

**MIDDLESEX COMMUNITY
COLLEGE**

(an agency of the Commonwealth of Massachusetts)

**FINANCIAL STATEMENTS AND MANAGEMENT'S
DISCUSSION AND ANALYSIS**

JUNE 30, 2020

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

**Financial Statements and
Management's Discussion and Analysis**

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Middlesex Community College
Lowell, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Middlesex Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2020 and 2019, the related statements of revenues and expenses, 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.

Auditor Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Middlesex Community College Foundation, Inc., as discussed in Note 1. The financial statements of this component unit were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity not audited by us included in the discretely presented component unit of the College, is based solely upon 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

Opinions

In our opinion, based upon our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented major component unit of Middlesex Community College as of June 30, 2020 and 2019, and the respective 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the College restated prior balances with regards to the College's Other Postemployment Benefits liability and the related deferred inflows and outflows. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information, as listed in the table of contents, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2020, 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 solely 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 the effectiveness of the College's 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 + Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 17, 2020

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides management's view of the financial position of Middlesex Community College (the "College" or "MCC") as of June 30, 2020, 2019 and 2018, and the changes in its financial position for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes thereon, which are also presented in this document.

The College is an entrepreneurial learning community committed to providing educational programs and services that support personal growth and economic opportunity for our diverse student populations. A public institution of higher education in the Commonwealth of Massachusetts, MCC maintains campuses in Bedford and Lowell. The College offers 85 programs leading to degrees or certificates, as well as many noncredit career and professional development serving approximately 10,694 credit bearing students and 2,378 noncredit students. In addition, the College has more than 30 partnerships with schools and colleges throughout the Merrimack Valley.

The Middlesex Community College Foundation (the "Foundation") is a legally separate tax-exempt component unit of Middlesex Community 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. 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 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 focuses on the College, not its component unit.

Financial Highlights

- As of the close of the fiscal year, June 30, 2020, the College's financial position is good. The College's final state maintenance appropriation for FY2020, FY2019 and FY2018 was \$26.2 million, \$24.5 million and \$23.4 million, respectively. The decrease of \$3.7 million in net student fees was due to the decrease in enrollment along with an increase in student aged receivables largely due to the COVID-19 pandemic impacting the second half of the year.
- For FY2020, the mandatory per credit cost of education was \$252 per credit. This is stable from FY19. The Student Success Grant was increased by \$100,000 to \$1,200,000 in FY20.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

Financial Highlights - Continued

- The College's FY2020 total operating expenses from restricted and unrestricted funds totaled \$67.9 million, \$65.9 million and \$70.3 million in FY2020, FY2019 and FY2018, respectively. This overall decrease in expenses from FY2018 to FY2020 is mainly attributable to the Pension and Other Post-Employment Benefits (OPEB) contra-expense of approximately \$5.6 million for FY2020.
- There were no material deviations from the approved budget and final expenditures and all records were in order and maintained in accordance with trust fund guidelines.
- Total credits generated in FY2020 were 133,537 and decreased 3.5% from the FY2019 total of 138,390. The FY2019 total decreased 8% from the FY2018 total of 150,544.
- Consistent with the College's strategic plan, investment continued in technology and physical plant. Technology investment projects totaled \$1,726,541 including life cycle management, equipment upgrades, and continued software updates.
- The effect of the GASB pension and OPEB expenses on the financials does not affect nonoperating expenses. These expenses flow through the operating expenses due to actuarial changes to reduce the liability.
- In March of 2020, the COVID-19 pandemic was declared. As a result, the College moved to all online learning for the balance of the spring 2020 semester and for the vast majority of classes in the summer 2020. This required a lot of additional time and effort on the part of the College community to make a drastic change in teaching and processes. Every employee of the College met this challenge and made it a successful semester for our students.
- The College received CARES Act funding in FY20. There were two buckets of funds awarded; \$1.9 million for students to help them in the transition to remote learning and expenses associated with moving to a remote environment, and \$1.9 million in institutional support utilized for online course development and technology equipment.
- Physical plant renovations not being capitalized, including improvements and adaptation, and renewal projects totaled \$583,461. This includes life safety improvements and various deferred maintenance projects, including the continued refreshing of some classrooms.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Overview of the Financial Statements

The College's financial statements are comprised of 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 Financial Statements

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

The *statements of net position* present information on all of the 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 College is improving or deteriorating.

The *statements of revenues and expenses* present 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 for compensated absences, or the receipt of amounts due from students and other for services rendered).

The *statements of cash flows* is reported on the direct method. The direct method of cash flow reporting presents 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). The Government Accounting Standards Board ("GASB") Statements 34 and 35 require this method to be used.

The financial statements can be found on pages 16-20 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 part of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position and cash flows are included in the Commonwealth's Comprehensive Annual Financial Report.

In FY2018, GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was implemented. This liability is now a liability of the College, and as such is now showing on the financial statements of the College.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Overview of the Financial Statements - Continued

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 21-59 of this report.

Financial Analysis

Net position may serve over time as a useful indicator of the College's financial position. For FY2020, FY2019 and FY2018, MCC's assets exceeded liabilities by \$43.8 million, \$28.1 million and \$14.6 million, respectively. This decrease in liabilities was mainly due to the reduction of the OPEB and pension liabilities, plus the increase in capital assets.

By far, the largest portion of the College's net position reflects its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt financing used to acquire those assets that is still outstanding. 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 by the Commonwealth are not reflected in these financial statements.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis - Continued

Following is a condensed summary of net position:

	2020	(Restated) 2019	2018
Current assets	\$ 33,340,719	\$ 32,074,915	\$ 23,463,524
Capital assets	52,705,707	47,404,219	45,923,944
Noncurrent assets	8,088,479	7,745,687	7,506,330
Total assets	<u>94,134,905</u>	<u>87,224,821</u>	<u>76,893,798</u>
Deferred outflows	1,824,124	2,713,465	4,413,444
Total assets and deferred outflows	<u>95,959,029</u>	<u>89,938,286</u>	<u>81,307,242</u>
Current liabilities	11,002,583	13,803,183	12,792,143
Noncurrent liabilities	16,726,524	25,364,799	41,493,554
Total liabilities	<u>27,729,107</u>	<u>39,167,982</u>	<u>54,285,697</u>
Deferred inflows	24,441,563	22,643,992	12,392,903
Total liabilities and deferred inflows	<u>52,170,670</u>	<u>61,811,974</u>	<u>66,678,600</u>
Net position:			
Net investment in capital assets	51,563,408	45,797,052	43,865,368
Restricted, expendable	1,655,075	954,713	1,502,325
Unrestricted, expendable	11,887,173	10,822,316	10,337,286
GASB Pension, OPEB and Comp Absences	(41,888,724)	(47,091,568)	(50,935,271)
Designations-capital projects	9,650,124	9,787,000	6,400,000
Undesignated	10,921,303	7,856,799	3,458,934
Total Unrestricted	<u>(9,430,124)</u>	<u>(18,625,453)</u>	<u>(30,739,051)</u>
Total net position	<u>\$ 43,788,359</u>	<u>\$ 28,126,312</u>	<u>\$ 14,628,642</u>

- Assets and deferred outflows of \$96 million exceeded liabilities and deferred inflows of \$52.2 million by \$43.8 million in FY2020.

Capital Assets

The College's investment in capital assets as of June 30, 2020, 2019 and 2018 amounts to \$52.7 million, \$47.4 million and \$45.9 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, building (including improvements), and furnishings and equipment. Capital assets increased during the year by 11% or approximately \$5.3 million due to an investment in capital assets of \$7.3 million, which was offset by depreciation expense of \$2 million.

MIDDLESEX COMMUNITY COLLEGE

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Management’s Discussion and Analysis (Unaudited) - Continued

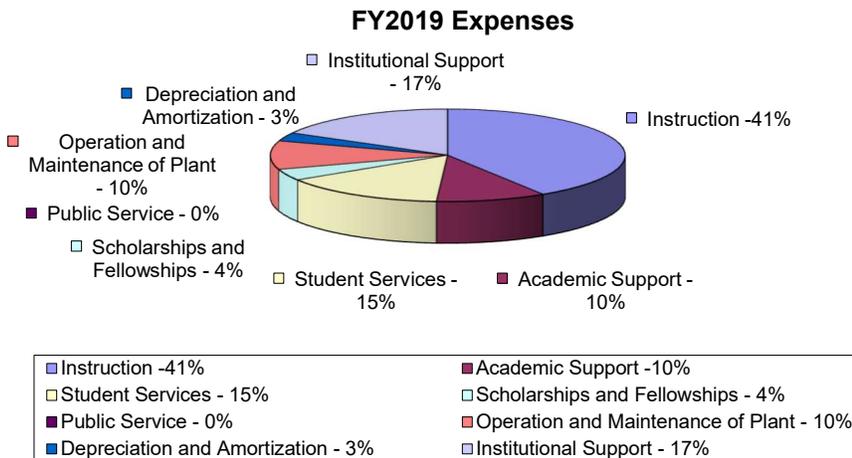
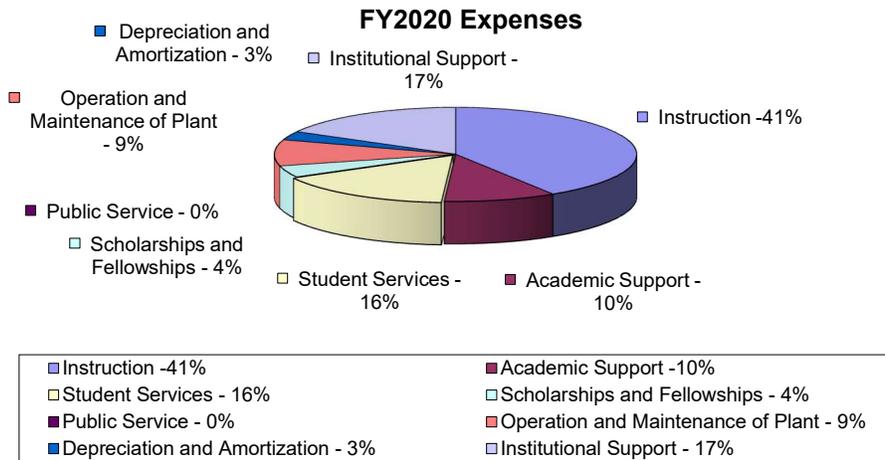
Financial Analysis - Continued

Liabilities and Debt

In addition to accruals for compensated absences and workers compensation, the College carries long-term debt for revenue bonds issued. The accrual for compensated absences consists of sick and vacation pay relating to employees on the College’s payroll. As of June 30, 2020, 2019 and 2018, the College had bonds payable amounting to \$1,142,299, \$1,607,167 and \$2,058,576, respectively. This reduction is due to scheduled principal payments.

Revenues, Expenses, and Changes in Net Position

The following is a summary of the College’s expenses using the Functional Classification Format.



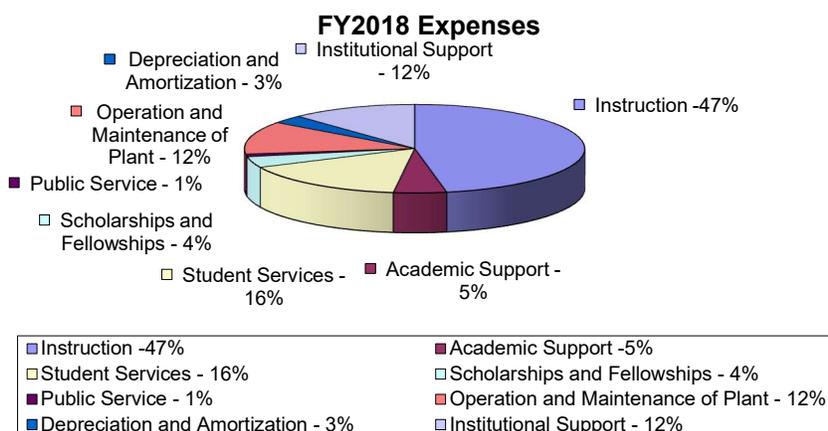
MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis - Continued

Revenues, Expenses, and Changes in Net Position - Continued



The following is a summary of the College's expenses using the Natural Classification Format.

	<u>2020</u>	(Restated) <u>2019</u>	<u>2018</u>
Compensation and benefits	\$ 47,626,613	\$ 47,230,719	\$ 51,438,369
Supplies and services	15,493,735	14,170,125	13,830,629
Depreciation and amortization	2,031,111	2,236,041	2,338,265
Scholarships and fellowships	<u>2,740,517</u>	<u>2,280,143</u>	<u>2,741,631</u>
	<u>\$ 67,891,976</u>	<u>\$ 65,917,028</u>	<u>\$ 70,348,894</u>

The effect of the GASB Pension and OPEB credits on the operating statement for FY20 and FY19 was a reduction in expenses of \$5.6 million and \$3.6 million, respectively. For presentation purposes, these credits are included in operating expenses, but are not part of the College's operating expense budget.

Highlights of revenue activity for FY2020 include:

- Total operating revenue decreased slightly from \$41.3 million to \$40.3 million, primarily due to the decrease in enrollment netted with the increase in federal, state, and local grant revenue.
- Grants and contracts, exclusive of state and federal financial aid awards (e.g., Pell, SEOG, Mass Grants) received by the College for FY2020, FY2019 and FY2018 totaled approximately \$5.5 million, \$4.3 million and \$5.4 million, respectively.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis - Continued

Revenues, Expenses, and Changes in Net Position - Continued

Major grants and contracts for the year include the following:

- The College was awarded a Title III grant in FY2017. This grant was written in order to improve overall student persistence, retention, and completion outcomes. This will occur through two primary components to improve the student experience and academic performance by harnessing the College's technology infrastructure and how information is used in service to student success overall. In FY2019, a Financial Literacy component was added to the grant for the purpose of providing students with instruction in personal financial literacy, knowledge of higher education financing and repayments, and other skills aimed at building personal financial understanding and responsibility. In FY2020, FY2019 and FY2018 \$502,710, \$660,946 and \$263,786, respectively, was spent, in total, on Title III.
- In 2016, Middlesex Community College was awarded a five-year Asian American and Native American Pacific Islander-Serving Institution (AANAPISI) grant by the U.S. Department of Education. The mission of the Asian American Student Advancement Program is to offer a holistic support system with a dedicated staff that advises, mentors and provides leadership development opportunities for Asian American students. Total funds spent in FY2020, FY2019 and FY2018 were \$396,826, \$265,297 and \$320,255, respectively.
- The Talent Search Program exposes students to higher education opportunities and provides information and assistance with the college application process, emphasizing academic advising, college visits, life skills, test taking skills and college prep workshops. The total funds spent on this grant in FY2020, FY2019 and FY2018 were \$342,904, \$356,034 and \$306,297, respectively.
- The TRIO Student Success Program serves approximately 200 low income and first-generation college students and individuals with disabilities. This program assists students with course selection, academic planning, and career decision-making. The total funds spent on this program in FY2020, FY2019 and FY2018 were \$370,049, \$330,037 and \$348,360, respectively.
- The Gear Up Program is a program designed to give low-income students the skills, encouragement and preparation needed to pursue post-secondary education. It also strengthens academic programs and student services at participating schools. Gear Up has strong objectives that align to the public schools' adequate yearly progress ("AYP"), as required by the federal No Child Left Behind Act. Total expenses for FY2020, FY2019 and FY2018 were \$340,216, \$254,930 and \$221,073, respectively.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis - Continued

Revenues, Expenses, and Changes in Net Position - Continued

Highlights of expense activity include:

- The fringe benefit rate for College employees changed from 36.62% to 37.91% resulting in a net increase of \$690,370 in the fringe expense across all spending categories.
- Overall operating expenses increased by \$1.97 million in FY2020 over FY2019. The increase is mainly attributable to the decrease in pension and OPEB expenses through the Commonwealth of Mass, netted with MCCC retros to faculty, fringe rate increases, and institutional CARES Act funding.

Following is a condensed summary of changes in net position:

	2020	(Restated) 2019	2018
Operating Revenues:			
Net Student Fees	\$ 20,091,430	\$ 23,831,779	\$ 20,833,525
Federal, state, local and private grants and contracts	19,253,935	16,691,573	18,225,226
Other sources	982,271	821,926	983,488
Total Operating Revenues	40,327,636	41,345,278	40,042,239
Operating Expenses:			
Instruction	27,829,127	27,920,391	32,929,599
Academic support	6,821,273	6,759,017	3,764,941
Student services	10,793,221	9,857,239	11,362,206
Scholarships and fellowships	2,740,517	2,280,143	2,741,631
Public service	138,098	135,908	785,744
Operation and maintenance of plant	6,083,192	7,072,979	8,428,324
Institutional support	11,455,437	9,655,310	7,998,184
Depreciation and amortization	2,031,111	2,236,041	2,338,265
Total Operating Expenses	67,891,976	65,917,028	70,348,894
Operating Loss	(27,564,340)	(24,571,750)	(30,306,655)
Net Non-Operating Revenues	38,237,062	34,913,853	32,347,332
Change in Net Position before Capital Appropriations and Grants	10,672,722	10,342,103	2,040,677
Capital grants	2,939,948	111,839	
Capital appropriations	2,049,377	3,043,728	9,220,528
Change in Net Position	15,662,047	13,497,670	11,261,205
Net Position, Beginning of Year	28,126,312	14,628,642	33,637,998
Restatement of net position (OPEB)	-	-	(30,270,561)
Net Position, End of Year	\$ 43,788,359	\$ 28,126,312	\$ 14,628,642

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Financial Analysis – Continued

Revenues, Expenses, and Changes in Net Position - Continued

- The restatement of FY19 includes a change in the OPEB numbers plus a change in classification for bad debt expense, write-offs, and student recoveries. These amounts are now reported net under tuition and fees.
- Operating expenses from all sources incurred during FY2020, FY2019 and FY2018 totaled \$67.9 million, \$65.9 million and \$70.3 million, respectively. Revenues from tuition and fees, grants and contracts, state capital support and state appropriations, and other sources totaled \$83.7 million, \$79.4 million and \$81.6 million in FY2020, FY2019 and FY2018, respectively.

Non-Operating Revenues and Expenses

Non-operating revenues from the Commonwealth, exclusive of fringe benefits, totaled \$27.1 million in unrestricted appropriations in FY2020, \$25.8 million in unrestricted appropriations in FY2019 and \$23.9 million in unrestricted appropriations in FY2018. The \$27.1 million in FY2020 includes \$639,477 in retained, out-of-state tuition in addition to the state maintenance appropriation. In FY2020, Middlesex received an additional allocation of \$89,000 in workforce development performance-based funding for a total of \$185,844.

The balance of the increase is comprised of supplemental funding for current year Collective Bargaining of \$821,625, plus retroactive payments of \$69,997, in addition to the incremental fringe rate.

The fringe benefit rate increased from 36.62% in FY2019 to 37.91% in FY2020. The Commonwealth's fringe benefit amount for full time employees on the state payroll was \$9.3 million in FY2020, \$8.6 million in FY2019 and \$8.1 million in FY2018. These funds are appropriated to the State Treasurer's office for the benefit of the College for employees funded by the state maintenance appropriation. The College must budget and expense the cost of fringe benefits for all College employees funded from local trust funds. The expense of these funds is allocated among the functional expense classifications.

Net investment income was \$543,844, \$534,474 and \$503,491 in FY2020, FY2019 and FY2018, respectively. This increase was due to a slight upturn in the market. The market value of the College's equity mutual funds was \$4,503,132 in FY2020, \$4,472,454 in FY2019 and \$4,293,908 in FY2018.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Additional Information

The College contributes some of its personnel's time and its resources through the fiscal year to support the Foundation and the Lowell Middlesex Academy Charter School. These contributed services are shown below for FY2020, FY2019 and FY2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
• Foundation	\$300,712	\$ 322,009	\$ 260,573
• Charter School	\$169,758	\$ 170,062	\$ 142,893

Additional Information

The cost of education for FY2020 was flat at \$252 per credit and enrollments were down slightly by 3.5%.

As a result of this continued decline in enrollments, the College will be facing significant challenges that can only be addressed through the active engagement of the entire college community. To meet these challenges, the College has embarked on a *Strategic Transformation* process to better understand the changing context and engage in an inclusive and creative process to develop a plan of action. The College has developed a new Enrollment Management plan targeted at Enrollment, Retention, and Student Success.

The Massachusetts Community College Council/Massachusetts Teachers Association representing the Adjunct Faculty have a Division of Continuing Education (DCE) agreement in place for the period of June 1, 2018 through August 31, 2020. Negotiations are currently underway for contract renewal.

The Massachusetts Community College Council (MCCC) representing the Full-Time and Part-Time Day Faculty and Professional Staff at the community colleges have an agreement in place for the period June 1, 2018 through June 30, 2021.

The American Federation of State and County and Municipal Employees (AFSCME) representing the Support Staff of the state and community colleges have an agreement in place for the period of July 1, 2017 through June 30, 2020. AFSCME just reached an agreement on a one year contract that maintains the status quo on all of the provisions of the current contract, with a zero percent on wages and the duration clause. It runs from 7/1/20 – 6/30/21. They are drafting the tentative agreement and they hope to move to a ratification vote soon.

In March of 2020, the COVID-19 pandemic was declared. As a result, the College moved to all online learning for the balance of the spring 2020 semester and for the vast majority of classes in the summer 2020.

MIDDLESEX COMMUNITY COLLEGE

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Management's Discussion and Analysis (Unaudited) - Continued

Additional Information - Continued

This required a lot of additional time and effort on the part of the College community to make a drastic change in teaching and processes. Every employee of the College met this challenge and made it a successful semester for our students. For the Fall 2020 semester, the College is once again doing all online learning with a few exceptions. This will be the case until it is deemed safe to bring everyone back on campus.

Designations

As of June 30, 2018, the College designated \$3 million of the unrestricted net position for the College match and additional cost of renovating a portion of the Talbot Building located on the College's Lowell Campus into a biotechnology training facility of the new biotechnology center. Through June 30, 2020, \$479,241 has been expended. In FY2018, the College also designated \$3.4 million for a new dental lab. Through June 30, 2020, \$1,520,635 has been expended.

As of June 30, 2019, the College had designated \$2 million of the unrestricted net position of the College for an Emergency Campus Facility Fund (\$1 million for each campus), \$500,000 for the Lowell Campus STEM Lab refresh, with an additional \$1.5 million designated in FY2020, and \$500,000 for the Lowell Campus Student One Stop.

As of June 30, 2020, \$750,000 is designated for Accessibility.

Requests for Information

This financial report is designed to provide a general overview of the College's finances 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 Office of the Vice President of Finance/CFO, Middlesex Community College, 591 Springs Road, Bedford, Massachusetts, 01730.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2020

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2020 and 2019

Assets and Deferred Outflows of Resources

	2020	(Restated) 2019	2020 Middlesex Community College Foundation, Inc.	2019 Middlesex Community College Foundation, Inc.
	Middlesex Community College	Middlesex Community College		
Current Assets:				
Cash and equivalents	\$ 27,658,844	\$ 24,518,788	\$ 2,146,641	\$ 1,824,289
Cash held by State Treasurer	646,328	1,633,703	-	-
Short-term investments	1,945,416	2,194,100	4,814,191	4,608,472
Accounts and other receivables, net	3,087,691	3,642,670	51,269	86,484
Prepaid expenses	2,440	45,599	48,533	32,487
Due from related party	-	40,055	10,985	-
Total Current Assets	<u>33,340,719</u>	<u>32,074,915</u>	<u>7,071,619</u>	<u>6,551,732</u>
Non-Current Assets:				
Accounts receivable, non-current	-	-	69,747	110,080
Long-term investments	8,088,479	7,745,687	200,000	200,000
Capital assets, net of accumulated depreciation	52,705,707	47,404,219	408,171	439,412
Total Non-Current Assets	<u>60,794,186</u>	<u>55,149,906</u>	<u>677,918</u>	<u>749,492</u>
Total Assets	<u>94,134,905</u>	<u>87,224,821</u>	<u>7,749,537</u>	<u>7,301,224</u>
Deferred Outflows of Resources:				
Deferred outflows related to pension plan	1,229,744	2,262,655	-	-
Deferred outflows related to OPEB	594,380	450,810	-	-
Total Deferred Outflows of Resources	<u>1,824,124</u>	<u>2,713,465</u>	<u>-</u>	<u>-</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 95,959,029</u>	 <u>\$ 89,938,286</u>	 <u>\$ 7,749,537</u>	 <u>\$ 7,301,224</u>

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

Liabilities, Deferred Inflows of Resources and Net Position

	2020 Middlesex Community College	(Restated) 2019 Middlesex Community College	2020 Middlesex Community College Foundation, Inc.	2019 Middlesex Community College Foundation, Inc.
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 4,105,310	\$ 4,030,255	\$ 3,700	\$ 7,750
Accrued payroll	1,668,693	1,727,917	-	-
Accrued compensated absences and workers' compensation	3,207,385	2,937,957	-	-
Students' deposits and unearned revenues	1,530,536	4,641,602	-	5,140
Due to related party	10,985	-	-	40,055
Current portion of bonds payable	<u>479,674</u>	<u>465,452</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>11,002,583</u>	<u>13,803,183</u>	<u>3,700</u>	<u>52,945</u>
Non-Current Liabilities:				
Accrued compensated absences and workers' compensation	1,812,259	1,666,131	-	-
Bonds payable	662,625	1,141,715	-	-
Net pension liability	4,939,614	7,075,158	-	-
Net OPEB liability	<u>9,312,026</u>	<u>15,481,795</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>16,726,524</u>	<u>25,364,799</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>27,729,107</u>	<u>39,167,982</u>	<u>3,700</u>	<u>52,945</u>
Deferred Inflows of Resources:				
Deferred inflows related to pension plan	8,148,821	9,074,966	-	-
Deferred inflows related to OPEB	<u>16,292,742</u>	<u>13,569,026</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>24,441,563</u>	<u>22,643,992</u>	<u>-</u>	<u>-</u>
Total Liabilities and Deferred Inflows of Resources	<u>52,170,670</u>	<u>61,811,974</u>	<u>3,700</u>	<u>52,945</u>
Net Position:				
Net investment in capital assets	51,563,408	45,797,052	408,171	439,412
Restricted:				
Expendable	1,655,075	954,713	5,105,595	4,527,657
Unrestricted	<u>(9,430,124)</u>	<u>(18,625,453)</u>	<u>2,232,071</u>	<u>2,281,210</u>
Total Net Position	<u>43,788,359</u>	<u>28,126,312</u>	<u>7,745,837</u>	<u>7,248,279</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 95,959,029</u>	<u>\$ 89,938,286</u>	<u>\$ 7,749,537</u>	<u>\$ 7,301,224</u>

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses

For the Years Ended June 30, 2020 and 2019

	2020	(Restated) 2019	2020 Middlesex Community College Foundation, Inc.	2019 Middlesex Community College Foundation, Inc.
	Middlesex Community College	Middlesex Community College		
Operating Revenues:				
Tuition and fees	\$ 32,840,124	\$ 37,230,150	\$ -	\$ -
Less: scholarship allowances	<u>(12,748,694)</u>	<u>(13,398,371)</u>	-	-
Net student fees	\$ 20,091,430	23,831,779	-	-
Federal, state, local and private grants and contracts	19,253,935	16,691,573	-	-
License and usage income	-	-	219,388	205,389
Other auxiliary enterprises	211,841	239,428	-	-
Other sources	<u>770,430</u>	<u>582,498</u>	<u>1,030,454</u>	<u>1,091,957</u>
Total Operating Revenues	<u>40,327,636</u>	<u>41,345,278</u>	<u>1,249,842</u>	<u>1,297,346</u>
Operating Expenses:				
Instruction	27,829,127	27,920,391	-	-
Academic support	6,821,273	6,759,017	-	-
Student services	10,793,221	9,857,239	-	-
Scholarships and fellowships	2,740,517	2,280,143	63,399	208,714
Public service	138,098	135,908	294,436	215,933
Operation and maintenance of plant	6,083,192	7,072,979	-	-
Institutional support	11,455,437	9,655,310	599,565	454,427
Depreciation and amortization	<u>2,031,111</u>	<u>2,236,041</u>	<u>31,241</u>	<u>41,186</u>
Total Operating Expenses	<u>67,891,976</u>	<u>65,917,028</u>	<u>988,641</u>	<u>920,260</u>
Operating Income (Loss)	<u>(27,564,340)</u>	<u>(24,571,750)</u>	<u>261,201</u>	<u>377,086</u>
Non-Operating Revenues (Expenses):				
State appropriations - unrestricted	36,198,546	34,148,492	-	-
CARES Act income	1,605,734	-	-	-
Net investment income (expense)	543,844	534,474	167,726	38,517
Interest expense	(42,431)	(55,892)	-	-
Payments between the College and the Foundation	<u>(68,631)</u>	<u>286,779</u>	<u>68,631</u>	<u>(286,779)</u>
Net Non-Operating Revenues (Expenses)	<u>38,237,062</u>	<u>34,913,853</u>	<u>236,357</u>	<u>(248,262)</u>
Change in Net Position before Capital Appropriations and Capital Grants	10,672,722	10,342,103	497,558	128,824
Capital appropriations	2,049,377	3,043,728	-	-
Capital grants	<u>2,939,948</u>	<u>111,839</u>	-	-
Change in Net Position	<u>\$ 15,662,047</u>	<u>\$ 13,497,670</u>	<u>\$ 497,558</u>	<u>\$ 128,824</u>

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

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Changes in Net Position

For the Years Ended June 30, 2020 and 2019

	College			
	<u>Net Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2018	\$ 43,865,368	\$ 1,502,325	\$ (30,739,051)	\$ 14,628,642
Changes in net position, as previously reported	<u>1,931,684</u>	<u>(547,612)</u>	<u>12,641,149</u>	<u>14,025,221</u>
Balance at June 30, 2019, as previously reported	45,797,052	954,713	(18,097,902)	28,653,863
Prior period adjustment - See Note 2	<u>-</u>	<u>-</u>	<u>(527,551)</u>	<u>(527,551)</u>
Balance at June 30, 2019, as restated	45,797,052	954,713	(18,625,453)	28,126,312
Changes in net position	<u>5,766,356</u>	<u>700,362</u>	<u>9,195,329</u>	<u>15,662,047</u>
Balance at June 30, 2020	<u>\$ 51,563,408</u>	<u>\$ 1,655,075</u>	<u>\$ (9,430,124)</u>	<u>\$ 43,788,359</u>

	Foundation			
	<u>Net Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2018	\$ 480,598	\$ 4,191,390	\$ 2,447,467	\$ 7,119,455
Changes in net position	<u>(41,186)</u>	<u>336,267</u>	<u>(166,257)</u>	<u>128,824</u>
Balance at June 30, 2019	439,412	4,527,657	2,281,210	7,248,279
Changes in net position	<u>(31,241)</u>	<u>577,938</u>	<u>(49,139)</u>	<u>497,558</u>
Balance at June 30, 2020	<u>\$ 408,171</u>	<u>\$ 5,105,595</u>	<u>\$ 2,232,071</u>	<u>\$ 7,745,837</u>

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

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	(Restated) <u>2019</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 17,542,540	\$ 25,373,191
Grants and contracts	19,246,736	19,392,572
Payments to suppliers	(6,137,402)	(2,700,307)
Payments to employees	(52,888,683)	(55,213,686)
Payments to students	(2,740,517)	(2,280,144)
Income from contract services	211,841	239,428
Other cash receipts	<u>907,542</u>	<u>1,151,944</u>
Net Cash Applied to Operating Activities	<u>(23,857,943)</u>	<u>(14,037,002)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	27,143,632	25,770,250
Payments from (to) Foundation	(68,631)	286,779
Tuition remitted to state	(269,274)	(255,576)
CARES Act	<u>1,605,734</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	<u>28,411,461</u>	<u>25,801,453</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(5,283,222)	(784,427)
Capital grants	2,939,948	111,839
Principal paid on bond payable	(464,868)	(451,409)
Interest paid on bond payable	<u>(42,431)</u>	<u>(55,892)</u>
Net Cash Applied to Capital Financing Activities	<u>(2,850,573)</u>	<u>(1,179,889)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	1,938,571	1,880,487
Purchases of investments	(1,663,686)	(2,507,446)
Interest on investments	<u>174,851</u>	<u>80,773</u>
Net Cash Provided by (Applied to) Investing Activities	<u>449,736</u>	<u>(546,186)</u>
Net Increase in Cash and Equivalents	2,152,681	10,038,376
Cash and Equivalents, Beginning of Year	<u>26,152,491</u>	<u>16,114,115</u>
Cash and Equivalents, End of Year	\$ 28,305,172	\$ 26,152,491

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>2020</u>	(Restated) <u>2019</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (27,564,340)	\$ (24,571,750)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation and amortization	2,031,111	2,236,041
Net pension activity	(2,028,778)	(1,456,885)
Net OPEB activity	(3,589,623)	(2,146,159)
Bad debts	1,834,831	876,316
Fringe benefits provided by the state	9,324,188	8,633,818
Changes in assets and liabilities:		
Accounts receivable, net	(1,279,852)	1,581,464
Prepaid expenses	43,159	(37,600)
Due from related party	40,055	(40,055)
Accounts payable and accrued liabilities	75,055	743,167
Accrued payroll and compensated absences	356,332	(268,376)
Students' deposits and unearned revenues	(3,111,066)	413,017
Due to related party	<u>10,985</u>	<u>-</u>
Net Cash Applied to Operating Activities	<u>\$ (23,857,943)</u>	<u>\$ (14,037,002)</u>
Non-Cash Transactions:		
Fringe benefits provided by the state	<u>\$ 9,324,188</u>	<u>\$ 8,633,818</u>
Capital assets acquired through capital appropriations	<u>\$ 2,049,377</u>	<u>\$ 3,043,728</u>

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

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2020 and 2019

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

Organization

Middlesex Community College (the “College”) is one of the largest community colleges in the Commonwealth of Massachusetts (the “Commonwealth”) and serves the largest county in the Commonwealth with campuses in urban Lowell and suburban Bedford. The College’s mission is to provide educational, occupational and cultural opportunities for an academically, economically and culturally diverse population. The College offers 85 associate degree and certificate programs to 10,694 credit and 2,378 noncredit students. The College is involved in numerous community partnership programs and more than 30 different partnerships with schools and colleges throughout the Merrimack Valley. The College also provides comprehensive, customized training, consulting, and technical assistance programs to area businesses. The College is accredited by the New England Commission of Higher Education.

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (COVID-19) as a pandemic. On March 23, 2020, the College transitioned students to a distance learning environment for the completion of the 2020 spring semester, and the 2020 summer semester was taught online.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. As part of the law, the CARES Act created the Higher Education Emergency Relief Fund (HEERF). The College was awarded approximately \$3,704,000 of which 50% (or half) is required to be distributed to students affected by the COVID-19 crisis as emergency grants and the other half is eligible for the College to cover costs associated with changes in operations due to the COVID-19 crisis. According to the terms of HEERF, an institution can only spend costs associated with changes in operations due to the COVID-19 crisis up to the amount provided to students as emergency grants.

As of June 30, 2020, the College expended approximately \$894,000 for emergency grants to students and approximately \$712,000 for institutional costs from the HEERF funds.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

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 accounting principles generally accepted in the United States of America, 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 accompanying statements of revenues and expenses demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

The College has determined that it functions as a business-type activity, as defined by GASB. The effect of interfund 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 unit, the Foundation; and required supplementary information. The College presents statements of net position, revenues and expenses, changes in net position and cash flows on a combined College-wide basis.

The College’s policies for defining operating activities in the statements of revenues and expenses 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 in accordance with GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis - for Public Colleges and Universities*. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth of Massachusetts, net investment income and interest expense.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Basis of Presentation - continued

The Middlesex Community College Foundation, Inc. (the "Foundation"), a component unit of the College, was formed in 1987 to render financial assistance and to support the educational programs and development of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included within these financial statements because of the nature and significance of its relationship with the College. The Foundation is located at the College's Bedford Campus. Complete financial statements for the Foundation can be obtained from Middlesex Community College Foundation, Inc., P.O. Box 8681, Lowell, MA 01853.

During the year ended June 30, 2020, the College distributed \$68,631 to the Foundation, and during the year ended June 30, 2019 the Foundation distributed \$286,779 to the College for both restricted and unrestricted purposes. During both these years, the College paid license fees in the amount of \$100,425 to the Foundation for use of the Nesmith House in Lowell, Massachusetts, and the Meetinghouse in Billerica, Massachusetts.

Net Position

Resources are classified for accounting purposes into the following three net position 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 - 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 assets may be designated by actions of the College's Board of Trustees (the "Board of Trustees").

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

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Cash and Equivalents

The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less, and cash and deposits held by state agencies on behalf of the College to be cash equivalents.

Allowance for Doubtful Accounts

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

Investments

Investments in marketable securities are stated at fair value. The College has no donor-restricted endowments at June 30, 2020 and 2019.

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 Commonwealth'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, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 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 expensed. The College does not hold collections of historical treasures, works of art or other items not requiring capitalization or depreciation.

Pensions

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

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Postemployment Benefits Other Than Pensions (“OPEB”)

For purposes of measuring the College's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Retirees' Benefit Trust (“SRBT”) and additions to/deductions from SRBT’s fiduciary net position have been determined on the same basis as they are reported by SRBT. For this purpose, SRBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2020 and 2019. The accrued sick leave balance represents 20% of amounts earned by those employees with, or expected to have, ten or more years of Commonwealth service at June 30, 2020 and 2019. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Students’ Deposits and Unearned Revenue

Student deposits and unearned revenues consist primarily of deposits and advance payments received for tuition and fees related to certain summer programs, and the following academic year, and are recorded as revenues when earned.

Student Fees

Student tuition and fees are presented net of scholarships and fellowships. Certain other scholarships are paid directly 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.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

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 the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, net position classification, and determining the net pension and OPEB liabilities.

Adoption of New Governmental Accounting Pronouncements

The College adopted GASB Statement 84 – *Fiduciary Activities*. The objective of this Statement is to establish the criteria for identifying and reporting fiduciary activities. The implementation of this Statement did not have a material effect on the financial statements.

New Governmental Accounting Pronouncements

GASB Statement 87 – *Leases* is effective for periods beginning after June 15, 2021. Implementation of this Statement will require lessees to recognize on their statement of net position the rights and obligations resulting 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 Statement.

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2020. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

New Governmental Accounting Pronouncements - continued

GASB Statement 90 – *Majority Equity Interests, an amendment of GASB Statements 14 and 61*, is effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve the consistency of reporting a government’s majority equity interest in a legally separate organization. A majority equity interest should be recognized using the equity method if the government’s holding of the equity interest represents an investment.

GASB Statement 91 – *Conduit Debt Obligations* is effective for reporting periods beginning after December 15, 2021. The objective of this Statement is to improve the consistency of reporting conduit debt. This Statement requires government entities that issue conduit debt, but are not the obligors, not to recognize the liability unless it is more likely than not that the government issuer will service the debt.

GASB Statement 92 – *Omnibus 2020* is effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to improve comparability in financial reporting for leases, pensions, OPEB, and asset retirement obligations.

GASB Statement 93 – *Replacement of Interbank Offered Rates* is effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to provide government entities relief with replacing or amending financial instruments for the purpose of replacing LIBOR, which is expected to cease to exist in December 2021. Before the implementation of this Statement, hedge accounting terminates if material terms are amended.

GASB Statement 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* is effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for arrangements in which the governmental entity (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

New Governmental Accounting Pronouncements - continued

GASB Statement 96 – *Subscription-Based Information Technology Arrangements (SBITA)* is effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for transactions in which a governmental entity contracts with another party for the right to use their software. A right-of-use asset and a corresponding liability would be recognized for SBITAs.

Management has not completed its review of the requirements of these Statements and their applicability.

Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation, however, there was no change to the net position.

Note 2 - **Prior Period Adjustment**

Management of the College was notified of an error in the calculation of OPEB for the year ended June 30, 2019. The error did not have an effect on the calculation of OPEB as of June 30, 2018.

The table below presents the effects of the corrections made to the previously issued financial statements:

	As Previously Reported <u>at June 30, 2019</u>	Correction of <u>the Error</u>	As Restated <u>at June 30, 2019</u>
Statement of Net Position:			
Deferred outflows related to OPEB	\$ 435,981	\$ 14,829	\$ 450,810
Net OPEB liability	12,427,273	3,054,522	15,481,795
Deferred inflows related to OPEB	16,081,168	(2,512,142)	13,569,026
Unrestricted net position	(18,097,902)	(527,551)	(18,625,453)
Statement of Revenues and Expenses:			
Operating expenses	65,389,477	527,551	65,917,028

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investments**

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, the College's Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the Commonwealth legislature or derived from federal allocations. The principal objectives of the investment policy are: (1) safety of principal, (2) liquidity for operating needs, (3) return on investment, and (4) diversification of risk. The Board of Trustees supports the investments of trust funds in a variety of investment vehicles, including bank instruments, equities, bonds, government and commercial paper of high quality and mutual funds holding any or all of the above. The Board of Trustees will, from time to time, establish investment fund ceilings and broad asset allocation guidelines, and authorizes the chief financial officer to invest, or instruct the comptroller to invest, the College's funds within the guidelines established by the investment policy.

Summary of Deposits and Investments

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

	<u>2020</u>	<u>2019</u>
<u>Cash and equivalents:</u>		
Cash deposits	\$ 25,374,739	\$ 22,214,358
Money market funds	<u>2,284,105</u>	<u>2,304,430</u>
Cash and equivalents	<u>27,658,844</u>	24,518,788
 <u>Short-term investments:</u>		
Certificates of deposit	1,945,416	2,194,100
 <u>Long-term investments:</u>		
Bond mutual funds	3,585,347	3,273,233
Equity mutual funds	<u>4,503,132</u>	<u>4,472,454</u>
Long-term investments	<u>8,088,479</u>	<u>7,745,687</u>
Total Deposits and Investments	<u>\$ 37,692,739</u>	<u>\$ 34,458,575</u>

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investments - Continued**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be recovered. Deposits, including certificates of deposit, are made in domestic banks that are federally insured and in some banks that are Massachusetts banks with supplemental insurance for those accounts exceeding the federally insured limits. The College's bank balances, including certificates of deposit, as of June 30, 2020 and 2019, totaled \$27,636,028 and \$23,749,447, respectively. Of these balances, \$25,380,330 and \$20,943,983, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. To mitigate custodial credit risk for deposits, the College obtains ratings for all banks and credit unions which hold the College's investments. A star rating of 3+ stars from Bauer Financial is required before investing any College funds in an institution.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Maturities of investments exposed to interest rate risk at June 30, 2020 and 2019 consist of:

<u>Investment type</u>	<u>Fair value</u>	2020			
		<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Certificates of deposit	\$ 1,945,416	\$ 1,945,416	\$ -	\$ -	\$ -
Money market funds	2,284,105	2,284,105	-	-	-
Bond mutual funds	<u>3,585,347</u>	<u>3,585,347</u>	-	-	-
	<u>\$ 7,814,868</u>	<u>\$ 7,814,868</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investments - Continued**

Interest Rate Risk - continued

<u>Investment type</u>	<u>Fair value</u>	2019			
		Investment Maturities (in Years)			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Certificates of deposit	\$ 2,194,100	\$ 2,194,100	\$ -	\$ -	\$ -
Money market funds	2,304,430	2,304,430	-	-	-
Bond mutual funds	<u>3,273,233</u>	<u>3,273,233</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,771,763</u>	<u>\$ 7,771,763</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

To mitigate interest rate risk, it is the policy of the College to generally not exceed one (1) year in its maturities of Operating Fund investments.

Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The following is a listing of credit quality ratings, using Moody's and Standard & Poor's, of the College's investments at June 30,:

<u>Rated debt investments</u>	<u>Fair value</u>	2020						
		Quality Ratings						
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>Unrated</u>
Certificates of deposit	\$ 1,945,416	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,945,416
Money market funds	2,284,105	1,558,925	-	-	-	-	-	725,180
Bond mutual funds	<u>3,585,347</u>	<u>-</u>	<u>1,018,479</u>	<u>667,129</u>	<u>508,231</u>	<u>787,003</u>	<u>293,783</u>	<u>310,722</u>
Total	<u>\$ 7,814,868</u>	<u>\$ 1,558,925</u>	<u>\$ 1,018,479</u>	<u>\$ 667,129</u>	<u>\$ 508,231</u>	<u>\$ 787,003</u>	<u>\$ 293,783</u>	<u>\$ 2,981,318</u>

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investments - Continued**

Credit Risk of Debt Securities - continued

<u>Rated debt investments</u>	<u>Fair value</u>	2019						
		<u>Quality Ratings</u>						
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>Unrated</u>
Certificates of deposit	\$ 2,194,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,194,100
Money market funds	2,304,430	1,588,446	-	-	-	-	-	715,984
Bond mutual funds	<u>3,273,233</u>	<u>804,392</u>	<u>125,977</u>	<u>352,785</u>	<u>209,620</u>	<u>719,687</u>	<u>287,086</u>	<u>773,686</u>
Total	<u>\$ 7,771,763</u>	<u>\$ 2,392,838</u>	<u>\$ 125,977</u>	<u>\$ 352,785</u>	<u>\$ 209,620</u>	<u>\$ 719,687</u>	<u>\$ 287,086</u>	<u>\$ 3,683,770</u>

The College manages credit risk by purchasing investment-grade securities with a high concentration in securities rated AAA and above.

Concentration of Credit Risk

The College had no single investment that exceeded 5% of its total investments at June 30, 2020 and 2019.

Investments of the Foundation

The Foundation's investments consist of the following at June 30, 2020 and 2019, and are summarized as follows:

	<u>2020</u>	<u>2019</u>
Fixed income securities	\$ 2,034,483	\$ 1,946,817
Equity securities	<u>2,979,708</u>	<u>2,861,655</u>
	<u>\$ 5,014,191</u>	<u>\$ 4,808,472</u>

Note 4 - **Cash Held by State Treasurer**

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$646,328 and \$1,633,703 at June 30, 2020 and 2019, respectively.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 4 - **Cash Held by State Treasurer - Continued**

The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

Note 5 - **Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Fair Value Measurements - Continued**

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. With the adoption of GASB Statement 72, *Fair Value Measurement and Application*, there have been no changes in the methodologies used to measure fair value.

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

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the College are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price.

At June 30, 2020 and 2019, all assets of the College are considered Level 1 investments.

Note 6 - **Accounts and Other Receivables**

Accounts receivable include the following at June 30,:

	<u>2020</u>	<u>2019</u>
Student accounts receivable	\$ 7,100,166	\$ 5,827,512
Grants receivable	293,185	479,138
Other receivables	<u>259,555</u>	<u>66,404</u>
	7,652,906	6,373,054
Less: allowance for doubtful accounts	<u>(4,565,215)</u>	<u>(2,730,384)</u>
	<u>\$ 3,087,691</u>	<u>\$ 3,642,670</u>

Note 7 - **Due to/from Related Party**

Due to/from related party represents amounts due from/to the Middlesex Community College Foundation in relation to normal operations of the College.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Capital Assets**

Capital assets of the College consist of the following at June 30, 2020:

	2020					
	Estimated lives <u>(in years)</u>	Beginning <u>balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	Ending <u>balance</u>
Capital assets not depreciated:						
Construction in progress	-	\$ 25,325,492	\$ 6,279,817	\$ -	\$ (110,830)	\$ 31,494,479
Land	-	<u>1,986,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,986,303</u>
Total Not Depreciated		<u>27,311,795</u>	<u>6,279,817</u>	<u>-</u>	<u>(110,830)</u>	<u>33,480,782</u>
Capital assets depreciated:						
Building, including improvements	20-40	92,834,196	311,982	-	110,830	93,257,008
Furnishings and equipment	5-10	<u>3,468,955</u>	<u>740,800</u>	<u>-</u>	<u>-</u>	<u>4,209,755</u>
Total depreciated		<u>96,303,151</u>	<u>1,052,782</u>	<u>-</u>	<u>110,830</u>	<u>97,466,763</u>
Less accumulated depreciation:						
Building, including improvements		(73,283,003)	(1,849,161)	-	-	(75,132,164)
Furnishings and equipment		<u>(2,927,724)</u>	<u>(181,950)</u>	<u>-</u>	<u>-</u>	<u>(3,109,674)</u>
Total accumulated depreciation		<u>(76,210,727)</u>	<u>(2,031,111)</u>	<u>-</u>	<u>-</u>	<u>(78,241,838)</u>
Capital assets, net		<u>\$ 47,404,219</u>	<u>\$ 5,301,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,705,707</u>

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Capital Assets - Continued**

Capital assets of the College consist of the following at June 30, 2019:

	2019					
	<u>Estimated</u> lives <u>(in years)</u>	<u>Beginning</u> <u>balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Ending</u> <u>balance</u>
Capital assets not depreciated:						
Construction in progress	-	\$ 21,609,176	\$ 3,716,316	\$ -	\$ -	\$ 25,325,492
Land	-	<u>1,986,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,986,303</u>
Total Not Depreciated		<u>23,595,479</u>	<u>3,716,316</u>	<u>-</u>	<u>-</u>	<u>27,311,795</u>
Capital assets depreciated:						
Building, including improvements	20-40	92,834,196	-	-	-	92,834,196
Furnishings and equipment	5-10	<u>3,468,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,468,955</u>
Total depreciated		<u>96,303,151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,303,151</u>
Less accumulated depreciation:						
Building, including improvements		(71,324,374)	(1,958,629)	-	-	(73,283,003)
Furnishings and equipment		<u>(2,650,312)</u>	<u>(277,412)</u>	<u>-</u>	<u>-</u>	<u>(2,927,724)</u>
Total accumulated depreciation		<u>(73,974,686)</u>	<u>(2,236,041)</u>	<u>-</u>	<u>-</u>	<u>(76,210,727)</u>
Capital assets, net		<u>\$ 45,923,944</u>	<u>\$ 1,480,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,404,219</u>

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Long-Term Liabilities**

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

	2020					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>	<u>Long-term portion</u>
Bonds payable	\$ 1,607,167	\$ -	\$ (464,868)	\$ 1,142,299	\$ 479,674	\$ 662,625
Other long-term liabilities:						
Accrued compensated absences	4,410,400	431,234	-	4,841,634	3,174,987	1,666,647
Net pension liability	7,075,158	-	(2,135,544)	4,939,614	-	4,939,614
Net OPEB liability	15,481,795	-	(6,169,769)	9,312,026	-	9,312,026
Workers' compensation	<u>193,688</u>	<u>-</u>	<u>(15,678)</u>	<u>178,010</u>	<u>32,398</u>	<u>145,612</u>
	<u>27,161,041</u>	<u>431,234</u>	<u>(8,320,991)</u>	<u>19,271,284</u>	<u>3,207,385</u>	<u>16,063,899</u>
Total	<u>\$ 28,768,208</u>	<u>\$ 431,234</u>	<u>\$ (8,785,859)</u>	<u>\$ 20,413,583</u>	<u>\$ 3,687,059</u>	<u>\$ 16,726,524</u>
				(Restated)		
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>	<u>Long-term portion</u>
Bonds payable	\$ 2,058,576	\$ -	\$ (451,409)	\$ 1,607,167	\$ 465,452	\$ 1,141,715
Other long-term liabilities:						
Accrued compensated absences	4,602,704	-	(192,304)	4,410,400	2,895,926	1,514,474
Net pension liability	12,940,922	-	(5,865,764)	7,075,158	-	7,075,158
Net OPEB liability	25,170,143	-	(9,688,348)	15,481,795	-	15,481,795
Workers' compensation	<u>242,043</u>	<u>-</u>	<u>(48,355)</u>	<u>193,688</u>	<u>42,031</u>	<u>151,657</u>
	<u>42,955,812</u>	<u>-</u>	<u>(15,794,771)</u>	<u>27,161,041</u>	<u>2,937,957</u>	<u>24,223,084</u>
Total	<u>\$ 45,014,388</u>	<u>\$ -</u>	<u>\$ (16,246,180)</u>	<u>\$ 28,768,208</u>	<u>\$ 3,403,409</u>	<u>\$ 25,364,799</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Long-Term Liabilities - Continued**

In December 2013, the College issued \$3,900,598 of Series D Bonds with a fixed rate of 2.95%. 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 Bonds. Principal and interest are payable monthly through October 1, 2022. The College completed the refunding to reduce its total debt service payments by \$574,591 and to obtain an economic gain of \$287,973. The bonds are collateralized by certain property.

Remaining principal and interest payments for the years subsequent to June 30, 2020, on bonds payable are as follows:

Year Ending <u>June 30,:</u>	<u>Principal</u>	<u>Interest</u>
2021	479,674	27,627
2022	494,219	13,082
2023	<u>168,406</u>	<u>1,051</u>
	<u>\$ 1,142,299</u>	<u>\$ 41,760</u>

Total interest expense for 2020 and 2019 was \$42,431 and \$55,892, respectively.

Note 10 - **Pensions**

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.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - Continued**

Defined Benefit Plan Description - continued

The Massachusetts State Employees' Retirement System does not issue stand-alone financial statements. Additional information regarding the Plan is contained in the Commonwealth's financial statements, which is available online from the Office of State Comptroller's website.

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, group creditable service, and group classification. The authority for amending these provisions rests with the Massachusetts State Legislature (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.

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.

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - Continued**

Contributions - continued

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

<u>Hire Date</u>	<u>Percent of Compensation</u>
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 Commonwealth does not require the College to contribute funding from its local trust funds for employees paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$3,700,239, \$2,984,345, and \$2,747,150 for the years ended June 30, 2020, 2019 and 2018, respectively.

For employees covered by SERS but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 14.08%, 12.06%, and 11.78% of annual covered payroll for the fiscal years ended June 30, 2020, 2019, and 2018, respectively. The College contributed \$385,901, \$336,128 and \$489,038 for the fiscal years ended June 30, 2020, 2019 and 2018, 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, 2020 and 2019, the College reported a liability of \$4,939,614 and \$7,075,158, respectively, for its proportionate share of the net pension liability related to its participation in SERS.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - Continued**

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

The net pension liability as of June 30, 2020, the reporting date, was measured as of June 30, 2019, 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, 2019 rolled forward to June 30, 2019. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, 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, 2018 rolled forward to June 30, 2018.

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 2020 and 2019. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2020 and 2019 relative to total contributions of all participating employers for the fiscal year. At June 30, 2020 and 2019, the College's proportion was 0.034% and 0.053%, respectively.

For the years ended June 30, 2020 and 2019, the College recognized pension income of \$1,659,968 and \$1,120,755, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

	<u>2020</u>	<u>2019</u>
<u>Deferred Outflows of Resources</u>		
Contributions subsequent to the measurement date	\$ 368,811	\$ 336,128
Change in plan actuarial assumptions	366,147	717,024
Differences between expected and actual experience	164,046	224,364
Changes in proportion from Commonwealth	8,721	19,081
Changes in proportion due to internal allocation	<u>322,019</u>	<u>966,058</u>
Total	<u>\$ 1,229,744</u>	<u>\$ 2,262,655</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - Continued**

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

	<u>2020</u>	<u>2019</u>
<u>Deferred Inflows of Resources</u>		
Difference between projected and actual earnings on pension plan investments	\$ 73,681	\$ 245,925
Differences between expected and actual experience	64,242	144,192
Changes in proportion from Commonwealth	251	1,345
Changes in proportion due to internal allocation	<u>8,010,647</u>	<u>8,683,504</u>
Total	<u>\$ 8,148,821</u>	<u>\$ 9,074,966</u>

The College's contributions of \$368,811 and \$336,128 made during the fiscal years ending 2020 and 2019, 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 as decreases in pension expense as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2021	\$ (1,584,847)
2022	(1,777,646)
2023	(1,704,467)
2024	(1,694,672)
2025	<u>(526,256)</u>
	<u>\$ (7,287,888)</u>

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - Continued**

Actuarial Assumptions

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

	<u>2020</u>	<u>2019</u>
Measurement date	June 30, 2019	June 30, 2018
Inflation on the first \$13,000 of allowance	3.00%	3.00%
Salary increases	4.00% to 9.00%	4.00% to 9.00%
Investment rate of return	7.25%	7.35%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2019 and 2018, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females.
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females
- Disability - reflects RP-2000 Healthy Annuitant Table projected generationally with Scale MP-2016 set forward 1 year

The 2020 pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 and rolled forward to June 30, 2019. The 2019 pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 and rolled forward to June 30, 2018.

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.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - Continued**

Actuarial Assumptions - continued

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 tables:

Asset Class	2020		2019	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	39%	4.90%	39%	5.00%
Core Fixed Income	15%	1.30%	12%	0.90%
Private Equity	13%	8.20%	12%	6.60%
Portfolio Completion Strategies	11%	3.90%	13%	3.70%
Real Estate	10%	3.60%	10%	3.80%
Value Added Fixed Income	8%	4.70%	10%	3.80%
Timber/Natural Resources	<u>4%</u>	4.10%	<u>4%</u>	3.40%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.35% at June 30, 2020 and 2019, respectively. 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 pension plan's fiduciary 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.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Pensions - 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 1-percentage-point lower or 1-percentage-point higher than the current rate at June 30,:

2020		
Current		
1.00% Decrease (6.25%)	Discount Rate (7.25%)	1.00% Increase (8.25%)
\$ 6,574,785	\$ 4,939,614	\$ 3,542,437
2019		
Current		
1.00% Decrease (6.35%)	Discount Rate (7.35%)	1.00% Increase (8.35%)
\$ 9,536,130	\$ 7,075,158	\$ 4,972,352

Note 11 - **Other Postemployment Benefits ("OPEB") (Restated)**

Plan Description

As an agency of the Commonwealth, certain employees of the College participate in the Commonwealth's single-employer defined benefit-OPEB plan – the State Retirees' Benefit Trust ("SRBT"). Benefits are managed by the Group Insurance Commission ("GIC") and investments are managed by the Pension Reserves Investment Management ("PRIM") Board. The GIC has representation on the Board of Trustees of the State Retirees' Benefits Trust ("Trustees").

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

MIDDLESEX COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11 - **Other Postemployment Benefits ("OPEB") (Restated) - Continued**

Plan Description - continued

Management of the SRBT is vested with the Trustees, which consists of seven members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (or their designee), the State Treasurer (or their designee), the Comptroller (or a designee), one person appointed by the Governor, and one person appointed by the State Treasurer. These members elect one person to serve as chair of the board of the plan.

The SRBT does not issue stand-alone audited financial statements but is reflected as a fiduciary fund in the Commonwealth's audited financial statements.

Benefits Provided

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's 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 are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2020 and 2019, and as of the valuation date (January 1, 2019 and 2018), participants contributed 10% to 20%, respectively, of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll).

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11 - **Other Postemployment Benefits ("OPEB") (Restated)- Continued**

Contributions - continued

The College is required to contribute based on Massachusetts General Laws; the rate was 7.29% and 8.79% of annual covered payroll for the fiscal years ended June 30, 2020 and 2019, respectively. The College contributed \$191,053 and \$245,103 for the fiscal years ended June 30, 2020 and 2019, respectively, equal to 100% of the required contribution for each year.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020 and 2019, the College reported a liability of \$9,312,026 and \$15,481,795, respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 and 2018, respectively. The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal years 2019 and 2018. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2020 and 2019, the College's proportion was 0.053% and 0.083%, respectively.

For the year ended June 30, 2020 and 2019, the College recognized OPEB income of \$3,338,095 and \$2,347,277, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11- **Other Postemployment Benefits ("OPEB") (Restated) - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

	<u>2020</u>	(Restated) <u>2019</u>
<u>Deferred Outflows of Resources</u>		
Contributions subsequent to the measurement date	\$ 191,053	\$ 245,103
Change in plan actuarial assumptions	7,165	14,829
Differences between expected and actual experience	373,456	150,940
Changes in proportion from Commonwealth	<u>22,706</u>	<u>39,938</u>
Total	<u>\$ 594,380</u>	<u>\$ 450,810</u>
<u>Deferred Inflows of Resources</u>		
Difference between projected and actual earnings on OPEB plan investments	\$ 4,283	\$ 31,031
Differences between expected and actual experience	11,925	26,525
Changes in OPEB plan actuarial assumptions	1,400,289	1,306,050
Changes in proportion due to internal allocation	<u>14,876,245</u>	<u>12,205,420</u>
Total	<u>\$ 16,292,742</u>	<u>\$ 13,569,026</u>

The College's contributions of \$191,053 and \$245,103 made during the fiscal year 2020 and 2019, respectively, subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in each of the succeeding years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as increases (decreases) in OPEB expense as follows:

MIDDLESEX COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11- **Other Postemployment Benefits ("OPEB") (Restated) - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Years Ending <u>June 30,</u>	
2021	\$ (3,759,802)
2022	(3,759,802)
2023	(3,710,639)
2024	(3,543,762)
2025	<u>(1,115,410)</u>
	<u>\$ (15,889,415)</u>

Actuarial Assumptions

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2019	June 30, 2018
Inflation	2.50%	3.00%
Salary increases	4.0% per year	4.0% per year
Investment rate of return	7.25%, net of OPEB plan investment expense, including inflation	7.35%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	7.5%, decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023 & 2024, then decreasing 0.5% each year to an ultimate rate of 4.5% in 2026 for medical; 5.0% for EGWP through 2025, then 4.5% in 2026; 4.5% for administrative costs	8.0%, decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023, then decreasing 0.25% each year to an ultimate rate of 5.0% in 2025 for medical; 5.0% for EGWP; 5.0% for administrative costs

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11- **Other Postemployment Benefits ("OPEB") (Restated) - Continued**

Actuarial Assumptions - continued

The mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year for both measurement dates June 30, 2019 and 2018.

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% and 85%, respectively, of current and future contingent eligible participants will elect health care benefits at age 55, or current age if later, for measurement dates June 30, 2019 and 2018, respectively.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

	Retirement Age		Retirement Age	
	2020		2019	
	Under 65	Age 65+	Under 65	Age 65+
Indemnity	25.0%	85.0%	40.0%	85.0%
POS/PPO	60.0%	0.0%	50.0%	0.0%
HMO	15.0%	15.0%	10.0%	15.0%

The actuarial assumptions used in the January 1, 2019 and 2018 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2017 and 2016 through December 31, 2018 and 2017, depending upon the criteria being evaluated.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11- **Other Postemployment Benefits ("OPEB") (Restated) - Continued**

Actuarial Assumptions - continued

As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2018 and 2017 actuarial valuations to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

The long-term expected rate of return on OPEB 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. The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2020 and 2019, are the same as discussed in the pension footnote.

Discount Rate

The discount rate used to measure the total OPEB liability for 2020 and 2019 was 3.63% and 3.92%, respectively. These rates were based on a blend of the Bond Buyer Index rate (3.51% and 3.87%) as of the measurement date and the expected rate of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2029 and 2025 for the fiscal years 2020 and 2019, respectively. Therefore, the long-term expected rate of return on OPEB plan investments is 7.25% and 7.35% per annum, respectively, was not applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the College's proportionate share of the net OPEB liability, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11- **Other Postemployment Benefits ("OPEB") (Restated) - Continued**

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the discount rate - continued

2020		
Current		
1.00% Decrease (2.63%)	Discount Rate (3.63%)	1.00% Increase (4.63%)
\$ 11,115,550	\$ 9,312,026	\$ 7,886,068
2019 (Restated)		
Current		
1.00% Decrease (2.92%)	Discount Rate (3.92%)	1.00% Increase (4.92%)
\$ 18,402,933	\$ 15,481,795	\$ 13,164,452

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the College's proportionate share of the net OPEB liability, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2020		
Current Healthcare		
1.00% Decrease (B)	Cost Trend Rate (A)	1.00% Increase (C)
\$ 7,674,286	\$ 9,312,026	\$ 11,472,849
2019 (Restated)		
Current Healthcare		
1.00% Decrease (B)	Cost Trend Rate (A)	1.00% Increase (C)
\$ 13,096,273	\$ 15,481,795	\$ 18,497,489

(A) - Current healthcare cost trend rate, as disclosed on page 49

(B) - 1-percentage decrease in current healthcare cost trend rate, as disclosed on page 49

(C) - 1-percentage increase in current healthcare cost trend rate, as disclosed on page 49

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Fringe Benefit Programs**

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

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 is a quasi-independent state agency governed by a seventeen-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, 2020 and 2019, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Other Employee Benefits

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 payouts.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **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. As of June 30, 2020 and 2019, these funds are composed of restricted-expendable funds held for the use of academic purposes in the amounts of \$1,655,075 and \$954,713, respectively.

Note 14 - **Net Position Classification**

The following presents the breakout of each classification of net position as of June 30,:

	<u>2020</u>	(Restated) <u>2019</u>
Net investment in capital assets	<u>\$ 51,563,408</u>	<u>\$ 45,797,052</u>
Restricted:		
Federal and state grants	1,169,311	474,547
Parking fines scholarship	<u>485,764</u>	<u>480,166</u>
	<u>1,655,075</u>	<u>954,713</u>
Unrestricted:		
Facilities development fee	7,020,659	6,316,478
Investments	4,866,514	4,505,838
Reserve for compensated absences and workers' compensation	(5,019,644)	(4,604,088)
Effect of pension adjustments	(11,858,692)	(13,887,469)
Effect of OPEB adjustments	(25,010,388)	(28,600,011)
Board designation for dental lab	1,879,365	3,400,000
Board designation for biotech lab	2,520,759	3,000,000
Board designation for emergency campus facility fund	2,000,000	2,000,000
Board designation for Lowell campus STEM lab	2,000,000	500,000
Board designation for Lowell campus student one-stop	500,000	500,000
Board designation for Accessibility	750,000	-
Board designation for 2019 projects to be completed in 2020	-	387,000
Undesignated	<u>10,921,303</u>	<u>7,856,799</u>
	<u>(9,430,124)</u>	<u>(18,625,453)</u>
Total Net Position	<u>\$ 43,788,359</u>	<u>\$ 28,126,312</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 15 - **Contingencies**

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the College.

In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the College.

The College participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). Individuals pay into the Program 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 from the Program 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.

As a recipient of federal and state funds, the College is subject to oversight by various agencies. Expenditure of funds from federal and state programs requires compliance with agreements and may be subject to oversight audits by applicable agencies. The audit of federal funds (also known as the Uniform Guidance Audit) for academic years 2016-2017 and 2017-2018, submitted to the Department of Education ("ED"), contained findings related to student financial aid eligibility. The ED required the College to examine the aid of all students affected by the findings. During the year ended June 30, 2018, management recognized a liability, included in accounts payable and accrued liabilities, of \$650,000 related to the examination. During the years ended June 30, 2020 and 2019, the College paid approximately \$182,000 and \$356,000 of this liability, respectively. The balance of this liability is being carried as a reserve for future issues.

Claims

The College is involved in various claims and lawsuits, mostly against the College, arising in the normal course of business. Management vigorously defends its cases and believes that any financial responsibility that may be incurred in settlements of such claims and lawsuits would not be material to the College's financial position.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 15 - **Contingencies - Continued**

Claims - continued

The vast majority of higher educational institutions transitioned to distance learning during the 2020 spring semester due to the COVID-19 crisis. Many higher educational institutions have been served with a class action lawsuit due to this decision. The plaintiffs' claim that they have suffered academic harm after the 2020 spring semester transitioned to distance learning. Since the lawsuits are in the early stages, there have been no settlements or court decisions on this matter. The College has not been served with a lawsuit related to COVID-19. Management believes that any potential future adverse outcome is possible, but unlikely, and, would not be material to the College.

Note 16 - **Operating Expenses**

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

	<u>2020</u>	(Restated) <u>2019</u>
Compensation and benefits	\$ 47,626,613	\$ 47,230,719
Supplies and services	15,493,735	14,170,125
Depreciation and amortization	2,031,111	2,236,041
Scholarships and fellowships	<u>2,740,517</u>	<u>2,280,143</u>
	<u>\$ 67,891,976</u>	<u>\$ 65,917,028</u>

Note 17 - **Operating Leases**

The College leases space to provide student, faculty and staff parking at its Lowell Campus. In addition, the College leases space from Lowell Middlesex Academy Charter School ("LMACS") as further described in Note 18. Leases expire through June 30, 2022. Future minimum payments due under non-cancelable operating leases as of June 30, 2020 are as follows:

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 17 - **Operating Leases - Continued**

Year Ending <u>June 30,:</u>	
2021	\$ 950,623
2022	<u>215,153</u>
	<u>\$ 1,165,776</u>

Rental expense for operating leases was \$1,071,413 and \$877,065 for the years ended June 30, 2020 and 2019, respectively.

Note 18 - **Related Party Transactions**

The College provides management, oversight, supervision, and administration of the Lowell Middlesex Academy Charter School's regular business activities under a formal agreement. Income related to this arrangement recognized by the College totaled approximately \$295,000 and \$384,000 for the years ending June 30, 2020 and 2019, respectively.

The College leases approximately 17,069 square feet of office and classroom space from LMACS. The lease agreement had an expiration date of June 30, 2020 and was formally renewed on September 28, 2020 for the period of July 1, 2020 through December 31, 2020. LMACS and the College are currently negotiating a final rental rate for the fiscal year. The College is not responsible for operating or maintenance expenses of the space. Monthly rental expense totaled \$15,647 and \$15,947 per month during 2020 and 2019, respectively, for an annual total rental expense of approximately \$188,000 for both years ending June 30, 2020 and 2019.

Under the terms of the lease, the College has the right to extend the expiration date by giving written notice to LMACS within 30 days prior to the then-scheduled expiration date. Further, the lease agreement allows for LMACS to revoke the lease agreement at any time upon 45 days written notice to the College.

Currently, management of the College and LMACS are exploring the concept of the College taking on the debt of LMACS and acquiring the associated building. This would result in the termination of the lease agreement.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 19 - **Massachusetts Management Accounting and Reporting System**

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth colleges and universities to report activity of campus-based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System ("MMARS"), on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. Management believes the amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Education Audited Financial Statements*.

The College's state appropriations are composed of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Direct unrestricted appropriations	\$ 27,143,632	\$ 25,770,250
Add fringe benefits for benefited employees on the state payroll	9,324,188	8,633,818
Less day school tuition remitted to the state and included in tuition and fee revenue	<u>(269,274)</u>	<u>(255,576)</u>
 Total Unrestricted Appropriations	 <u>\$ 36,198,546</u>	 <u>\$ 34,148,492</u>
 State capital contribution (restricted appropriations)	 <u>\$ 2,049,377</u>	 <u>\$ 3,043,728</u>

No timing differences occurred where the College had additional revenue that was reported to MMARS after June 30, 2020 and 2019 (unaudited).

Note 20 - **Pass-through Grants**

The College distributed \$4,326,980 and \$4,559,702, respectively, during 2020 and 2019 for student loans through the U.S. Department of Education Federal Direct Student Loans program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 21 - **Subsequent Events**

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the College's finances and operations cannot be determined. Subsequent to June 30, 2020, the College announced that approximately 93% of its courses in the 2020 fall semester will be taught online.

The impact of fall 2020 enrollment has been significant compared to the prior 5 years, which averaged a 5% decrease each year. For fall 2020, enrollments were down 15%. The College has been speaking to the impact of fall 2021 and fiscal year 2022 because of the uncertainty of the pandemic.

The current President of the College will be retiring in June 2021. In the fall of 2020, the College will begin its presidential search.

REQUIRED SUPPLEMENTARY INFORMATION

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of the Proportionate Share of the Net Pension Liability

Massachusetts State Employees' Retirement System

Year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Valuation date	January 1, 2019	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.034%	0.053%	0.101%	0.126%	0.186%	0.160%
Proportionate share of the collective net pension liability	4,939,614	\$ 7,075,158	\$ 12,940,922	\$ 17,369,418	\$ 21,147,785	\$ 10,845,528
Covered payroll	\$ 2,787,131	\$ 4,151,426	\$ 7,928,573	\$ 9,571,746	\$ 11,194,880	\$ 10,836,179
Proportionate share of the net pension liability as a percentage of its covered payroll	177.23%	170.43%	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	66.28%	67.91%	67.21%	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.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of Contributions - Pension

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 368,811	\$ 336,128	\$ 489,038	\$ 788,893	\$ 904,530	\$ 1,163,148
Contributions in relation to the contractually required contribution	<u>368,811</u>	<u>336,128</u>	<u>489,038</u>	<u>788,893</u>	<u>904,530</u>	<u>1,163,148</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,619,396	\$ 2,787,131	\$ 4,151,426	\$ 7,928,573	\$ 9,571,746	\$ 11,194,880
Contribution as a percentage of covered payroll	14.08%	12.06%	11.78%	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.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - Pension

June 30, 2020

Note 1 - **Change in Plan Actuarial and Assumptions**

Measurement date – June 30, 2019

The investment rate of return changed from 7.35% to 7.25%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

Measurement date – June 30, 2018

The investment rate of return changed from 7.50% to 7.35%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

The mortality rate assumptions were changed as follows:

- Disabled members – the amount reflects the same assumptions as for superannuation retirees, but with an age set forward of one year

Measurement date – June 30, 2017

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Disability – did not change

Measurement date – June 30, 2016

The assumption for salary increases changed from a range of 3.5% to 9.0% depending on group and length of service to a range of 4.0% to 9.0% depending on group and length of service.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - Pension - Continued

June 30, 2020

Note 1 - **Change in Plan Actuarial and Assumptions - Continued**

Measurement date – June 30, 2016 - continued

Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (“ORP”) to transfer to the SERS and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS increased by approximately 400 million as of June 30, 2016.

Measurement date – June 30, 2015

The discount rate to calculate the pension liability decreased from 8.0% to 7.5%

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (“ERI”) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability – was changed from RP-2000 table projected 5 years with Scale AA (gender distinct) set forward three years for males to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of the Proportionate Share of the Net OPEB Liability

Massachusetts State Retirees' Benefit Trust

	June 30, 2020	(Restated) June 30, 2019	June 30, 2018
Year ended	June 30, 2019	June 30, 2018	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017
Valuation date	January 1, 2019	January 1, 2018	January 1, 2017
Proportion of the collective net OPEB liability	0.053%	0.083%	0.144%
Proportionate share of the collective net OPEB liability	9,312,026	\$ 15,481,795	\$ 25,170,143
College's covered payroll	\$ 2,787,131	\$ 4,151,426	\$ 7,928,573
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	334.1%	372.9%	317.5%
Plan fiduciary net position as a percentage of the total OPEB liability	6.96%	6.01%	5.39%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedules of Contributions - OPEB

Massachusetts State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 191,053	\$ 245,103	\$ 370,260
Contributions in relation to the statutorily required contribution	<u>(191,053)</u>	<u>(245,103)</u>	<u>(370,260)</u>
Contribution (excess)/deficit	\$ -	\$ -	\$ -
College's covered payroll	\$ 2,619,396	\$ 2,787,131	\$ 4,151,426
Contribution as a percentage of covered payroll	7.29%	8.79%	8.92%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - OPEB

June 30, 2020

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2020

Assumptions:

Change in Inflation

The inflation rate decreased from 3.0% to 2.5%.

Change in Salary Assumptions

Salary decreased from 4.5% to 4.0%.

Change in Investment Rate

The investment rate of return decreased from 7.35% to 7.25%.

Change in Trend on Future Costs

The original healthcare trend rate decreased from 8.0% to 7.5%, which affects the high-cost excise tax.

Change in Discount Rate

The discount rate was decreased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.51%) as of the measurement date as required by GASB Statement 74.

Fiscal year June 30, 2019

Assumptions:

Change in Trend on Future Costs

The healthcare trend rate decreased from 8.5% to 8.0%, which impacts the high cost excise tax.

Change in Mortality Rates

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members – would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year

Change in Discount Rate

The discount rate was increased to 3.95% based upon a blend of the Bond Buyer Index rate (3.87%) as of the measurement date as required by GASB Statement 74.

MIDDLESEX COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - OPEB - Continued

June 30, 2020

Fiscal year June 30, 2018

Assumptions:

Change in Discount Rate

The discount rate was increased to 3.63% based upon a blend of the Bond Buyer Index rate (3.58%) as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%.

**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
Middlesex Community College
Lowell, 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 Middlesex Community College (the "College") which comprise the statements of net position as of June 30, 2019, and the related statements of revenues and expenses, 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 November 17, 2020. Our report includes a reference to other auditors who audited the financial statements of the Middlesex Community College Foundation. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Middlesex Community College's internal control over financial reporting ("internal control") as a basis for designing 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 the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.



**Certified Public Accountants
Braintree, Massachusetts**

November 17, 2020