NORTH SHORE COMMUNITY COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2016

NORTH SHORE COMMUNITY COLLEGE

Financial Statements

June 30, 2016 and 2015

CONTENTS

NORTH·SHORE COMMUNITY COLLEGE
Danvers • Lynn • Beverly

A PUBLIC REGIONAL COMMUNITY COLLEGE
COMMONWEALTH OF MASSACHUSETTS

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Members of the Board of Trustees
North Shore Community College

Ladies and Gentlemen:

North Shore Community College (NSCC) management is providing FY2016 financial statement results within the context of continued fiscal and enrollment challenges. Annual credit enrollments during FY16 declined by 7.7% over FY15, reflecting national and regional trends. The College lived within budget through administrative efficiencies, attrition and/or restructuring of positions and organizational units. The graduating class of 2016, however, increased by about 9% over 2015, and course completion rates are trending higher, indicating efforts focused on retention and student success are showing positive results. The College anticipates further decline in enrollment levels in FY2017, reflecting the demographic trend analysis of a UMass Donahue Institute research report. This overall enrollment downward trending for the next several years means the College must pay continued attention to revenue estimates, costing of programs and services, scheduling of classes, and efficiencies in operations.

The major activity across the institution in FY16 was planning for the next five year institutional Strategic Plan (2017-2021). This was an inclusive process approved through college governance, resulting in revised institutional mission and vision statements, a new values statement, several foundational plans (Master Facilities plan, Master Academic Plan, Strategic Enrollment Plan, and Technology Plan), and four overarching goals "Academics, Access, Achievement, and Affordability" with supporting documentation. The plan was approved by the NSCC Board of Trustees in May 2016 and presented to the Massachusetts Board of Higher Education in June 2016.

The preliminary NSCC FY17 operational budget was approved in May, 2016 by the Board of Trustees, including 6% increase in fees effective Fall 2016 semester to help offset the enrollment decline, but also estimating financial aid and institutional retention funds as sufficient to mitigate student costs for tuition, fees and books. Base State appropriations were flat. As a result of implementing the BHE Performance-based funding formula, additional performance appropriations were also funded system-wide for public higher education in Massachusetts, however at a declining overall trend: for FY16, a total of only $9m was added for performance funding for the entire community college system, substantially less than the $20m allocated for performance funding for the system in FY14 and $14m allocated for FY15. For FY17, only $2.7m was added for performance funding for the community college system, resulting in a very small increase (less than 1%) over base appropriation for NSCC. Consequentially, the FY16 and FY17 budgets reflect declining revenue from demographic enrollment trends, plus declining overall State funding. Another impact of enrollment decline, along with changes in the industry and student demands for lower textbook cost, is a reduction in the College operated Bookstore revenue. The impact of revenue issues is reflected in the FY17 budget, projected with budget revenue and expenditures estimated to balance, but with requested resources for many tactical plan activities reduced or not funded for the coming year.

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

The College, with the concurrence of the Trustee Finance Committee, continues to be conservative with reserves and expenses, anticipating a continuing economic recovery but uncertain trending enrollment decline and State support beyond FY17. College management expects to address this with focused attention to revenue building through pricing analysis/adjustment, student financial literacy and debt reduction, entrepreneurial activities and extensive fund-raising in the next 2-5 years. These strategies have been identified in the College's Strategic Plan 2017-2021 under Goal 4, Affordability, to provide stability and potential growth in resources for the priorities identified in the other three goals (Academics, Access, and Achievement) of the college-wide five year Strategic Plan.

Another key project started during FY16 and being completed in FY17 is the construction and opening of the $20.7m State bond-funded addition to the Lynn Campus. The three story addition to the Lynn Campus McGee building, approximately 37,000 sq. ft., includes 10 general purpose classrooms, a Student Success Center, Testing Center, Academic Technology Center and Executive office space. A formal ground-breaking event was held in September, 2015, followed by Beam-signing in January, 2016. Substantial construction has occurred to date, with an anticipated completion of construction by March, 2017, move-in of staff from the McGee building over Spring/Summer 2017, and opening for classes for the Fall, 2017 semester.

The 2016 audit also includes an audit of Federal funds and the second year of State mandated implementation of GASB 68, the allocation of pension liability. Although the institutional budget was challenging in FY16, the overall budget to actual reports are estimated with a surplus for FY16, mainly due to attrition of positions, utility savings and a relatively mild winter.

Overall, these financial statements reflect that we met our FY16 Key Performance targets and institutional objectives. College management looks forward to FY2017, and the implementation of tactical plans for the first year of the approved College Strategic Plan 2017-2021.

Sincerely,

North Shore Community College

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
North Shore Community College
Danvers, Massachusetts

Report on the Financial Statements
We have audited the accompanying financial statements of North Shore Community College (the "College"), which comprise the statements of net position as of June 30, 2016, the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the North Shore Community College Foundation, Inc. (the "Foundation") as discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Foundation, are based solely 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of North Shore Community College as of June 30, 2016, and the respective changes in net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The College's financial statements as of June 30, 2015 were audited by other auditors, whose report dated November 12, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5-16, the schedule of proportionate share of net pension liability on page 48, the schedule of contributions on page 49 and the notes to the required supplementary information on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 1, 2016, on our consideration of North Shore Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Shore Community College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 1, 2016

NORTH SHORE COMMUNITY COLLEGE

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2016 and 2015

(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, 2016 and 2015, 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 13,510 credit and noncredit students annually with 124 full time faculty, 155 part time faculty, 414 full time staff and 136 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 offered 78 credit programs leading to Associate of Arts, Associate of Science, and Associate of Applied Science degrees and one year certificates. In addition, North Shore offers approximately 590 noncredit workforce development and recreational courses.

Financial Highlights

- At June 30, 2016 and 2015, the College's assets of $95,384,247 and $85,939,637, respectively, exceeded its liabilities of $28,449,827 and $25,715,885 by $66,934,420 and $60,223,752, respectively. The resulting net position is summarized into the following categories: net investment in capital assets, restricted (expendable and nonexpendable), and unrestricted.
- The restricted, expendable net position of $77,955 at June 30, 2016 may be expended, but only for the purposes for which the donor or grantor intended.
- The College's total net position increased by $6,710,668 in 2016 compared to an increase of $722,965 in 2015. The 2016 increase is attributed to careful monitoring of expenditures throughout the year as well as the construction on a new building on the Lynn Campus.
- The unrestricted net position for FY2016 increased by $970,266 to $(1,052,513). Unrestricted net position for FY2015 decreased by $6,653,911 to $(2,022,779).

The sharp decrease in the unrestricted net position in FY15 and FY16 was due to mandatory implementation of GASB 68, the recording our net pension liability. Without GASB68, the College would have shown an increase in its unrestricted net position for both years resulting from careful oversight of spending as well as benefiting from the refinancing of the Series E and Series F bonds in FY14.

Overview of the Financial Statements

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

North Shore Community College Foundation (the Foundation) is a legally separate tax-exempt affiliated unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by or are for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements.

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

The Financial Statements

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

The Statement of Net Position presents information on all of the North Shore Community College’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the North Shore Community College is improving or deteriorating.

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

The Statement of Cash Flows is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and fees) and disbursements (e.g., cash paid to employees for services). GASB requires this method to be used. The Foundation is not required to present the statement of cash flows.

The financial statements can be found on pages 17 to 20 of this report.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 21 to 47 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 $66,934,420 and $60,223,752 at the close of FY 2016 and 2015, respectively.

Net investment in capital assets represents capital assets net of related debt, and is by far the largest portion of the College's net position in fiscal year 2016 and 2015, representing, 100.02% and 100.3% or $67,908,978 and $61,938,408, respectively. The College uses these capital assets to provide services to students, faculty, and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Also, in addition to the debt noted above, which is reflected in the College's financial statements, the Commonwealth of Massachusetts regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings, which are obligations of the Commonwealth, are not reflected in these financial statements.

NORTH SHORE COMMUNITY COLLEGE

Required Supplementary Information

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)

Condensed financial information

		2016	2015	2014
Current assets	$	16,654,953	14,700,365	15,244,187
Noncurrent assets		75,244,630	70,218,189	71,204,173
Deferred outflows		3,484,664	1,021,083	-
Total assets and deferred outflows	$	95,384,247	85,939,637	86,448,359
Current liabilities	$	8,113,523	7,924,611	9,132,071
Noncurrent liabilities		20,227,975	16,307,222	10,060,969
Deferred inflows		108,329	1,484,052	-
Total liabilities and deferred inflows	$	28,449,827	25,715,885	19,193,040
Net Position:				
Invested in capital assets	$	67,908,978	61,938,408	61,989,375
Restricted, expendable		77,955	308,123	634,814
Unrestricted		(1,052,513)	(2,022,779)	4,631,132
Total net position	$	66,934,420	60,223,752	67,255,320
Total operating revenues	$	34,088,848	37,871,775	39,097,936
Total operating expenses		62,272,152	64,612,156	65,262,747
Net operating loss		(28,183,304)	(26,740,381)	(26,164,811)
Net nonoperating revenues		26,918,843	26,465,781	24,907,735
Change in net position before capital appropriations		(1,264,461)	(274,600)	(1,257,076)
Capital appropriation		7,975,129	997,565	813,054
Increase in net position		6,710,668	722,965	(444,022)
Restatement of net position		-	(7,754,533)	-
Net position – beginning, as restated		60,223,752	67,255,320	67,699,342
Net position – ending	$	66,934,420	60,223,752	67,255,320

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 FY2016 and 2015. Fees are set by the College's board of trustees at $164.00 for FY2016 and $154.00 for FY2015, per credit for the Fall and Spring semesters.

NORTH SHORE COMMUNITY COLLEGE

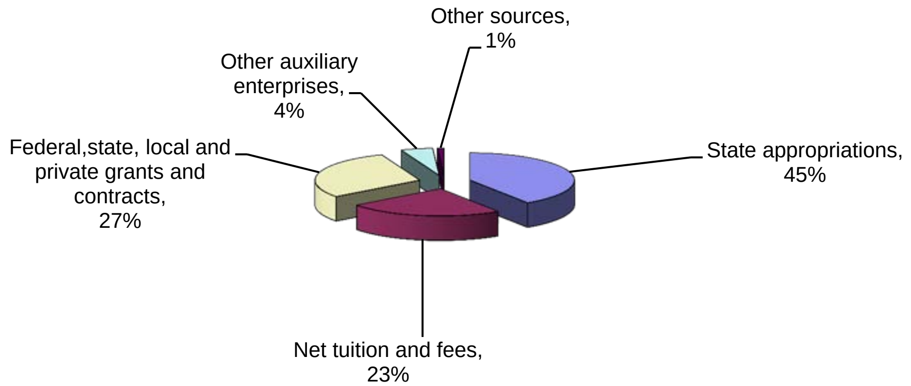
Required Supplementary Information

Management's Discussion and Analysis - Continued

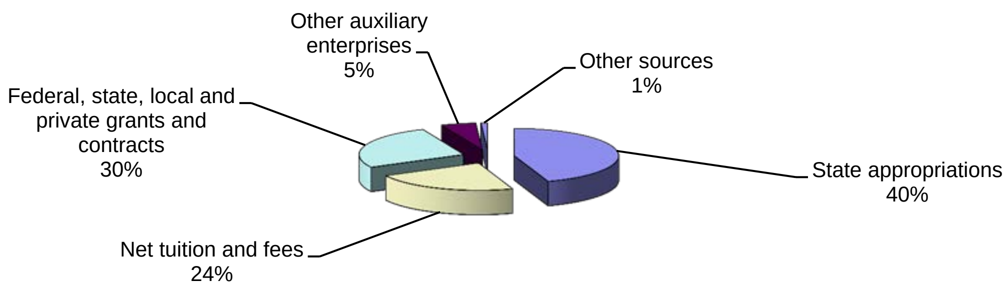
June 30, 2016 and 2015

(Unaudited)

Source of Operating and Nonoperating Revenues
2016



Source of Operating and Nonoperating Revenues
2015



Highlights of operating revenue activity include:

- A decrease of 1% or $472,339 in FY2016 in tuition and fees before scholarship allowances. This is primarily due to the decline in enrollment and credit hours for the Fall 2015 and Spring 2016 semesters. This compares to a decrease of 3% or $838,378 in FY2015 in tuition and fees before scholarship allowances. This was primarily due to a decline in enrollment and credit hours for the Fall 2014 and Spring 2015 semesters.

	June 30		
	2016	**2015**	**2014**
Tuition and fees	$ 25,940,990	26,413,325	27,251,703
Tuition remitted	485,879	312,157	352,254

- A decrease of 12.31% or $2,346,643 in federal, state, local, and private grants and contracts, compared to a decrease of .74% or $140,813 in FY2015. This change is primarily due to the decreased enrollment and subsequent reduction in student aid.

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 – $320,977
- Upward Bound grant from the U.S. Department of Education – award amount – $380,280
- Student Support Services grant from the U.S. Department of Education – award amount $477,726
- Talent Search from the U.S. Department of Education – award amount – $230,000
- Massachusetts Education and Career Opportunities, Inc. – award amount – $150,378
- PROJECT YES, City of Lynn, $118,424
- Region 3 Educators Support – $826,119
- Trade Adjustment Assistance Community College & Career Training (TAACCCT) from the U.S. Department of Labor – $727,523 over 3 years
- Adult Learning Center – MA DHE – $189,286
- Adult Career Pathways grant from North Shore WIB – award amount $100,000
- Advance Manufacturing contract from North Shore WIB – award amount $90,566
- Financial Services Training contract from North Shore WIB – award amount $70,000
- Social and Emotional Development grant from MA Early Education – award amount $55,369
- STEM Starter Academy – award amount – $300,000

- Healthcare Workforce Transformation from MA DOL - $114,450
- Workforce Training Fund, Regional Capacity Pilot from MA DOL - $249,700

Other auxiliary enterprises include the operations of the student bookstore service. The revenue generated from these operations for FY2016 was $3,025,720, a decrease of $163,655 or 5% from FY2015. The revenue generated from these operations for FY2015 was $3,189,375, a decrease of $263,589 or 8% from FY2014. Auxiliary operations expenses for FY2016 totaled $2,858,588, a decrease of 1% or $51,864 from FY2015. Auxiliary operations expenses for FY2015 totaled $2,910,412, a decrease of 7% or $198,290 from FY2014.

Textbook sales have continued to decline at NSCC and nationwide each year for the last five years. Unfortunately, the trend continued through FY16 at NSCC, as textbook sales were down 6% when compared to FY15. Tangible Factors such as declining enrollments and market share shift away from brick and mortar bookstores to online retailers have certainly had and will continue to have a major impact on sales.

On the positive side, our sales are also decreasing because we are engaged in many cost savings initiatives that are significantly lowering the cost of textbooks to our students (i.e. textbook rentals, custom course materials and Open Educational Resources [OER]). We also had great success piloting eight class sections in Fall 2016 using Direct Digital Delivery of course materials through our Learning Management System, Blackboard. This offered approximately 70% savings to our students, while creating a seamless classroom experience for both the faculty teaching the course and the students taking it. We have plans to grow this to scale by using an available industry course material aggregator, RedShelf. We are also reviewing the benefits of adding Sidewalk Hero, a web-based software that could enhance our faculty adoption process and help them become more aware of course material costs and potentially choose less expensive options that continue to meet their needs and the needs of their students. We are engaging campus stakeholders about the benefits of both of these products.

These opportunities should positively impact the cost of textbooks in the new fiscal year and offer greater value to our students. The bookstore net income for FY16 was $151,606, as compared to $237,492 for FY15. Net income for FY17 should rebound, as a result of planned reductions to payroll and cost of goods sold, resulting in a stronger bottom line that should be closer to FY15.

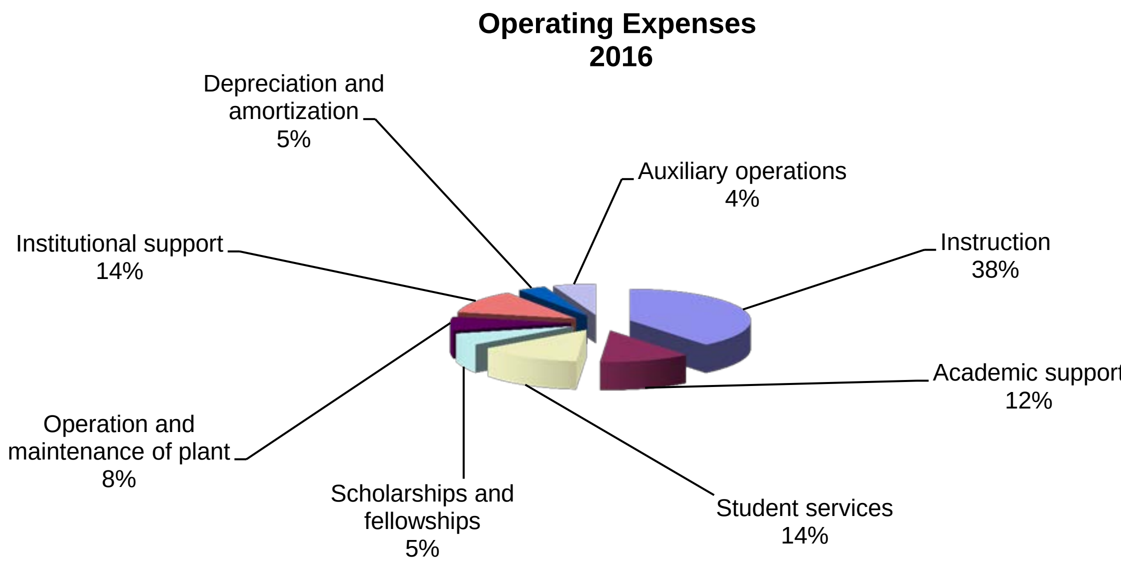
NORTH SHORE COMMUNITY COLLEGE

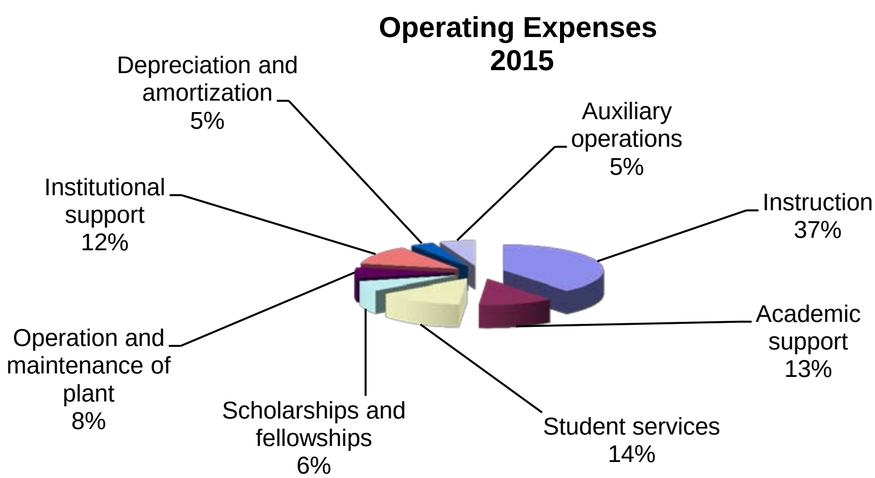
Required Supplementary Information

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

(Unaudited)





Highlights of operating expense activity include:

- A decrease of 1.92% or $456,626 in instruction expenditures in FY2016 due to careful cost containment and budgetary control. This compares to an increase of 77% or $182,686 in instruction expenditures in FY2015 due to previously vacant executive and dean positions being filled throughout the year.
- A decrease of 8.91% or $753,365 in academic support expenditures in FY2016 due to careful cost containment and budgetary controls. This compares to a decrease of 2.28% or $196,791 in academic support expenditures in FY2015, primarily due to careful spending on supplies and equipment.
- An increase of 5.94% or $521,024 in student services expenditures in FY2016 due to additional efforts for student retention and recruitment. This compares to a decrease of 5.13% or $474,026 in student services expenditures in FY2015, primarily due to executive and dean positions being vacant throughout most of the year.
- A sharp decrease of 52.53% or $1,894,860 in scholarships and fellowships in FY2016 due to higher fees and less student aid due to decreased enrollments. This compares to a decrease of 25.12% or $1,209,998 in scholarships and fellowships in FY2015 due to higher fees and lower enrollment.
- A sharp decrease of 96.57% or $182,063 in FY2016 for public service expenditures due to the initiative ending in FY2016. This compares to a decrease of 38.76% or $119,311 in public service expenditures in FY2015 due to the program being phased out.
- A decrease of 3.29% or $173,239 in expenditures for operation and maintenance of plant in FY2016 due to a mild winter and cost containment for utility expenditures. This compares to an increase of 5.29% or $264,533 in operation and maintenance of plant expenditures in FY2015, due to additional expenses incurred for the Lynn self study, moving the Culinary and Cosmetology programs to the new Middleton site and a harsh winter.
- There was an increase of 6.78% or $573,821 in expenditures for institutional support in FY2016 due to filling vacant positions and recording of pension expense. This compares to an increase of 15.82% or $1,156,302 in institutional support expenditures in FY2015, primarily due to additional retirement payouts of compensated absences, audits including A-133, and subsidizing a 9C cut which amounted to over $300,000.

For non-operating revenues and expenses, the Commonwealth's total appropriations increased by 13.82% or $596,248 compared to an increase of 5% or $1,344,697, in FY2016 and 2015, respectively.

The College received a capital appropriation of $7,975,129 mostly due to the construction of a new building on the Lynn Campus.

The Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll increased in FY2016 by 9% or $527,388 to $6,178,630 compared to 9% or $486,274 to $5,651,242 in FY2015.

The fringe benefit rate increased by 1.96 points to 30.82% from 28.86% for FY2015 compared to an increase of 1.18 points to 28.86% from 27.68% for FY2014 respectively. The Commonwealth's fringe benefits provided for employees on the Commonwealth's payroll increased in FY2015 by 9% or $486,274 to $5,651,242, compared to 10% or $507,116 to $5,164,968 in FY2014. The fringe benefit rate increased by 1.18 points to 28.86% from 27.68% for FY2014 compared to an increase of 1.70 points to 27.68% from 25.98% for FY2014, respectively.

Tuition remitted to the Commonwealth increased by 55% or $173,722 in FY2016, compared to a decrease of 11% or $40,097 in FY2015. This increase was due to a new guideline on calculation requested by the MA Department of Higher Ed.

Investment income increased in FY2016 by 43.05% or $6,395 compared to a decrease in FY2015 by 8.89% or $1,450.

Loss from Operations

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

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

Capital Assets and Debts of the College

Capital Assets

The College's investment in capital assets as of June 30, 2016 and 2015 amounts to $75,244,628 and $70,218,187, respectively, net of accumulated depreciation.

The College recognized $7,975,129 in capital appropriations in FY 2016 primarily for expansion of the Lynn Campus McGee Building and completion of the Clean Energy Investment Project. This investment in capital assets includes land, building (including improvements), furnishings, and equipment.

Debt

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

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

In 2011, the College issued $148,050 of Series 2010A-9 bonds through the Massachusetts Development Finance Agency for a Clean Renewal Energy Bond. Principal is payable annually and interest is payable semi-annually commencing on November 1, 2010 through May 1, 2027. The Bond is designated a "clean renewable energy bond" pursuant to Section 54C of the Internal revenue Code of 1986 and shall bear interest at a rate of 3.5%.

The debt is to fund a project for a 77 kilowatt photovoltaic system for the Danvers campus Berry building. The total project cost is estimated to be $559,000, which will be funded from two sources: (1) grants from Division of Capital Asset Management (DCAM) in the amount of $410,950 and (2) a financing agreement with Century Bank and Trust Company, CREB financing secured by the College in the amount of $148,050.

In 2008, the College issued $190,600 of Series 2007A bonds through the Massachusetts Development Finance Agency for a Clean Renewal Energy Bond. Principal is payable annually commencing on December 31, 2007 through December 31, 2021 and does not bear interest.

The bond proceeds plus a grant in the amount of $358,100 from the Massachusetts Technology Collaborative was used to fund a project for a 62.2 kilowatt solar photovoltaic grid-tied panel on the roof of the Lynn Campus gymnasium.

The noncurrent accrual for pensions and compensated absences consists of the long-term portion of 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.

NORTH SHORE COMMUNITY COLLEGE

Balance Sheets

June 30, 2016 and 2015

NORTH SHORE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2016 and 2015

Assets and Deferred Outflows

	Primary Government		Component Unit	
	2016 College	2015 College	**2016 Foundation**	2015 Foundation
Current Assets:				
Cash and equivalents	**$ 13,032,962**	$ 10,079,740	**$ 317,281**	$ 328,583
Cash held by State Treasurer	**397,539**	88,112	**-**	-
Investments	**955,688**	949,961	**-**	-
Accounts receivable, net	**1,153,120**	2,544,233	**-**	-
Pledges receivable, current	-	-	**45,950**	48,638
Inventory and other current assets	**1,115,644**	1,038,319	**36,959**	19,683
Total Current Assets	**16,654,953**	14,700,365	**400,190**	396,904
Noncurrent Assets:				
Funds held by bond trustee - restricted	**2**	2	**-**	-
Investments	**-**	-	**6,813,670**	6,998,558
Pledges receivable, net of current	**-**	-	**73,141**	14,373
Capital assets, net	**75,244,628**	70,218,187	**-**	-
Total Noncurrent Assets	**75,244,630**	70,218,189	**6,886,811**	7,012,931
Total Assets	**91,899,583**	84,918,554	**7,287,001**	7,409,835
Deferred Outflows of Resources:				
Contributions made after the measurement date	**537,493**	664,272	**-**	-
Changes in proportion due to internal allocation	**855,553**	275,618	**-**	-
Changes in plan's actuarial assumptions	**2,091,618**	81,193	**-**	-
Total Deferred Outflows of Resources	**3,484,664**	1,021,083	**-**	-
Total Assets and Deferred Outflows	**$ 95,384,247**	$ 85,939,637	**$ 7,287,001**	$ 7,409,835

The accompanying notes are an integral part of the financial statements.

Liabilities, Deferred Inflows and Net Position

	Primary Government		Component Unit	
	2016 College	2015 College	**2016 Foundation**	2015 Foundation
Current Liabilities:				
Accounts payable and accrued liabilities	**$ 1,089,265**	$ 784,858	**$ 146,456**	$ 408,172
Accrued payroll	**2,116,590**	2,180,599	**-**	-
Compensated absences and workers' compensation	**2,451,095**	2,496,789	**-**	-
Students' deposits and unearned revenues	**1,177,422**	1,213,286	**-**	-
Funds held for others	**274,417**	205,049	**85,345**	55,707
Current portion of bonds payable	**732,550**	732,550	**-**	-
Current portion of note payable	**272,184**	311,480	**-**	-
Total Current Liabilities	**8,113,523**	7,924,611	**231,801**	463,879
Noncurrent Liabilities:				
Compensated absences and workers' compensation	**1,768,237**	1,697,567	**-**	-
Net pension liability	**12,077,736**	7,222,922	**-**	-
Notes payable	**952,469**	1,224,652	**-**	-
Bonds payable	**5,429,533**	6,162,081	**-**	-
Total Noncurrent Liabilities	**20,227,975**	16,307,222	**-**	-
Total Liabilities	**28,341,498**	24,231,833	**231,801**	463,879
Deferred Inflows of Resources:				
Changes in proportion due to internal allocation	-	1,556	-	-
Net difference between projected and actual earnings on earnings on pension plan investments	**108,329**	1,482,496	**-**	-
Total Deferred Inflows of Resources	**108,329**	1,484,052	**-**	-
Total Liabilities and Deferred Inflows	**28,449,827**	25,715,885	**231,801**	463,879
				-
Net Position:				
Net investment in capital assets	**67,908,978**	61,938,408	**-**	-
Restricted:				
Expendable	**77,955**	308,123	**2,194,699**	2,231,476
Nonexpendable	**-**	-	**2,197,005**	2,108,456
Unrestricted	**(1,052,513)**	(2,022,779)	**2,663,496**	2,606,024
Total Net Position	**66,934,420**	60,223,752	**7,055,200**	6,945,956
Total Liabilities, Deferred Inflows and Net Position	**$ 95,384,247**	$ 85,939,637	**$ 7,287,001**	$ 7,409,835

NORTH SHORE COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2016 and 2015

	Primary Government		Component Unit	
	2016 College	2015 College	**2016 Foundation**	2015 Foundation
Operating Revenues:				
Tuition and fees	**$ 25,940,990**	$ 26,413,325	**$ -**	$ -
Less: scholarship allowances	**(11,658,176)**	(10,877,006)	**-**	-
Net tuition and fees	**14,282,814**	15,536,319	**-**	-
Grants and contracts	**16,712,955**	19,059,598	**-**	-
Auxiliary operations	**3,025,720**	3,189,375	**-**	-
Other	**67,359**	86,483	**-**	-
Total Operating Revenues	**34,088,848**	37,871,775	**-**	-
Operating Expenses:				
Instruction	**23,347,697**	23,804,323	**-**	-
Academic support	**7,697,858**	8,451,223	**-**	-
Student services	**9,293,827**	8,772,803	**-**	-
Scholarships and fellowships	**1,712,333**	3,607,193	**158,393**	191,145
Public service	**6,457**	188,520	**-**	-
Operation and maintenance of plant	**5,093,483**	5,266,722	**-**	-
Institutional support	**9,041,229**	8,467,408	**180,323**	173,191
Depreciation and amortization	**3,220,680**	3,143,512	**-**	-
Auxiliary operations	**2,858,588**	2,910,452	**-**	-
Total Operating Expenses	**62,272,152**	64,612,156	**338,716**	364,336
Operating Loss	**(28,183,304)**	(26,740,381)	**(338,716)**	(364,336)
Nonoperating Revenues (Expenses):				
State appropriations - unrestricted	**26,798,952**	26,235,007	**-**	-
State appropriations - restricted	**309,099**	276,796	**-**	-
Gifts, grants and contributions	**-**	-	**534,745**	698,244
Net investment income	**21,250**	14,855	**124**	201,457
Interest expense	**(297,367)**	(332,236)	**-**	-
Payments between the College and the Foundation	**86,909**	271,359	**(86,909)**	(271,359)
Net Nonoperating Revenues	**26,918,843**	26,465,781	**447,960**	628,342
Change in Net Position Before Capital Appropriations	**(1,264,461)**	(274,600)	**109,244**	264,006
Capital Appropriations	**7,975,129**	997,565	**-**	-
Change in Net Position	**6,710,668**	722,965	**109,244**	264,006
Net Position, Beginning of Year	**60,223,752**	59,500,787	**6,945,956**	6,681,950
Net Position, End of Year	**$ 66,934,420**	$ 60,223,752	**$ 7,055,200**	$ 6,945,956

The accompanying notes are an integral part of the financial statements.

NORTH SHORE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30,

	Primary Government	
	2016	2015
	College	College
Cash Flows from Operating Activities:		
Tuition and fees	**$ 14,404,854**	$ 14,669,445
Grants and contracts	**17,946,164**	19,059,598
Payments to suppliers	**(11,850,875)**	(12,900,031)
Payments to employees	**(38,106,075)**	(40,741,389)
Payments to students	**(1,712,333)**	(3,607,193)
Other cash receipts	**3,093,079**	3,178,118
Net Cash Used by Operating Activities	**(16,225,186)**	(20,341,452)
Cash Flows from Noncapital Financing Activities:		
State appropriations	**21,415,300**	21,172,718
Tuition remitted to state	**(485,879)**	(312,157)
Funds held for others	**69,368**	15,910
Contributions from Foundation	**86,909**	271,359
Net Cash Provided by Noncapital Financing Activities	**21,085,698**	21,147,830
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	**(271,992)**	(1,159,962)
Deposits into reserve account	**-**	(5,266)
Principal paid on capital debt	**(1,044,027)**	(1,031,969)
Interest paid on capital debt	**(297,367)**	(332,236)
Net Cash Used by Capital Financing Activities	**(1,613,386)**	(2,529,433)
Cash Flows from Investing Activities:		
Investment purchases	**(5,727)**	(4,192)
Interest on investments	**21,250**	14,855
Net Cash Provided by Investing Activities	**15,523**	10,663
Net Change in Cash and Equivalents	**3,262,649**	(1,712,392)
Cash and Equivalents (Including Cash Held by State Treasurer), Beginning of Year	**10,167,852**	11,880,244
Cash and Equivalents (Including Cash Held by State Treasurer), End of Year	**$ 13,430,501**	$ 10,167,852

NORTH SHORE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30,

	Primary Government	
	2016 College	2015 College
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	**$ (28,183,304)**	$ (26,740,381)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	**3,220,680**	3,143,512
Pension activity	**1,015,510**	(68,642)
Bad debt recovery	**(140,774)**	(319,028)
Fringe benefits provided by the State	**6,178,630**	5,651,242
Changes in assets and liabilities:		
Accounts receivable	**1,531,887**	(747,610)
Inventory and other current assets	**(77,325)**	(92,476)
Accounts payable and accrued liabilities	**304,407**	(114,735)
Accrued payroll	**(64,009)**	(1,020,092)
Compensated absences and workers' compensation	**24,976**	(233,006)
Students' deposits and unearned revenues	**(35,864)**	199,764
Net Cash Used by Operating Activities	**$ (16,225,186)**	$ (20,341,452)
Noncash Transactions:		
Fringe benefits provided by the State	**$ 6,178,630**	$ 5,651,242
Capital appropriations used to acquire captal assets	**$ 7,975,129**	$ 997,565

The accompanying notes are an integral part of the financial statements.

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

Organization
North Shore Community College (the "College") is a state-supported comprehensive college that offers a quality education leading to associate degrees in the arts and sciences as well as one-year certificate programs. With campuses located in Danvers, Beverly, Middleton and Lynn, Massachusetts, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies, and business fields of study. The College also offers day and evening credit and noncredit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

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 statement 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. Certain other transactions are reported as non-operating activities. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts (the "Commonwealth"), net investment income/(loss), gifts, and interest expense.

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

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

Basis of Presentation - Continued
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, 2016 and 2015, the Foundation distributed $86,909 and $271,359, 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.

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

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

Restricted - 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.

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

Net Position - Continued

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.

Cash and Equivalents

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

Allowance for Doubtful Accounts

Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

Investments

Investments in marketable securities, including funds held by bond trustee, are stated at fair value. Dividends, interest and net gains or losses on investments of endowments and similar funds are reported in the statement of revenues, expenses and changes in net position. Any net earnings not expended are included in net position categories as follows:

(i) As increases in restricted - nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;

(ii) As increases in restricted - expendable net position if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The College has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as restricted - expendable; and

(iii) As increases in unrestricted net position in all other cases.

Inventories

Inventories are stated at the lower of cost (first-in, first-out and retail inventory methods) or market, and consist primarily of dining center and bookstore items.

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

Capital Assets
Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair 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.

The College does not hold collections of historical treasures, works of art, or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

Capital assets are controlled, but not owned by the College. The College is not able to sell or otherwise pledge its assets, since the assets are owned by the Commonwealth.

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

Fringe Benefits
The College participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension, workers' compensation benefits and certain postretirement benefits. Health insurance, unemployment, and pension costs are billed through a fringe benefit rate charged to the College. The Commonwealth provides workers' compensation coverage to its employers on a self-insured basis.

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

Fringe Benefits - Continued
The Commonwealth requires the College to record its portion of the workers' compensation in its records. Workers' compensation costs are actuarially determined based on the College's actual experience.

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, 2016 and 2015. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2016 and 2015. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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.

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

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

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.

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

New Governmental Account Pronouncements
GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

Note 2 - **Cash and Investments**

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 any or all of the above. The Board of Trustees has established investment fund ceilings and broad asset allocation guidelines, but delegates to the President or her designee, the authority to determine exact dollar amounts to be invested within those established limits and guidelines.

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

Note 2 - **Cash and Investments - Continued**

Summary of Deposits and Investments
Deposits and investments consist of the following at June 30,:

	2016	2015
Cash in Bank	**$ 11,683,059**	$ 8,735,512
MMDT	**1,349,903**	1,344,228
Total cash and equivalents	**13,032,962**	10,079,740
Certificates of deposit	**955,688**	949,961
Funds held by Bank Trustee	**2**	2
	$ 13,988,652	$ 11,029,703

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

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. The College does not have a formal policy for custodial risk. Deposits in bank in excess of the insured amounts are uninsured and uncollateralized As of June 30, 2016 and 2015, $2,701,223 and $2,330,044, respectively, of the College's bank balances of $10,365,344 and $7,938,198, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

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, 2016 and 2015, all of the College's investments have maturities of one year or less.

Note 2 - **Cash and Investments - Continued**

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,:

	2016		
		Quality Ratings	
Rated Debt Investments	**Fair Value**	**AAA**	**Unrated**
Certificates of deposit	**$ 955,688**		**$ 955,688**

	2015		
		Quality Ratings	
Rated Debt Investments	**Fair Value**	**AAA**	**Unrated**
Certificates of deposit	$ 949,961		$ 949,961

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

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

Note 2 - **Cash and Investments - Continued**

Certificates of Deposit: Valued at initial investment cost plus accrued interest.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2016 and 2015, all investments are categorized in Level 2 of the fair value hierarchy.

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

	2016	2015
Equity securities	**$ 4,250,677**	$ 4,822,781
Fixed income securities	**2,468,530**	1,998,471
Money market funds	**94,463**	177,306
	$ 6,813,670	$ 6,998,558

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

	2016	2015
Interest and dividend income	**$ 123,767**	$ 113,890
Net realized gain on sale of securities	**571,033**	36,641
Net unrealized gain on investments	**(694,676)**	50,926
	$ 124	$ 201,457

NORTH SHORE COMMUNITY COLLEGE
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Notes to the Financial Statements – Continued

June 30, 2016 and 2015

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled $397,539 and $88,112 at June 30, 2016 and 2015, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

Note 4 - **Accounts Receivable**

Accounts receivable include the following at June 30,:

	2016	2015
Student accounts receivable	**$ 2,897,462**	$ 3,130,994
Grants receivable	**581,366**	1,814,575
Other receivables	**12,993**	78,139
	3,491,821	5,023,708
Less: allowance for doubtful accounts	**(2,338,701)**	(2,479,475)
	$ 1,153,120	$ 2,544,233

Note 5 - **Capital Assets**

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

	2016					
	Estimated lives (in years)	**Beginning Balance**	**Additions**	**Retirements**	**Reclassifications**	**Ending Balance**
Capital assets, not depreciated:						
Land		$ 13,842,077	-	-	-	13,842,077
Construction in progress	-	2,772,127	8,077,739	-	(1,652,759)	9,197,107
Total non-depreciable assets		16,614,204	8,077,739	-	(1,652,759)	23,039,184
Capital assets, depreciated:						
Buildings and improvements	20-40	93,143,749	11,706	-	1,164,078	94,319,533
Furnishings and equipment	3-10	9,933,081	157,676	-	488,681	10,579,438
Educational resource materials	5	505,463	-	-	-	505,463
Total depreciable assets		103,582,293	169,382	-	1,652,759	105,404,434
Total capital assets		120,196,497	8,247,121	-	-	128,443,618
Less: accumulated depreciation:						
Buildings and improvements		(40,825,116)	(2,698,595)	-	-	(43,523,711)
Furnishings and equipment		(8,647,731)	(522,085)	-	-	(9,169,816)
Educational resource materials		(505,463)	-	-	-	(505,463)
Total accumulated depreciation		(49,978,310)	(3,220,680)	-	-	(53,198,990)
Capital assets, net		$ 70,218,187	$ 5,026,441	$ -	$ -	$ 75,244,628

NORTH SHORE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements – Continued

June 30, 2016 and 2015

Note 5 - **Capital Assets - Continued**

	2015					
	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, not depreciated:						
Land		$ 13,842,077	-	-	-	13,842,077
Construction in progress	-	1,105,617	1,676,902	-	(10,392)	2,772,127
Total non-depreciable assets		14,947,694	1,676,902	-	(10,392)	16,614,204
Capital assets, depreciated:						
Buildings and improvements	20-40	93,143,749	-	-	-	93,143,749
Furnishings and equipment	3-10	9,442,064	480,625	-	10,392	9,933,081
Educational resource materials	5	505,463	-	-	-	505,463
Total depreciable assets		103,091,276	480,625	-	10,392	103,582,293
Total capital assets		118,038,970	2,157,527	-	-	120,196,497
Less: accumulated depreciation:						
Buildings and improvements		(38,164,661)	(2,660,455)	-	-	(40,825,116)
Furnishings and equipment		(8,164,674)	(483,057)	-	-	(8,647,731)
Educational resource materials		(505,463)	-	-	-	(505,463)
Total accumulated depreciation		(46,834,798)	(3,143,512)	-	-	(49,978,310)
Capital assets, net		$ 71,204,172	$ (985,985)	$ -	$ -	$ 70,218,187

NORTH SHORE COMMUNITY COLLEGE
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Notes to the Financial Statements – Continued

June 30, 2016 and 2015

Note 6 - **Long-Term Liabilities**

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

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable:					
Bonds payable	**$ 6,894,631**	**$ -**	**$ (732,548)**	**$ 6,162,083**	**$ 732,550**
Notes payable	**1,536,132**	**-**	**(311,479)**	**1,224,653**	**272,184**
Total bonds and notes payable	**8,430,763**	**-**	**(1,044,027)**	**7,386,736**	**1,004,734**
Other long-term liabilities:					
Compensated absences	**3,908,452**	**-**	**(89,532)**	**3,818,920**	**2,366,899**
Workers' compensation	**285,904**	**114,508**	**-**	**400,412**	**84,196**
Net pension liability	**7,222,922**	**4,854,814**	**-**	**12,077,736**	**-**
Total other long-term liabilties	**11,417,278**	**4,969,322**	**(89,532)**	**16,297,068**	**2,451,095**
Total long-term liabilities	**$ 19,848,041**	**$ 4,969,322**	**$ (1,133,559)**	**$ 23,683,804**	**$ 3,455,829**

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable:					
Bonds payable	$ 7,627,180	$ -	$ (732,549)	$ 6,894,631	$ 732,550
Notes payable	1,835,552	-	(299,420)	1,536,132	311,480
Total bonds and notes payable	9,462,732	-	(1,031,969)	8,430,763	1,044,030
Other long-term liabilities:					
Compensated absences	4,071,830	-	(163,378)	3,908,452	2,447,798
Workers' compensation	355,533	-	(69,629)	285,904	48,991
Net pension liability	-	8,326,817	(1,103,895)	7,222,922	-
Total other long-term liabilties	4,427,363	8,326,817	(1,336,902)	11,417,278	2,496,789
Total long-term liabilities	$ 13,890,095	$ 8,326,817	$ (2,368,871)	$ 19,848,041	$ 3,540,819

Note 6 - **Long-Term Liabilities - Continued**

On 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. The balance of the Series E and F bonds at June 30, 2016 and 2015 was $6,005,351 and $6,716,483, respectively.

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 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 liability for the remaining 47% or $1,600,000 balance of the obligation is being paid for by the DCAM. The balance of this note at June 30, 2016 and 2015 was $1,173,567 and $1,385,148, respectively.

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 was used to fund a project for a 77 kilowatt photovoltaic system for the Danvers Campus Berry Building. The balance of the Series 2010A-9 at June 30, 2016 and 2015 was $80,491 and $89,200, respectively.

Note 6 - **Long-Term Liabilities - Continued**

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. The balance of the Series 2007A bonds at June 30, 2016 and 2015 was $76,241 and $88,948, respectively. No interest has been imputed due to a lack of materiality.

As a result of a 2009 settlement with the Federal Department of Education ("ED"), 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 ED is 3% for the periods ending June 30, 2016 and 2015. The balance of this note at June 30, 2016 and 2015 was $51,086 and $150,984, respectively.

As of June 30, 2016, principal and interest due on notes and bonds payable for the next five years and in subsequent five-year periods are as follows:

Fiscal Years Ending June 30,	Principal	Interest
2017	$ 1,004,734	$ 259,497
2018	963,599	224,095
2019	973,997	188,693
2020	984,862	153,177
2021	960,209	116,464
2022-2026	2,326,463	222,575
2027	172,872	2,220
	$ 7,386,736	$ 1,166,721

Total interest expense for 2016 and 2015 was $297,367 and $332,236, respectively.

Note 6 - **Long-Term Liabilities - Continued**

The following schedule summarizes future minimum payments due under noncancelable operating leases as of June 30, 2016:

Fiscal Years Ending June 30,	Operating Leases
2017	$ 343,202
2018	174,914
	$ 518,116

Rental expense for operating leases was $498,151 and $666,010 for the years ended June 30, 2016 and 2015, respectively.

Note 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. At June 30, 2016 and 2015, the restricted net position was for instructional and departmental uses.

Note 8 - **Net Pension Liability**

Defined Benefit Plan Description
The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to $2,001,647 and $2,259,204 for the years ended June 30, 2016 and 2015, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 70% of total related payroll for fiscal years end 2016 and 2015.

Note 8 - **<u>Net Pension Liability - Continued</u>**

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

The Massachusetts State Employees' Retirement System does not issue a stand-alone financial statement.

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

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

Note 8 - **<u>Net Pension Liability - Continued</u>**

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

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

The College is required to contribute at an actuarially determined rate; the rate was 9.45% and 10.39% of annual covered payroll for the fiscal years ended June 30, 2016 and 2015, respectively. The College contributed $537,493 and $664,272 for the fiscal years ended June 30, 2016 and 2015, respectively, equal to 100% of the required contributions for each year.

Note 8 - **Net Pension Liability - Continued**

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

At June 30, 2016 and 2015, the College reported a liability of $12,077,736 and $7,222,922, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015 for reporting at June 30, 2016, the reporting date. The net pension liability was measured as of June 30, 2014, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014 for reporting at June 30, 2015, the reporting date. The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2015 and 2014, respectively. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2015 and 2014 relative to total contributions of all participating employers for the fiscal years. At June 30, 2015 and 2014, the College's proportion was 0.116% and 0.106%, respectively.

Note 8 - **Net Pension Liability - Continued**

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

For the year ended June 30, 2016 and 2015, the College recognized pension expense of $1,015,519 and $595,629 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	2015
Deferred Outflows of Resources		
Changes in plan's actuarial assumptions	**$ 2,091,618**	$ 81,193
Changes in proportion due to internal allocation	**855,553**	275,618
Contributions made after the measurement date	**537,493**	664,272
Total	**$ 3,484,664**	$ 1,021,083
Deferred Inflows of Resources		
Changes in propriation due to initial allocation	**$ -**	$ 1,556
Net differences between projected and actual earnings on pension plan investments	**108,329**	1,482,496
Total	**$ 108,329**	$ 1,484,052

Note 8 - **Net Pension Liability - Continued**

The deferred outflows of resources of $537,493 and $664,272 related to pensions resulting from the College contributions during fiscal year 2016 and 2015, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016 and 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2017	$ 550,288
2018	550,288
2019	550,288
2020	944,263
2021	243,715
	$ 2,838,842

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

Measurement date	June 30, 2015	June 30, 2014
Inflation	3.00%	3.00%
Salary increases	3.50% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	8.00%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2015 and 2014, mortality rates were based on pre-retirement of RP-2000 Employees table projected 20 years with Scale BB and Scale AA, (gender distinct), respectively and post-retirement of Healthy Annuitant table projected 15 years with Scale BB and AA (gender distinct), respectively.

NORTH SHORE COMMUNITY COLLEGE
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Notes to the Financial Statements – Continued

June 30, 2016 and 2015

Note 8 - **Net Pension Liability - Continued**

Actuarial Assumptions - Continued
The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of actuarial experience study performed as of January 1, 2015.

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

	2015		2014	
Asset Class	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	6.90%	43%	7.20%
Core Fixed Income	13%	2.40%	13%	2.50%
Hedge Funds	9%	5.80%	10%	5.50%
Private Equity	10%	8.50%	10%	8.80%
Real Estate	10%	6.50%	10%	6.30%
Portfolio Completion Strategies	4%	5.50%	0%	0.00%
Value Added Fixed Income	10%	5.80%	10%	6.30%
Timber/Natural Resources	4%	6.60%	4%	5.00%
	100%		100%	

Note 8 - **<u>Net Pension Liability – Continued</u>**

<u>Discount Rate</u>

The discount rate used to measure the total pension liability was 7.5% and 8.0%, respectively at June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

<u>Sensitivity of the Net Pension Liability to changes in the Discount Rate</u>

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate of 7.5 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

	June 30, 2016	
1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
$ 16,417,619	$ 12,077,736	$ 8,334,544

	June 30, 2015	
1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00%)
$ 10,456,729	$ 7,222,922	$ 4,447,126

Note 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.

Note 10 - **Operating Expenses**

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

	2016	2015
Compensation and benefits	**$ 45,167,208**	$ 44,662,582
Supplies and services	**12,171,931**	13,198,869
Depreciation	**3,220,680**	3,143,512
Scholarships and fellowships	**1,712,333**	3,607,193
	$ 62,272,152	$ 64,612,156

Note 11 - **State Appropriation**

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

	2016	2015
Direct unrestricted appropriations	**$ 21,121,357**	$ 20,910,123
Add: Fringe benefits for benefited employees on the state payroll	**6,163,474**	5,637,041
Less: Day school tuition remitted to the state and included in tuition revenue	**(485,879)**	(312,157)
Total unrestricted appropriations	**26,798,952**	26,235,007
Restricted appropriations	**293,943**	262,595
Add: Fringe benefits for benefited employees on the state payroll	**15,156**	14,201
Total restricted appropriations	**309,099**	276,796
Capital appropriations	**7,975,129**	997,565
Total Appropriations	**$ 35,083,180**	$ 27,509,368

The College classified the 9C Cut paid to the Commonwealth of $0 and $302,175 in operating expenses as part of institutional support for the year ended June 30, 2016 and 2015, respectively.

Note 12 - **Fringe Benefits**

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, and workers' compensation benefits. Health insurance for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net position and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's fringe benefited employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs, which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

Group Insurance Commission (GIC)

The Commonwealth's Group Insurance Commission ("GIC") was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns and a small amount of municipalities as an agent multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the College.

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

Note 12 - **Fringe Benefits - Continued**

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2016 and 2015, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 13 - **Pass-Through Grants**

The College distributed $9,872,521 and $7,309,813 during 2016 and 2015, 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.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH SHORE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Valuation date	January 1, 2015	January 1, 2014
Measurement date	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.116%	0.106%
Proportionate share of the collective net pension liability	$ 12,077,736	$ 7,222,922
College's covered-employee payroll	$ 6,393,378	$ 7,216,427
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	67.87%	76.32%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2015 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

NORTH SHORE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions (Unaudited)

For the Years Ended June 30,

	2016	2015
Contractually required contribution	$ 537,493	$ 664,272
Contributions in relation to the contractually required contribution	(537,493)	(664,272)
Contribution excess	$ -	$ -
Covered-employee payroll	$ 5,687,757	$ 6,393,378
Contribution as a percentage of covered-employee payroll	9.45%	10.39%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective fc years beginning after June 15, 2015 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

NORTH SHORE COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2016 and 2015

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.00% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of $2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of $102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.116% and 0.106%, respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

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

	2016	2015
Changes in assumptions	**$ 2,532,870**	$95,457
Recognized in current year pension expense	**441,252**	14,264
Changes in assumptions	**$ 2,091,618**	$81,193

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

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

To the Board of Trustees of
North Shore Community College
Danvers, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Shore Community College (the "College") which comprise the statement of net position as of June 30, 2016, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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 North Shore Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 1, 2016