NORTH SHORE COMMUNITY COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2017

NORTH SHORE COMMUNITY COLLEGE

Financial Statements

June 30, 2017 and 2016

CONTENTS

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 (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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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 the College as of June 30, 2017 and 2016, and the changes in net position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-16, the schedule of proportionate share of net pension liability on page 51, the schedule of contributions on page 52 and the notes to the required supplementary information on page 53 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 October 18, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 18, 2017

NORTH SHORE COMMUNITY COLLEGE

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2017 and 2016

(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, 2017 and 2016, 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 11,945 credit and noncredit students annually with 120 full time faculty, 359 part time faculty, 286 full time staff and 134 part time staff members. Campuses are located in Danvers, and Lynn, and Middleton Massachusetts. In addition, the College offers programs and courses in offsite locations throughout the greater North Shore area. The College offered 75 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 463 noncredit workforce development and recreational courses.

Financial Highlights

- At June 30, 2017 and 2016, the College's assets of $104,414,823 and $91,899,583, respectively, exceeded its liabilities of $25,875,620 and $28,341,498 by $78,539,203 and $63,558,085, 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 $152,226 at June 30, 2017 may be expended, but only for the purposes for which the donor or grantor intended.
- The College's total net position increased by $12,750,202 in 2017 compared to an increase of $6,710,668 in 2016. The 2017 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 FY2017 increased by $1,809,494 to $756,981. Unrestricted net position for FY2016 increased by $970,266 to $(1,052,513).

The increase in the unrestricted net position in FY16 and FY17 was due to stabilization of 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 50 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 $79,684,620 and $66,934,420 at the close of FY 2017 and 2016, 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 2017 and 2016, representing, 16% and 100.02% or $78,775,416 and $67,908,978, 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, 2017 and 2016

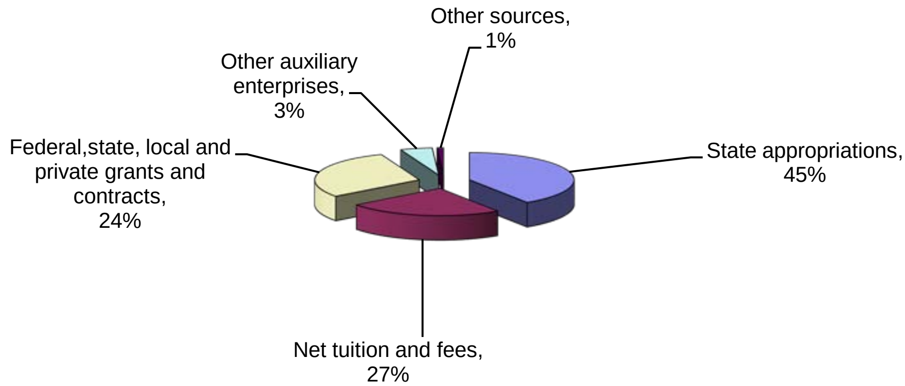
(Unaudited)

Condensed financial information

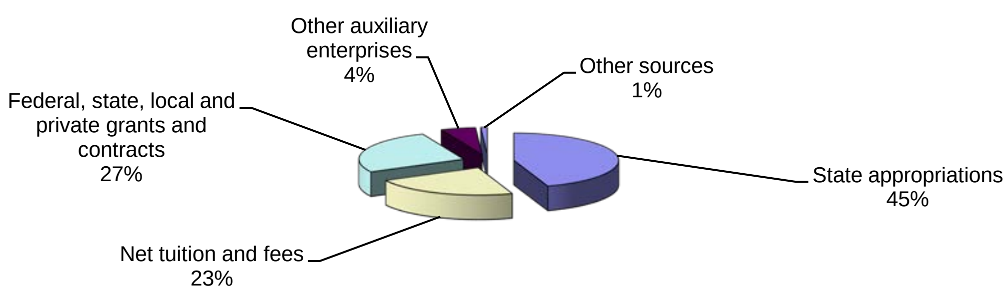
	2017	2016	2015
Current assets	$ 19,257,405	16,654,953	14,700,365
Noncurrent assets	85,157,418	75,244,630	70,218,189
Deferred outflows	2,934,305	3,484,664	1,021,083
Total assets and deferred outflows	$ 107,349,128	95,384,247	85,939,637
Current liabilities	$ 8,479,289	8,113,523	7,924,611
Noncurrent liabilities	17,396,331	20,227,975	16,307,222
Deferred inflows	1,788,886	108,329	1,484,052
Total liabilities and deferred inflows	$ 27,664,506	28,449,827	25,715,885
Net Position:			
Invested in capital assets	$ 78,775,415	67,908,978	61,938,408
Restricted, expendable	152,226	77,955	308,123
Unrestricted	756,981	(1,052,513)	(2,022,779)
Total net position	$ 79,684,622	66,934,420	60,223,752
Total operating revenues	$ 35,953,877	34,088,848	37,871,775
Total operating expenses	64,533,597	62,272,152	64,612,156
Net operating loss	(28,579,720)	(28,183,304)	(26,740,381)
Net nonoperating revenues	29,217,997	26,918,843	26,465,781
Change in net position before capital appropriations	638,277	(1,264,461)	(274,600)
Capital appropriation	12,111,925	7,975,129	997,565
Increase in net position	12,750,202	6,710,668	722,965
Restatement of net position	-	-	(7,754,533)
Net position – beginning, as restated	66,934,420	60,223,752	67,255,320
Net position – ending	$ 79,684,622	66,934,420	60,223,752

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 FY2017 and 2016. Fees are set by the College's board of trustees at $177.00 for FY2017 and $164.00 for FY2016, per credit for the Fall and Spring semesters.

Source of Operating and Nonoperating Revenues
2017



Source of Operating and Nonoperating Revenues
2016



Highlights of operating revenue activity include:

- A very slight decrease of .0016% or $42,042 in FY2017 in tuition and fees before scholarship allowances. This is primarily due to slightly higher fees to offset the decline in enrollment and credit hours for the Fall 2016 and Spring 2017 semesters. This compares to a decrease of 1% or $472,339 in FY2016 in tuition and fees before scholarship allowances. This was primarily due to a decline in enrollment and credit hours for the Fall 2016 and Spring 2017 semesters.

	June 30		
	2017	2016	2015
Tuition and fees	$ 25,898,948	25,940,990	26,413,325
Tuition remitted	203,490	485,879	312,157

- A decrease of 7% or $1,184,607 in federal, state, local, and private grants and contracts, compared to a decrease of 12.31% or $2,346,643 in FY2016. 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:

<u>Commonwealth Corporation</u>

- Essential Skills, $75,900

<u>Gateway to College National Network</u>

- Gateway to College, $150,000

<u>Massachusetts Department of Early Education and Care</u>

- Educator and Provider Support, $872,350
- Early Childhood Foundation, $92,252
- Early Childhood Social and Emotional, $49,592

<u>Massachusetts Department of Elementary and Secondary Education</u>

- Vocational Education, $315,465
- Adult Learning Center, $205,712
- Adult Learning Center Integrated Education, $64,495

- Adult Career Pathways, $102,320

Massachusetts Department of Higher Education
- STEM Starter Academy, $225,000
- STEM Early College, $135,313
- ESL Complete, $125,000
- Workforce Training, $50,000
- Dual Enrollment/Early College, $45,000

Massachusetts Executive Office of Education
- Mass Skills Capital, $111,455

Massachusetts Executive Office of Public Safety
- Local Action Research Partnership, $45,683

North Shore Workforce Investment Board
- Advanced Manufacturing, $83,444

U. S. Department of Education
- TRIO Talent Search, $288,000,
- TRIO Student Support, $492,058,
- TRIO Upward Bound, $391,688,
- Mass Education and Career, $154,889

U. S. Department of Labor
- Tech Hire, $84,727
- TAACCT Partner, $525,000
- TAACT Navigator, 202,522
- Prior Learning Assessment, $75,305

Other auxiliary enterprises include the operations of the student bookstore service. The revenue generated from these operations for FY2017 was $2,490,520, a decrease of $535,200 or 17% from FY2016. The revenue generated from these operations for FY2016 was $3,025,720, a decrease of $163,655 or 5% from FY2015. Auxiliary operations expenses for FY2017 totaled $2,354,942, a decrease of 17% or $503,646 from FY2016. Auxiliary operations expenses for FY2016 totaled $2,858,588, a decrease of 1% or $51,864 from FY2015. The bookstore net income for FY17 was $135,578, as compared to $151,606 for FY16.

As mentioned in last year's narrative, the Campus Bookstore operations continue to follow the nationwide trends of decreasing revenue and textbook sales. Again this year, the tangible factors include our declining enrollments and the market share shifts away from brick and mortar bookstores to on-line retailers. However, this year we also saw a significant decrease in our operating expenses (20%), whereas the previous year's comparison yielded a decrease of only 1%. This is a positive outcome considering our revenue declines.

Again this year, we continued to emphasize affordability to our students through Open Educational Resources (OER), textbook rentals and custom course materials. FY17 was also the first year that we offered faculty the opportunity to use direct digital delivery of their course materials to students through Blackboard (our Learning Management System). We booked slightly less than $30,000 in revenue through this program, helping 466 students to receive (approximately) 70% in savings on the cost of these digital materials over a traditional textbook experience. Since the charges for these materials were billed directly to the student's accounts, the texts were available to all students on the first day of classes.

While our experiences with Direct Digital Materials and other more affordable options were exciting and positive. In January of 2017, the Campus Bookstore began to experience significant staffing changes as three full-time staff members retired and another member of the full-time employee accepted a position with another department on campus. Strategic conversations had already begun on campus about the possibility of privatizing the Campus Bookstore operations. These sudden staffing changes accelerated those conversations. As FY17 began, NSCC was only one of two stores left among the fifteen MA Community Colleges that had not privatized. As the College began considering the privatization of their campus bookstore operations, we developed a thorough Request for Proposal that we believe would meet the needs of our students and the College for the future.

As of the writing of this narrative, the College is moving carefully though the State's privatization process and has chosen to partner with Follett Higher Education Group. We have received state certification from the Massachusetts Executive Office of Administration and Finance and we anticipate a visit from the Massachusetts State Auditor's Office to finalize this agreement.

NORTH SHORE COMMUNITY COLLEGE

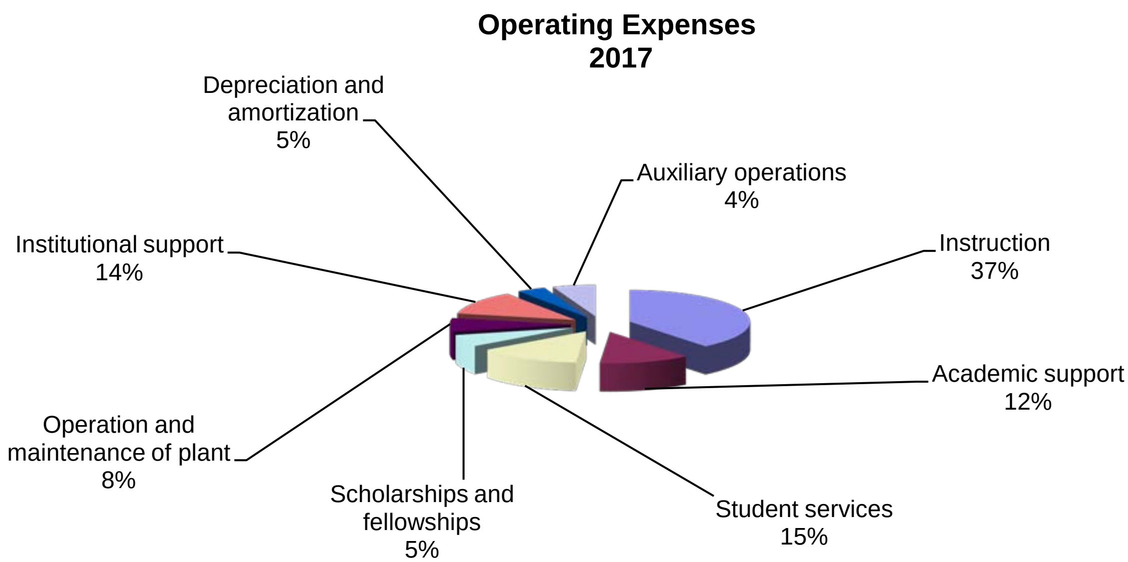
Required Supplementary Information

Management's Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)

As part of the privatization process, we have assessed our current services to students and we believe that Follett's Higher Education Group will immediately bring scale in affordability through their market leverage and nation-wide catalogues of used and rental texts that we could not match. We also see great opportunity for updated retail spaces that will better serve our students and the College's community.



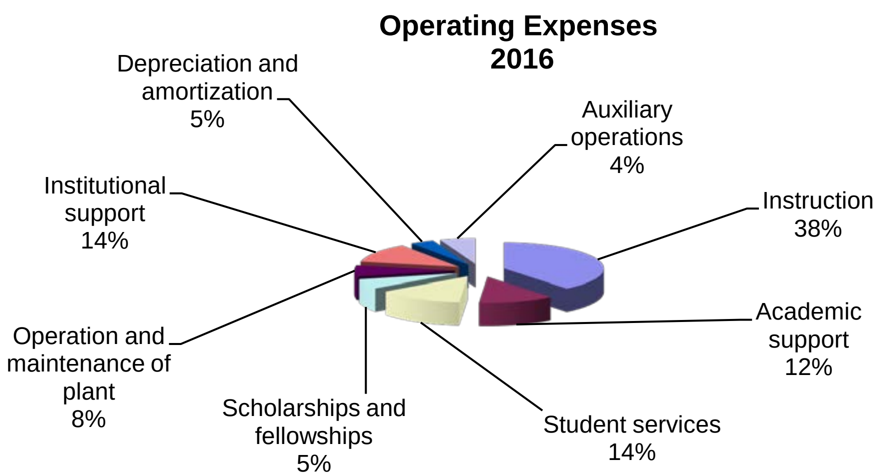
NORTH SHORE COMMUNITY COLLEGE

Required Supplementary Information

Management's Discussion and Analysis - Continued

June 30, 2017 and 2016

(Unaudited)



Highlights of operating expense activity include:

- A slight increase of 2.6% or $606,423 in instruction expenditures due to two years of faculty collective bargaining increases being processed in FY2017. This compares to a decrease of 1.92% or $456,626 in instruction expenditures in FY2016 due to careful cost containment, budgetary control and deferment of FY2016 faculty compensation increases.
- A slight increase of 1% or $107,222 in academic support expenditures due to higher fringe rate and two years of collective bargaining increases being processed in FY2017. This compares to a decrease of 8.91% or $753,365 in academic support expenditures in FY2016, primarily due to careful spending on supplies and equipment.
- A slight increase of 2% or $272,887 in student services expenditures in FY2017 due to continued efforts for student retention and recruitment as well as an increase in the fringe rate. This compares to an increase of 5.94% or $521,024 in student services expenditures in FY2016, primarily due to initial initiatives for student retention and recruitment.
- A sharp increase of 103% or $1,768,375 in scholarships and fellowships in FY2017 due to a push to have students pay their bills prior to financial aid being disbursed. This compares to a decrease of 52.53% or $1,894,860 in scholarships and fellowships in FY2016 due to decreased enrollment.
- A slight decrease of less than 1% or $41,439 in expenditures for operation and maintenance of plant in FY2017 due to a mild winter and continued cost containment for utility expenditures. This

compares to a decrease of 3.29% or $173,239 in operation and maintenance of plant expenditures in FY2016, due to cost containment for utility expenditures.

- There was a slight increase of half of 1% or $48,518 in expenditures for institutional support in FY2017 careful cost containment measures to offset increase in the fringe rate. This compares to an increase of 6.78% or $573,821 in institutional support expenditures in FY2016, primarily due to filling vacant positions and recording of pension expense.

For non-operating revenues and expenses, the Commonwealth's total appropriations increased by 8% or $2,315,675 compared to an increase of 13.82% or $596,248, in FY2017 and 2016, respectively. The College received a capital appropriation of $12,111,925 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 FY2017 by 17% or $1,072,894 to $7,251,524 compared to 9% or $527,388 to $6,178,388 in FY2016.

The fringe benefit rate increased by 4.34 points to 35.16% from 30.82% for FY2017 and FY2016 respectively compared to an increase of 1.96 points to 30.82% from 28.86% for FY2016 and FY2015 respectively.

Tuition remitted to the Commonwealth decreased by 58% or $282,389 in FY2017, compared to an increase of 55% or $173,722 in FY2016. This increase was due to a new guideline on calculation requested by the MA Department of Higher Ed.

Investment income increased in FY2017 by 28% or $6,125 compared to an increase in FY2016 by 43.05% or $6,395.

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 FY2017 and 2016. 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, 2017 and 2016 amounts to $85,157,417 and $75,244,628, respectively, net of accumulated depreciation.

The College recognized $12,111,925 in capital appropriations in FY17 and $7,975,129 in FY 2016 primarily for expansion of the Lynn Campus McGee Building. 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 was 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, 2017 and 2016

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

Statements of Net Position

June 30, 2017 and 2016

Assets and Deferred Outflows

	Primary Government		Component Unit	
	2017 College	2016 College	**2017 Foundation**	2016 Foundation
Current Assets:				
Cash and equivalents	**$ 15,483,227**	$ 13,032,962	**$ 569,030**	$ 317,281
Cash held by State Treasurer	**775,737**	397,539	**-**	-
Investments	**580,563**	955,688	**-**	-
Accounts receivable, net	**1,279,846**	1,153,120	**-**	-
Pledges receivable, current	**-**	-	**83,850**	45,950
Inventory and other current assets	**1,138,032**	1,115,644	**36,521**	36,959
Total Current Assets	**19,257,405**	16,654,953	**689,401**	400,190
Noncurrent Assets:				
Funds held by bond trustee - restricted	**2**	2	**-**	-
Investments	**-**	-	**7,556,805**	6,813,670
Pledges receivable, net of current	**-**	-	**96,912**	73,141
Capital assets, net	**85,157,416**	75,244,628	**-**	-
Total Noncurrent Assets	**85,157,418**	75,244,630	**7,653,717**	6,886,811
Total Assets	**104,414,823**	91,899,583	**8,343,118**	7,287,001
Deferred Outflows of Resources:				
Contributions made after the measurement date	**588,633**	537,493	**-**	-
Differences between projected and actual investment earnings on pension plan investments	**692,851**	-	**-**	-
Differences between projected and actual experience	**490,235**	-	**-**	-
Changes in proportion from the Commonwealth	**18,021**	-	**-**	-
Changes in proportion due to internal allocation	**-**	855,553	**-**	-
Changes in plan actuarial assumptions	**1,144,565**	2,091,618	**-**	-
Total Deferred Outflows of Resources	**2,934,305**	3,484,664	**-**	-
Total Assets and Deferred Outflows	**$ 107,349,128**	$ 95,384,247	**$ 8,343,118**	$ 7,287,001

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

Liabilities, Deferred Inflows and Net Position

	Primary Government		Component Unit	
	2017 College	2016 College	**2017 Foundation**	2016 Foundation
Current Liabilities:				
Accounts payable and accrued liabilities	**$ 1,177,736**	$ 770,666	**$ 168,136**	$ 146,456
Accrued payroll	**2,101,636**	2,116,590	-	-
Compensated absences and workers' compensation	**2,533,206**	2,451,095	-	-
Students' deposits and unearned revenues	**1,359,935**	1,496,021	-	-
Funds held for others	**343,176**	274,417	**100,052**	85,345
Current portion of bonds payable	**732,550**	732,550	-	-
Current portion of note payable	**231,050**	272,184	-	-
Total Current Liabilities	**8,479,289**	8,113,523	**268,188**	231,801
Noncurrent Liabilities:				
Compensated absences and workers' compensation	**1,656,604**	1,768,237	-	-
Net pension liability	**10,321,326**	12,077,736	-	-
Notes payable	**721,418**	952,469	-	-
Bonds payable	**4,696,983**	5,429,533	-	-
Total Noncurrent Liabilities	**17,396,331**	20,227,975	-	-
Total Liabilities	**25,875,620**	28,341,498	**268,188**	231,801
Deferred Inflows of Resources:				
Changes in proportion due to internal allocation	**1,788,886**	-	-	-
Differences between projected and actual investment earnings on pension plan investments	-	108,329	-	-
Total Deferred Inflows of Resources	**1,788,886**	108,329	-	-
Total Liabilities and Deferred Inflows	**27,664,506**	28,449,827	**268,188**	231,801
Net Position:				
Net investment in capital assets	**78,775,415**	67,908,978	-	-
Restricted:				
Expendable	**152,226**	77,955	**2,676,350**	2,194,699
Nonexpendable	-	-	**2,264,789**	2,197,005
Unrestricted	**756,981**	(1,052,513)	**3,133,791**	2,663,496
Total Net Position	**79,684,622**	66,934,420	**8,074,930**	7,055,200
Total Liabilities, Deferred Inflows and Net Position	**$ 107,349,128**	$ 95,384,247	**$ 8,343,118**	$ 7,287,001

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, 2017 and 2016

	Primary Government		Component Unit	
	2017 College	2016 College	**2017 Foundation**	2016 Foundation
Operating Revenues:				
Tuition and fees	**$ 25,898,948**	$ 25,940,990	**$ -**	$ -
Less: scholarship allowances	**(8,036,933)**	(11,658,176)	**-**	-
Net tuition and fees	**17,862,015**	14,282,814	**-**	-
Grants and contracts	**15,528,348**	16,712,955	**-**	-
Auxiliary operations	**2,490,520**	3,025,720	**-**	-
Other	**72,994**	67,359	**-**	-
Total Operating Revenues	**35,953,877**	34,088,848	**-**	-
Operating Expenses:				
Instruction	**23,960,577**	23,354,154	**-**	-
Academic support	**7,805,080**	7,697,858	**-**	-
Student services	**9,566,714**	9,293,827	**-**	-
Scholarships and fellowships	**3,480,708**	1,712,333	**173,748**	158,393
Operation and maintenance of plant	**5,052,044**	5,093,483	**-**	-
Institutional support	**9,089,747**	9,041,229	**162,686**	180,323
Depreciation and amortization	**3,223,785**	3,220,680	**-**	-
Auxiliary operations	**2,354,942**	2,858,588	**-**	-
Total Operating Expenses	**64,533,597**	62,272,152	**336,434**	338,716
Operating Loss	**(28,579,720)**	(28,183,304)	**(336,434)**	(338,716)
Nonoperating Revenues (Expenses):				
State appropriations - unrestricted	**28,808,350**	26,798,952	**-**	-
State appropriations - restricted	**615,376**	309,099	**-**	-
Gifts, grants and contributions	**-**	-	**545,502**	534,745
Net investment income	**27,375**	21,250	**837,056**	124
Interest expense	**(259,498)**	(297,367)	**-**	-
Payments between the College and the Foundation	**26,394**	86,909	**(26,394)**	(86,909)
Net Nonoperating Revenues	**29,217,997**	26,918,843	**1,356,164**	447,960
Change in Net Position Before Capital Appropriations	**638,277**	(1,264,461)	**1,019,730**	109,244
Capital Appropriations	**12,111,925**	**7,975,129**	**-**	-
Change in Net Position	**12,750,202**	6,710,668	**1,019,730**	109,244
Net Position, Beginning of Year	**66,934,420**	60,223,752	**7,055,200**	6,945,956
Net Position, End of Year	**$ 79,684,622**	$ 66,934,420	**$ 8,074,930**	$ 7,055,200

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	
	2017 College	2016 College
Cash Flows from Operating Activities:		
Tuition and fees	**$ 17,703,008**	$ 14,404,854
Grants and contracts	**15,393,159**	17,946,164
Payments to suppliers	**(10,115,484)**	(11,850,875)
Payments to employees	**(39,628,765)**	(38,106,075)
Payments to students	**(3,480,708)**	(1,712,333)
Other cash receipts	**2,576,290**	3,093,079
Net Cash Applied to Operating Activities	**(17,552,500)**	(16,225,186)
Cash Flows from Noncapital Financing Activities:		
State appropriations	**22,375,693**	21,415,300
Tuition remitted to state	**(203,490)**	(485,879)
Funds held for others	**68,759**	69,368
Contributions from Foundation	**26,394**	86,909
Net Cash Provided by Noncapital Financing Activities	**22,267,356**	21,085,698
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	**(1,024,648)**	(271,992)
Principal paid on capital debt	**(1,004,735)**	(1,044,027)
Interest paid on capital debt	**(259,498)**	(297,367)
Net Cash Applied to Capital Financing Activities	**(2,288,881)**	(1,613,386)
Cash Flows from Investing Activities:		
Investment purchases	**-**	(5,727)
Proceeds from maturity of investments	**375,125**	-
Interest on investments	**27,363**	21,250
Net Cash Provided by Investing Activities	**402,488**	15,523
Net Increase in Cash and Equivalents	**2,828,463**	3,262,649
Cash and Equivalents (Including Cash Held by State Treasurer), Beginning of Year	**13,430,501**	10,167,852
Cash and Equivalents (Including Cash Held by State Treasurer), End of Year	**$ 16,258,964**	$ 13,430,501

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	Primary Government	
	2017 College	2016 College
Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	**$ (28,579,720)**	$ (28,183,304)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	**3,223,785**	3,220,680
Bad debt recovery	**(152,254)**	(140,774)
Fringe benefits provided by the State	**7,251,523**	6,178,630
Changes in assets and liabilities:		
Accounts receivable	**25,540**	1,531,887
Inventory and other current assets	**(22,388)**	(77,325)
Accounts payable and accrued liabilities	**407,070**	304,407
Accrued payroll	**(14,954)**	(64,009)
Pension obligations	**474,506**	1,015,510
Compensated absences and workers' compensation	**(29,522)**	24,976
Students' deposits and unearned revenues	**(136,086)**	(35,864)
Net Cash Applied to Operating Activities	**$ (17,552,500)**	$ (16,225,186)
Reconciliation of Cash and Equivalents Balance to the Statements of Net Position:		
Cash and equivalents	**$ 15,483,227**	$ 13,032,962
Cash held by State Treasurer	**775,737**	397,539
Cash and Equivalents, End of Year	**$ 16,258,964**	$ 13,430,501
Noncash Transactions:		
Fringe benefits provided by the State	**$ 7,251,523**	$ 6,178,630
Capital appropriations used to acquire captal assets	**$ 12,111,925**	$ 7,975,129

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

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

Notes to the Financial Statements

June 30, 2017 and 2016

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 and Lynn, Massachusetts, as well as an instructional location in Middleton, 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 United States 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

The College's policy for defining operating activities in the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services and certain grants and contracts. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts (the "Commonwealth"), net investment income, gifts and interest expense.

The College's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements.

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 years ended June 30, 2017 and 2016, the Foundation distributed $26,394 and $86,909, 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.

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

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 position subject to externally imposed conditions that the College must maintain them in perpetuity.

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

Unrestricted: All other categories of net position. Unrestricted net position 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 cash held by the State Treasurer and all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash and equivalents.

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;

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

Investments - Continued

(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 Massachusetts 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.

Allowance for Doubtful Accounts

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

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.

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 debt related to capital assets are capitalized during the construction period. College capital assets, except for 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.

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

Students' Deposits and Unearned Revenue

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred and are recorded as related services are provided.

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 year-end. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2017 and 2016. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Pensions

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

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

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 a governmental component unit of the Commonwealth 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation and determining the net pension liability.

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

New Governmental Account Pronouncements
GASB Statement 75 - *Accounting and Financial Reporting for Post-Employment 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 Post-Employment 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 post-employment 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 completed its evaluation of the effects of the implementation of this standard, but as discussed in Note 12, management does expect that it will require restating certain balances as of June 30, 2017.

GASB Statement 83 - *Certain Asset Retirement Obligations* ("AROs") is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonable estimable. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 84 - *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. Pension and other employee-benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be combined and shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

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

New Governmental Account Pronouncements - Continued
GASB Statement 85 - *Omnibus 2017* is effective for periods beginning after June 30, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 86 - *Certain Debt Extinguishment Issues* is effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transaction in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures in the financial statements for debt that is defeased in substance. Management has not completed its review of the requirements of this standard.

GASB Statement 87 - *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations results from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Standard. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

Reclassifications
Certain amounts in 2016 have been reclassified to conform with the 2017 presentation.

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 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"), an investment pool for political subdivisions in the Commonwealth that was designed as a legal means to invest temporarily available cash. Its primary purpose is to provide a safe, liquid, high yield investment vehicle offering participation in a diversified of high quality money market instruments. The MMDT is not a bank, savings institution or financial institution, and is not subject to FDIC insurance. MMDT operates as a qualifying external investment pool and is valued by MMDT's management on an amortized cost where the net asset value is $1 per share.

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

	2017	2016
Cash in Bank	**$ 14,121,015**	$ 11,683,059
MMDT	**1,362,212**	1,349,903
Total cash and equivalents	**15,483,227**	13,032,962
Certificates of deposit	**580,563**	955,688
Funds held by Bond Trustee	**2**	2
	$ 16,063,792	$ 13,988,652

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

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 and investments might not be recovered. Deposits and investments are made in domestic banks that are federally insured including some Massachusetts banks that are insured with supplemental insurance for those accounts exceeding the federally insured limits. The bank balance of the deposits and investments at June 30, 2017 and 2016 amounted to $12,207,743 and $10,365,344 respectively, of which $3,159,019 and $2,701,223, respectively, was exposed to custodial credit risk. The College does not have a written policy to mitigate custodial credit risk.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All investments at June 30, 2017 and 2016, mature in one year or less. The College does not have a written policy to mitigate interest rate risk.

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

Disclosure of Credit Risk of Debt Securities
Credit risk of debt securities is the risk of default on a debt security that may arise from an issuer or other counter party to a debt security not fulfilling its payment obligations. The College does not have a written policy to mitigate 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,:

		2017	
		Quality Ratings	
Rated Debt Investments	**Fair Value**	**AAA**	**Unrated**
Certificates of deposit	**$ 580,563**	**$ -**	**$ 580,563**

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

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.

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

Fair Value Hierarchy
The assets' 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.

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 College 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, 2017 and 2016, all investments are categorized in Level 2 of the fair value hierarchy and mature in last than one year.

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

	2017	2016
Equity securities	**$ 5,051,183**	$ 4,250,677
Fixed income securities	**2,441,462**	2,468,530
Money market funds	**64,160**	94,463
	$ 7,556,805	$ 6,813,670

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

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

	2017	2016
Interest and dividend income	**$ 117,277**	$ 123,767
Net realized gain on sale of securities	**76,159**	571,033
Net unrealized gain/(loss) on investments	**643,620**	(694,676)
	$ 837,056	$ 124

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled $775,737 and $397,539 at June 30, 2017 and 2016, respectively. The College has recorded an equivalent 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,:

	2017	2016
Student accounts receivable	**$ 2,771,393**	$ 2,897,462
Grants receivable	**694,900**	581,365
Other receivables	**-**	12,994
	3,466,293	3,491,821
Less: allowance for doubtful accounts	**(2,186,447)**	(2,338,701)
	$ 1,279,846	$ 1,153,120

Note 5 - **Capital Assets**

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

	2017					
	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	-	9,197,107	12,976,680	-	(6,250)	22,167,537
Total non-depreciable assets		23,039,184	12,976,680	-	(6,250)	36,009,614
Capital assets, depreciated:						
Buildings and improvements	20-40	94,319,533	83,650	-	6,250	94,409,433
Furnishings and equipment	3-10	10,579,438	76,243	-	-	10,655,681
Educational resource materials	5	505,463	-	-	-	505,463
Total depreciable assets		105,404,434	159,893	-	6,250	105,570,577
Total capital assets		128,443,618	13,136,573	-	-	141,580,191
Less: accumulated depreciation:						
Buildings and improvements		(43,523,711)	(2,707,012)	-	-	(46,230,723)
Furnishings and equipment		(9,169,816)	(516,773)	-	-	(9,686,589)
Educational resource materials		(505,463)	-	-	-	(505,463)
Total accumulated depreciation		(53,198,990)	(3,223,785)	-	-	(56,422,775)
Capital assets, net		$ 75,244,628	$ 9,912,788	$ -	$ -	$ 85,157,416

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

Notes to the Financial Statements – Continued

June 30, 2017 and 2016

Note 5 - **Capital Assets - Continued**

	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
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Notes to the Financial Statements – Continued

June 30, 2017 and 2016

Note 6 - **Long-Term Liabilities**

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

	2017				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds and notes payable:					
Bonds payable	**$ 6,162,083**	**$ -**	**$ 732,550**	**$ 5,429,533**	**$ 732,550**
Notes payable	**1,224,653**	**-**	**272,185**	**952,468**	**231,050**
Total bonds and notes payable	**7,386,736**	**-**	**1,004,735**	**6,382,001**	**963,600**
Other long-term liabilities:					
Compensated absences	**3,818,920**	**-**	**14,485**	**3,804,435**	**2,466,764**
Workers' compensation	**400,412**	**-**	**15,037**	**385,375**	**66,442**
Net pension liability	**12,077,736**	**-**	**1,756,410**	**10,321,326**	**-**
Total other long-term liabilties	**16,297,068**	**-**	**1,785,932**	**14,511,136**	**2,533,206**
Total long-term liabilities	**$ 23,683,804**	**$ -**	**$ 2,790,667**	**$ 20,893,137**	**$ 3,496,806**

	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

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

Bonds Payable

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 did not result in a material difference between the reacquisition price and the net carrying amount of the old debt. 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, 2017 and 2016 was $5,294,218 and $6,005,351, 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, 2017 and 2016 was $71,782 and $80,491, respectively.

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, 2017 and 2016 was $63,533 and $76,241, respectively. Interest has not been imputed due to lack of materiality.

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

Notes Payable

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, 2017 and 2016 was $952,468 and $1,173,567, respectively.

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, 2017 and 2016. The balance of this note at June 30, 2016 was $51,086. The note was repaid in full during the year ended June 30, 2017.

Principal and Interest

As of June 30, 2017, principal and interest due on bonds and notes payable for the next five years and in subsequent five-year periods are as follows:

Fiscal Years Ending June 30,	Principal	Interest
2018	$ 963,600	$ 224,095
2019	973,997	188,692
2020	984,862	153,176
2021	960,209	116,464
2022	732,548	81,214
2023-2027	1,766,785	143,711
	$ 6,382,001	$ 907,352

NORTH SHORE COMMUNITY COLLEGE
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Notes to the Financial Statements – Continued

June 30, 2017 and 2016

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

Principal and Interest - Continued
Total interest expense was $259,498 and $297,367 for the years ended June 30, 2017 and 2016, respectively.

Operating Leases
The College has entered into lease agreements for academic space for the Middleton and Lynn campuses, and equipment for various departments.

Future minimum lease payments as of June 30, 2017 are as follows:

Fiscal Years Ending June 30,	Operating Leases
2018	$ 225,627
2019	53,468
2020	23,211
2021	23,211
2022	23,211
	$ 348,728

Rental expense for operating leases was $219,165 and $498,151 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, the restricted net position was for instructional and departmental uses.

Note 8 - **Pension**

Defined Benefit Plan Description
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.

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to $2,153,811 and $2,001,647 for the years ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 63% and 68% of total related payroll for fiscal years end 2017 and 2016, respectively.

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

Contributions
The SERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for SERS vary depending on the most recent date of membership:

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 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The College contributed $588,633, $537,493 and $664,272 for the fiscal years ended June 30, 2017, 2016 and 2015, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017 and 2016, the College reported a liability of $10,321,326 and $12,077,736, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The 2017 net pension liability was measured as of June 30, 2016, 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, 2016 rolled forward to June 30, 2016 for reporting at June 30, 2017, the reporting date. The 2016 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.

Note 8 - **Pension - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued
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 2016 and 2015, respectively. The College's proportionate share was based on actual employer contributions to the SERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for the fiscal years. At June 30, 2017 and 2016, the College's proportion was 0.075% and 0.106%, respectively.

For the years ended June 30, 2017 and 2016, the College recognized pension expense of $1,070,849 and $1,567,136 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	2016
Deferred Outflows of Resources		
Contributions made after the measurement date	**$ 588,633**	$ 537,493
Differences between projected and actual investment earnings on pension plan investments	**692,851**	-
Differences between projected and actual experience	**490,235**	-
Changes in proportion from Commonwealth	**18,021**	-
Changes in proportion due to internal allocation	**-**	855,553
Changes in plan actuarial assumptions	**1,144,565**	2,091,618
Total	**$ 2,934,305**	$ 3,484,664

Note 8 - **Pension - Continued**

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

	2017	2016
Deferred Inflows of Resources		
Changes in proportion due to internal allocation	**$ 1,788,886**	$ -
Differences between projected and actual investment earnings on pension plan investments	**-**	108,329
Total	**$ 1,788,886**	$ 108,329

The College's contributions of $588,633 and $537,493 made during the fiscal years ending 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized and increases in pension expense as follows:

Years Ending June 30,	
2018	$ 71,637
2019	71,637
2020	349,845
2021	12,988
2022	50,679
	$ 556,786

Note 8 - **Pension - Continued**

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

Measurement date	June 30, 2016	June 30, 2015
Inflation	3.00%	3.00%
Salary increases	4.00% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2017 and 2016, mortality rates were based on pre-retirement of RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct), respectively and post-retirement of Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct), respectively.

The actuarial assumptions used in the January 1, 2016 and 2015 valuations rolled forward to June 30, 2016 and 2015, respectively, and the calculation of the total pension liability at June 30, 2016 and 2015 were consistent with the results of actuarial experience study performed as of January 1, 2016 and 2015, respectively.

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:

Note 8 - **Pension - Continued**

Actuarial Assumptions - Continued

	2017		2016	
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%	40%	6.90%
Core Fixed Income	13%	1.60%	13%	2.40%
Hedge Funds	9%	4.00%	9%	5.80%
Private Equity	10%	8.70%	10%	8.50%
Real Estate	10%	4.60%	10%	6.50%
Portfolio Completion Strategies	4%	3.60%	4%	5.50%
Value Added Fixed Income	10%	4.80%	10%	5.80%
Timber/Natural Resources	4%	5.40%	4%	6.60%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2016 and 2015. 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.

Note 8 - **Pension - Continued**

Sensitivity of the Net Pension Liability to changes in the Discount Rate
The following table illustrates the sensitivity of the net pension liability calculated using the discount rate 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, 2017		
1.00% Decrease (6.50%)	**Current Discount Rate (7.50%)**	**1.00% Increase (8.50%)**
$ 13,450,275	**$ 10,321,326**	**$ 7,699,404**

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

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.

Note 9 - **Contingencies - Continued**

The College participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2%. The College is obligated to accept as payment of tuition the amount determined by this Program without regard to the standard tuition rate in effect at the time of the individual's enrollment at the College. The effect of this program cannot be determined as it is contingent on future tuition increases and the Program participants who attend the College.

In August 2017, the College received a penalty notice in the amount of $360,050 from the Internal Revenue Service ("IRS") stating that the College did not timely file its 2015 Forms 1098-T. Since 2013, the College has contracted with a third party to file on its behalf Forms 1098-T with the IRS. The third party has acknowledged that it was responsible for the delinquent 2015 filing. The College is vigorously pursuing abatement of the penalty and is in discussions with the third-party regarding the penalty. Management believes that it is probable that the penalty will either be waived or reduced by the IRS. In the event that does not occur, the College will seek reimbursement from the third party. Accordingly, the College has not accrued a liability for this matter as of June 30, 2017.

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,:

	2017	2016
Compensation and benefits	**$ 46,313,356**	$ 45,167,208
Supplies and services	**11,515,748**	12,171,931
Depreciation	**3,223,785**	3,220,680
Scholarships and fellowships	**3,480,708**	1,712,333
	$ 64,533,597	$ 62,272,152

Note 11 - **State Appropriation**

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

	2017	2016
Direct unrestricted appropriations	**$ 21,777,610**	$ 21,121,357
Add: Fringe benefits for benefited employees on the state payroll	**7,234,230**	6,163,474
Less: Day school tuition remitted to the state and included in tuition revenue	**(203,490)**	(485,879)
Total unrestricted appropriations	**28,808,350**	26,798,952
Restricted appropriations	**598,083**	293,943
Add: Fringe benefits for benefited employees on the state payroll	**17,293**	15,156
Total restricted appropriations	**615,376**	309,099
Capital appropriations	**12,111,925**	7,975,129
Total Appropriations	**$ 41,535,651**	$ 35,083,180

Note 12 - **Fringe Benefits**

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension and workers' compensation benefits. Health insurance for active employees and retirees is 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.* As discussed previously, GASB 75 – *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pension,* replaces GASB 45 and will require a restatement of balances at July 1, 2017.

Note 12 - **Fringe Benefits - Continued**

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 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
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 number of municipalities as an agent multiple-employer program, accounted for as an agency fund activity of the Commonwealth, not the College.

The GIC administers a plan included within the State Retirement Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums 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.

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, 2017 and 2016, 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 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 pretax health care spending account and dependent care assistance program (for active employees only).

Note 12 - **Fringe Benefits - Continued**

New Accounting Guidance Effective for Fiscal Year 2018
As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pension* is effective for fiscal year 2018 and is applicable for employees participating in a cost-sharing, multiple-employer plan such as the State Retirement Benefits Trust Fund. The College will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net other post-employment benefit ("OPEB") obligation. OPEB expense reported in the College's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Insurance
The College participates in the various programs administered by the Commonwealth for property, general liability, automobile liability, workers' compensation, and health insurance. The Commonwealth is self-insured for employees' workers' compensation, casualty, theft, tort claims, and other losses. Such losses, including estimates of amounts incurred but not reported, are obligations of the Commonwealth. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances.

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

Note 13 - **Pass-Through Grants**

The College distributed $8,935,587 during fiscal year 2017 and $9,872,521 during fiscal year 2016, for student loans through the U.S. Department of Education direct loan program for student loans. 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)

Year ended	June 30, 2017	June 30, 2016	June 30, 2015
Valuation date	1/1/2016	1/1/2015	1/1/2014
Measurement date	6/30/2016	6/30/2015	6/30/2014
Proportion of the collective net pension liability	0.075%	0.106%	0.970%
Proportionate share of the collective net pension liability	$ 10,321,326	$ 12,077,736	$ 7,222,922
College's covered-employee payroll	$ 5,687,757	$ 6,393,378	$ 7,216,427
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplementary information.

NORTH SHORE COMMUNITY COLLEGE
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Schedule of Contributions (Unaudited)

For the Years Ended June 30,

	2017	2016	2015
Contractually required contribution	$ 588,633	$ 537,493	$ 664,272
Contributions in relation to the contractually required contribution	(588,633)	(537,493)	(664,272)
Contribution excess	$ -	$ -	$ -
College's covered-employee payroll	$ 5,915,910	$ 5,687,757	$ 6,393,378
Contribution as a percentage of covered-employee payroll	9.95%	9.45%	10.39%

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

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

See accompanying notes to the required supplementary information.

NORTH SHORE COMMUNITY COLLEGE
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Notes to the Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2017 and 2016

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 0.075%, 0.106% and 0.097%, 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:

	2017	2016	2015
Change in assumptions	**$ 2,309,084**	$ 2,532,870	$ 95,457
Accumulated amortization	**1,164,519**	441,252	14,264
Change in assumptions, net	**$ 1,144,565**	$ 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 statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 18, 2017.

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

October 18, 2017