

**MERCER COUNTY
COMMUNITY COLLEGE**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

June 30, 2017

MERCER COUNTY COMMUNITY COLLEGE

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INTRODUCTORY SECTION

MERCER COUNTY COMMUNITY COLLEGE

MEMBERS OF THE BOARD OF TRUSTEES
As of June 30, 2017

BOARD OF TRUSTEES

TERM EXPIRES

Reverend William E. Coleman, Jr.	September 2019
Kevin Drennan (Vice Chair)	March 2020
Carol Golden (Chair)	November 2018
Yasmin Hernandez-Manno	ex-officio by position
Pamela Hersh	November 2014 (expired)
Anthony Inverso	November 2015 (expired)
Walt McDonald (Treasurer)	August 2020
Mark Matzen	November 2014 (expired)
Dwaine Williamson	February 2021
Jianping Wang, Ed.D., President (Secretary)	ex-officio by position
<u>Alumni Trustee:</u>	
Cody Willever	June 2018

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mercer County Community College
West Windsor, New Jersey 08550

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Mercer County Community College ("College"), a component unit of the County of Mercer, State of New Jersey, as of and for the years ended June 30, 2017 and 2016, and the College's discretely presented component unit as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, Mercer County Community College Foundation (the "Foundation"). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit, the Foundation, were audited in accordance with auditing standards generally accepted in the United States of America, but were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (Continued)

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

Opinions

In our opinion, based on our audits, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Comparative Financial Information

The financial statements of the Foundation as of and for the year ended June 30, 2016, were audited by other auditors, whose report dated November 2, 2016, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that *Management's Discussion and Analysis* on pages 5 through 9 and the Schedule of the College's Proportionate Share of Net Pension Liability and Schedule of the College's Pension Contributions on page 37 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance (the "schedules"), and the related notes to the schedules, as well as the schedule of findings and questioned costs, as required by *Title 2 U.S. CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and State of New Jersey Circular Letter 15-08-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance. The financial statements of the discretely presented component unit, the Foundation, were not audited in accordance with *Government Audit Standards*.

Mercedien, P.C.

Certified Public Accountants

December 22, 2017

MERCER COUNTY COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The discussion and analysis section of Mercer County Community College's financial statements presents management's analysis of the College's financial performance during the years ended June 30, 2017, 2016 and 2015. As this discussion and analysis focuses on current activities, resulting changes and current known facts, it must be read in conjunction with the College's basic financial statements and the footnotes. Visit www.mccc.edu for the College's contact information.

Using this Annual Report

This report consists of three basic financial statements and focuses on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The Statement of Net Position presents the financial position of the College, which combines and consolidates current financial resources with capital assets. The Statement of Revenues, Expenses and Changes in Net Position focuses on both the gross costs and the net costs of College activities which are supported mainly by tuition, state and local appropriations, and other revenues. The Statement of Cash Flows shows the sources and uses of the College's cash from operations, noncapital financing, capital and related financing, and investment activities. This approach is intended to summarize and simplify the user's analysis of the cost to provide various College services to students and the public.

The activities of the College's Foundation are considered a component unit of the College due to the fact that the Foundation's activities are entirely for the direct benefit of the College. The financial statements for the Foundation have been included in the reports as a component unit.

Enrollment

The College enrollment is comprised of both credit and non-credit full time equated students. Only credit classes are considered eligible for support under the State of New Jersey funding formula. Despite the continued challenges with enrollment due to the demographic trends within Mercer County and surrounding New Jersey counties, the College experienced a slight decrease in credit hour enrollment in fiscal year 2017. The college is budgeting a slight decline in fiscal year 2018, based on results of the Hanover study from several years ago, which has proven reliable.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017-2016</u>	<u>% Change 2017-2016</u>
Credit Hours	<u>148,600</u>	<u>156,774</u>	<u>156,268</u>	<u>(8,174)</u>	<u>-5.21%</u>

MERCER COUNTY COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Financial Highlights

This schedule is prepared from the College's statement of net position which is presented on an accrual basis of accounting where assets are capitalized and depreciated.

Condensed Schedule of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017-2016</u>
Current Assets	\$ 14,886,797	\$ 14,526,873	\$ 16,806,718	\$ 359,924
Capital Assets, net of Depreciation	76,201,683	67,630,135	60,353,521	8,571,548
Total Assets	<u>91,088,480</u>	<u>82,157,008</u>	<u>77,160,239</u>	<u>8,931,472</u>
Deferred Outflows of Resources	12,754,568	5,168,869	1,082,321	7,585,699
Current Liabilities	9,704,718	9,609,288	12,519,748	95,430
Net Pension Liability	48,335,743	39,382,308	34,422,046	8,953,435
Total Liabilities	<u>58,040,461</u>	<u>48,991,596</u>	<u>46,941,794</u>	<u>9,048,865</u>
Deferred Inflows of Resources	3,313,857	2,313,609	2,472,797	1,000,248
Net Position				
Investment in Capital Assets	76,216,479	67,630,135	60,353,521	8,586,344
Restricted	514,510	703,367	708,413	(188,857)
Unrestricted	<u>(34,242,259)</u>	<u>(32,312,830)</u>	<u>(32,233,965)</u>	<u>(1,929,429)</u>
Total Net Position	<u>\$ 42,488,730</u>	<u>\$ 36,020,672</u>	<u>\$ 28,827,969</u>	<u>\$ 6,468,058</u>

Current assets increased from 2016 to 2017 by \$359,924, due to increases in cash from Chapter 12 monies collected for completed projects. Current assets decreased by \$2,279,845 from 2015 to 2016, due to decreases in cash and receivables.

Capital Assets

Capital activity for the fiscal years ended June 30, 2017, 2016 and 2015 is as follows:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2017</u>	<u>Balance June 30, 2015</u>
Land	\$ 1,599,769	\$ -	\$ -	\$ -	\$ 1,599,769	\$ 1,599,769
Construction in Progress	8,080,175	2,341,953	-	(7,367,272)	3,054,856	7,615,243
Land Improvements	3,623,462	44,490	-	-	3,667,952	3,418,846
Buildings and Improvements	80,524,352	9,136,722	-	7,367,272	97,028,346	72,872,553
Equipment	8,953,010	474,807	-	-	9,427,817	7,221,822
Total	102,780,768	11,997,972	-	-	114,778,740	92,728,233
Less Accumulated Depreciation	<u>(35,150,633)</u>	<u>(3,426,424)</u>	<u>-</u>	<u>-</u>	<u>(38,577,057)</u>	<u>(32,374,712)</u>
Capital Assets, net	<u>\$ 67,630,135</u>	<u>\$ 8,571,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,201,683</u>	<u>\$ 60,353,521</u>

MERCER COUNTY COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Capital Assets (Continued)

Capital assets have increased over the previous year primarily due to both Chapter 12 funded and GO Bond funded projects as follows:

- Major renovations on the West Windsor campus including work at the Engineering buildings.
- Additional renovations at the Physical Education Building

Summary of Revenues, Expenses and Changes in Net Position

The College received its operating revenue from three primary sources; tuition and fees, grants and auxiliary enterprises.

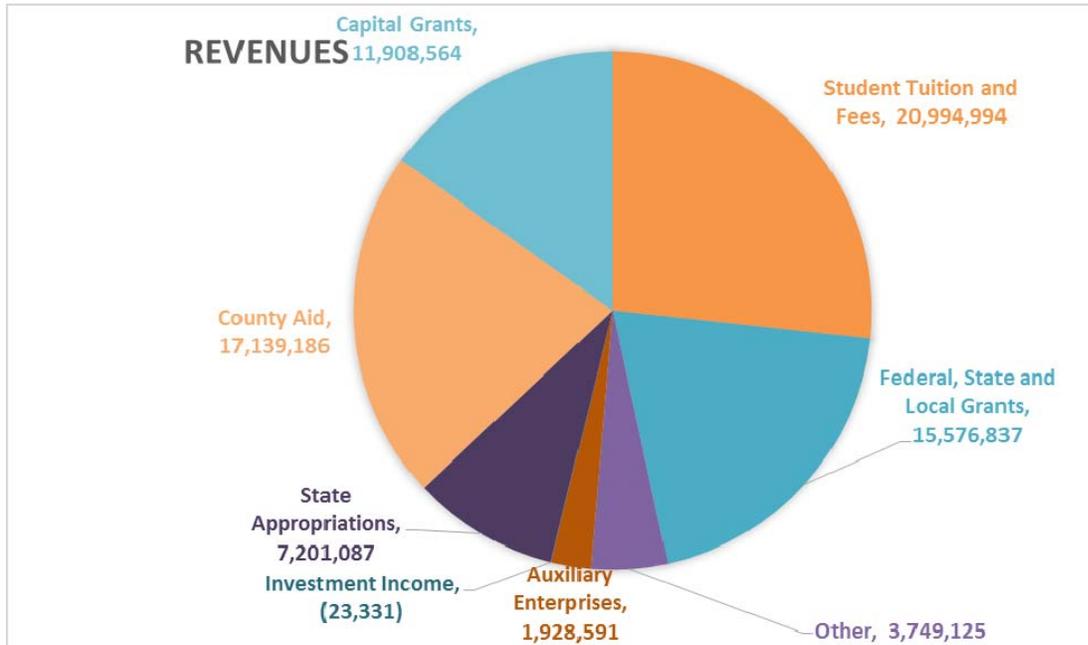
Condensed Schedule of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016 *</u>	<u>2015 *</u>	<u>Change 2017-2016</u>
Operating Revenues:				
Student tuition and fees, net	\$ 20,994,994	\$ 20,526,865	\$ 19,784,347	\$ 468,129
Federal, state, and local grants and student aid	15,576,837	16,319,698	16,051,373	(742,861)
Other	3,749,125	2,675,963	3,201,758	1,073,162
Auxiliary enterprises	1,928,591	2,721,990	3,459,202	(793,399)
Total operating revenues	<u>42,249,547</u>	<u>42,244,516</u>	<u>42,496,680</u>	<u>5,031</u>
Operating expenses:				
Educational and general:				
Instruction	25,670,471	24,159,220	23,426,673	1,511,251
Public service	3,463,979	3,666,368	3,640,847	(202,389)
Academic support	3,654,871	3,537,811	4,878,222	117,060
Student services	4,577,992	4,485,740	4,400,429	92,252
Institutional support	22,628,575	19,894,259	17,597,779	2,734,316
Operations and maintenance of plant	5,844,458	5,960,355	6,504,562	(115,897)
Scholarship and other student aid	2,242,720	3,191,027	3,679,524	(948,307)
Depreciation	3,426,424	2,775,921	2,484,461	650,503
Auxiliary enterprises	497,504	571,278	1,288,429	(73,774)
Total operating expenses	<u>72,006,995</u>	<u>68,241,979</u>	<u>67,900,926</u>	<u>3,765,016</u>
Operating loss	(29,757,448)	(25,997,463)	(25,404,246)	(3,759,985)
Non-operating revenues, net	24,316,942	23,633,684	23,407,141	683,258
Capital grants	11,908,564	9,556,482	6,761,741	2,352,082
Increase in net position	6,468,058	7,192,703	4,764,636	(724,645)
Net position - beginning of year	<u>36,020,672</u>	<u>28,827,969</u>	<u>24,063,333</u>	<u>7,192,703</u>
Net position - end of year	<u>\$ 42,488,730</u>	<u>\$ 36,020,672</u>	<u>\$ 28,827,969</u>	<u>\$ 6,468,058</u>

* Certain account balances have been reclassified to conform with current year presentation.

MERCER COUNTY COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)



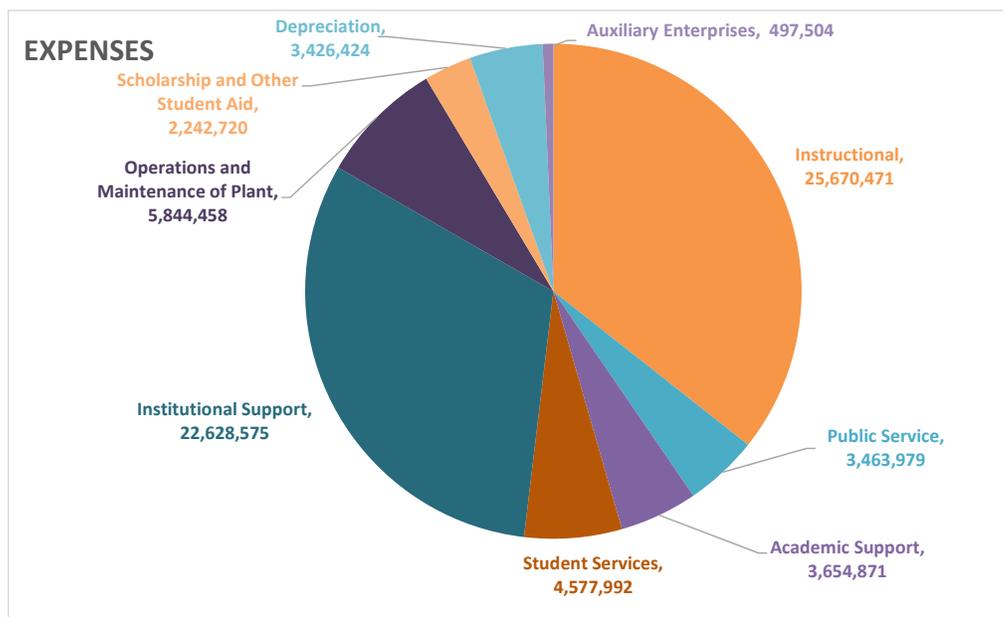
Operating revenues remained steady with a slight increase of \$5,031, from fiscal 2016 to 2017, while in the prior year, operating revenues decreased by \$252,164 from 2015 to 2016, primarily as a result of a decline in student credit enrollment impacting both tuition and fees and related government grants.

Non-operating revenues (state appropriations, county aid and capital grants) increased by \$683,258 and \$226,543 from fiscal year 2016 to 2017 and 2015 to 2016, respectively, due to changes in the State and County's financial support of the College.

Also, Chapter 12 financing in the form of capital grants resulted in revenue from the County totaling \$11,908,564 and \$9,556,482 in fiscal year 2017 and 2016, respectively, due to the renovation projects on both the West Windsor and Trenton Campuses mentioned previously.

MERCER COUNTY COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)



Operating expenses increased \$3,765,016 from fiscal year 2016 to 2017, primarily due to an increase in bad debt expense and offset by reductions elsewhere. Aside from bad debt expense, the majority of the operating expense increase relates to benefits (5% over fiscal year 2016 levels) and the 1.65% increase in salaries due to the settlement of several collective bargaining agreements. Operating expenses increased \$341,053 from 2015 to 2016, also due to bad debt expense with offsets including utilities expenses due to the solar project which is producing 70% of the College's electric energy at the West Windsor Campus.

Economic and Other Factors that will Affect the Future

These are the following significant events that will impact the College's future financial statements.

- The College has experienced declines in enrollment since 2010, which is consistent with the study prepared by the Hanover Institute, which forecasted a continuing decline in enrollment every year totaling an estimated 25% for the five-year period from 2012 through 2017. In 2016 there was a slight increase of .32% compared to 2015, which is an exception thus far.
- All 5 of the college's collective bargaining units have contracts in effect to at least June 30, 2018. Four of the 5 units will begin negotiating for FY2019 and beyond.
- This decreased enrollment will be partially offset by:
 - An expected increase in enrollment resulting from the College's agreement with American Honors, which is a program offered to help students committed to earning a bachelor's degree.
 - The College partnerships with Rutgers, the State University, William Paterson University, Felician College and Fairleigh Dickinson University which could result in an increase in enrollment from students who study at the College for 1-2 years of their college education, and can complete years 3 and 4 at the College with these University partners. There is a potential for a 5th school for fiscal year 2018.
 - The successful implementation of the First Thirty program which focuses on enrollment and retention of students.
 - There are currently several early retirement initiatives, all voluntary that will result in salary savings in the future.
 - A new 5 year grant emphasizing student retention.
 - An increased emphasis on retention of students and new program offerings, especially at the Trenton Campus.

MERCER COUNTY COMMUNITY COLLEGE

STATEMENT OF NET POSITION
As of June 30, 2017, AND 2016

	2017		2016	
	College	Component Unit The Foundation	College	Component Unit The Foundation
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 6,363,073	\$ 514,695	\$ 1,889,005	\$ 576,571
Investments	1,684,317	10,336,340	1,585,699	8,383,482
Accounts Receivable, net	3,877,378	-	5,453,798	-
Interest Receivable	-	-	-	-
Pledges Receivable, net	-	196,187	-	120,429
Inventories	9,611	-	23,082	-
Prepaid Expenses	829,666	-	489,427	-
Capital Appropriation Receivables	2,122,752	-	5,085,862	-
	14,886,797	11,047,222	14,526,873	9,080,482
Non-Current Assets:				
Capital Assets, net	76,201,683	-	67,630,135	-
Total Assets	91,088,480	11,047,222	82,157,008	9,080,482
DEFERRED OUTFLOW OF RESOURCES				
Related to Pensions	12,754,568	-	5,168,869	-
LIABILITIES				
Current Liabilities:				
Accounts Payable	2,198,823	22,053	2,369,967	64,592
Accrued Expenses	2,559,130	-	2,104,903	-
Due from Foundation	-	88,738	-	15,202
Unearned Revenue- Student Tuition and Fees	4,946,765	-	5,134,418	-
	9,704,718	110,791	9,609,288	79,794
Non-Current Liabilities:				
Net Pension Liability	48,335,743	-	39,382,308	-
Total Liabilities	58,040,461	110,791	48,991,596	79,794
DEFERRED INFLOW OF RESOURCES				
Related to Pensions	3,313,857	-	2,313,609	-
NET POSITION				
Net Investment in Capital Assets	76,216,479	-	67,630,135	-
Restricted for:				
Nonexpendable:				
Scholarships	182,878	2,596,198	369,972	1,490,782
Expendable:				
Scholarships and Grants	-	4,347,099	-	4,031,034
Programs	331,632	586,069	333,395	488,625
Capital Improvements	-	662,432	-	482,997
Unrestricted	(34,242,259)	2,744,633	(32,312,830)	2,507,250
Total Net Position	\$ 42,488,730	\$ 10,936,431	\$ 36,020,672	\$ 9,000,688

The accompanying notes to financial statements are an integral part of this statement.

MERCER COUNTY COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2017 and 2016

	2017		2016	
	College	Component Unit The Foundation	College *	Component Unit The Foundation
REVENUES				
Operating Revenues:				
Student Tuition and Fees, net	\$ 20,994,994	\$ -	\$ 20,526,865	\$ -
Federal, State and Local Grants	15,576,837	-	16,319,698	-
Gifts and Contributions	-	1,660,897	-	441,008
Other	3,749,125	153,066	2,675,963	190,391
Auxiliary Enterprises	1,928,591	-	2,721,990	-
Total Operating Revenue	<u>42,249,547</u>	<u>1,813,963</u>	<u>42,244,516</u>	<u>631,399</u>
EXPENSES				
Operating Expenses:				
Educational and General:				
Instruction	25,670,471	-	23,495,715	-
Public Service	3,463,979	-	3,666,368	-
Academic Support	3,654,871	-	4,864,821	-
Student Services	4,577,992	-	4,485,740	-
Institutional Support	22,628,575	-	19,230,754	-
Operations and Maintenance of Plant	5,844,458	-	5,960,355	-
Scholarships and Other Student Aid	2,242,720	501,783	3,191,027	382,512
Depreciation	3,426,424	-	2,775,921	-
Other Expenditures	-	337,581	-	382,209
Auxiliary Enterprises	497,504	-	571,278	-
Total Operating Expenses	<u>72,006,995</u>	<u>839,364</u>	<u>68,241,979</u>	<u>764,721</u>
Operating Loss	<u>(29,757,448)</u>	<u>974,599</u>	<u>(25,997,463)</u>	<u>(133,322)</u>
NON-OPERATING REVENUES (EXPENSES)				
State Appropriations	7,201,087	-	7,044,693	-
County Operating Appropriation				
County Aid	17,139,186	-	16,510,000	-
Investment Income	(23,331)	961,144	78,991	180,017
On-Behalf Payments - Alternate Benefit Program:				
Revenues	1,215,309	-	1,131,090	-
Expenses	<u>(1,215,309)</u>	<u>-</u>	<u>(1,131,090)</u>	<u>-</u>
Net Non-Operating Revenues	<u>24,316,942</u>	<u>961,144</u>	<u>23,633,684</u>	<u>180,017</u>
(Loss) Income Before Other Revenue	(5,440,506)	1,935,743	(2,363,779)	46,695
OTHER REVENUE				
Capital Grants	<u>11,908,564</u>	<u>-</u>	<u>9,556,482</u>	<u>-</u>
Increase in Net Position	6,468,058	1,935,743	7,192,703	46,695
Net Position - Beginning of Year	<u>36,020,672</u>	<u>9,000,688</u>	<u>28,827,969</u>	<u>8,953,993</u>
Net Position - End of Year	<u>\$ 42,488,730</u>	<u>\$ 10,936,431</u>	<u>\$ 36,020,672</u>	<u>\$ 9,000,688</u>

* Certain accounts have been reclassified to conform with current year presentation.

MERCER COUNTY COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS Years Ended June 30, 2017 and 2016

	2017 <u>College</u>	2016 <u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tuition and Fees	\$ 22,383,761	\$ 18,651,877
Receipts from Grants and Contracts	15,576,837	16,319,698
Other Receipts	5,677,716	5,397,953
Payments to Employees and Fringe Benefits	(45,476,837)	(45,005,514)
Payments to Vendors and Suppliers	(18,536,715)	(17,351,261)
Payments for Scholarships and Student Aid	<u>(2,242,720)</u>	<u>(3,191,427)</u>
Net Cash from Operating Activities	<u>(22,617,958)</u>	<u>(25,178,674)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	7,201,087	7,044,693
County Appropriations	<u>17,139,186</u>	<u>16,510,000</u>
Net Cash from Noncapital Financing Activities	<u>24,340,273</u>	<u>23,554,693</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets, net	(11,997,972)	(10,052,535)
Capital Grants	<u>14,871,674</u>	<u>8,316,867</u>
Net Cash from Capital and Related Financing Activities	<u>2,873,702</u>	<u>(1,735,668)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases)/Proceeds on Investments, net	(163,723)	(81,009)
Interest and Dividends on Investments	<u>41,774</u>	<u>48,582</u>
Net Cash from Investing Activities	<u>(121,949)</u>	<u>(32,427)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	4,474,068	(3,392,076)
Cash and Cash Equivalents - Beginning of Year	<u>1,889,005</u>	<u>5,281,081</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,363,073</u>	<u>\$ 1,889,005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating Loss	\$ (29,757,448)	\$ (25,997,463)
Adjustment to Reconcile Operating Loss to Net Cash From Operating Activities:		
Depreciation Expense	3,426,424	2,775,921
Bad Debt Expense	1,470,848	1,551,710
Changes in Assets and Liabilities:		
Receivables	105,573	(1,261,078)
Inventories	13,471	(7,152)
Prepaid Expenses	(340,239)	(44,677)
Accounts Payable and Accrued Expenses	2,651,066	(30,315)
Unearned Revenue	<u>(187,653)</u>	<u>(2,165,620)</u>
Net Cash from Operating Activities	<u>\$ (22,617,958)</u>	<u>\$ (25,178,674)</u>

The accompanying notes to financial statements are an integral part of this statement.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Mercer County Community College (the "College") is a comprehensive, coeducational, community college, founded in 1966. The College is an instrumentality of the State of New Jersey, established to function as a two-year community college. The College is an accredited member of the Middle States Association of Colleges and Schools. The College operates one main campus in West Windsor, New Jersey. In addition, the College operates a campus in the City of Trenton.

The College is a collegiate institution that is dedicated to the intellectual development of students and instilling in them the skills, habits and inclinations with which they will continue to educate themselves. The College is also a community institution that is entrusted with the responsibility of preparing a well-educated and informed citizenry able to undertake the responsibilities of good citizenship. Additionally, the College is a community forum and a source of programs and services that addresses the current and emerging human resource needs of area employers, meets the continuing education needs of a variety of community residents, and enriches the cultural and artistic life of the Mercer County community.

The College is a component unit of the County of Mercer.

Component Unit

Mercer County Community College Foundation (the "Foundation") is a New Jersey non-profit corporation. It is operated exclusively for the purpose of assisting the board of trustees of the College in holding, investing and administering property and making expenditures to or for the benefit of the College, its students and its faculty. The Foundation solicits public and private contributions to carry out its objectives. The Foundation is governed by a board of directors, which includes representation by the College president and several College board members. In addition, College employees and facilities are used to support some activities of the Foundation.

The Foundation meets the requirements for discrete presentation in the financial statements of the College. There were certain presentation adjustments to the financial statements of the Foundation required to conform to the classification and display requirements applicable to the College.

The individual reports of audit of the Foundation for the fiscal years ended June 30, 2017 and 2016, can be obtained at the Foundation offices at the following address during normal business hours:

Mercer County Community College Foundation
1200 Old Trenton Road
West Windsor, New Jersey 08550

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accompanying financial statements include all activities that are directly controlled by the College. In addition, the financial statements include the financial position and activities of the College's discretely presented component unit, the Foundation. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities engaged in business-type activities. The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting and Measurement Focus

For financial reporting purposes, the College is considered a special-purpose government engaged in only business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash, Cash Equivalents and Investments

For the purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

The College accounts for its investments at fair value in the statements of net position. All interest, dividends and realized and unrealized gains and losses are reported as a component of investment income in the statement of revenues, expenses and changes in net position.

Additionally, the College has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include state or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students and various other receivables. Accounts receivable are recorded net of estimated uncollectible amounts. During the year ended June 30, 2017, the College adopted the policy of reserving 100% of all student tuition receivables over two years old and 75% of tuition receivables over one year old. In the previous year, the College's policy was to reserve between 17%-22% of student credit receivables as uncollectible.

Inventories

Inventories, consisting of goods and supplies at the College cafeteria and conference center, are determined on a first-in, first-out method and are stated at the lower of cost or market.

Prepaid Expenses

Prepaid expenses represent payments made to vendors for services that will benefit periods beyond June 30.

Capital Assets

Capital assets include land, buildings, improvements and equipment. Capital assets are defined by the College as assets with an initial unit cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the College are depreciated using the straight-line method over the following useful lives:

	<u>Useful Lives</u>
Land improvements	20
Buildings and building improvements	20-45
Equipment and furnishing	5-20

Unearned Revenue

Unearned revenue represents tuition revenue that has been billed and collected before June 30 for classes that are scheduled to begin the next fiscal year. It also includes cash, which has been received for grants, but not yet earned.

Net Position – The College's net position is classified as follows:

Net Investment in Capital Assets – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Position – Expendable - Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with the restrictions imposed by external third parties.

Restricted Net Position – Non-Expendable - Non-expendable restricted net position consists of endowment and similar types of funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Position - Unrestricted net position represents resources derived from student tuition and fees, state and county appropriations and sales and services of educational departments and auxiliary enterprises. These resources are used for the transactions related to the educational and general operations of the College, and may be used at the discretion of the board of trustees to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Tuition

Each year the board of trustees sets tuition rates based on a per credit hour rate. Rates vary based upon residence within Mercer County, out of county, and international students. Tuition revenue is earned in the fiscal year the classes are taken.

State Aid

The New Jersey Department of Treasury, Office of Management and Budget (“OMB”) allocates the annual appropriation for community college operating aid according to credit hour enrollment as prescribed by N.J.S.A.18A:64A-22. Aid is based upon enrollment, which is made up of credit course categories.

County Aid

N.J.S.A. 18A:64A-22 states that each county which operates a county college shall continue to provide monies for the support of the college in an amount no less than those monies provided in the year in which this act is enacted or 25% of the operational expense in the base state fiscal year, whichever is greater.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship Discounts and Allowances

Student tuition and fees revenue, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowance are the difference between the stated charge for goods and services provided by the College and the amount paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. The amount of scholarship discount and allowances for the fiscal years ended June 30, 2017 and 2016, was \$8,375,340 and \$8,916,947 respectively, which is netted against student tuition and fees.

Federal and State Financial Assistance Programs

The College participates in the following federally funded financial assistance programs; Federal Pell Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Work-Study Grants, and Federal Direct Loan Program (DL). Federal programs are audited in accordance with the Title 2 U.S. CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (formerly OMB A-133) and State of New Jersey Circular Letter 15-08-OMB (formerly Circular Letter 04-04-OMB), Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid.

Financial Dependency

The College's largest revenue sources include appropriations from the State of New Jersey ("State") and County of Mercer and contributions made by the State on behalf of the College for the Alternative Benefit Program. The College is economically dependent on these appropriations to carry on its operations.

Revenue Recognition - License Agreements

During the fiscal year ended June 30, 2006, the College entered into two licensing agreements with Clearwire Spectrum Holdings, LLC for a term of ten years with the option to renew for an additional ten years. Revenue from these agreements is recognized over the life of the license for usage and equipment, in the Statement of Revenue, Expenses, and Changes in Net Position under Operating revenues – Auxiliary Enterprises. In November 2016, the College entered into a five-year lease with the option to renew for an additional five-year term at substantially similar terms.

Classification of Revenues

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most federal, state and local government grants and contracts as well as federal appropriations.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues (Continued)

Non-Operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue, such as state appropriations, county appropriations, investment income and amounts paid by the State of New Jersey on behalf of the College for the employer contribution to the Alternate Benefit Program (“ABP”).

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 certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The College is a political subdivision of the State of New Jersey and is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the College and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the College and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.

Cash and Cash Equivalents

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. Although the College does not have a formal written policy regarding custodial credit risk, N.J.S.A 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the College in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, athletic and student activity funds, or funds that may pass to the College relative to the happening of a future condition. Such funds are shown as uninsured and uncollateralized in the schedule below.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rounding

Some amounts in the financial statements may have dollar differences due to rounding.

B. CASH AND CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2017, and 2016, the College's bank balances were insured, collateralized, and uninsured as follows:

	2017	
	Book	Bank
Insured	\$ 327,952	\$ 328,101
Collateralized under GUDPA	6,030,168	7,220,010
Uninsured	4,953	4,953
	<u>\$6,363,073</u>	<u>\$7,553,064</u>

	2016	
	Book	Bank
Insured	\$ 321,654	\$ 325,019
Collateralized under GUDPA	1,564,381	3,143,153
Uninsured	2,970	2,970
	<u>\$1,889,005</u>	<u>\$3,471,142</u>

Investments

Custodial Credit Risk Related to Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the College, and are held by either the counterparty or the counterparty's trust department or agent but not in the College's name. All of the College's investments are held in the name of the College.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College does not have a formal written policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. does not limit the investment types that County Colleges may purchase and the College has no investment policy that would limit its investment choices.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a college's investment in a single issuer. The College does not place a limit on the amount that may be invested in any one issuer. The College's investments are in United States Treasury Obligations.

As of June 30, 2017, and 2016, the College had the following investments and maturities:

<u>Investment</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	
		<u>2017</u>	<u>2016</u>
United States Treasury Obligations	AAA	<u>\$ 1,684,317</u>	<u>\$ 1,585,699</u>

Fair Value Investments

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The U.S. Treasury securities in the table above are valued using quoted market prices (Level 1 inputs).

C. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of June 30, 2017, and 2016.

	<u>2017</u>	<u>2016</u>
Student accounts receivable	\$ 5,123,626	\$ 5,333,803
Federal, state and local grants receivable	1,969,119	1,250,180
Other accounts receivable	<u>766,950</u>	<u>1,381,286</u>
	7,859,695	7,965,269
Less allowance for doubtful accounts	<u>(3,982,317)</u>	<u>(2,511,471)</u>
Net accounts receivable	<u>\$ 3,877,378</u>	<u>\$ 5,453,798</u>

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

D. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2017, is presented as follows:

	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital assets, Non-Depreciable					
Land	\$ 1,599,769	\$ -	\$ -	\$ -	\$ 1,599,769
Construction in Progress	8,080,175	2,341,953	-	(7,367,272)	3,054,856
	<u>9,679,944</u>	<u>2,341,953</u>	<u>-</u>	<u>(7,367,272)</u>	<u>4,654,625</u>
Capital Assets, Depreciable					
Land Improvements	3,623,462	44,490	-	-	3,667,952
Buildings and Improvements	80,524,352	9,136,722	-	7,367,272	97,028,346
Furniture, Machinery and Equipment	8,953,010	474,807	-	-	9,427,817
	<u>93,100,824</u>	<u>9,656,019</u>	<u>-</u>	<u>7,367,272</u>	<u>110,124,115</u>
Less Accumulated Depreciation for					
Land Improvements	(1,890,648)	(1,314,924)	-	-	(3,205,572)
Buildings and Improvements	(27,461,761)	(1,448,099)	-	-	(28,909,860)
Furniture, Machinery and Equipment	(5,798,224)	(663,401)	-	-	(6,461,625)
	<u>(35,150,633)</u>	<u>(3,426,424)</u>	<u>-</u>	<u>-</u>	<u>(38,577,057)</u>
Total Capital Assets, Depreciable net	<u>57,950,191</u>	<u>6,229,595</u>	<u>-</u>	<u>7,367,272</u>	<u>71,547,058</u>
Capital Assets, net	<u>\$ 67,630,135</u>	<u>\$ 8,571,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,201,683</u>

A summary of changes in the various capital asset categories for the year ending June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Capital assets, Non-Depreciable					
Land	\$ 1,599,769	\$ -	\$ -	\$ -	\$ 1,599,769
Construction in Progress	7,615,243	1,650,404	-	(1,185,472)	8,080,175
	<u>9,215,012</u>	<u>1,650,404</u>	<u>-</u>	<u>(1,185,472)</u>	<u>9,679,944</u>
Capital Assets, Depreciable					
Land Improvements	3,418,846	204,616	-	-	3,623,462
Buildings and Improvements	72,872,553	6,466,327	-	1,185,472	80,524,352
Furniture, Machinery and Equipment	7,221,822	1,731,188	-	-	8,953,010
	<u>83,513,221</u>	<u>8,402,131</u>	<u>-</u>	<u>1,185,472</u>	<u>93,100,824</u>
Less Accumulated Depreciation for					
Land Improvements	(1,226,227)	(664,421)	-	-	(1,890,648)
Buildings and Improvements	(26,013,662)	(1,448,099)	-	-	(27,461,761)
Furniture, Machinery and Equipment	(5,134,823)	(663,401)	-	-	(5,798,224)
	<u>(32,374,712)</u>	<u>(2,775,921)</u>	<u>-</u>	<u>-</u>	<u>(35,150,633)</u>
Total Capital Assets, Depreciable net	<u>51,138,509</u>	<u>5,626,210</u>	<u>-</u>	<u>1,185,472</u>	<u>57,950,191</u>
Capital Assets, net	<u>\$ 60,353,521</u>	<u>\$ 7,276,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,630,135</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$3,426,424 and \$2,775,921, respectively.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

E. ACCRUED COMPENSATED ABSENCES

Accrued vacation represents the College's liability for the cost of unused employee vacation time payable in the event of employee termination. College employees are granted vacation time in varying amounts under the College's personnel policies and labor negotiated contracts. Regular sick leave benefits provide for ordinary sick pay and begin vesting after a predetermined number of years of service, with a maximum payout of \$15,000. As of June 30, 2017 and 2016, the liabilities for accrued compensated absences are included in accrued expenses and consist of the following:

	<u>2017</u>	<u>2016</u>
Vacation	\$ 1,348,866	\$ 1,360,931
Sick	338,580	352,450
Total	<u>\$ 1,687,446</u>	<u>\$ 1,713,381</u>

F. COMPONENTS OF UNRESTRICTED NET POSITION

The following is a summary of the components of unrestricted net position at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Allocated for:		
Unemployment	\$ 500,000	\$ 500,000
Technology	100,000	100,000
Educational Broadcast Service	150,000	150,000
Insurance	100,000	100,000
WWFM Radio	150,000	150,000
Operating revenue	2,652,773	2,214,218
Capital projects	1,000,000	1,000,000
Subtotal	<u>4,652,773</u>	<u>4,214,218</u>
Long-term net, pension liabilities	<u>(38,895,032)</u>	<u>(36,527,048)</u>
Total components of net position	<u>\$ (34,242,259)</u>	<u>\$ (32,312,830)</u>

G. PENSION PLANS

A substantial number of the College's employees participate in one of the two following defined benefit pension plans: (1) the Public Employees' Retirement System ("PERS") or (2) the New Jersey Alternate Benefit Program ("ABP"), both of which are administered and/or regulated by the New Jersey Division of Pensions and Benefits. In addition, a small percentage of part-time College employees participate in the Defined Contribution Retirement Program ("DCRP"), which is a defined contribution pension plan. This plan is administered by Prudential Financial for the New Jersey Division of Pensions and Benefits. Each plan has a board of trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLANS (CONTINUED)

PERS Plan Description

PERS is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955. The PERS plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:38.

Benefits Provided

All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

Contributions

The contribution requirements of plan members are determined by state statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the PERS were initially required to contribute 5.00% of their annual covered salary. Effective July 1, 2008, in accordance with Chapter 92, P. L. 2007 and Chapter 103, P. L. 2007, plan members were required to contribute 5.50% of their annual covered salary. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 6.5% plus an additional 1.00% phased-in over seven years. The phase-in of the additional incremental member contribution amount began July 1, 2012. The member contribution amount increases each subsequent July 1 by 0.14% per year until a 7.50% contribution rate is reached in July 2018. The active member effective contribution rates were 7.06% at July 1, 2015, 6.92% at July 1, 2014 and 6.78% at July 1, 2013. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The College is billed annually for its normal contribution plus any accrued liability. Contributions to PERS from the College were \$1,449,863 and \$1,508,296 for the years ended June 30, 2017 and 2016, respectively.

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

At June 30, 2017 and 2016, the College reported a liability of \$48,335,743 and \$39,382,308 for its proportionate share of the net pension liability. The net pension liabilities were measured as of June 30, 2016 and 2015, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The College's proportionate share of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the plan, actuarial determined. At June 30, 2017 and 2016, the Colleges' proportion of the total for all members was 0.1632019710% and 0.1754379672%, respectively. For the years ended June 30, 2017 and 2016, the College recognized pension expense of \$3,817,847 and \$2,222,837, respectively. The College reported deferred outflows of resources as follows:

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLANS (CONTINUED)

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 898,898	\$ -
Changes in assumptions	10,012,584	-
Net difference between projected and actual investment earnings on pension plan investments	-	3,313,857
Changes in proportion	1,843,086	-
	<u>\$ 12,754,568</u>	<u>\$ 3,313,857</u>
	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 939,524	\$ -
Changes in assumptions	4,229,345	-
Net difference between projected and actual investment earnings on pension plan investments	-	633,192
Changes in proportion	-	1,680,417
	<u>\$ 5,168,869</u>	<u>\$ 2,313,609</u>
	2017	2016
Inflation	3.08%	3.04%
Salary increases	1.65%-4.15% based on age	2.15%- 4.40% based on age
Investment rate of return	7.65%	7.90%

Actuarial Assumptions

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

	2017	2016
Inflation	3.08%	3.04%
Salary increases	1.65%-4.15% based on age	2.15%- 4.40% based on age
Investment rate of return	7.65%	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables, with adjustments for mortality improvements from the base year 2013 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLANS (CONTINUED)

In accordance with State statute, the long term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees, and the actuaries. Best estimates of arithmetic real rates of return of each major asset class included in PERS's target asset allocation as of June 30, 2017, and 2016, are summarized in the following table:

	2017		2016	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Cash	5.00%	0.87%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad US Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equities	9.00%	12.40%	9.25%	12.41%
Hedge Fund/ Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex US	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%
	<u>100.00%</u>		<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 2.85% and 4.29% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projected cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Other Pension Plans

The ABP is a defined contribution pension plan, which was established pursuant to P.L.1969, c. 242 (N.J.S.A. 18A:66-167 et seq.) The ABP provides retirement, death and disability, and medical benefits to qualified members.

The contribution requirements of plan members are determined by state statute. In accordance with N.J.S.A. 18A:66-173, required contributions, calculated on the employee's base pay, are 5% for plan members, and 8.00% for employers. Plan members may make additional voluntary contributions subject to section 403(b) of the Internal Revenue Code.

Under N.J.S.A 18A:66-174, most employer contributions are made by the state on-behalf of the College. The College is responsible for the employer contributions for non-academic employees.

Plan members direct the investment of contributions to insurance companies and mutual fund companies selected by the New Jersey Division of Pensions' Pension Provider Selector Board.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLANS (CONTINUED)

These companies administer plan funds based on alternate benefit contracts with the New Jersey Division of Pensions. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency. The plan carriers are as follows:

Teacher's Insurance and Annuity Association ("TIAAICREF")
ING Life Insurance and Annuity Company
Equitable Life
The Variable Annuity Life Insurance Company ("VALJC")
The Hartford Group
Prudential
MetLife

The College is billed annually for its normal contribution plus any accrued liability.

ABP

Fiscal Year	Total Contribution	Funded by Employee	Funded by State	Paid by College
2017	\$ 1,983,274	\$ 765,089	\$ 1,112,078	\$ 106,107
2016	2,020,763	777,618	1,131,090	112,055
2015	2,057,759	793,877	1,147,425	116,457

The DCRP - The Defined Contribution Retirement Program ("DCRP") is a cost-sharing multiple-employer defined contribution pension fund which was established on July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A 43:15C-1 et seq.), and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L 2010. The Defined Contribution Retirement Program Board oversees the DCRP, which is administered for the Division of Pensions and Benefits by Prudential Financial. The DCRP provides eligible members, and their beneficiaries, with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N.J.S.A. 43:15C-1 et seq.

The contribution requirements of plan members are determined by state statute. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.0% of their annual covered salary. In addition to the employee contributions, the College's contribution amounts for each pay period are transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

The College's contributions, equal to the required contribution for each fiscal year, were as follows:

DCRP

Fiscal Year	Total Contribution	Funded by Employee	Funded by State	Paid by College
2017	\$ 138,919	\$ 89,872	\$ -	\$ 49,046
2016	87,752	56,778	-	30,974
2015	67,634	43,763	-	23,871

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

H. STATE POST EMPLOYMENT BENEFITS

The College participates in a cost sharing multiple-employer defined post-retirement benefit plan PERS, which is administered by the State of New Jersey. PERS provides continued health care benefits to employees retiring after twenty-five years of service. Benefits, contributions, funding and the manner of administration are determined by the State Legislature. The Division of Pension charges the College for its contributions. The total number of employees receiving healthcare benefits was 19, 20 and 23 at June 30, 2017, 2016 and 2015, respectively.

The total cost for these post-retirement benefits approximates \$110,513, \$113,301 and \$102,135 for the years ended June 30, 2017, 2016 and 2015, respectively. Please refer to the State website, www.state.nj.us for more information regarding the plan. The PERS financial report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

I. DEFERRED COMPENSATION SALARY ACCOUNT

The College offers its employees a Deferred Compensation Plan in accordance with Internal Revenue Service Code 457. The Plan, available to full time employees at their option, permits employees to defer a portion of their salary to future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the College or its creditors.

J. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts' theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The College maintains commercial insurance coverage for property (including crime and physical damage, liability (general and automobile), boiler and machinery, and surety bonds.)

Joint Insurance Pool - The College is a member of the New Jersey County College Insurance Pool ("Pool") for the purpose of obtaining workers' compensation insurance coverage. Contributions to the Pool are payable in an annual premium and are based on actuarial assumptions determined by the Pool's actuary. Contributions to the Pool for the fiscal years ended June 30, 2017 and 2016, were \$205,759 and \$230,470, respectively. These contributions are determined by the Pool's underwriters.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

K. EDUCATION AND GENERAL EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

Year Ended June 30, 2017							
	Salaries & Benefits	Supplies & Materials	Services	Scholarships	Utilities	Depreciation	Total
Instruction	\$ 20,926,784	\$ 2,813,595	\$ 1,928,486	\$ -	\$ 1,606	\$ -	\$ 25,670,471
Public Service	2,391,315	665,186	353,826	-	53,652	-	3,463,979
Academic Support	1,953,295	940,560	761,016	-	-	-	3,654,871
Student Services	3,924,360	561,967	91,665	-	-	-	4,577,992
Institutional Support	16,718,544	4,311,479	1,416,723	-	181,829	-	22,628,575
Operation and Maintenance of Plant	2,469,331	506,973	1,473,188	-	1,394,966	-	5,844,458
Scholarship and Other Student Aid	-	-	-	2,242,720	-	-	2,242,720
Depreciation	-	-	-	-	-	3,426,424	3,426,424
Subtotal	<u>\$ 48,383,629</u>	<u>\$ 9,799,760</u>	<u>\$ 6,024,904</u>	<u>\$ 2,242,720</u>	<u>\$ 1,632,053</u>	<u>\$ 3,426,424</u>	<u>\$ 71,509,490</u>
Auxiliary Expenses	<u>\$ 497,504</u>						<u>497,504</u>
						Total Functional Expenses	<u>\$ 72,006,995</u>

Year Ended June 30, 2016 *							
Educational and General Expenditures	Salaries & Benefits	Supplies & Materials	Services	Scholarships	Utilities	Depreciation	Total
Instruction	\$ 19,812,281	\$ 2,283,389	\$ 2,063,550	\$ -	\$ -	\$ -	\$ 24,159,220
Public Service	2,977,001	621,656	67,711	-	-	-	3,666,368
Academic Support	2,652,565	556,866	328,380	-	-	-	3,537,811
Student Services	3,699,564	639,698	146,478	-	-	-	4,485,740
Institutional Support	14,845,973	4,164,077	884,209	-	-	-	19,894,259
Operation and Maintenance of Plant	2,408,187	104,831	1,831,759	-	1,615,578	-	5,960,355
Scholarship and Other Student Aid	-	-	-	3,191,027	-	-	3,191,027
Depreciation	-	-	-	-	-	2,775,921	2,775,921
Subtotal	<u>\$ 46,395,571</u>	<u>\$ 8,370,517</u>	<u>\$ 5,322,087</u>	<u>\$ 3,191,027</u>	<u>\$ 1,615,578</u>	<u>\$ 2,775,921</u>	<u>\$ 67,670,701</u>
Auxiliary Expenses	<u>\$ 571,278</u>						<u>571,278</u>
						Total Functional Expenses	<u>\$ 68,241,979</u>

* Certain account balances have been reclassified to conform with current year presentation.

L. BOOKSTORE

The College has an agreement with Follett, Inc., a private contractor, for the operation of the official Campus Bookstore at both the Trenton and the West Windsor campuses. The agreement is for a period of five years commencing July 1, 2011, and ending June 30, 2016, with an option to renew the contract for an additional five years. On March 18, 2016, the option to renew the contract was exercised and extended through June 30, 2021.

Net commissions paid to the College for the fiscal years ended June 30, 2017 and 2016, were \$435,000 and \$460,205, respectively.

M. LITIGATION

The College is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the College from such litigation is either unknown or potential losses, if any, would not be material to the financial statements or would be covered by insurance less the deductible.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

The significant disclosures of the discretely presented component unit, Mercer County Community College Foundation, are as follows:

NATURE OF ACTIVITIES

The Mercer County Community College Foundation (the "Foundation") is a not-for-profit foundation organized under Section 501(c)(3) of the Internal Revenue Code (the "Code"). It is operated exclusively for the purpose of assisting the board of trustees of Mercer County Community College (the "College") in holding, investing and administering property and making expenditures to or for the benefit of the College, its students and its faculty.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Basis of Presentation

Financial reporting for not-for-profit organizations requires that the Foundation report information regarding its financial position and activity according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

Cash balances maintained at financial institutions may exceed federally insured limits. The Foundation monitors the health of these banking institutions. Historically, the Foundation has not experienced any credit-related losses.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Support and Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present values of their net realizable values, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net position as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are reclassified to unrestricted net assets and reported in the statement of activity in the Foundation financial statements as net assets released from restrictions.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (which happens either when a stipulated time period ends or when a purpose restriction is accomplished) during the reporting period in which the income and gains are recognized.

Pledge receivables with expected collection terms of greater than two years are presented at their net present value. They are discounted utilizing the applicable discount rate of approximately 0.11%, which is in effect at June 30, 2017 and 2016.

Investments

The Foundation carries investments at fair market value. Unrealized gains and losses occurring during the years ended June 30, 2017 and 2016, are presented in the accompanying statement of revenues, expenses and changes in net position.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is a Not-For-Profit Organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code.

The most significant tax position of the Foundation is its assertion that it is exempt from income taxes. Other significant tax positions include its determination of whether any amounts are subject to unrelated business tax (UBIT). Management has determined the Foundation had no activities subject to UBIT in the years ended June 30, 2017 or 2016.

All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

The Foundation is required to file Form 990 (Return of Organization Exempt from Income Tax) which is subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of the tax return. The Forms 990 for 2014 through 2016 are open to examination by the IRS as of June 30, 2017.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. INVESTMENTS

Investments are stated at fair value as of June 30, 2017, and 2016, respectively. The unrealized appreciation (depreciation) reflects differences from cost on a cumulative basis, and consists of the following:

	June 30, 2017		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Corporate Fixed Income	\$4,029,713	\$ 4,028,590	\$ (1,123)
Mutual Funds	5,537,431	6,307,750	770,319
	<u>\$9,567,144</u>	<u>\$10,336,340</u>	<u>\$ 769,196</u>
	June 30, 2016		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Corporate Fixed Income	\$3,583,171	\$ 3,642,038	\$ 58,867
Mutual Funds	4,677,646	4,741,444	63,798
	<u>\$8,260,817</u>	<u>\$ 8,383,482</u>	<u>\$ 122,665</u>

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

2. INVESTMENTS (CONTINUED)

	Year Ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 107,453	\$ 110,800	\$ -	\$ 218,253
Net realized and unrealized gains	333,890	409,001	-	742,891
Total investment return	<u>\$ 441,343</u>	<u>\$ 519,801</u>	<u>\$ -</u>	<u>\$ 961,144</u>

	Year Ended June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividend income	\$ 91,235	\$ 91,904	\$ -	\$ 183,139
Net realized and unrealized gains/(losses)	(16,433)	13,311	-	(3,122)
Total investment return	<u>\$ 74,802</u>	<u>\$ 105,215</u>	<u>\$ -</u>	<u>\$ 180,017</u>

3. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active exchange markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets measured at fair value on a recurring basis as of June 30, 2017, and 2016, are summarized as follows:

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

3. FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair Value Measurements as of June 30, 2017			
	Total	Level 1	Level 2	Level 3
Corporate Fixed Income	\$ 4,028,590	\$ 4,028,590	\$ -	\$ -
Mutual Funds	6,307,750	6,307,750	-	-
	<u>\$ 10,336,340</u>	<u>\$ 10,336,340</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value Measurements as of June 30, 2016			
	Total	Level 1	Level 2	Level 3
Corporate Fixed Income	\$ 3,642,038	\$ 3,642,038	\$ -	\$ -
Mutual Funds	4,741,444	4,741,444	-	-
	<u>\$ 8,383,482</u>	<u>\$ 8,383,482</u>	<u>\$ -</u>	<u>\$ -</u>

The primary objective of the Foundation's investments is capital appreciation and return without undue exposure to risk. Investment funds are selected to support long-term goals, and provide growth of endowment assets at a rate that will provide available funds for expenses and scholarships and growth to endowment assets.

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of pledges at June 30 as follows:

	June 30,	
	2017	2016
Unconditional Promises to Give	\$ 198,256	\$ 120,744
Less: Unamortized Discount	(2,069)	(315)
Net Unconditional Promises to Give	<u>\$ 196,187</u>	<u>\$ 120,429</u>
Amounts Due in:		
Within One Year	\$ 110,925	\$ 24,000
One to Five Years	87,331	96,744
	<u>\$ 198,256</u>	<u>\$ 120,744</u>

Outstanding unconditional promises to give are expected to be collected, accordingly there is no allowance for uncollectible reflected. Unconditional promises to give, which are due in more than one year, are discounted at a risk-free rate of return appropriate for the expected term of the promise to give.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

5. RELATED PARTY TRANSACTIONS

The books of the Foundation are maintained through accounting and administrative services provided by the College. The fair value of these services has not been determined. Therefore, no amounts for these services have been recognized in the statements of revenues, expenses and changes in net position, except for a portion of the salary of one fulltime administrator. "Due to and from Mercer County Community College" accounts are set up to record related party activity between the College and the Foundation. Due to Mercer County Community College was \$88,738 and \$15,202 at June 30, 2017 and 2016, respectively.

6. RESTRICTIONS ON NET ASSETS

Temporarily Restricted Assets

Temporarily restricted assets are available for the following purposes:

	June 30,	
	<u>2017</u>	<u>2016</u>
Scholarships	\$ 4,347,099	\$ 4,031,034
Programs	586,069	488,625
Capital Improvements	662,432	482,997
	<u>\$ 5,595,600</u>	<u>\$ 5,002,656</u>

Net assets were released from donor restrictions as follows:

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Expenses incurred to satisfy donor requirements	<u>\$ 421,453</u>	<u>\$ 354,810</u>

Permanently Restricted Net Assets

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Foundation. Interest and dividend income along with investment gains and losses generated by these assets are unrestricted and available for use by the Foundation.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

7. ENDOWMENT FUNDS

The Foundation's endowment funds consist of approximately four individual funds and nine certificates of deposits established for a variety of purposes. The endowment funds include both donor-restricted endowment funds and funds designated by the Foundation's Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Foundation's Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted state law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by state law. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Foundation and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Foundation.
- (7) The investment policies of the Foundation.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is as follows:

<u>Fund Investments Objectives</u>	<u>Investment Policy</u>	<u>Target Return</u>
Foundation Board Designated Account	Moderate to High risk	8.00%
Foundation Student Assistance Account	Low to Moderate Risk	7.00%-8.00%
Foundation Athletic Account	Low to Moderate Risk	7.00%-8.00%
Foundation Capital Campaign Account	Low to Moderate Risk	7.00%-8.00%

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

N. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (CONTINUED)

7. ENDOWMENT FUNDS (CONTINUED)

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7-8 percent annually.

Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Endowment Net Asset Composition by Fund	June 30,	
	2017	2016
Unrestricted Board Designated Net Assets	\$ 993,317	\$ 1,074,574
Temporarily Restricted Net Assets	170,236	149,774
Permanently Restricted Net Assets	2,596,198	1,490,782
	<u>\$ 3,759,751</u>	<u>\$ 2,715,130</u>

The following table provides information regarding the change in endowment net assets:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ 1,116,445	\$ 168,522	\$ 1,430,943	\$ 2,715,910
Investment Return	-	12,677	-	12,677
Contributions	334,204	-	59,839	394,043
Appropriated for Expenditure	(665,343)	(31,425)	-	(696,768)
Other Changes:				
Reclassification	98,877	-	-	98,877
Board-Designed Endowments	190,391	-	-	190,391
Balance, June 30, 2016	<u>1,074,574</u>	<u>149,774</u>	<u>1,490,782</u>	<u>2,715,130</u>
Investment Return	-	62,293	-	62,293
Contributions	403,272	-	1,105,416	1,508,688
Appropriated for Expenditure	(761,872)	(41,831)	-	(803,703)
Other Changes:				
Reclassification	125,000	-	-	125,000
Board-Designed Endowments	152,343	-	-	152,343
Balance, June 30, 2017	<u>\$ 993,317</u>	<u>\$ 170,236</u>	<u>\$ 2,596,198</u>	<u>\$ 3,759,751</u>

REQUIRED SUPPLEMENTARY INFORMATION

MERCER COUNTY COMMUNITY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION Year Ended June 30, 2017

Schedule of the College's Proportionate Share of the Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>
College's Proportion of the Net Pension Liability	0.1632020%	0.1754377%	0.1838516%
College's Proportionate Share of the Net Pension Liability	48,335,743	39,382,308	34,422,046
College's Covered-Employee Payroll	10,374,208	11,113,543	11,872,074
College's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	466%	354%	290%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	40%	48%	52%

Schedule of the College's Pension Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,449,863	\$ 1,508,296	1,515,646
Contribution in Relation to the Contractually Required Contribution	1,449,863	1,508,296	1,515,646
	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
College's Covered-Employee Payroll	10,374,208	11,113,543	11,872,074
Contributions as a Percentage of Covered-Employee Payroll	14%	14%	13%

SUPPLEMENTARY INFORMATION

MERCER COUNTY COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Program Funds Received	Grant Period		Expenditures
					From	To	
US Department of Education (Direct Funding):							
Student Financial Aid:							
Federal Family Education Loan Program:							
Subsidized	84.268	P268K150476	\$ 1,877,191	\$ 1,877,191	07/01/16	06/30/17	\$ 1,877,191
Unsubsidized	84.268		1,749,800	1,749,800	07/01/16	06/30/17	1,749,800
Federal Pell	84.063	P063P140476	8,529,140	8,529,140	07/01/16	06/30/17	8,529,140
Federal Supplemental Educational Opportunity	84.007	P007A142582	185,150	185,150	07/01/16	06/30/17	185,150
Federal College Work Study	84.033	P033A142582	187,197	187,197	07/01/16	06/30/17	187,197
Total Student Financial Aid Cluster							<u>12,528,478</u>
Other Federal Programs:							
Talent Search	84.044		296,711	296,711	09/01/16	08/31/17	296,711
Talent Search	84.044		59,259	59,259	09/01/15	08/31/16	59,259
Upward Bound	84.047		271,735	271,735	09/01/16	08/31/17	271,735
Upward Bound	84.047		134,899	134,899	09/01/15	08/31/16	134,899
Title III	84.031		207,601	207,601	10/01/16	5 years	207,601
Total Other Federal							<u>970,205</u>
US Department of Education:							
Passed Through New Jersey Department of Education:							
Carl D. Perkins Vocational and Applied Technology Act	84.048		392,169	392,169	07/01/16	06/30/17	392,169
Gear Up	84.334		269,368	269,368	09/26/16	9/25/2017	269,368
Gear Up	84.334		368,524	368,524	09/26/15	9/25/2016	368,524
TAACCCT	17.282		339,255	339,255	10/01/16	09/30/17	339,255
NSF Stem	47.076		127,652	127,652	08/01/15	5 years	127,652
NSF NOYCE	47.076		53,948	53,948	10/01/16	09/30/17	53,948
Activity Grant	84.002		17,978	17,978	07/01/16	06/30/17	17,978
Adult Basic Skills	84.002		622,109	622,109	07/01/16	06/30/17	622,109
21st Century	84.287	EK28	223,541	223,541	09/01/16	08/31/17	223,541
WIA ABE Literacy	17.259		221,792	221,792	07/01/16	06/30/17	221,792
Total Department of Education							<u>2,636,336</u>
U.S. Department of Labor:							
Passed through the State of New Jersey Department of Labor and Workforce Development:							
New Jersey Youth Corps	17.259		241,000	235,221	07/01/16	06/30/17	<u>235,221</u>
U.S. Department of Health and Human Services:							
Passed through the State of New Jersey Division of Family Development:							
Temporary Assistance for Needy Families (TANF)	93.558		54,500	35,928	07/01/16	06/30/17	<u>35,928</u>
Total Federal Assistance							<u>\$ 16,406,168</u>

See notes to schedules of expenditures of federal awards and state financial assistance.

MERCER COUNTY COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2017

<u>State Grantor/Program Title</u>	<u>State Grant Number</u>	<u>Program or Award Amount</u>	<u>Program Funds Received</u>	<u>Grant Period</u>		<u>Expenditures</u>
				<u>From</u>	<u>To</u>	
Student Financial Aid Programs:						
Department of State - Commission on Higher Education:						
Opportunities Program Grants:						
Educational Opportunity Fund - Article III	07-100-074-2401-001	\$ 120,496	\$ 120,496	07/01/16	06/30/17	\$ 120,496
Educational Opportunity Fund - Article III, Summer	07-100-074-2401-001	123,081	123,081	07/01/16	06/30/17	123,081
Educational Opportunity Fund - Article IV	07-100-074-2401-002	220,400	220,400	07/01/16	06/30/17	220,400
New Jersey Stars	07-100-074-2405-313	171,281	171,281	07/01/16	06/30/17	171,281
New Jersey Gear Up	07-100-074-2400-026	19,932	19,932	07/01/16	06/30/17	19,932
College Bound - S.M.I.L.E.	07-100-074-2400-012	186,584	186,584	07/01/16	06/30/17	186,584
Department of the Treasury - Office of Student Assistance:						
Tuition Aid Grants	07-100-074-2405-007	<u>1,368,517</u>	<u>1,368,517</u>	07/01/16	06/30/17	<u>1,368,517</u>
Total Student Financial Aid Programs		<u>2,210,291</u>	<u>2,210,291</u>			<u>2,210,291</u>
Department of the Treasury:						
Chapter 12 Reimbursed Expenses	13-100-082-2155-016	5,252,601	5,252,601	07/01/16	06/30/17	3,346,681
Operational Costs - County Colleges	13-100-082-2155-015	7,201,087	7,201,087	07/01/16	06/30/17	7,201,087
Employer Contributions - Alternative Benefit Program-Faculty	13-100-082-2155-017	925,812	925,812	07/01/16	06/30/17	925,812
Employer Contributions - Alternative Benefit Program-Adjunct	13-100-082-2155-017	186,266	186,266	07/01/16	06/30/17	186,266
Employer Contributions - FICA / TPAF	13-100-082-2155-020	9,742	9,742	07/01/16	06/30/17	9,742
		<u>13,575,508</u>	<u>13,575,508</u>			<u>11,669,588</u>
Department of Labor:						
New Jersey Youth Corps	NTE 'FY17YC	<u>129,500</u>	<u>46,116</u>	07/01/16	06/30/17	<u>46,116</u>
Department of Community Affairs:						
New Jersey Construction Code	07-100-022-5015-801	<u>21,858</u>	<u>21,858</u>	07/01/16	06/30/17	<u>21,858</u>
Total State Financial Assistance		<u>\$15,937,157</u>	<u>\$15,853,773</u>			<u>\$13,947,853</u>

See notes to schedules of expenditures of federal awards and state financial assistance.

MERCER COUNTY COMMUNITY COLLEGE

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Note 1: **General**

The accompanying schedules of expenditures of federal awards and state financial assistance present the activity of all federal and state programs of the College. The College is defined in Note A to the College's basic financial statements. All federal awards and state financial assistance received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies, are included on the schedules of expenditures of federal awards and state financial assistance.

Note 2: **Basis of Accounting**

The accompanying schedules of expenditures of federal awards and state financial assistance are presented using the accrual basis of accounting. The accrual basis of accounting is described in Note A to the financial statements.

Note 3: **Student Loan Programs**

The College is responsible only for the performance of certain administrative duties with respect to Federal Direct Student Loans; accordingly, these loans balances are not included in the College's basic financial statements. It is not practical to determine the balance of loans outstanding to students of the College under this program as of June 30, 2017.

Note 4: **Major Programs**

Major programs are identified in the Summary of Auditors' Results section of the Schedule of Findings and Questioned Costs.

Note 5: **Indirect Cost Rate**

The College utilizes 40% indirect cost rate for all programs for on-campus students and 20% indirect cost rate for all programs for off-campus students.

MERCER COUNTY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***Unmodified***

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards and State Financial Assistance

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None Reported

Type of auditors' report issued on compliance for major programs: ***Unmodified***

Any audit findings disclosed that are required to be reported
in accordance with section 2 CFR 200.516(a) or
State of New Jersey Circular Letter 15-08-OMB? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.268	Federal Family Education Loan Program
84.063	Federal Pell Grant Program (PELL)
84.007	Federal Supplemental Educational Opportunity Grant (FSEOG)
84.033	Federal College Work Study Program (FWS) TRIO Cluster
84.048	Carl D. Perkins Vocational and Applied Technology Act

MERCER COUNTY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended June 30, 2017

Section I - Summary of Auditors' Results (Continued)

Identification of major programs:

<u>State Grant Number</u>	<u>Name of State Program</u>
13-100-082-2155-016	Chapter 12 Reimbursed Expenses
13-100-082-2155-015	Operational Costs-County Colleges

Dollar threshold used to distinguish between type A and type B programs:

Federal and State \$750,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None

Section III – Federal Award and State Financial Assistance Findings and Questioned Costs

None

MERCER COUNTY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended June 30, 2017

Section IV – Prior Year Audit Findings

Finding 2016-001

Student Financial Assistance Cluster

Grantor: Department of Education (“USDOE”)

Condition

The College did not return the amount of Title IV funds timely to the USDOE, for one out of 20 students selected for testing.

Recommendation

Management should institute a formal control to review the listing of students who withdrew on a monthly basis and verify that all applicable refunds have been sent in a timely manner.

Current Status

This finding has been resolved.

Finding 2016-002

Student Financial Assistance Cluster

Grantor: Department of Education (“USDOE”)

Condition

We tested a sample of 20 students who withdrew from courses, and noted that four students selected for testing enrolled in the spring 2016 semester did not receive the correct amount of return of unearned aid based on the withdrawal date calculation.

In determining the amount of unearned aid to be returned, the College incorrectly calculated the number of days in the spring 2016 semester, therefore, an underpayment to the USDOE and an overpayment to the students of \$9.64 occurred. Also during the spring 2016 semester, a student’s number of completed days was improperly calculated, resulting in an underpayment to the student and an overpayment to the USDOE in the amount of \$45.22. This nets to an overpayment to the USDOE in the amount of \$35.58.

Recommendation

We recommend that management institute a formal control to review the withdrawal date calculations and any overrides in the system.

Current Status

This finding has been resolved.

MERCER COUNTY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Year Ended June 30, 2017

Section IV – Prior Year Audit Findings (Continued)

Finding 2016-003

Grantor: New Jersey Department of Education- 21st Century

Condition

Various required reports were not completed timely.

Recommendation

We recommend that management institute a formal control to review ensure reports are submitted on time.

Current Status

This finding has been resolved.

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

Board of Trustees
Mercer County Community College
West Windsor, New Jersey 08550

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 the business-type activities of Mercer County Community College (the "College"), in the County of Mercer, State of New Jersey, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 22, 2017.

We did not audit the financial statements of the discretely presented component unit, Mercer County Community College Foundation (the "Foundation"). Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditor. In addition, these financial statements were audited in accordance with auditing standards generally accepted in the United States of America, but were not audited in accordance with Government Auditing Standards.

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") 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 College'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.

**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
(CONTINUED)**

Internal Control Over Financial Reporting

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 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.

Merodien, P.C.
Certified Public Accountants

December 22, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE AND STATE OF NEW JERSEY CIRCULAR LETTER 15-08-OMB

Board of Trustees
Mercer County Community College
West Windsor, New Jersey, 08550

Report on Compliance for Each Major Federal and State Program

We have audited Mercer County Community College's (the "College") compliance with the types of compliance requirements described in the OMB Compliance Supplement and New Jersey State Grant Compliance Supplement that could have a direct and material effect on each of the College's major federal and state programs for the year ended June 30, 2017. The College's major federal and state programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards and state financial assistance applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance") and the State of New Jersey Circular Letter 15-08-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid ("Circular Letter 15-08-OMB"). Those standards, Uniform Guidance and Circular Letter 15-08-OMB require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the College's compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE AND STATE OF NEW JERSEY CIRCULAR LETTER 15-08-OMB (CONTINUED)

Opinion on Each Major Federal and State Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and Circular Letter 15-08-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Circular Letter 15-08-OMB. Accordingly, this report is not suitable for any other purpose.

Mercadieu, P.C.
Certified Public Accountants

December 22, 2017