

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

JUNE 30, 2017

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

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

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Cape Cod Community College
West Barnstable, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Cape Cod Community College (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the statements of financial position of Cape Cod Community College Educational Foundation, Inc. (the "Foundation") as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We 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 of America. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Cape Cod Community College as of June 30, 2017 and 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-15, the schedule of proportionate share of the net pension liability on page 51, the schedule of contributions on page 52 and the notes to the required supplementary information on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of Cape Cod Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cape Cod Community College's internal control over financial reporting and compliance.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 11, 2017

CAPE COD COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

The following discussion and analysis provides management's view of the financial position of Cape Cod Community College (the "College") as of June 30, 2017 and 2016 and the results of operations for the years then ended. This analysis should be read in conjunction with the College's financial statements and notes that are presented in this document.

The College is a public institution of higher education in Massachusetts serving approximately 4,900 credit seeking students, with 68 full-time faculty and 159 full-time staff members. The main campus is located in West Barnstable, with a satellite in Plymouth for its Aviation program, and a center located in downtown Hyannis. The College also offers courses at Joint Base Cape Cod, Martha's Vineyard & Woods Hole, and Plymouth North High School. The College currently offers an Associate of Arts degree with 26 concentrations, 17 Associate in Science degree programs, an Applied Associate in Science Degree for Aviation Maintenance Technology, and, 56 career-building academic certificates in a variety of program. In addition, the College has a number of partnerships with several public and private institutions that offer Bachelor's and Master's degree programs on the main campus.

Financial Highlights

The fiscal year 2017 state unrestricted appropriation of \$16,518,436 reflects a \$1,202,047 increase over last year's appropriation of \$15,316,389. The net increase is primarily due to several factors: an increase in state funded fringe benefit costs of \$957,716, a decrease of \$600,289 in performance funding, an increase of \$908,283 in the annual state maintenance appropriation, and a decrease of \$63,000 in non-resident tuition state remittance.

State restricted appropriation for fiscal year 2017 was \$54,147, which is \$1,528,440 less than last year's appropriation of \$1,582,587. The decrease was primarily due to the fact that fiscal year 2016 included \$1,433,293 in funding for the Aviation program, which was not received for fiscal year 2017. Additionally, the Vision program funding ended at end of fiscal 2016, resulting in a decrease of \$111,103. Funding for the Center for Corporate and Professional Education increased by \$12,761 for fiscal 2017, and additional funding for a Sightlines study and DHE stipend was provided in fiscal year 2017, in the amounts of \$8,625 and \$7,624, respectively.

Capital appropriation increased by \$3,256,755, from \$524,082 in 2016 to \$3,780,837 in 2017, due to the change in amount or additions of several special appropriations from the Division of Capital Asset Management & Maintenance (DCAMM). Included in the fiscal year 2017 capital appropriation is \$2,103,610, representing capitalized expenditures as Construction in Process, and consequently recognized as revenue, for the waste water upgrade. Also included is \$892,807 in funding received to complete work on the library chiller, \$47,500 for waterproofing, \$50,000 to replace library ceiling tiles, \$49,514 for elevator repair, \$113,380 for campus lighting repair and net rollover of funding for ongoing projects.

CAPE COD COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Highlights – Continued

During fiscal year 2017, major capital improvement net changes totaled \$3,427,425, which includes \$673,348 in completed roofing projects for the gym and the administration buildings, and \$2,754,077, representing Construction in Process. Construction in Process includes funding for the library elevator upgrade in the amount of \$142,082, \$568,853 for the library chiller project, \$38,059 for the Lorusso envelope project, \$427,139 for the nursing lab renovation, \$2,103,610 for the campus wide sewage upgrade, and a reduction of \$525,666 related to prior year construction in progress balances for the proposed new science building. This \$525,666 reduction is the result of the abandonment of construction in progress funds previously spent on feasibility studies and plans for the proposed new science building, that have since become unusable and would need to be recompleted if the project were to continue.

General tuition and fee rates were increased by \$4.50 per credit hour in fiscal year 2017.

The Board continues to recognize that some students may have difficulty paying their tuition and fees, and therefore had designated \$351,500 in the fiscal year 2017 operating budget for need based student financial aid awards.

At June 30, 2017 and 2016, the College's total assets and deferred outflows of \$31,976,309 and \$29,189,733 exceeded its total liabilities and deferred inflows of \$10,621,251 and \$11,140,411 by the amounts shown below. The resulting net assets are summarized into the following categories:

	<u>2017</u>		<u>2016</u>		<u>2015</u>
Net investment in capital assets	\$ 16,196,478	\$	13,915,222	\$	14,295,551
Restricted, nonexpendable	20,000		20,000		20,000
Unrestricted	<u>5,138,580</u>		<u>4,114,100</u>		<u>2,907,640</u>
Total net assets	<u>\$ 21,355,058</u>	\$	<u>18,049,322</u>	\$	<u>17,223,191</u>

Unrestricted net assets increased in fiscal year 2017 by \$1,024,480 primarily as a result of the net of the following operating gains and losses relative to budget: a \$153,253 loss on tuition revenue, a \$1,157,084 gain on salary and benefits, a \$272,807 loss on supplies and materials, a \$174,284 gain on furniture and equipment, a \$89,321 loss on contracted services, a \$91,485 gain on professional development and training, and other, less material gains and losses relative to the budget.

CAPE COD COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Financial Highlights – Continued

Unrestricted net assets increased in fiscal year 2016 by \$1,147,553 primarily as a result of higher than projected revenues of \$148,234, due to a net of larger indirect and administrative allowances from our grants and a contribution from our Foundation and less revenue received from Corporate and Community Programs and tuition and fees. Additionally, expenses were less than projected by \$1,053,776, due to reductions in salary and benefit costs because of expected and unexpected turnover and a larger savings in utilities.

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.

Total operating expenses for the years ended June 30, 2017 and 2016 amounted to \$35,863,423 and \$34,983,054, while operating revenues were \$18,457,867 and \$17,816,173 respectively. Operating losses of \$17,405,556 and \$17,166,881 were offset predominantly by state appropriations (considered non-operating revenues) of \$16,572,583 and \$16,898,976 respectively, and also by transfers from the Foundation, in the amounts of \$849,364 and \$543,227, respectively.

In May 2002, GASB issued Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units* (an amendment of GASB 14). GASB 39 establishes new criteria for evaluating the need to include component units of the College. The College adopted GASB 39 as of July 1, 2003.

Cape Cod Community College Educational Foundation (the Foundation) is a legally separate tax-exempt component unit of Cape Cod 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. The Board of Directors of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

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

CAPE COD COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements- Continued

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* presents 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, Expenses, and Changes in Net Position* 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 of accrued for compensated absences, or the receipt of amounts due from students and others for services rendered).

The *Statements of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and fees) and disbursements (e.g., cash paid to employees for services.) The Government Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used. In accordance with GASB 39, the Foundation is not required to present the statement of cash flows.

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 full accrual measurement focus and basis of accounting. The College is an agency of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

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 21-50 of this report.

CAPE COD COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements- Continued

Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the College's financial position. At the close of the fiscal years ended June 30, 2017 and 2016, the College's assets exceeded liabilities by \$21,355,058 and \$18,049,322 respectively. The increase in net position of \$3,305,736 in fiscal year 2017 is principally due to significant capitalization of Commonwealth construction in process, conservative budgeting strategy and savings in salary and benefit expense.

Cape Cod Community College's Net Position

	June 30		
	2017	2016	2015
Current assets	\$ 14,310,003	\$ 13,508,461	\$ 7,135,704
Noncurrent assets	16,260,656	13,994,126	18,428,509
Deferred Outflows of Resources	1,405,650	1,687,146	810,850
Total Assets and Deferred Outflows of Resources	\$ 31,976,309	\$ 29,189,733	\$ 26,375,063
Current liabilities	\$ 4,845,975	\$ 5,198,340	\$ 4,618,596
Noncurrent liabilities	4,309,628	5,799,097	3,921,291
Total Liabilities	\$ 9,155,603	\$ 10,997,437	\$ 8,539,887
Total Deferred Inflows of Resources	\$ 1,465,648	\$ 142,974	\$ 611,985
Net Position:			
Invested in capital assets, net of related debt	\$ 16,196,478	\$ 13,915,222	\$ 14,295,551
Restricted, nonexpendable	20,000	20,000	20,000
Unrestricted	5,138,580	4,114,100	2,907,640
Total Net Position	\$ 21,355,058	\$ 18,049,322	\$ 17,223,191

CAPE COD COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements- Continued

Financial Analysis – Continued

The largest portion of the College's net assets reflects its investment in capital assets (e.g., land, buildings, furnishings and equipment) including capital leases, less any related debt, used to acquire those assets that is still outstanding. The College uses these capital assets to provide services to students, faculty, and administration. Although the College's investment in 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, if any, are not included in the College's financial statements.

Cape Cod Community College's Changes in Net Position

	Fiscal years ended June 30		
	2017	2016	2015
Total operating revenues	\$ 18,457,867	\$ 17,816,173	\$ 16,514,747
Total operating expenses	35,863,423	34,983,054	32,571,109
Net operating loss	(17,405,556)	(17,166,881)	(16,056,362)
Total net non-operating revenues	16,930,455	17,468,930	15,252,971
Net income (loss) before other revenues	(475,101)	302,049	(803,391)
Capital appropriation	3,780,837	524,082	989,882
Total increase in net position	3,305,736	826,131	186,491
Net Position, Beginning of Year	18,049,322	17,223,191	17,036,700
Net Position, End of Year	\$ 21,355,058	\$ 18,049,322	\$ 17,223,191

CAPE COD COMMUNITY COLLEGE

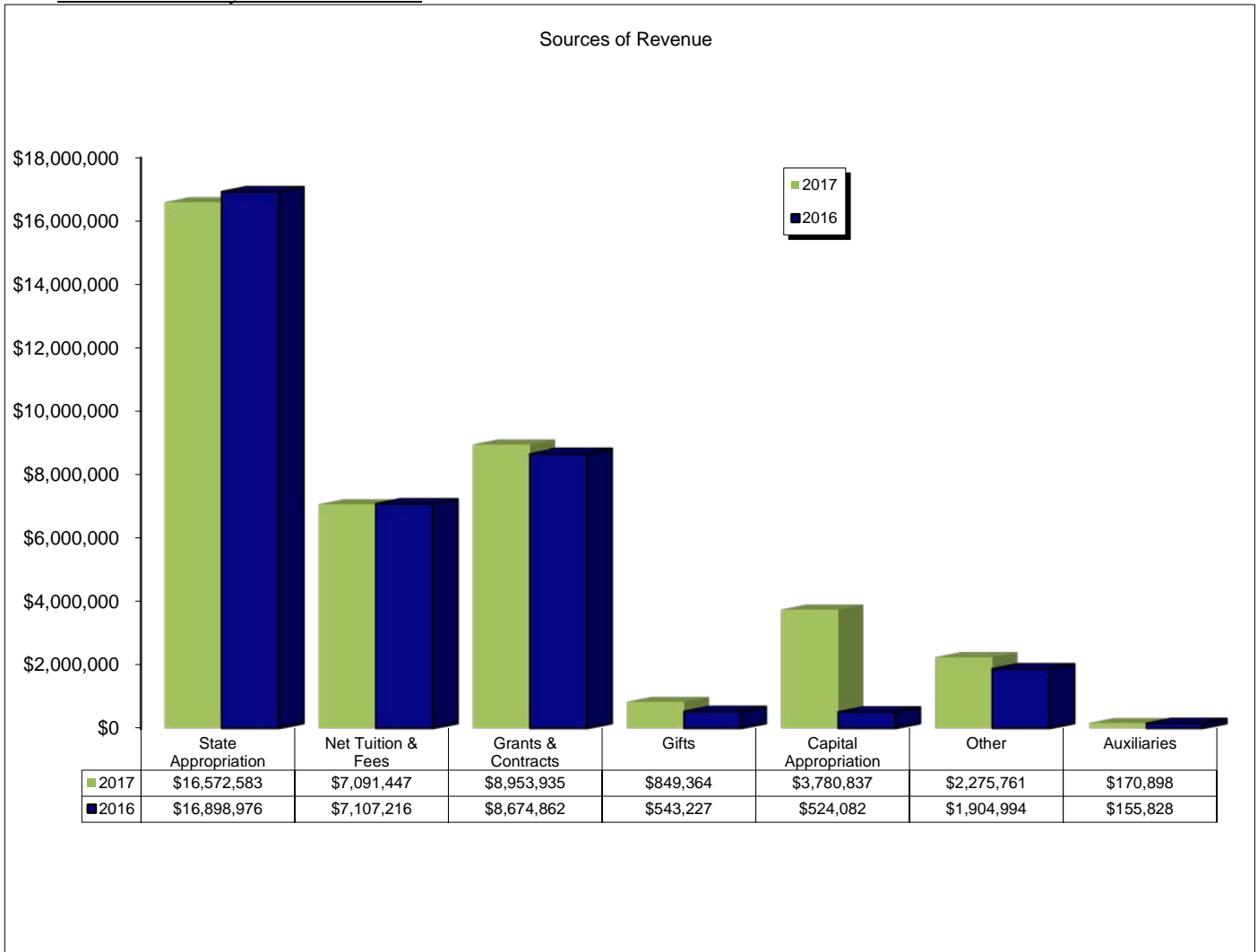
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements – Continued

Financial Analysis – Continued



Revenues and Expenses

The state appropriation of \$16,572,583 for fiscal year 2017 reflects a \$326,393 decrease, relative to fiscal year 2016. This is mostly attributed to increases in state funded fringe benefit costs, state maintenance funding, funding for CCPE, Sightlines and a DHE stipend, and offset by decreases in performance funding, decreases related to the aviation program, which was funded in fiscal 2016 but not in fiscal 2017, and the end of the Vision funding.

CAPE COD COMMUNITY COLLEGE (an agency of the Commonwealth of Massachusetts)

Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

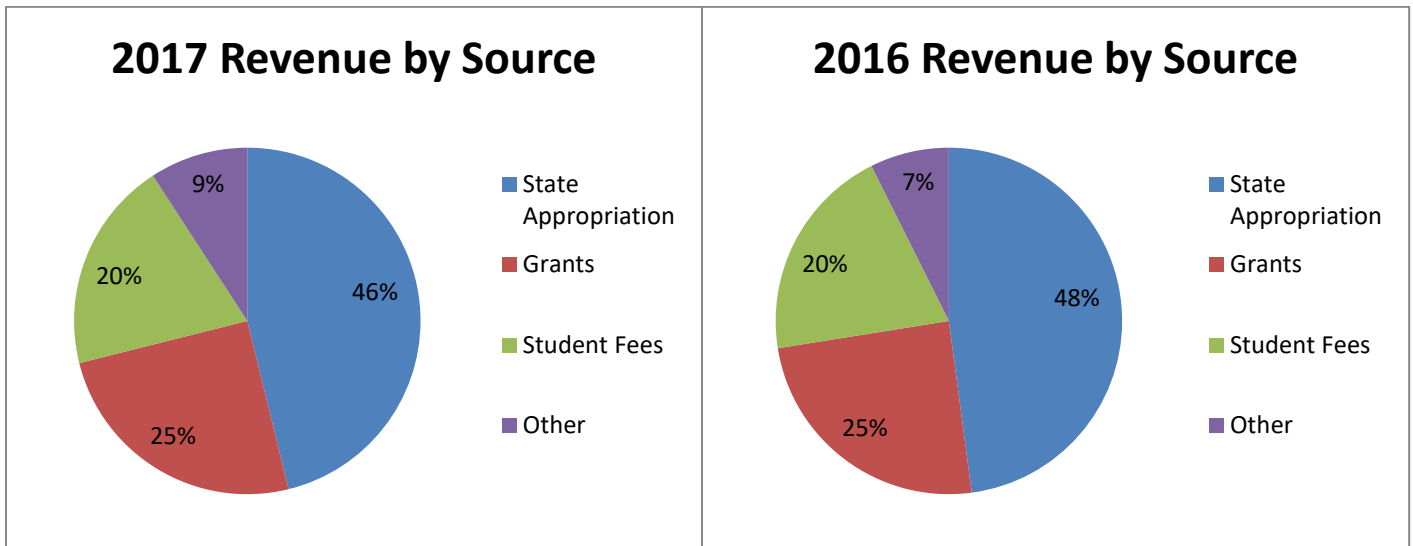
Overview of the Financial Statements – Continued

Revenues and Expenses – Continued

In fiscal year 2017, state appropriations accounted for 46% of total revenues while net tuition and fees amounted to 20%. In fiscal year 2016, state appropriations accounted for 48% and net tuition and fees 20%. The “other” revenue segment share grew by 2% in fiscal 2017.

In fiscal year 2017, gift revenues increased by \$306,137 primarily due to the net of an increase in donations related to gifts for the nursing renovation, the receipt of no further gifts for the aviation program and the receipt of fewer remaining dental hygiene renovation pledge payments. Net tuition and fee revenue remained flat relative to prior year.

Capital appropriations increased by \$3,256,755 in fiscal year 2017 and decreased by \$465,800 in fiscal year 2016. The increase in fiscal year 2017 is primarily due to an increase in Commonwealth spending on the campus wide waste water upgrade, which continues to be construction in process, an increase in the net balance roll-forward of funds available for capital expenditure and an increase due to funds granted to complete the library chiller project.



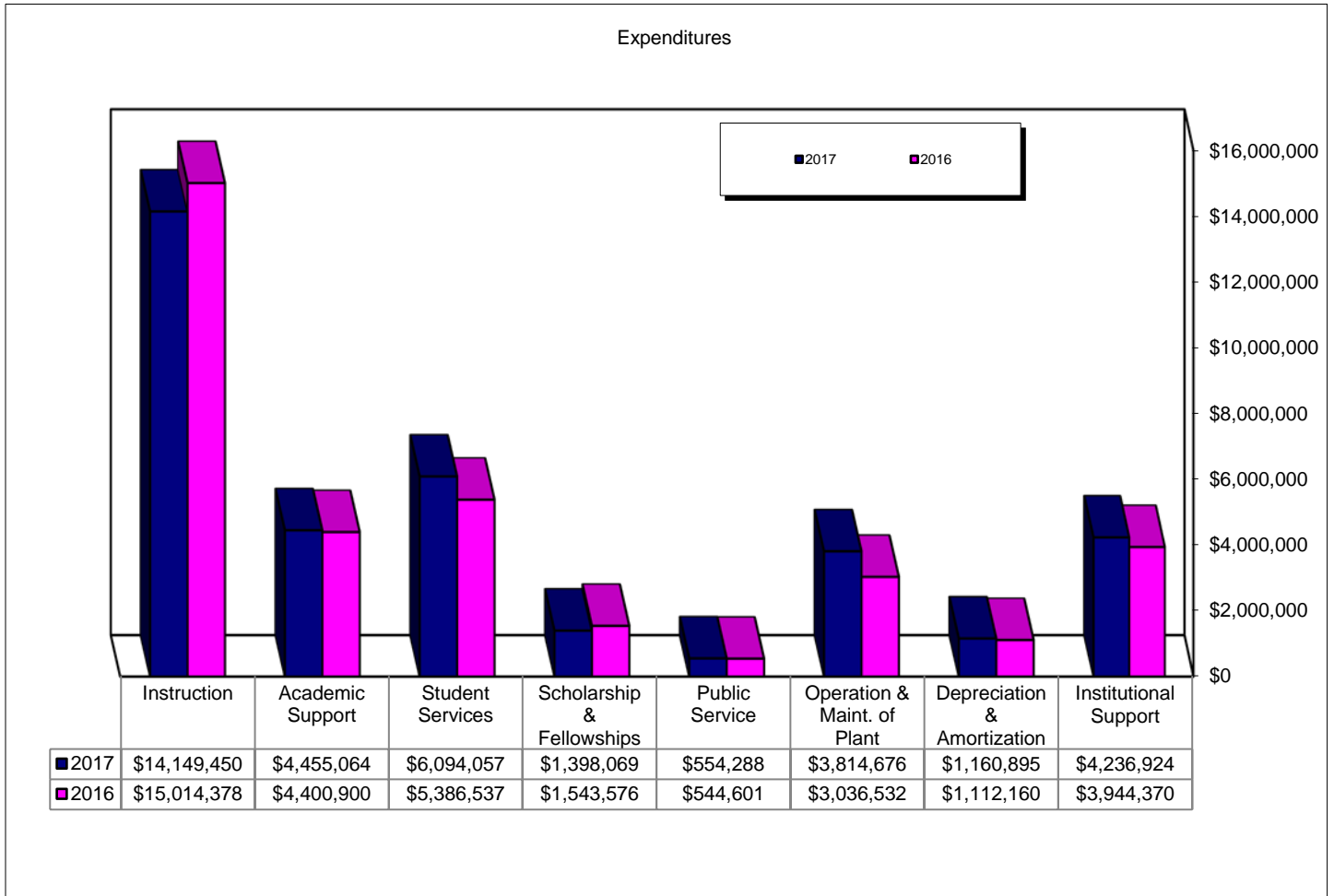
CAPE COD COMMUNITY COLLEGE
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Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

Changes in expenditure include a 25.63% increase in operations and maintenance costs, an increase in student services spending of 13.13%, a 7.42% increase in institutional support, a 5.76% decrease in instruction, a 9.43% decrease in institutional scholarship, and immaterial decreases in both academic support and public service. Relative to the operating budget, salary and benefits was 7.73% (\$1,157,084) under budget, supplies and materials was 19.06% (\$272,807) over budget, furniture and equipment was 20.70% (\$174,284) under budget, and contracted services was over budget by 1.66% (\$89,321). The College continues to spend over 70% of its operating budget on academic and student related expenditures.



CAPE COD COMMUNITY COLLEGE
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

Revenues and Expenses – Continued

Major grants and contracts revenue received by the College for the years ended June 30, 2017 and 2016 included the following:

- **ACCESS** (Adult Collaborative of Cape Cod for Education and Support Services) at the College amounted to \$608,793 and \$639,470 as of June 30, 2017 and 2016, respectively. ACCESS offers small group instruction, individualized tutoring and computer-assisted learning opportunities for adults. Basic literacy and language instruction for beginning readers; preparation for GED (General Education Development Equivalency Diploma) examination and college and career advising are provided by experienced and sensitive staff. Non-native English speakers can enroll in beginning, intermediate, and advanced English language classes. Pronunciation and computer literacy classes are offered as needed. The program is funded by the Massachusetts Department of Elementary and Secondary Education.
- **TRIO Advantage Program** at the College amounted to \$289,776 and \$246,679 as of June 30, 2017 and 2016, respectively. The Advantage Program is a TRIO/Student Support Services program funded by the U.S. Department of Education. The funding cycle is for five years, pending annual appropriations by Congress. The College received approval for September 1, 2015 – August 31, 2020. Our Advantage Program serves approximately 181 participants, two-thirds of whom must be first-generation college and low income, or have a documented disability. One third of the documented disabled must be low income as well. The remaining is either first generation or low income. Services provided include proactive academic advising, career counseling, peer mentoring, individual tutoring, financial/economic literacy, transfer and personal counseling. Community services and cultural events are also part of the program. Off-campus enrichment has included trips to New York and Boston area sites.
- **Financial Aid** awards at the College amounted to \$6,102,084 and \$6,199,562 as of June 30, 2017 and 2016 respectively. The minimal reduction in financial aid is primarily due to fewer enrolled students. Financial aid awards are based upon a student's financial need and the cost of attendance. In fiscal year 2017, 2,211 students received financial aid, down from 2,329 in fiscal year 2016.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

Revenues and Expenses – Continued

	<u>2017</u>	<u>2016</u>	<u>2015</u>
The sources of these awards:			
Federal Government	\$ 3,740,813	\$ 4,062,529	\$ 4,537,276
Commonwealth of Massachusetts	1,267,905	1,259,919	1,434,523
Grants and private donations	<u>1,093,366</u>	<u>853,232</u>	<u>768,258</u>
	<u>\$ 6,102,084</u>	<u>\$ 6,175,680</u>	<u>\$ 6,740,057</u>

Loss from Operations

Due to the nature of public higher education, institutions incur a loss from operations. The Massachusetts Department of Higher Education presets tuition rates. The College's Board of Trustees sets student fees and other charges. Commonwealth appropriations to the College funded the majority of the loss from operations not covered by tuition and fees. The College, for the purpose of balancing educational and operational needs with tuition and fee revenue, approves budgets to offset losses after Commonwealth appropriations.

Non-Operating Revenues and Expenses

The Commonwealth's total appropriation decreased by 1.93% or \$326,393, to \$16,572,583 in fiscal year 2017. The unrestricted portion of state appropriation increased by \$1,252,047, and is the result of an increase in the state maintenance appropriation and fringe allocation funding, offset by a decrease in performance funding and an increase in state tuition remitted. The restricted portion of this total decrease amounted to a decrease of \$1,528,440, and is driven by the fact that in fiscal year 2016, the College received \$1,433,923 in funds earmarked to the aviation program, which were not received in fiscal year 2017. Additionally, the change in restricted appropriation is the result of a reduction in funding for the Vision program and small increases for Sightlines funding and for the CCAPE and DHE funding.

Transfers from the Foundation increased by \$306,137 for fiscal year 2017, as a result of fundraising efforts for the nursing expansion and renovation project. Lastly, the College abandoned \$525,666 in construction in process related to feasibility studies and architectural plans for the proposed new science building, that if the project were to continue would need to be redone.

CAPE COD COMMUNITY COLLEGE
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Management’s Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

Non-Operating Revenues and Expenses – Continued

For comparison, the Commonwealth’s appropriation increased by 12.6% or \$1,894,368, to \$16,898,976 in fiscal year 2016. The increase was the result of an increase in state funded fringe benefit costs, an increase in performance funding, and an increase in the annual state maintenance appropriation. Additionally, a lowered non-resident tuition state remittance contributed to the fiscal year 2016 increase, by \$98,000. The restricted portion of this total increase amounted to \$760,572, and was the result of receiving an additional \$916,586 in funds for the Aviation program, offset by decreased funding for the Vision Project and for CCAPE.

Capital Assets and Noncurrent Liabilities of the College

Capital Assets

The College’s investment in capital assets, net of accumulated depreciation as of June 30, 2017 and 2016 amounts to \$16,240,656 and \$13,974,126, respectively. This investment in capital assets includes land, building (including improvements), furnishings and equipment (including the cost of capital leases).

The following capital investments were made during fiscal years 2017 and 2016:

	<u>2016</u>	<u>2016</u>	<u>2015</u>
Building improvements	\$ 673,348	\$ 150,580	\$ 1,280
Construction in progress	3,279,743	630,474	1,368,158
Furnishings and equipment	14,726	14,726	69,605
	<u>\$ 3,967,817</u>	<u>\$ 795,780</u>	<u>\$ 1,439,043</u>

Capital spending for building improvements, completed in fiscal year 2017 includes \$276,574 spent on replacement of the Administration building roof, and \$396,774 spent to replace the roof on the College gymnasium. Construction in process additions of \$3,279,743 relate to increases in spending for the library elevator repair for \$142,082, the library chiller repair for \$568,853, the nursing renovation project for \$427,139 and a significant spend of \$2,103,610 for the campus wide sewage upgrade. Spending on furnishings and equipment in fiscal year 2017 represents the second payment on a five-year “lease to purchase” agreement for facilities machinery.

CAPE COD COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017 and 2016

Overview of the Financial Statements - Continued

Capital Assets and Noncurrent Liabilities of the College - Continued

Fiscal year 2016 spending on building improvements was comprised solely of investment in the Pumphouse project. Construction in progress spending in fiscal year 2016 was comprised of expenditures relating to the Aviation program, the library elevator project, roof replacement of both the gym and the administration building, study related to a new science building and energy and water upgrades. Spending on furnishings and equipment in fiscal year 2016 represents the first payment on a five-year "lease to purchase" agreement for facilities machinery.

Noncurrent Liabilities

The College's long-term liabilities consist of accruals for compensated absences and workers' compensation, and the long-term portions of capital lease obligations for facilities machinery. The accrual for compensated absences consists of the long-term portion of compensatory time, sick and vacation pay relating to employees on the Commonwealth's payroll, and amounts to \$729,994 for fiscal year 2017. For fiscal year 2017, the College's liability related to worker's compensation amounts to \$268,729. At the end of fiscal year 2017, the long-term portion of capital lease obligations amounts to \$29,452.

Additional Information

For fiscal year 2017, enrollment was projected to be down by 4.70% relative to fiscal year 2016. Actual enrollment performance for fiscal year 2017 was a decrease from fiscal year 2016 of 5.70%.

The College's enrollment management team continues to examine its efforts to improve the student intake process and to identify, recruit and retain recent and prospective students. The College has also re-engaged Davis Advertising to continue implementing a marketing strategy and brand with an intensive push to reach key prospective students and their networks. Improving enrollment, retention, and completion will continue to be critical given the increasing focus on the state's performance-based funding model.

Request 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. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Vice President of Finance and Operations, Cape Cod Community College, 2240 Iyannough Road, West Barnstable, Massachusetts 02668-1599.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2017 and 2016

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2017 College	2016 College	2017 Foundation	2016 Foundation
Current Assets:				
Cash and equivalents (Note 2)	\$ 11,295,500	\$ 6,604,983	\$ 1,887,264	\$ 623,350
Cash held by state treasurer (Note 3)	334,123	647,421	-	-
Certificate of deposit (Note 2)	-	4,138,152	-	-
Accounts receivable, net (Note 4)	2,390,852	1,997,495	18,984	20,202
Pledges receivable (Note 5)	-	-	62,400	5,100
Prepaid and other assets	289,528	120,410	-	-
Total Current Assets	14,310,003	13,508,461	1,968,648	648,652
Non-Current Assets:				
Long-term investments	-	-	9,272,357	8,571,495
Pledges receivable (Note 5)	-	-	152,200	3,600
Funds held by others	20,000	20,000	-	-
Capital assets, net of accumulated depreciation (Note 6)	16,240,656	13,974,126	-	-
Total Non-Current Assets	16,260,656	13,994,126	9,424,557	8,575,095
Total Assets	30,570,659	27,502,587	11,393,205	9,223,747
Deferred Outflows of Resources:				
Pension related, net	1,405,650	1,687,146	-	-
Total Assets and Deferred Outflows of Resources	\$ 31,976,309	\$ 29,189,733	\$ 11,393,205	\$ 9,223,747

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:				
Accounts payable and accrued liabilities	\$ 1,248,895	\$ 1,162,966	\$ 550,321	\$ 252,715
Accrued payroll	1,079,917	1,686,212	-	-
Compensated absences (Note 7)	1,579,215	1,548,922	-	-
Workers' compensation (Note 7)	59,389	60,235	-	-
Students' deposits and unearned revenues	614,969	492,460	-	-
Other unearned revenues	248,864	232,819	-	-
Current portion of capital lease (Note 7)	14,726	14,726	-	-
Total Current Liabilities	4,845,975	5,198,340	550,321	252,715
Non-Current Liabilities:				
Compensated absences (Note 7)	729,994	683,683	-	-
Workers' compensation (Note 7)	268,729	225,239	-	-
Funds held for others	-	-	20,000	20,000
Capital lease obligations (Note 7)	29,452	44,178	-	-
Net pension liability	3,281,453	4,845,997	-	-
Total Non-Current Liabilities	4,309,628	5,799,097	20,000	20,000
Total Liabilities	9,155,603	10,997,437	570,321	272,715
Deferred Inflows of Resources:				
Pension related, net	1,465,648	142,974	-	-
Net Position:				
Investment in capital assets, net	16,196,478	13,915,222	-	-
Restricted:				
Nonexpendable	20,000	20,000	6,067,229	5,780,128
Expendable	-	-	4,372,060	2,927,709
Unrestricted (Note 8)	5,138,580	4,114,100	383,595	243,195
Total Net Position	21,355,058	18,049,322	10,822,884	8,951,032
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 31,976,309	\$ 29,189,733	\$ 11,393,205	\$ 9,223,747

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

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses

For the Years Ended June 30, 2017 and 2016

	Primary Government		Component Unit	
	2017 College	2016 College	2017 Foundation	2016 Foundation
Operating Revenues:				
Tuition and fees	\$ 11,795,462	\$ 11,763,202	\$ -	\$ -
Less: scholarship allowances	<u>(4,704,015)</u>	<u>(4,655,986)</u>	<u>-</u>	<u>-</u>
Net student fees	7,091,447	7,107,216	-	-
Federal, state, local, and private grants and contracts	8,953,935	8,674,862	-	-
Gifts and contributions	-	-	2,463,618	1,042,049
Auxiliary enterprises	170,898	155,828	-	-
Rental income	-	-	200,200	200,200
Other sources	<u>2,241,587</u>	<u>1,878,267</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	<u>18,457,867</u>	<u>17,816,173</u>	<u>2,663,818</u>	<u>1,242,249</u>
Operating Expenses (Note 10):				
Instruction	14,149,450	15,014,378	-	-
Academic support	4,455,064	4,400,900	-	-
Student services	6,094,057	5,386,537	-	-
Scholarships and fellowships	1,398,069	1,543,576	174,858	174,687
Public service	554,288	544,601	-	-
Operation and maintenance of plant	3,814,676	3,036,532	-	-
Institutional support	4,236,924	3,944,370	656,140	631,697
Depreciation and amortization	<u>1,160,895</u>	<u>1,112,160</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>35,863,423</u>	<u>34,983,054</u>	<u>830,998</u>	<u>806,384</u>
Net Operating Income (Loss)	<u>(17,405,556)</u>	<u>(17,166,881)</u>	<u>1,832,820</u>	<u>435,865</u>
Non-Operating Revenues (Expenses):				
State appropriations - unrestricted (Note 11)	16,518,436	15,316,389	-	-
State appropriations - restricted (Note 11)	54,147	1,582,587	-	-
Transfers to the College from the Foundation	849,364	543,227	(849,364)	(543,227)
Abandonment of construction in process	(525,666)	-	-	-
Net investment income	<u>34,174</u>	<u>26,727</u>	<u>888,396</u>	<u>255,303</u>
Total Net Non-Operating Revenues (Expenses)	<u>16,930,455</u>	<u>17,468,930</u>	<u>39,032</u>	<u>(287,924)</u>
Net Income (Loss) Before Other Revenues	(475,101)	302,049	1,871,852	147,941
Capital appropriations (Note 11)	<u>3,780,837</u>	<u>524,082</u>	<u>-</u>	<u>-</u>
Total Increase in Net Position	<u>\$ 3,305,736</u>	<u>\$ 826,131</u>	<u>\$ 1,871,852</u>	<u>\$ 147,941</u>

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

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Changes in Net Position

For the Years Ended June 30, 2017 and 2016

	<u>College</u>				
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2015	\$ 14,295,551	\$ 20,000	\$ -	\$ 2,907,640	\$ 17,223,191
Change in net position for 2016	<u>(380,329)</u>	<u>-</u>	<u>-</u>	<u>1,206,460</u>	<u>826,131</u>
Balance, June 30, 2016	13,915,222	20,000	-	4,114,100	18,049,322
Change in net position for 2017	<u>2,281,256</u>	<u>-</u>	<u>-</u>	<u>1,024,480</u>	<u>3,305,736</u>
Balance, June 30, 2017	<u>\$ 16,196,478</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 5,138,580</u>	<u>\$ 21,355,058</u>

	<u>Foundation</u>				
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2015	\$ -	\$ 5,547,814	\$ 3,229,241	\$ 26,036	\$ 8,803,091
Change in net position for 2016	<u>-</u>	<u>232,314</u>	<u>(301,532)</u>	<u>217,159</u>	<u>147,941</u>
Balance, June 30, 2016	-	5,780,128	2,927,709	243,195	8,951,032
Change in net position for 2017	<u>-</u>	<u>287,101</u>	<u>1,444,351</u>	<u>140,400</u>	<u>1,871,852</u>
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ 6,067,229</u>	<u>\$ 4,372,060</u>	<u>\$ 383,595</u>	<u>\$ 10,822,884</u>

See accompanying notes to the financial statements.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Tuition and student fees	\$ 6,890,007	\$ 6,977,146
Grants and contracts	8,940,851	8,331,786
Payments to suppliers	(10,516,167)	(8,357,402)
Payments to employees	(18,802,225)	(19,530,026)
Payments to students	(1,398,069)	(1,519,694)
Other cash receipts	<u>2,284,043</u>	<u>1,851,601</u>
Net Cash Applied to Operating Activities	<u>(12,601,560)</u>	<u>(12,246,589)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	12,459,069	13,728,178
Tuition remitted to state	(315,000)	(300,000)
Gifts and contributions	<u>849,364</u>	<u>543,227</u>
Net Cash Provided by Non-Capital Financing Activities	<u>12,993,433</u>	<u>13,971,405</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(172,254)	(193,022)
Payments on capital leases	<u>(14,726)</u>	<u>(14,726)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(186,980)</u>	<u>(207,748)</u>
Cash Flows from Investing Activity:		
Certificate of deposit maturation	4,138,152	-
Interest on investments	<u>34,174</u>	<u>1,533</u>
Net Cash Applied to Capital and Related Financing Activities	<u>4,172,326</u>	<u>1,533</u>
Net Increase in Cash and Equivalents	4,377,219	1,518,601
Cash and Equivalents, Beginning of Year	<u>7,252,404</u>	<u>5,733,803</u>
Cash and Equivalents, End of Year	<u>\$ 11,629,623</u>	<u>\$ 7,252,404</u>

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Statements of Cash Flows - Continued

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Net Operating Loss to		
Net Cash Applied to Operating Activities:		
Net operating loss	\$ (17,405,556)	\$ (17,166,881)
Adjustments to reconcile net loss to net cash applied to operating activities:		
Bad debt	93,750	-
Depreciation	1,160,895	1,112,160
Fringe benefits provided by the State	4,428,514	3,470,798
Net pension activity	39,626	524,034
Changes in assets and liabilities:		
Accounts receivable	(487,107)	(738,488)
Prepaid and other current assets	(169,118)	22,484
Accounts payable and accrued liabilities	85,929	449,039
Accrued employee compensation and benefits	(487,047)	(2,587)
Students' deposits and other unearned revenues	<u>138,554</u>	<u>82,852</u>
Net Cash Applied to Operating Activities	<u>\$ (12,601,560)</u>	<u>\$ (12,246,589)</u>
Reconciliation of Cash and Equivalents, End of Year:		
Cash and equivalents	\$ 11,295,500	\$ 6,604,983
Cash held by State Treasurer	<u>334,123</u>	<u>647,421</u>
Total	<u>\$ 11,629,623</u>	<u>\$ 7,252,404</u>
Non-Cash Transactions:		
Fringe benefits provided by the State	<u>\$ 4,428,514</u>	<u>\$ 3,470,798</u>
Capital appropriations	<u>\$ 3,780,837</u>	<u>\$ 524,082</u>
Financed capital asset acquisitions	<u>\$ -</u>	<u>\$ 73,630</u>
Reinvested interest on investments	<u>\$ -</u>	<u>\$ 25,194</u>

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

CAPE COD COMMUNITY COLLEGE

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2017 and 2016

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

Organization

Cape Cod Community College (the "College") is a state-supported comprehensive two-year college that offers an education leading to Associate degrees in the Arts and Sciences, as well as one-year certificate programs. From its primary campus located in West Barnstable, Massachusetts, along with other centers, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies and business fields of study. The College also offers, through the Division of Continuing Education, credit and noncredit courses, as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

Basis of Presentation and Accounting

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 and changes in net position 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 revenues.

The College has determined that it functions as a business-type activity, as defined by GASB. The effect of inter-fund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management's discussion and analysis, basic financial statements including the College's discretely presented component unit 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.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation and Accounting - continued

The College's policies for defining operating activities in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as payments received for services and for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts and interest expense.

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

Cape Cod Community College Educational Foundation, Inc. (the "Foundation") is a legally separate tax-exempt component unit of Cape Cod Community College, established in November 1983. The Foundation was established to promote and support the furtherance of the educational and cultural mission of the College and acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and primarily consists of graduates and friends of the College. Although the College does not control the timing or the amount of receipts from the Foundation, the majority of resources received or held by the Foundation are restricted to the activities of the College by the donors. Because these resources held by the Foundation can only be used by, or are for, the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

In reliance on the guidance issued by the Massachusetts Department of Higher Education, the College and its discretely presented component unit have classified the prior matching contributions from the Commonwealth of Massachusetts to the Endowment Incentive Program, as well as the underlying gift from the donor, in accordance with either the donor's original intent or this previously issued guidance. Accordingly, these amounts may be classified as restricted nonexpendable, restricted expendable, or unrestricted.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Basis of Presentation and Accounting - continued

A complete copy of the financial statements for the Foundation can be obtained from the Executive Director of the Cape Cod Community College Educational Foundation, Inc. at 2240 Iyannah Road, West Barnstable, MA 02668-1599.

Net Position

Resources are classified for accounting purposes into the following four net position categories:

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

Restricted - nonexpendable: Net position subject to externally imposed conditions requiring the College to maintain the funds in perpetuity.

Restricted - expendable: Net position that is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic and capital programs and initiatives.

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

Trust Funds

In accordance with the requirements of the Commonwealth of Massachusetts, the College's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Cash and Equivalents

The College considers cash held by State Treasurer and all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

Investments

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

- (i) as increases in restricted – nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- (ii) as increases in restricted – expendable net position if the terms of the gift or the College’s interpretation of relevant state law impose restrictions on the current use of the income or net gains. The College has relied upon the Attorney General’s interpretation of state law that unappropriated endowment gains should generally be classified as restricted – expendable; and
- (iii) as increases in unrestricted net position in all other cases.

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

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment, and collection items are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state’s capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Interest costs on debt related to capital assets are capitalized during the construction period. College capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets’ lives are not capitalized.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Capital Assets - continued

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

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

Students' Deposits and Unearned Revenue

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

Pensions

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

Fringe Benefits

The College participates in the Commonwealth's Fringe Benefit programs, including health insurance, unemployment, pension, workers' compensation and certain post-retirement benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the College. The Commonwealth provides workers' compensation coverage to its employers on a self-insured basis. The Commonwealth requires the College to record its portion of the workers' compensation in its records. Workers' compensation costs are actuarially determined based on the College's actual experience.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2017 and 2016. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of state service at June 30, 2017 and 2016. Upon retirement, these employees are entitled to receive payment for this accrued balance.

Grants

The College receives financial assistance from federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit by the granting agency.

Student Fees

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

Income Tax Status

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the 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 liability.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements

GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 13, management anticipates that implementation of this standard will require the restatement of balances as of July 1, 2017.

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

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Governmental Accounting Pronouncements - continued

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

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this Statement and its applicability.

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations 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. Management is in the process of evaluating this Statement and has not yet determined its impact on the financial statements.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Cash and Investments**

Deposits and Investments

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

	<u>2017</u>	<u>2016</u>
Cash and Equivalents (including money market)	\$ 11,295,500	\$ 6,604,983
Certificate of Deposit	<u>-</u>	<u>4,138,152</u>
Total Cash, Equivalents, and Investments	<u>\$ 11,295,500</u>	<u>\$ 10,743,135</u>

Custodial Risk

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the College would not be able to recover its balance in excess of amounts insured by the federal Deposit Insurance Corporation ("FDIC"). Deposits in the banks in excess of the insured amount are uninsured and uncollateralized. The College has a formal deposit policy for custodial credit risk whereby deposits in the bank in excess of the insured amount are insured and collateralized by a third party to certain limits. Cash, equivalents and investments as of June 30, 2017 and 2016 were secured by irrevocable stand-by letters of credit with the Federal Home Loan Bank of Pittsburgh in the amounts of four million and ten million nine hundred thousand, respectively. The College's bank balances, including money market funds, as of June 30, 2017 and 2016 were \$12,254,766 and \$11,069,206, respectively. Of these balances, \$7,689,766 as of June 30, 2017 was exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policy

In accordance with Chapter 15A of the Massachusetts General Laws, the Board of Trustees has adopted an investment policy that applies to locally held funds that are not appropriated by the state legislature or derived from federal allocations. The principal objectives of the investment policy are: (1) preservation of capital and safety of principal, (2) minimizing price volatility, (3) liquidity, (4) return on investment, and (5) diversification. The Board of Trustees supports the investments of trust funds in a variety of vehicles, including bank instruments, equities, bonds, government and commercial paper of high quality and mutual funds holding in any or

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Investment Policy - continued

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

Deposit and Investment Maturities

The College's investments and maturities consist of the following at June 30,:

2017					
Investment maturities (in years)					
<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Money Market	\$ 4,461,179	\$ 4,461,179	\$ -	\$ -	\$ -
2016					
Investment maturities (in years)					
<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Money Market	\$ 4,461,179	\$ 4,461,179	\$ -	\$ -	\$ -
Certificate of Deposit	4,138,152	4,138,152	-	-	-
	<u>\$ 8,599,331</u>	<u>\$ 8,599,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The College had a certificate of deposit ("CD") with TD Bank. The CD generated interest at 0.61% and had an original maturity of 36 months from the date of purchase. The CD matured on February 3, 2017 and the proceeds were transferred to the College's operating accounts.

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

Money market funds: Valued at the current available closing price reported or based on values obtained on comparable funds.

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

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Deposit and Investment Maturities - continued

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

As of June 30, 2017 and 2016, all of the College's investments are valued as level 1.

Concentration of Credit Risk

All of the above investments are at TD Bank, N.A.

Other Matters

The College does not have debt investments, foreign currency investments, securities lending transactions or derivative investments.

Cape Cod Community College Educational Foundation, Inc.

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

	2017		
	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Equity mutual funds	\$ 4,900,215	\$ 6,063,482	\$ 1,163,267
Bond mutual funds	3,223,493	3,208,875	(14,618)
Total investments	\$ 8,123,708	\$ 9,272,357	\$ 1,148,649

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Cape Cod Community College Educational Foundation, Inc. - continued

	2016		
	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Equity mutual funds	\$ 3,887,881	\$ 5,752,725	\$ 1,864,844
Bond mutual funds	2,802,006	2,818,770	16,764
Total investments	\$ 6,689,887	\$ 8,571,495	\$ 1,881,608

The following schedule summarizes the investment return for the years ended June 30,:

	2017	2016
Interest and dividends	\$ 192,611	\$ 185,922
Realized gains	1,483,256	118,977
Unrealized gains (losses)	(737,244)	(1,525)
Investment fees	(50,227)	(48,071)
Total investment return	\$ 888,396	\$ 255,303

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$334,123 and \$647,421 at June 30, 2017 and 2016, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Accounts Receivable**

The College's accounts receivable include the following at June 30,:

	2017	2016
Student accounts receivable	\$ 1,708,260	\$ 1,386,068
Grants receivable	693,061	663,932
Other receivable	<u>458,281</u>	<u>322,495</u>
	2,859,602	2,372,495
Less: allowance for doubtful accounts	<u>(468,750)</u>	<u>(375,000)</u>
Total accounts receivable, net	<u>\$ 2,390,852</u>	<u>\$ 1,997,495</u>

Note 5 - **Pledges Receivable**

The Foundation has pledges receivable as of June 30, which are expected to be realized in the following time periods:

	2017	2016
Less than one year	\$ 62,400	\$ 5,100
Between one and five years	<u>152,200</u>	<u>3,600</u>
Pledges Receivable	<u>\$ 214,600</u>	<u>\$ 8,700</u>

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 6 - **Capital Assets**

Capital assets of the College consist of the following at June 30, 2017:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not depreciated:						
Construction in progress	—	\$ 1,601,731	\$ 3,279,743	\$ (525,666)	\$ (702,557)	\$ 3,653,251
Land	—	82,355	-	-	-	82,355
		<u>1,684,086</u>	<u>3,279,743</u>	<u>(525,666)</u>	<u>(702,557)</u>	<u>3,735,606</u>
Capital assets depreciated:						
Building, including improvements	20-40	38,722,600	673,348	-	106,780	39,502,728
Furnishings and equipment	5-10	6,739,014	-	-	595,777	7,334,791
		<u>45,461,614</u>	<u>673,348</u>	<u>-</u>	<u>702,557</u>	<u>46,837,519</u>
Less: accumulated depreciation:						
Building, including improvements		(27,201,367)	(797,970)	-	-	(27,999,337)
Furnishings and equipment		(5,970,207)	(362,925)	-	-	(6,333,132)
		<u>(33,171,574)</u>	<u>(1,160,895)</u>	<u>-</u>	<u>-</u>	<u>(34,332,469)</u>
Capital assets, net		<u>\$ 13,974,126</u>	<u>\$ 2,792,196</u>	<u>\$ (525,666)</u>	<u>\$ -</u>	<u>\$ 16,240,656</u>

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 6 - **Capital Assets - Continued**

Capital assets of the College consist of the following at June 30, 2016:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not depreciated:						
Construction in progress	—	\$ 1,500,686	\$ 630,474	\$ -	\$ (529,429)	\$ 1,601,731
Land	—	82,355	-	-	-	82,355
Total not depreciated		1,583,041	630,474	-	(529,429)	1,684,086
Capital assets depreciated:						
Building, including improvements	20-40	38,106,541	150,580	-	465,479	38,722,600
Furnishings and equipment	5-10	6,665,383	9,681	-	63,950	6,739,014
Total depreciated		44,771,924	160,261	-	529,429	45,461,614
Less: accumulated depreciation:						
Building, including improvements		(26,435,221)	(766,147)	-	-	(27,201,368)
Furnishings and equipment		(5,624,193)	(346,013)	-	-	(5,970,206)
Total accumulated depreciation		(32,059,414)	(1,112,160)	-	-	(33,171,574)
Capital assets, net		\$ 14,295,551	\$ (321,425)	\$ -	\$ -	\$ 13,974,126

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Long-Term Liabilities**

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

	2017					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Lease obligations	\$ 58,904	\$ -	\$ (14,726)	\$ 44,178	\$ 14,726	\$ 29,452
Other long-term liabilities:						
Compensated absences	2,232,605	76,604	-	2,309,209	1,579,215	729,994
Workers' compensation	285,474	42,644	-	328,118	59,389	268,729
Net pension liability	4,845,997	-	(1,564,544)	3,281,453	-	3,281,453
Total other long term liabilities	7,364,076	119,248	(1,564,544)	5,918,780	1,638,604	4,280,176
Total long-term liabilities	<u>\$ 7,422,980</u>	<u>\$ 119,248</u>	<u>\$ (1,579,270)</u>	<u>\$ 5,962,958</u>	<u>\$ 1,653,330</u>	<u>\$ 4,309,628</u>
	2016					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Lease obligations	\$ -	\$ 73,630	\$ (14,726)	\$ 58,904	\$ 14,726	\$ 44,178
Other long-term liabilities:						
Compensated absences	2,390,906	-	(158,301)	2,232,605	1,548,922	683,683
Workers' compensation	290,470	-	(4,996)	285,474	60,235	225,239
Net pension liability	2,976,652	1,869,345	-	4,845,997	-	4,845,997
Total other long term liabilities	5,658,028	1,869,345	(163,297)	7,364,076	1,609,157	5,754,919
Total long-term liabilities	<u>\$ 5,658,028</u>	<u>\$ 1,942,975</u>	<u>\$ (178,023)</u>	<u>\$ 7,422,980</u>	<u>\$ 1,623,883</u>	<u>\$ 5,799,097</u>

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Long-Term Liabilities - Continued**

Capital Leases

During fiscal year ended 2016, the College entered into a capital lease for equipment for \$73,630, requiring fixed annual payments of \$16,623, including interest at 4.18% expiring June 2021.

The following is a summary of property held under capital lease as of June 30, 2017:

Equipment	\$ 73,630
Less: accumulated depreciation	<u>(22,089)</u>
	<u><u>\$ 51,541</u></u>

Operating Leases

The College subleases office and classroom space for its Hyannis campus center from the Foundation under an operating lease agreement expiring in August 2028. Rental expense for this lease was \$200,200 for the years ended June 30, 2017 and 2016, respectively.

On January 11, 2016, the College, acting through the commissioner of the Division of Capital Asset Management and Maintenance, entered into an agreement with Bendrix Corporation to lease 2,941 square feet of classroom space and 14,400 square feet of hangar space for a term of ten years with annual payments ranging from \$140,000 in the first year to \$193,000 in the tenth year. The premises are used for classroom instruction. Rental expense for this lease was \$140,000 and \$70,000 for the years ended June 30, 2017 and 2016, respectively.

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 7 - **Long-Term Liabilities – Continued**

Operating Leases - continued

The following schedule summarizes future minimum payments due under non-cancelable leases as of June 30, 2017:

Years Ending June 30,	Capital Leases	Operating Leases	Total
2018	\$ 14,726	\$ 340,200	\$ 354,926
2019	14,726	361,883	376,609
2020	14,726	372,720	387,446
2021	-	378,720	378,720
2022	-	386,220	386,220
2023 - 2027	-	1,826,518	1,826,518
2028 - 2029	-	282,616	282,616
	\$ 44,178	\$ 3,948,877	\$ 3,993,055

Note 8 - **Unrestricted Net Position**

The College's Board of Trustees has designated unrestricted net position at June 30, as follows:

	2017	2016
Deferred maintenance, adaptation and renewal	\$ 2,055,432	\$ 1,645,640
Instructional and information technology	1,798,503	1,439,935
Academic equipment and materials	1,284,645	1,028,525
Total unrestricted net position	\$ 5,138,580	\$ 4,114,100

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 9 - **Commitments and Contingencies**

Federal, State, and Private Contracts and Grants

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the College. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition of the College.

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

Litigation

The College is periodically involved in legal actions arising in the ordinary course of business. Costs for all known claims not covered by insurance, if any, are recognized in the financial statements. Although the ultimate outcome of certain of these actions cannot be determined, management's opinion is that the College has adequate legal defense with respect to each of these actions, and that the amount of any additional liability would not have a material impact on the financial statements.

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Operating Expenses**

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

	2017	2016
Compensation and benefits	\$ 25,549,641	\$ 24,896,243
Supplies and services	7,754,820	7,454,957
Depreciation and amortization	1,160,893	1,112,160
Scholarships and fellowships	1,398,069	1,519,694
	\$ 35,863,423	\$ 34,983,054

Note 11 - **State Appropriation**

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

	2017	2016
Direct unrestricted appropriations	\$ 12,404,922	\$ 12,145,591
Add: fringe benefits for benefited employees on the state payroll	4,428,514	3,470,798
Less: 9C reduction	-	-
Less: day school tuition remitted to the state and included in tuition and fee revenue	(315,000)	(300,000)
Total unrestricted appropriations	16,518,436	15,316,389
Restricted appropriations	54,147	1,582,587
Capital appropriations	3,780,837	524,082
Total appropriations	\$ 20,353,420	\$ 17,423,058

Restricted appropriations were designated for specific College programs including WERC, VISION, and aviation programs.

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Pensions**

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$1,364,670 and \$1,324,792 for the years ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 72% and 73% of annual total payroll for the College in 2017 and 2016, respectively.

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

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

Benefit Provisions

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

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Benefit Provisions - continued

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.

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

<u>Hire Date</u>	<u>Percentage 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 College is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The College contributed \$231,460 and \$170,885 for the fiscal years ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Pensions – Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017 and 2016, the College reported a liability of \$3,281,453 and \$4,845,997, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015.

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 year 2016 and 2015, respectively. The College's proportionate share was based on actual employer contributions to the SERS for fiscal year 2016 and 2015 relative to total contributions of all participating employers for the fiscal year's. At June 30, 2016 and 2015, the College's proportion was 0.024% and 0.043%, respectively.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Pensions – Continued**

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

For the years ended June 30, 2017 and 2016, the College recognized pension expense of \$273,583 and \$700,584, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

	2017	2016
<u>Deferred Outflows of Resources</u>		
Net differences between projected and actual earnings		
on plan investments	\$ 220,278	\$ -
Changes in plan actuarial assumptions	363,891	839,228
Changes in proportion from Commonwealth	7,310	-
Changes in proportion due to internal allocation	426,851	581,244
Differences between expected and actual experience	155,860	95,789
Contributions subsequent to the measurement date	231,460	170,885
Total	\$ 1,405,650	\$ 1,687,146
<u>Deferred Inflows of Resources</u>		
Net difference between projected and actual		
earnings on pension plan investments	\$ -	\$ 139,254
Changes in proportion from Commonwealth	1,581	3,720
Change in proportion due to internal allocation	1,464,067	-
Total	\$ 1,465,648	\$ 142,974

The College's contributions of \$231,460 and \$170,885 made during the fiscal years ending 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years.

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

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

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

Years Ending <u>June 30,</u>	
2018	\$ (94,343)
2019	(94,343)
2020	(5,893)
2021	(112,990)
2022	<u>16,111</u>
Total	\$ <u>(291,458)</u>

Actuarial Assumptions

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

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

For measurement dates June 30, 2016 and 2015, mortality rates were based on:

- Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)

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

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **Pensions - Continued**

Actuarial Assumptions - continued

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

Asset Class	2016		2015	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	6.90%	40%	6.90%
Core Fixed Income	13%	1.60%	13%	2.40%
Hedge Funds	9%	4.00%	9%	5.80%
Private Equity	10%	8.70%	10%	8.50%
Real Estate	10%	4.60%	10%	6.50%
Portfolio Completion Strategies	4%	3.60%	4%	5.50%
Value Added Fixed Income	10%	4.80%	10%	5.80%
Timber/Natural Resources	4%	5.40%	4%	6.60%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CAPE COD COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 12 - **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 of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

June 30, 2017		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 4,276,242	\$ 3,281,453	\$ 2,438,331
June 30, 2016		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 6,587,308	\$ 4,845,997	\$ 3,344,103

Note 13 - **Fringe Benefits Provided by State**

Fringe Benefits

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 and currently the liability is borne by the Commonwealth, as are any effects on net position and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*. As discussed previously, GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces GASB 45 and will require a restatement of balances at July 1, 2017.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 13 - **Fringe Benefits Provided by State - Continued**

Fringe Benefits - continued

In addition to providing pension benefits, 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 is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

Group Insurance Commission

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

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

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 13 - **Fringe Benefits Provided by State - Continued**

Group Insurance Commission - continued

The GIC is a quasi-independent state agency governed by an eleven-member body (the “Commission”) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth’s employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2017 and 2016, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 14 - **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*.

No timing differences occurred where the College had additional revenue that was reported to Massachusetts Management Accounting and Reporting System (MMARS) after June 30, 2017 and 2016.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 15 - **Pass-Through Grants**

The College distributed \$2,092,093 and \$2,232,837 during 2017 and 2016, respectively, for student loans through the U.S. Department of Education federal direct lending program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CAPE COD COMMUNITY COLLEGE
 (an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of the Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2017	June 30, 2016	June 30, 2015
Valuation date	January 1, 2016	January 1, 2015	January 1, 2014
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.024%	0.043%	0.040%
Proportionate share of the collective net pension liability	\$ 3,281,453	\$ 4,845,997	\$ 2,976,652
College's covered-employee payroll	\$ 1,808,307	\$ 2,565,242	\$ 2,974,086
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplemental information.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 231,460	\$ 170,885	\$ 266,529
Contributions in relation to the statutorily required contribution	<u>(231,460)</u>	<u>(170,885)</u>	<u>(266,529)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,326,231	\$ 1,808,307	\$ 2,565,242
Contribution as a percentage of covered-employee payroll	9.95%	9.45%	10.39%

Notes:

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

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

See accompanying notes to the required supplemental information.

CAPE COD COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information (unaudited)

For the Years Ended June 30, 2017 and 2016

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate from 8.0% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.024%, 0.043%, and 0.040%, respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Changes in assumptions	\$1,025,409	\$ 1,025,409	\$ 40,897
Accumulated amortization	<u>661,518</u>	<u>186,181</u>	<u>7,436</u>
Changes in assumptions, net	<u>\$ 363,891</u>	<u>\$ 839,228</u>	<u>\$ 33,461</u>

**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
Cape Cod Community College
West Barnstable, 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 Cape Cod Community College (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016, 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 Cape Cod Community College's basic financial statements and have issued our report thereon dated October 11, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cape Cod Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 11, 2017