

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investments**

Overall Deposits and Investments Descriptions

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

<u>Investment type</u>	<u>2020</u>	<u>2019</u>
Cash in bank	\$ 1,354,819	\$ 2,673,339
Proprietary money market funds - restricted	<u>55,602</u>	<u>58,202</u>
Total Deposits - College	<u>1,410,421</u>	<u>2,731,541</u>
Cash in bank - fiduciary funds	<u>507,710</u>	<u>1,056,411</u>
Total Deposits - Fiduciary	<u>507,710</u>	<u>1,056,411</u>
Money market funds	553,080	494,474
Corporate bonds	6,723,327	7,317,133
Mutual Funds	30,000	41,086
Federal agencies	2,233,894	1,635,953
Equity securities	<u>16,868,802</u>	<u>15,262,574</u>
Total Investments	<u>26,409,103</u>	<u>24,751,220</u>
Total Deposits and Investments	<u>\$ 28,327,234</u>	<u>\$ 28,539,172</u>

The proprietary money market funds represent unspent proceeds of a Pool M3-C Series Bond issue through Mass HEFA, which was converted to a MHEFA Pool 'O' Series Bond.

Restricted Cash - Foundation

During the year ended June 30, 2018, the Foundation received a three-year \$2.4 million grant from the Richard and Susan Smith Family Foundation on behalf of the College to be used to fund the College's Early College Program. The Foundation is the fiscal agent of the grant funds and as the College incurs costs related to this program funds will be released by the Foundation. At June 30, 2020 and 2019, the Foundation had \$1,483,607 and \$1,074,380, respectively, in restricted cash related to this grant.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. The College does not have a formal deposit policy for custodial credit risk. The College's bank balances, including money market funds, as of June 30, 2020 and 2019 were \$2,691,569 and \$4,760,682, respectively. Of these balances, \$2,017,595 and \$3,260,682 were exposed to custodial credit risk as uninsured and uncollateralized as of June 30, 2020 and 2019, respectively.

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 Massachusetts State Legislature or derived from federal allocations. The principal objectives of the investment policy are: (1) preservation of capital and safety of principal, (2) minimizing price volatility, (3) liquidity, (4) return on investment, and (5) diversification. The Board of Trustees supports the investments of trust funds in a variety of vehicles, including bank instruments, equities, bonds, government and commercial paper of high quality and mutual funds holding in any or all of the above. The Board of Trustees may establish investment fund ceilings and broad asset allocation guidelines, but delegates to the president or her designee, the authority to determine exact dollar amounts to be invested within those established limits and guidelines.

Fair Value Hierarchy

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

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

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Fair Value Hierarchy - continued

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.

Federal agencies, corporate bonds and equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at daily closing prices as reported by the fund. Mutual funds held by the College are open-end mutual funds that are registered with the SEC.

These funds are required to publish their daily net asset value (“NAV”) and to transact at that price. The mutual funds held by the College are deemed to be actively traded.

Money market funds: Valued based on the net asset value per share.

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 the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Fair Value Hierarchy - continued

The following tables set forth, by level, the College's investments:

	June 30, 2020				
	NAV per share	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:					
Federal agencies	\$ -	\$ 2,233,894	\$ -	\$ -	\$ 2,233,894
Corporate bonds	-	-	6,723,327	-	6,723,327
Money market funds	553,080	-	-	-	553,080
Mutual funds	-	30,000	-	-	30,000
Equity securities	-	<u>16,868,802</u>	-	-	<u>16,868,802</u>
Total marketable securities at fair value	<u>\$ 553,080</u>	<u>\$19,132,696</u>	<u>\$ 6,723,327</u>	<u>\$ -</u>	<u>\$ 26,409,103</u>
	June 30, 2019				
	NAV per share	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:					
Federal agencies	\$ -	\$ 1,635,953	\$ -	\$ -	\$ 1,635,953
Corporate bonds	-	-	7,317,133	-	7,317,133
Money market funds	494,474	-	-	-	494,474
Mutual funds	-	41,086	-	-	41,086
Equity securities	-	<u>15,262,574</u>	-	-	<u>15,262,574</u>
Total marketable securities at fair value	<u>\$ 494,474</u>	<u>\$16,939,613</u>	<u>\$ 7,317,133</u>	<u>\$ -</u>	<u>\$ 24,751,220</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investment - Continued**

Interest Rate Risk

Maturities of investments exposed to interest rate risk were as follows at June 30,:

Investment type	Fair value	2020 Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 2,233,894	\$ 303,867	\$ 1,911,118	\$ 18,909	\$ -
Corporate bonds	6,723,327	306,313	3,104,625	3,312,389	-
	<u>8,957,221</u>	<u>\$ 610,180</u>	<u>\$ 5,015,743</u>	<u>\$ 3,331,298</u>	<u>\$ -</u>
Cash in bank	1,354,819				
Cash in bank - fiduciary funds	507,710				
Money market funds	553,080				
Proprietary money market funds	55,602				
Mutual funds	30,000				
Equity securities	16,868,802				
	<u>\$ 28,327,234</u>				
Investment type	Fair value	2019 Investment maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Debt securities:					
Federal agencies	\$ 1,635,953	\$ 393,150	\$ 1,215,924	\$ 26,879	\$ -
Corporate bonds	7,317,133	150,421	2,772,857	3,924,029	469,826
	<u>8,953,086</u>	<u>\$ 543,571</u>	<u>\$ 3,988,781</u>	<u>\$ 3,950,908</u>	<u>\$ 469,826</u>
Cash in bank	2,673,369				
Cash in bank - fiduciary funds	1,056,441				
Money market funds	494,474				
Proprietary money market funds	58,202				
Mutual funds	41,086				
Equity securities	15,262,574				
	<u>\$ 28,539,232</u>				

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investment - Continued**

Interest Rate Risk - continued

Fixed-income investments consist of bond mutual funds with fair market values of \$240,506 and \$244,810 as of June 30, 2020 and 2019, respectively. The weighted average maturity of underlying securities was as follows as June 30,:

	<u>2020</u>	<u>2019</u>
Eaton Vance Floating-Rate Fund	4.88 Years	5.06 Years
Eaton Vance Short Duration High Income Fund	2.52 Years	2.79 Years
Eaton Vance Income Fund of Boston	6.32 Years	5.55 Years

Disclosure of Credit Risk of Debt Securities

Credit risk disclosures of debt securities were as follows at June 30,:

		<u>2020</u>				
		<u>Quality ratings</u>				
<u>Rated debt investments</u>	<u>Fair value</u>	<u>Aaa</u>	<u>A</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>
Federal agencies	\$ 2,233,894	\$ 2,233,894	\$ -	\$ -	\$ -	
Corporate bonds	<u>6,723,327</u>	-	<u>2,753,024</u>	<u>1,248,331</u>	<u>337,742</u>	<u>772,071</u>
Total	<u>\$ 8,957,221</u>	<u>\$ 2,233,894</u>	<u>\$ 2,753,024</u>	<u>\$ 1,248,331</u>	<u>\$ 337,742</u>	<u>\$ 772,071</u>

		<u>Quality ratings</u>			
<u>Rated debt investments</u>		<u>Aa</u>	<u>Aa1</u>	<u>Aa3</u>	<u>Baa1,2,3</u>
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds		<u>789,651</u>	<u>47,787</u>	-	<u>774,721</u>
Total		<u>\$ 789,651</u>	<u>\$ 47,787</u>	<u>\$ -</u>	<u>\$ 774,721</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Cash and Investment - Continued**

<u>Rated debt investments</u>	<u>Fair value</u>	2019			
		<u>Quality ratings</u>			
		<u>Aaa</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>
Federal agencies	\$ 1,635,953	\$ 1,609,074	\$ 26,879	\$ -	\$ -
Corporate bonds	<u>7,317,133</u>	<u>307,916</u>	<u>610,553</u>	<u>1,406,386</u>	<u>2,529,587</u>
Total	\$ 8,953,086	\$ 1,916,990	\$ 637,432	\$ 1,406,386	\$ 2,529,587

<u>Rated debt investments</u>	2019			
	<u>Quality ratings</u>			
	<u>Aa1</u>	<u>Aa2</u>	<u>Aa3</u>	<u>Baa1,2,3</u>
Federal agencies	\$ -	\$ -	\$ -	\$ -
Corporate bonds	<u>250,544</u>	<u>414,482</u>	-	<u>1,797,665</u>
Total	\$ 250,544	\$ 414,482	\$ -	\$ 1,797,665

Investments of the Foundation

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

	<u>2020</u>	<u>2019</u>
Corporate equities	\$ 3,372,244	\$ 2,946,185
Mutual funds	<u>989,536</u>	<u>1,241,027</u>
Corporate and other bonds	<u>2,183,683</u>	<u>2,017,270</u>
	\$ 6,545,463	\$ 6,204,482

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

Accounts payable and accrued salaries to be funded by cash forwarded by the College to, and held by, the State Treasurer for payment of so-called 'non-appropriated' liabilities at June 30, 2020 and 2019 through Massachusetts Management Accounting Reporting System ("MMARS") were recorded in the sum of \$2,972,880 and \$419,711, respectively.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$1,099,743 and \$999,659 at June 30, 2020 and 2019, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

Note 5 - **Accounts Receivable**

Accounts receivable include the following at June 30,:

	2020	(Restated) 2019
Student accounts receivable	\$ 1,155,034	\$ 646,491
Grants receivable	2,066,513	937,484
Financial aid receivable	1,732,730	1,230,962
Other receivables	790,028	618,280
	5,744,305	3,433,217
Less: allowance for doubtful accounts	(239,609)	(95,505)
	\$ 5,504,696	\$ 3,337,712

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 6 - **Capital Assets**

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

		<u>2020</u>				
	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not depreciated:						
Land		\$ 208,827	\$ -	\$ -	\$ -	\$ 208,827
Capital work in progress		<u>791,193</u>	<u>3,092,129</u>	-	<u>(64,257)</u>	<u>3,819,065</u>
Total not depreciated		<u>1,000,020</u>	<u>3,092,129</u>	-	<u>(64,257)</u>	<u>4,027,892</u>
Capital assets depreciated:						
Building, including improvements	20-40	67,316,757	780,653	-	64,257	68,161,667
Furnishings and equipment	3-10	9,661,317	875,256	-	-	10,536,573
Software	5	5,581,783	-	-	-	5,581,783
Motor vehicles	3-10	172,176	-	-	-	172,176
Books	5	<u>614,858</u>	-	-	-	<u>614,858</u>
Total depreciated		<u>83,346,891</u>	<u>1,655,909</u>	-	<u>64,257</u>	<u>85,067,057</u>
Less accumulated depreciation:						
Building, including improvements		(29,707,089)	(2,219,260)	-	-	(31,926,349)
Furnishings and equipment		(7,515,418)	(1,005,821)	-	-	(8,521,239)
Software		(2,295,621)	(1,116,356)	-	-	(3,411,977)
Motor vehicles		(148,790)	(15,589)	-	-	(164,379)
Books		<u>(614,858)</u>	-	-	-	<u>(614,858)</u>
Total accumulated depreciation		<u>(40,281,776)</u>	<u>(4,357,026)</u>	-	-	<u>(44,638,802)</u>
Capital assets, net		<u>\$ 44,065,135</u>	<u>\$ 391,012</u>	\$ -	\$ -	<u>\$ 44,456,147</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 6 - **Capital Assets - Continued**

		<u>2019</u>				
	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not depreciated:						
Land		\$ 208,827	\$ -	\$ -	\$ -	\$ 208,827
Capital work in progress		<u>4,025,067</u>	<u>4,282,981</u>	-	<u>(7,516,855)</u>	<u>791,193</u>
Total not depreciated		<u>4,233,894</u>	<u>4,282,981</u>	-	<u>(7,516,855)</u>	<u>1,000,020</u>
Capital assets depreciated:						
Building, including improvements	20-40	60,854,001	315,770	-	6,146,986	67,316,757
Furnishings and equipment	3-10	8,803,084	858,233	-	-	9,661,317
Software	5	4,144,957	66,957	-	1,369,869	5,581,783
Motor vehicles	3-10	172,176	-	-	-	172,176
Books	5	<u>614,858</u>	-	-	-	<u>614,858</u>
Total depreciated		<u>74,589,076</u>	<u>1,240,960</u>	-	<u>7,516,855</u>	<u>83,346,891</u>
Less accumulated depreciation:						
Building, including improvements		(27,793,946)	(1,913,143)	-	-	(29,707,089)
Furnishings and equipment		(6,531,849)	(983,569)	-	-	(7,515,418)
Software		(1,466,630)	(828,991)	-	-	(2,295,621)
Motor vehicles		(133,201)	(15,589)	-	-	(148,790)
Books		<u>(614,858)</u>	-	-	-	<u>(614,858)</u>
Total accumulated depreciation		<u>(36,540,484)</u>	<u>(3,741,292)</u>	-	-	<u>(40,281,776)</u>
Capital assets, net		<u>\$ 42,282,486</u>	<u>\$ 1,782,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,065,135</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 7 - **Long-Term Liabilities**

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

	2020				
	(Restated)	Additions	Reductions	Ending balance	Current portion
	Beginning balance				
Other long-term liabilities:					
Compensated absences	\$ 4,794,353	\$ 140,086	\$ -	\$ 4,934,439	\$ 3,165,195
Workers' compensation	440,802	-	(33,842)	406,960	180,078
Net OPEB liability	31,174,036	-	(6,508,600)	24,665,436	-
Net pension liability	14,246,192	-	(1,162,261)	13,083,931	-
Capital lease obligations	394,481	-	(289,121)	105,360	51,619
Bonds payable	5,878,202	-	(262,600)	5,615,602	270,000
Energy project liability	2,447,114	-	(147,179)	2,299,935	153,066
Derivative instrument	<u>1,262,354</u>	<u>330,652</u>	<u>-</u>	<u>1,593,006</u>	<u>-</u>
Total long-term liabilities	<u>\$ 60,637,534</u>	<u>\$ 470,738</u>	<u>\$ (8,403,603)</u>	<u>\$ 52,704,669</u>	<u>\$ 3,819,958</u>
2019					
	(Restated)	Additions	Reductions	(Restated)	(Restated)
	Beginning balance			Ending balance	Current portion
Other long-term liabilities:					
Compensated absences	\$ 4,644,425	\$ 149,928	\$ -	\$ 4,794,353	\$ 3,104,843
Workers' compensation	488,213	-	(47,411)	440,802	179,825
Net OPEB liability	23,648,250	7,525,786	-	31,174,036	-
Net pension liability	12,158,456	2,087,736	-	14,246,192	-
Capital lease obligations	675,329	-	(280,848)	394,481	289,122
Bonds payable	6,130,702	-	(252,500)	5,878,202	260,000
Energy project liability	2,588,632	-	(141,518)	2,447,114	147,178
Derivative instrument	<u>954,970</u>	<u>307,384</u>	<u>-</u>	<u>1,262,354</u>	<u>-</u>
Total long-term liabilities	<u>\$ 51,288,977</u>	<u>\$ 10,070,834</u>	<u>\$ (722,277)</u>	<u>\$ 60,637,534</u>	<u>\$ 3,980,968</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Capital leases

The College leased Cisco network server equipment from Presidio Network Solutions at a cost of \$1,160,596 during the fiscal year 2016. The five-year lease was financed by Key Government Finance, Inc.

The College leased data storage equipment from EchoStar Technologies at a cost of \$258,092 during the fiscal year 2018. The five-year lease was financed by De Lage Landen Public Finance LLC.

The following reports the cost and accumulated depreciation for equipment under lease agreements at June 30,:

	<u>2020</u>	<u>2019</u>
Cost	\$ 1,418,688	\$ 1,418,688
Less: Accumulated depreciation	<u>1,160,678</u>	<u>876,940</u>
	<u>\$ 258,010</u>	<u>\$ 541,748</u>

The following schedule summarizes future annual minimum payments due under non-cancelable capital leases as of June 30, 2020:

Years Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	51,619	4,246	55,865
2022	53,741	2,123	55,864
	<u>\$ 105,360</u>	<u>\$ 6,369</u>	<u>\$ 111,729</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Operating Leases

The College has multiple leases for building space to be used for classrooms, workforce training, meeting space, and educational administration under agreements expiring through January 2027. Each of these leases have varying payment terms, including graduated payments over the term of the lease. In addition, the College leases computer equipment, software, and copiers for various departments and has a three-year lease agreement for a vehicle expiring in 2019. Rent expense under these operating leases was \$2,913,390 and \$2,831,925 for the years ended June 30, 2020 and 2019, respectively.

Future minimum annual rental payments due under operating leases as of June 30, 2020 is as follows:

Years Ending June 30,	
2021	\$ 3,105,905
2022	2,994,869
2023	3,024,374
2024	3,040,641
2025	2,365,994
2026-2027	<u>1,166,967</u>
	<u>\$ 15,698,750</u>

Bonds Payable

During fiscal year 2010, the College issued Pool O-1 Series Bonds through the Massachusetts Health and Educational Facilities Authority (“MHEFA”) to refinance the Pool M3-C Series tax-exempt variable rate bond that was previously issued by the College to finance the construction of the Health and Wellness Center and other projects.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Bonds Payable - continued

The bonds are payable in annual installments and are due June 2031. The following schedule summarizes future principal and interest payments on bonds payable as of June 30, 2020:

Years Ending June 30,	Principal	Interest	Interest rate swap, net*	Total
2021	\$ 270,000	\$ 68,300	\$ 158,732	\$ 497,032
2022	290,000	65,031	150,035	505,066
2023	300,000	61,519	141,039	502,558
2024	310,000	57,886	131,743	499,629
2025	320,000	54,132	122,148	496,280
2026 – 2030	1,820,000	208,776	448,634	2,477,410
2031	<u>2,305,602</u>	<u>28,216</u>	<u>-</u>	<u>\$ 2,333,818</u>
	<u>\$ 5,615,602</u>	<u>\$ 543,860</u>	<u>\$ 1,152,331</u>	<u>\$ 7,311,793</u>

* In conjunction with its February 2007 issuance of variable rate bonds, the College entered into an agreement with a financial institution counterparty to synthetically fix the interest rate on the bonds at 4.18% (see note 8). This column represents the projected net amounts the College would have to pay the counterparty under the swap contract if interest rates were to remain unchanged from their value at June 30, 2020 during the remaining life of the swap. The variable rate on the bonds as of June 30, 2020 and 2019 was 1.21% and 1.52%, respectively.

The bank provides credit enhancement in the form of a Direct Pay Letter of Credit on the tax-exempt bonds issued under the MHEFA Pool O Bond. The College is a Pool O borrower. The short-term rating of the bank was lowered by Standards & Poor's ("S&P") in March 2009 to "A-2 status". This downgrade resulted in the weekly interest rate on the pool bonds increasing by 200 – 300 basis points. In order to reduce the weekly interest rate on the pool bonds, the bank arranged to have the Federal Home Loan Bank of Boston ("FHLB") provide a confirming Letter of Credit for the Pool O Bonds. The Pool O Bonds, with the bank's Letter of Credit and the FHLB confirming Letter of Credit are rated AA+/A-1+ by S&P. During the fiscal year 2020, the short-term rating of the bank remained at A-2 status.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Clean Energy Investment Project

In fiscal year 2012, the College entered into an agreement with the Department of Capital Asset Management (“DCAM”) to participate in the Massachusetts Clean Energy Investment Program (“CEIP”). Under the program, DCAM was responsible for construction of specific energy conservation projects at the College funded by CEIP funds and proceeds of bonds issued by the Commonwealth. Upon completion of the construction, the College is responsible for reimbursing the Commonwealth for the CEIP funding of \$3.3 million plus interest. The interest rate on this obligation is 4% and semi-annual payments began in January 2013 and run through 2032.

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 153,066	\$ 91,997	\$ 245,063
2022	159,188	85,875	245,063
2023	165,556	79,507	245,063
2024	172,178	72,885	245,063
2025	179,065	65,998	245,063
2026 – 2030	1,008,669	216,646	1,225,315
2031 – 2032	462,213	27,914	490,127
	<u>\$ 2,299,935</u>	<u>\$ 640,822</u>	<u>\$ 2,940,757</u>

Note 8 - **Interest Rate Swap**

Objective and Terms

As a means to manage cash flows and lower its borrowing costs, the College entered into a fixed interest rate swap agreement with Citizens Bank (the "counterparty") in connection with its Pool M3-C Series tax-exempt variable rate bond in February 2007. This bond was replaced during fiscal year 2010 with a MHEFA Pool ‘O’ Series Bond. The purpose of the swap agreement was to synthetically create a fixed rate on the underlying debt, and not for any speculative purposes.

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Interest Rate Swap - Continued**

Objective and Terms - continued

The swap agreement, as amended in October 2010, is scheduled to mature on June 15, 2031. The swap's notional amount at inception was \$7,920,000 and will amortize in line with each payment of principal on the bonds. The notional amount at June 30, 2020 and 2019 was \$5,560,000 and \$5,820,000, respectively. Under the swap agreement, on the first day of each month, the College pays the counterparty monthly payments based on the fixed rate of 4.18% and the counterparty pays the bond trustee the floating rate, which is the Securities Industry and Financial Markets Association Swap Index ("SIFMA"), on the same day.

Fair Value

The fair value of the swap was estimated using the zero-coupon method. This method calculates the future net settlement payment required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. The swaps fair value is measured using Level 2 inputs.

The fair value of the College's interest rate swap at June 30, 2020 was a liability of \$1,593,006 compared to \$1,262,354 at June 30, 2019, which is recorded in the College's statements of net position. The change in the fair value of the interest rate swap was \$(330,652) and \$(307,384) for the years ended June 30, 2020 and 2019, respectively. The College has determined its interest rate swap to be an effective hedge and has recorded a corresponding deferred outflow in the statements of net position.

Credit Risk

The College is reliant upon the performance of the counterparty to perform according to the terms of the interest rate swap agreement. The College monitors the counterparty's credit rating, which is currently rated at A- by S&P. The College is not exposed to credit risk at June 30, 2020 or 2019 because the interest rate swap had a negative value.

Basis Risk

The College is exposed to basis risk on the interest rate swap because the floating rate received on the swap ("SIFMA") has a different basis than the variable rate on the associated bonds. Should these rates differ, the College will not achieve the intended synthetic fixed rate.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Interest Rate Swap - Continued**

Termination Risk

The College or the counterparty may terminate the interest rate swap if the other party fails to perform under the terms of the contract. If, at the time of termination, the interest rate swap is in a liability position, the College would be liable to the counterparty for a payment approximating the liability, subject to netting arrangements.

Note 9 - **Pensions**

Defined-Benefit Plan Description

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

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

Benefit Provisions

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

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

The Commonwealth does not require the College to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$4,331,712, \$3,526,631 and \$3,400,973, for the years ended June 30, 2020, 2019 and 2018, respectively.

For employees covered by SERS but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 14.08%, 12.06% and 11.78% of annual covered payroll for the years ended June 30, 2020, 2019 and 2018, respectively. The College contributed \$1,225,736, \$890,327, and \$984,723 for the years ended June 30, 2020, 2019 and 2018, respectively, equal to 100% of the required contributions for each year.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Pensions - Continued**

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

At June 30, 2020 and 2019, the College reported a liability of \$13,083,931 and \$14,246,192, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2020, the reporting date, was measured as of June 30, 2019, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2020. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2020 relative to total contributions of all participating employers for the fiscal years. At June 30, 2020 and 2019, the College's proportion was .089% and 0.108%, respectively.

For the years ended June 30, 2020 and 2019, the College recognized pension expense of \$1,819,803 and \$1,997,124, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30,:

	<u>2020</u>	<u>2019</u>
<u>Deferred Outflows of Resources Related to Pension</u>		
Contributions made subsequent to the measurement date	\$ 1,225,736	\$ 890,327
Differences between expected and actual experience	434,520	451,778
Changes in proportion from Commonwealth	23,100	38,422
Changes in plan actuarial assumptions	969,838	1,443,792
Changes in proportions due to internal allocations	<u>1,989,688</u>	<u>2,749,463</u>
Total	<u>\$ 4,642,882</u>	<u>\$ 5,573,782</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Pensions - Continued**

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

	<u>2020</u>	<u>2019</u>
<u>Deferred Inflows of Resources Related to Pension</u>		
Differences between expected and actual experience	\$ 170,163	\$ 290,344
Changes in proportion from Commonwealth	665	2,708
Changes in proportions due to internal allocations	2,388,280	1,140,510
Differences between projected and actual investment earnings on plan investments	<u>195,165</u>	<u>495,193</u>
Total	<u>\$ 2,754,273</u>	<u>\$ 1,928,755</u>

The College's contributions of \$1,225,736 and \$890,327 made during the year ended June 30, 2020 and 2019, respectively, subsequent to the measurement date, will be recognized as a reduction of the net pension liability in each of the succeeding years. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2021	\$ 445,550
2022	(65,131)
2023	128,703
2024	154,650
2025	<u>(899)</u>
	<u>\$ 662,873</u>

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Pensions - Continued**

Actuarial Assumptions

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

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

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

- Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females
- Disability – reflects RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct)

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

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

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Pensions - Continued**

Actuarial Assumptions - continued

<u>Asset Class</u>	<u>2020</u>		<u>2019</u>	
	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity	39.0%	4.9%	39.0%	5.0%
Portfolio Completion Strategies	11.0%	3.9%	13.0%	3.7%
Core Fixed Income	15.0%	1.3%	12.0%	0.9%
Private Equity	13.0%	8.2%	12.0%	6.6%
Value Added Fixed Income	8.0%	4.7%	10.0%	3.8%
Real Estate	10.0%	3.6%	10.0%	3.8%
Timber/Natural Resources	4.0%	4.1%	4.0%	3.4%
	<u>100%</u>		<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.35% at June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Pensions - Continued**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - continued

June 30, 2020		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
6.25%	7.25%	8.25%
<hr/>	<hr/>	<hr/>
\$ 17,415,136	\$13,083,931	\$ 9,383,124
June 30, 2019		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
(6.35%)	(7.35%)	(8.35%)
<hr/>	<hr/>	<hr/>
\$ 19,201,876	\$14,246,192	\$ 10,012,288

Note 10 - **Other Post-Employment Benefits (“OPEB”) (Restated)**

Plan Description

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

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

Management of the SRBT is vested with the board of trustees, which consists of 7 members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Other Post-Employment Benefits (“OPEB”) (Restated)**

Plan Description - continued

their designee), the State Treasurer (or their designee), the Comptroller (or a designee), 1 person appointed by the Governor, and 1 person appointed by the State Treasurer. These members elect 1 person to serve as a chair of the board.

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

Benefits Provided

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs, which are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2020 and 2019, and as of the valuation date (January 1, 2019 and 2018), participants contributed 0% to 20%, respectively, of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 7.29% and 8.79% of annual covered payroll for the years ended June 30, 2020 and 2019, respectively. The College contributed \$634,962 and \$649,222 for the years ended June 30, 2020 and 2019, respectively, equal to 100% of the required contribution for each year.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

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

At June 30, 2020 and 2019, the College reported a liability of \$24,665,436 and \$31,174,036, respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 and 2018, respectively. The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal years 2019 and 2018. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2020 and 2019, the College's proportion was 0.141% and 0.088%, respectively.

For the years ended June 30, 2020 and 2019, the College recognized OPEB expense of \$2,563,310 and \$4,193,656, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30, 2020:

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

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

	<u>2020</u>	<u>2019</u>
<u>Deferred Outflows of Resources Related to OPEB</u>		
Contributions subsequent to the measurement date	\$ 634,962	\$ 649,222
Changes in OPEB plan actuarial assumptions	18,979	29,859
Difference between expected and actual experience	989,199	303,932
Changes in proportion from Commonwealth	60,142	80,418
Changes in proportion due to internal allocation	<u>7,952,082</u>	<u>10,411,903</u>
Total deferred outflows related to OPEB	<u>\$ 9,655,364</u>	<u>11,475,334</u>
	<u>2020</u>	<u>2019</u>
<u>Deferred Inflows of Resources Related to OPEB</u>		
Net differences between projected and actual earnings on OPEB plan investments	\$ 11,344	\$ 62,484
Differences between expected and actual experience	31,586	53,411
Changes in OPEB plan actuarial assumptions	3,709,048	2,629,854
Changes in proportion due to internal allocation	<u>5,450,563</u>	<u>-</u>
Total deferred inflows related to OPEB	<u>\$ 9,202,541</u>	<u>\$ 2,745,749</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

The College's contributions of \$634,962 and \$649,222 made during the years ended June 2020 and 2019, respectively, subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the following year.

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

Years Ended	
<u>June 30,</u>	
2021	\$ (213,441)
2022	(213,441)
2023	(83,219)
2024	358,799
2025	<u>(30,837)</u>
	<u>\$ (182,139)</u>

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

Actuarial Assumptions

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

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

The mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

Actuarial Assumptions - continued

The participation rates are actuarially assumed as below:

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

	<u>Retirement Age</u>	
	<u>Under 65</u>	<u>Age 65+</u>
Indemnity	25.0%	85.0%
POS/PPO	60.0%	0.0%
HMO	15.0%	15.0%

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

Actuarial Assumptions - continued

the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

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

Discount Rate

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

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

June 30, 2020		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
2.63%	3.63%	4.63%
\$ 29,442,559	\$ 24,665,436	\$ 20,888,398
June 30, 2019		
Current		
1.00% Decrease	Discount Rate	1.00% Increase
2.92%	3.92%	4.92%
\$ 37,056,019	\$ 31,174,036	\$ 26,507,849

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **OPEB (Restated) - Continued**

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

June 30, 2020		
1.00% Decrease (B)	Cost Trend Rate (A)	1.00% Increase (C)
\$ 20,327,435	\$ 24,665,436	\$ 30,388,964

June 30, 2019		
1.00% Decrease (B)	Cost Trend Rate (A)	1.00% Increase (C)
\$ 26,370,565	\$ 31,174,036	\$ 37,246,417

- (A) - Current healthcare cost trend rate, as disclosed on page 74
- (B) - 1-percentage decrease in current healthcare cost trend rate, as disclosed on page 74
- (C) - 1-percentage increase in current healthcare cost trend rate, as disclosed on page 74

Note 11 - **Contingencies**

Various lawsuits are pending or threatened against the College that arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened, which would materially affect the College's financial position.

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

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11 - **Contingencies - Continued**

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

The College has evaluated the requirements of GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (“GASB 49”), and has determined that asbestos-containing material was used to fireproof some of its buildings. Currently, there are no obligating events, as defined within GASB 49 that require the College to measure and report this pollution remediation obligation. The College has implemented a program to remediate this pollutant.

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

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Operating Expenses**

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

	2020	(Restated) 2019
Compensation and benefits	\$ 78,200,585	\$ 77,607,887
Supplies and services	14,581,541	16,530,489
Depreciation and amortization	4,357,026	3,741,292
Scholarships	12,132,385	10,578,904
	<u>\$ 109,271,537</u>	<u>\$ 108,458,572</u>

Note 13 - **State Appropriations**

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

	2020	2019
Direct unrestricted appropriations	\$ 29,675,870	\$ 28,092,693
Add fringe benefits for benefited employees on the state payroll	<u>10,915,429</u>	<u>10,202,666</u>
Total unrestricted state support	40,591,299	38,295,359
Capital appropriation	<u>1,781,891</u>	<u>622,745</u>
Total state support	<u>\$ 42,373,190</u>	<u>\$ 38,918,104</u>

Note 14 - **Other Fringe Benefits**

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

Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions

Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Fringe Benefits - Continued**

Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions - continued

Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's fringe benefited employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth.

Eligible retirees are required to contribute a specified percentage of 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 development authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns, and a small number of municipalities as an agent-multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the College.

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

The GIC is a quasi-independent state agency governed by an eleven-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2020 and 2019, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered 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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 14 - **Other Fringe Benefits - Continued**

Group Insurance Commission - continued

only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

Other Employee Benefits

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

Note 15 - **Pass-Through Loans**

The College distributed \$3,805,753 and \$4,194,174 for student loans through the U.S. Department of Education Federal Direct Lending Program for the years ended June 30, 2020 and 2019, respectively. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

Note 16 - **Subsequent Events**

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the College's finances and operations cannot be determined.

Subsequent to June 30, 2020, the College announced that all classes, except for those with required in-person labs or clinicals, in the 2020 fall and 2021 spring semesters will be taught online. As a result of the COVID-19 crisis and other factors, student enrollment has decreased for the 2020 fall semester.

**REQUIRED SUPPLEMENTARY
INFORMATION**

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of Net Pension Liability (Unaudited)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2019	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.089%	0.108%	0.095%	0.072%	0.091%	0.104%
Proportionate share of the collective net pension liability	\$ 13,083,931	\$ 14,246,192	\$ 12,158,456	\$ 9,915,602	\$ 10,411,537	\$ 7,723,013
College's covered payroll	\$ 7,382,479	\$ 8,359,278	\$ 7,449,176	\$ 5,464,180	\$ 5,511,376	\$ 7,716,356
College's proportionate share of the net pension liability as a percentage of its covered payroll	177.23%	170.42%	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	66.28%	67.91%	67.21%	63.48%	67.87%	76.32%

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

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,225,736	\$ 890,327	\$ 984,723	\$ 741,193	\$ 516,365	\$ 572,632
Contributions in relation to the statutorily required contribution	<u>(1,225,736)</u>	<u>(890,327)</u>	<u>(984,723)</u>	<u>(741,193)</u>	<u>(516,365)</u>	<u>(572,632)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 8,705,511	\$ 7,382,479	\$ 8,359,278	\$ 7,449,176	\$ 5,464,180	\$ 5,511,376
Contribution as a percentage of covered payroll	14.08%	12.06%	11.78%	9.95%	9.45%	10.39%

Notes:

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

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

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
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**Notes to the Required Supplementary Information - Pension (Unaudited) -
Continued**

For the Year Ended June 30, 2020

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

Measurement date – June 30, 2019

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

Measurement date – June 30, 2018

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

The mortality rate assumptions were changed as follows:

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

Measurement date – June 30, 2017

The mortality rates were changed as follows:

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

BUNKER HILL COMMUNITY COLLEGE
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Notes to the Required Supplementary Information - Pension (Unaudited)

For the Year Ended June 30, 2020

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

Measurement date – June 30, 2016

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

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

Measurement date – June 30, 2015

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

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

The mortality rates were changed as follows:

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

BUNKER HILL COMMUNITY COLLEGE
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Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

		(Restated)	
Year ended	June 30, 2020	June 30, 2019	June 30, 2018
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017
Valuation date	January 1, 2019	January 1, 2018	January 1, 2017
Proportion of the collective net OPEB liability	0.141%	0.088%	0.135%
Proportionate share of the collective net OPEB liability	\$ 24,665,436	\$ 31,174,036	\$ 23,648,250
College's covered payroll	\$ 7,382,479	\$ 8,359,278	\$ 7,449,173
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	334.11%	372.93%	317.46%
Plan fiduciary net position as a percentage of the total OPEB liability	6.96%	7.38%	5.39%

Notes:

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

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions - OPEB (Unaudited)

Massachusetts State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 634,962	\$ 649,222	\$ 745,553
Contributions in relation to the statutorily required contribution	<u>(634,962)</u>	<u>(649,222)</u>	<u>(745,553)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 8,705,511	\$ 7,382,479	\$ 8,359,278
Contribution as a percentage of covered payroll	7.29%	8.79%	8.92%

Notes:

Employers participating in the Massachusetts State Retirees' Benefit Trust 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, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

**Notes to the Required Supplementary Information - OPEB (Unaudited) -
Continued**

For the Year Ended June 30, 2020

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2020

Assumptions:

Change in Inflation

The inflation rate decreased from 3.0% to 2.5%.

Change in Salary Assumptions

Salary decreased from 4.5% to 4.0%.

Change in Investment Rate

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

Change in Trend on Future Costs

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

Change in Discount Rate

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

Fiscal year June 30, 2019

Assumptions:

Change in Trend on Future Costs

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

Change in Mortality Rates

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

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

BUNKER HILL COMMUNITY COLLEGE
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information - OPEB (Unaudited)

For the Year Ended June 30, 2020

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

Fiscal year June 30, 2019 - continued

Change in Discount Rate

The discount rate was increased to 3.92% (based upon a blend of the Bond Buyer Index rate (3.87%) as of the measurement date as required by GASB Statement 74.

Fiscal year June 30, 2018

Assumptions:

Change in Discount Rate

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

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



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

To the Board of Education of
Bunker Hill Community College
Boston, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bunker Hill Community College (the "College"), which comprise the statements of net position and fiduciary net position as of June 30, 2020 and 2019, the related statements of revenues and expenses, changes in net position and fiduciary net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and we have issued our report thereon dated October 19, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "O'Connor + Drew, P.C.".

**Certified Public Accountants
Braintree, Massachusetts**

October 19, 2020