating Revenues 2014



Source of Operating and Nonoperating Revenues 2013



Highlights of operating revenue activity include:

- A decrease of 2% or $649,194 in FY2014 in tuition and fees before scholarship allowances. This is primarily due to no increase in tuition or fees and a decline in enrollment and credit hours for the Fall 2013 and Spring 2014 semesters. This compares to an increase of 3.38% or $912,212 in FY2013 in tuition and fees before scholarship allowances. This was 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.

		June 30		
		2014	**2013**	**2012**
Tuition and fees	$	27,251,703	27,900,897	26,988,685
Tuition remitted		352,254	1,034,407	725,758

- An increase of 1.56% or $291,196 in federal, state, local, and private grants and contracts, compared to an increase of 1.65% or $303,176 in FY2013. 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 – $319,611
- Upward Bound grant from the U.S. Department of Education – award amount – $360,391
- Student Support Services grant from the U.S. Department of Education – award amount $452,741
- Talent Search from the U.S. Department of Education – award amount – $217,971
- Massachusetts Education and Career Opportunities, Inc. – award amount – $149,844
- FIPSE – $380,000 over 2 years, $32,958 for FY14
- City of Lynn, $118,424 for FY14
- Region 3 Educators Support – $826,119
- Trade Adjustment Assistance Community College & Career Training (TAACCCT) from the U.S. Department of Labor – $785,000 over 3 years, $360,700 for FY14
- Project Access Bridge to the Future – $187,083 for 3 years, $33,792 for FY14
- Adult Learning Center – MA DHE – $183,773
- CCAP College and Career Access Project – award amount – $153,002
- STEM Starter Academy – award amount – $300,000

Other auxiliary enterprises include the operations of the student bookstore service. The revenue generated from these operations for FY2014 was $3,452,964, a decrease of $112,498 or 3% from FY2013. The revenue generated from these operations for FY2013 was $3,565,462, a decrease of $179,491 or 4.79% from FY2012.

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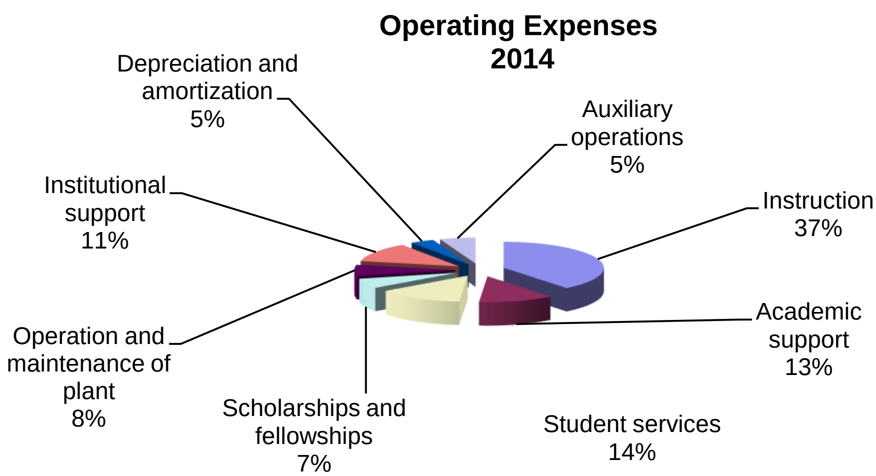
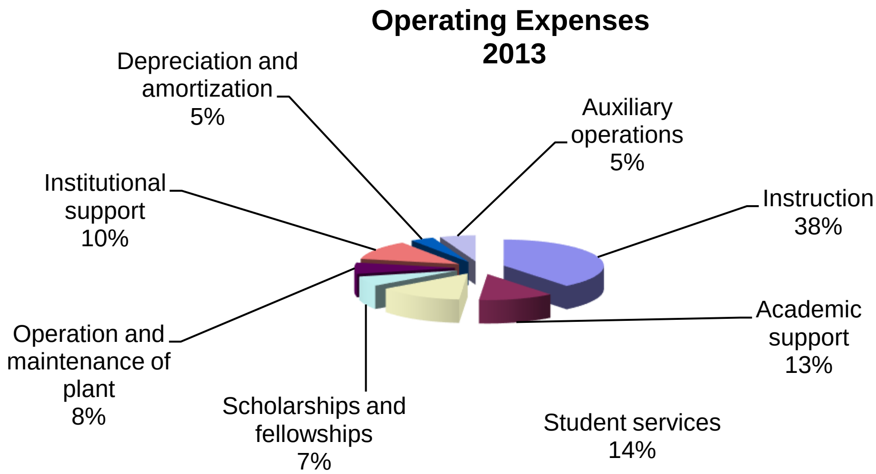
Auxiliary operations expenses for FY2014 totaled $3,108,742, a decrease of 8% or $294,431 from FY2013. Auxiliary operations expenses for FY2013 totaled $3,403,173, a decrease of 2.71% or $94,839 from FY2012.

In both FY14 and FY13, there was a decrease in sales revenue, due to a decrease in new text book sales. However in FY14, there was an increase in merchandise sales which helped to offset total decrease. The student bookstore continues to work towards streamlining operations resulting in decreased operational expenses for both FY2014 and FY2013. In FY2014, additional effort was made in returning remaining textbooks, therefore reducing inventory and cost of goods sold. Seasonal, part-time employees have also decreased. These changes resulted in a net income from auxiliary operations enterprises for fiscal year 2014 of $344,222 compared to $162,289 in fiscal year 2013.





Highlights of operating expense activity include:

- A decrease of 1% or $239,176 in instruction expenditures in FY2014 due to vacant executive and dean positions throughout the year. This compares to a decrease of 0.13% or $31,818 in FY2013, which was due to a reduction in the fringe benefit rate of 32.98 in FY12 to 25.98 in FY13.
- An increase of 9.38% or $741,431 in academic support expenditures in FY2014, primarily due to increases in full time salaries. This compares to an increase of 6.90% or $510,136 in FY2013, primarily due to a collective bargaining increase for full time salaries.
- An increase of 5.83% or $509,266 in student services expenditures in FY2014, primarily due to increases in full-time salaries. This compares to an increase of 4.29% or $359,170 in FY2013, primarily due to a collective bargaining increase for full time salaries.
- A slight increase of 0.85% or $40,791 in scholarships and fellowships in FY2014. By comparison, there was an increase of 27.11% or $1,018,745 in FY2013, mainly due to an increase in student loans, resulting in more refunds to students.
- An increase of 8.94% or $25,256 in public service expenditures in FY2014. In FY2013, there had been a decrease of 8.20% or $25,244 in public service expenditures.
- An increase of 3.63% or $175,097 in operation and maintenance of plant expenditures in FY2014, due to additional expenses incurred for renovations to the math and science building and a harsh winter. By comparison, there was an increase of 11.18% or $540,799 in FY2013, due to additional expenses incurred for renovations to the math and science building.
- An increase of 19.50% or $1,193,115 in institutional support expenditures in FY2014, 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. In FY2013, there was a decrease of 21.43% or $1,304,832 primarily due to a decrease in the fringe benefit rate from 32.98% in FY2012 to 25.98% in FY2013.

For nonoperating revenues and expenses, the Commonwealth's total appropriations increased by 10% or $2,488,379 compared to an decrease of 2.89% or $670,981, in FY2014 and 2013, respectively. The College received a capital appropriation of $813,054 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 FY2014 by 10% or $507,116 to $5,164,968 compared to 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 FY2012, respectively. 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.

Tuition remitted to the Commonwealth decreased by 65.94% or $682,153 in FY2014, compared to an increase of 42.53% or $308,649 in FY2013. This decrease was due to an increase in College supported waivers.

Investment income decreased in FY2014 by 10.54% or $1,921 compared to a decrease of 26.62% or $6,612 in FY2013.

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 FY2014 and 2013. 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, 2014 and 2013 amounts to $71,204,171 and $73,004,777, respectively, net of accumulated depreciation. The College recognized $813,054 in capital appropriations in FY 2014 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%.

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%.

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.

The College is no longer required to carry insurance nor maintain an escrow sufficient to pay one year's principal and interest on the bonds. 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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.

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 3, 2014 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 3, 2014

NORTH SHORE COMMUNITY COLLEGE

Statements of Net Position

June 30, 2014 and 2013

Assets		**North Shore Community College 2014**	**North Shore Community College 2013**	**North Shore Community College Foundation 2014**	**North Shore Community College Foundation 2013**
Current assets:					
Cash and cash equivalents (note 2)	$	10,966,466	11,007,669	301,735	271,427
Cash held by State Treasurer (note 3)		913,778	777,163	—	—
Investments (note 2)		945,769	941,155	—	—
Accounts receivable, net (note 4)		1,477,595	1,542,860	67,397	92,642
Inventory and other current assets		940,579	1,122,033	—	—
Total current assets		15,244,187	15,390,880	369,132	364,069
Noncurrent assets:					
Funds held by bond trustee – restricted (note 2)		2	2,149,367	—	—
Investments (note 2)		—	—	6,559,876	5,646,460
Capital assets, net of accumulated depreciation (note 5)		71,204,171	73,004,777	—	—
Total noncurrent assets		71,204,173	75,154,144	6,559,876	5,646,460
Total assets	$	86,448,359	90,545,024	6,929,008	6,010,529
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$	899,593	1,081,463	205,070	197,782
Accrued payroll		3,200,691	3,058,394	—	—
Compensated absences and workers comp (note 6)		2,797,156	3,187,444	—	—
Accrued interest payable		—	128,095	—	—
Students' deposits and unearned revenues		1,013,522	938,421	—	—
Funds held for others		189,139	158,616	41,988	28,291
Current portion of bonds payable (note 6)		732,550	647,143	—	—
Current portion of note payable (note 6)		299,420	287,840	—	—
Total current liabilities		9,132,071	9,487,416	247,058	226,073
Noncurrent liabilities:					
Compensated absences and workers comp (note 6)		1,630,207	1,761,420	—	—
Note payable (note 6)		1,536,132	1,835,552	—	—
Bonds payable (note 6)		6,894,630	9,438,308	—	—
Total noncurrent liabilities		10,060,969	13,035,280	—	—
Total liabilities	$	19,193,040	22,522,696	247,058	226,073
Net Position					
Investment in capital assets	$	61,989,375	60,837,957	—	—
Restricted:					
Expendable (note 7)		634,814	200,088	2,175,532	1,823,611
Nonexpendable		—	—	1,826,091	1,769,888
Unrestricted (note 8)		4,631,132	6,984,283	2,680,327	2,190,957
Contingencies (note 9)					
Total net position	$	67,255,320	68,022,328	6,681,950	5,784,456

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	North Shore Community College		North Shore Community College Foundation	
	2014	2013	2014	2013
Operating revenues:				
Tuition and fees	$ 27,251,703	27,900,897	—	—
Less scholarship allowances	(10,633,819)	(10,645,444)	—	—
Net student fees	16,617,884	17,255,453	—	—
Grants and contracts	18,918,785	18,627,589	—	—
Auxiliary operations	3,452,964	3,565,462	—	—
Other sources	108,303	88,130	—	—
Total operating revenues	39,097,936	39,536,634	—	—
Operating expenses (note 10):				
Instruction	23,621,637	23,860,813	—	—
Academic support	8,648,014	7,906,583	—	—
Student services	9,246,829	8,737,563	—	—
Scholarships and fellowships	4,817,191	4,776,400	259,231	193,621
Public service	307,831	282,575	—	—
Operation and maintenance of plant	4,996,925	4,821,828	—	—
Institutional support	7,311,106	6,117,991	62,766	72,617
Depreciation and amortization	3,204,472	2,959,971	—	—
Auxiliary operations	3,108,742	3,403,173	—	—
Total operating expenses	65,262,747	62,866,897	321,997	266,238
Operating loss	(26,164,811)	(23,330,263)	(321,997)	(266,238)
Nonoperating revenues (expenses):				
State appropriations – unrestricted (note 11)	24,617,411	21,931,979	—	—
State appropriations – restricted (note 11)	549,695	746,748	—	—
Gifts, grants and contributions	—	—	531,491	377,126
Net investment income (note 2)	16,305	18,226	922,927	630,644
Interest expense	(510,603)	(641,834)	—	—
Payments between the College and the Foundation	234,927	236,322	(234,927)	(236,322)
Net nonoperating revenues	24,907,735	22,291,441	1,219,491	771,448
Changes in net position before capital appropriations	(1,257,076)	(1,038,822)	897,494	505,210
Capital appropriations (note 11)	813,054	1,092,239	—	—
Change in net position	(444,022)	53,417	897,494	505,210
Net position, beginning of year, as previously reported	68,022,328	67,968,911	5,784,456	5,279,246
Effect of adoption of GASB 65 (note 1)	(322,986)	—	—	—
Net position, beginning of year, as restated	67,699,342	67,968,911	5,784,456	5,279,246
Net position, end of year	$ 67,255,320	68,022,328	6,681,950	5,784,456

See accompanying notes to financial statements.

NORTH SHORE COMMUNITY COLLEGE

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	North Shore Community College 2014	2013
Cash flows from operating activities:		
Tuition, residence, dining, and other student fees	$ 16,758,250	17,458,764
Grants and contracts	18,918,785	18,482,860
Payments to suppliers	(12,760,371)	(12,615,447)
Payments to employees	(39,876,820)	(38,246,444)
Payments to students	(4,817,191)	(4,776,400)
Other cash receipts	3,631,726	3,871,999
Net cash used by operating activities	(18,145,621)	(15,824,668)
Cash flows from noncapital financing activities:		
State appropriations	20,002,138	17,995,882
Funds held for others	30,523	(18,125)
Principal payments on notes payable	(287,840)	(276,718)
Contributions from Foundation	234,927	236,322
Net cash provided by noncapital financing activities	19,979,748	17,937,361
Cash flows from capital and related financing activities:		
Purchases of capital assets	(1,386,902)	(2,834,831)
Capital state appropriation	813,054	1,092,239
Cash paid by bond trustee	2,719,679	14,744
Proceeds of new debt	7,690,052	—
Deposits into reserve account	(570,314)	—
Principle paid on capital debt	(10,376,979)	(636,722)
Interest paid on capital debt	(638,998)	(645,936)
Net cash used by capital financing activities	(1,750,408)	(3,010,506)
Cash flows from investing activities:		
Investment purchases	(4,612)	—
Interest on investments	16,305	18,113
Net cash provided by investing activities	11,693	18,113
Net change in cash and cash equivalents	95,412	(879,700)
Cash and cash equivalents (including cash held by State Treasurer), beginning of year	11,784,832	12,664,532
Cash and cash equivalents (including cash held by State Treasurer), end of year	$ 11,880,244	11,784,832
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (26,164,811)	(23,330,263)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	3,204,472	2,959,971
Fringe benefits provided by the State	5,164,968	4,657,852
Changes in assets and liabilities:		
Accounts receivable, net	65,265	135,039
Inventory and other current assets	(10,645)	31,106
Accounts payable and accrued liabilities	(181,870)	(1,107,050)
Accrued payroll	142,296	(134,719)
Compensated absences and workers comp	(521,502)	979,973
Students' deposits and unearned revenues	75,101	68,272
Other	81,105	(84,849)
Net cash used by operating activities	$ (18,145,621)	(15,824,668)
Noncash transactions:		
Fringe benefits provided by state and federal	$ 5,164,968	4,657,852

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, 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.

In fiscal 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.

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.

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, 2014 and 2013, the Foundation distributed $234,927 and $236,322, 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.

(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, 2014 and 2013. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2014 and 2013. Upon retirement, these employees are entitled to receive payment for this accrued balance.

(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.

(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.

(b) Summary of Deposits and Investments

Deposits and investments consist of the following at June 30:

Deposits and investments		2014	2013
Cash in bank	$	9,624,920	9,668,676
Massachusetts Municipal Depository Trust (MMDT)		1,341,546	1,338,993
Total cash and cash equivalents		10,966,466	11,007,669
Certificates of deposit		945,769	941,155
Government investment pool (US Bank)		—	2,149,365
Century Bank		2	2
Total deposits and investments	$	11,912,237	14,098,191

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

2014

Issuer	Investment type		Fair value	Percentage of the total
Commonwealth of Massachusetts	MMDT	$	1,341,546	59%
	Total	$	1,341,546	59%

2013

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

(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, 2014 and 2013, $2,000,559 and $1,804,211, respectively, of the College's bank balances of $8,341,636 and $6,922,091, 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, 2014 and 2013, 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.

(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:

		2014		
			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

		2013		
			Quality ratings	
Rated debt investments		**Fair value**	**AAA**	**Unrated**
US Bank Fund	$	2,149,365	2,149,365	—
Certificates of deposit		941,155	—	941,155
MMDT		1,338,993	—	1,338,993
Total	$	4,429,513	2,149,365	2,280,148

(g) Investments of the Foundation

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

		2014	**2013**
Mutual funds	$	5,943,080	5,120,399
Corporate equities		4,236	—
Money market funds		344,408	146,512
Corporate debt securities		268,152	379,549
	$	6,559,876	5,646,460

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

		2014	2013
Interest and dividend income, net of amortization	$	99,705	105,867
Realized gain on sale of securities		40,634	40,806
Unrealized net gain (loss) on investments		782,588	483,971
	$	922,927	630,644

(3) Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled $913,778 and $777,163 at June 30, 2014 and 2013, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

(4) Accounts Receivable

Accounts receivable include the following at June 30:

		2014	2013
Student accounts receivable	$	3,708,354	3,878,110
Grants receivable		447,063	506,078
Other receivables		120,681	27,339
		4,276,098	4,411,527
Less allowance for doubtful accounts		(2,798,503)	(2,868,667)
	$	1,477,595	1,542,860

(Continued)

(5) Capital Assets

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

	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

	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

(6) Long-Term Liabilities

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

	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

	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

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 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.

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, 2014 and 2013.

As of June 30, 2014, 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:			
2015	$	1,031,970	333,804
2016		1,044,029	297,367
2017		1,004,734	259,497
2018		963,600	224,095
2019		973,997	188,693
2020 – 2024		3,569,221	449,668
2025 – 2029		875,181	44,757
	$	9,462,732	1,797,881

Total interest expense for 2014 and 2013 was $510,603 and $641,834, respectively.

The following schedule summarizes future minimum payments due under noncancelable operating leases as of June 30, 2014:

Year ending June 30:		
2015	$	499,918
2016		100,215
2017		19,968
	$	620,101

Rental expense for operating leases was $482,367 and $466,882 for the years ended June 30, 2014 and 2013, 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:

	2014	2013
Restricted – expendable:		
Instructional and departmental uses	$ 634,814	200,088
	$ 634,814	200,088

(8) Unrestricted Net Position

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

	2014	2013
Debt service	$ 1,000,000	2,255,633
Deferred maintenance	200,000	250,000
Institutional financial aid	360,000	360,000
Contingencies	350,000	290,650
Reserve for replacement of capital assets	779,132	2,300,000
Science renovations	—	140,000
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	300,000
Presidential search	—	60,000
Campus safety initiatives	—	175,000
Collective bargaining costs	632,000	853,000
	$ 4,631,132	6,984,283

(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.

(Continued)

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.

(10) Operating Expenses

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

	2014	2013
Compensation and benefits	$ 44,662,582	43,749,549
Supplies and services	12,578,501	11,380,977
Depreciation and amortization	3,204,472	2,959,971
Scholarships and fellowships	4,817,191	4,776,400
	$ 65,262,747	62,866,897

(11) State Appropriation

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

	2014	2013
Direct unrestricted appropriations	$ 19,838,121	18,342,857
Add fringe benefits for employees on the state payroll	5,131,544	4,623,529
Less day school tuition remitted to the state and included in tuition and fee revenue	(352,254)	(1,034,407)
Total unrestricted appropriations	24,617,411	21,931,979
Restricted appropriations	516,271	712,425
Add fringe benefits for employees on the state payroll	33,424	34,323
Total restricted appropriations	549,695	746,748
Capital appropriations	813,054	1,092,239
Total appropriations	$ 25,980,160	23,770,966

(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. Such pension expense amounted to $2,187,681 and $2,106,367 for the years ended June 30, 2014 and 2013, 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.

(13) Pass-Through Grants

The College distributed $8,770,855 and $8,796,344 during 2014 and 2013, 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, 2014, 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 3, 2014. 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 3, 2014