

**QUINCY COLLEGE**

*(an Enterprise Department of the City of Quincy)*

**REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS**

**FISCAL YEAR ENDED JUNE 30, 2008**

QUINCY COLLEGE

(an Enterprise Department of the City of Quincy)

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2008

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## Independent Auditors' Report

To the Honorable Board of Governors  
Quincy College  
Quincy, Massachusetts

We have audited the accompanying financial statements of Quincy College (the College), an enterprise fund of the City of Quincy, Massachusetts, as of and for the fiscal year ended June 30, 2008, which collectively comprise the College's basic financial statements as listed in the table of contents. The financial statements represent the College activities and do not purport to represent the financial activity of the City of Quincy, Massachusetts, as a whole. These financial statements are the responsibility of the Quincy College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

These financial statements present only the financial activity and position of the of enterprise fund department and do not include trust funds held by the Treasurer of the City of Quincy, Massachusetts for the benefit of the College nor do they include the financial activity or position of the Quincy College Trust, Inc which is a separate legal entity. Also excluded from these statements are certain long term liabilities for other post-retirement health care benefits, as measured under GASB Statement #45, and workers compensation.

In our opinion, except for the matters discussed in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Quincy College of the City of Quincy, Massachusetts, as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, located on the following pages, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

December 8, 2008

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of Quincy College (the College), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. The College complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. All amounts, unless otherwise indicated, are expressed in whole dollars.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to Quincy College's basic financial statements. The basic financial statements include: 1) the statement of net assets, 2) the statement of revenues, expenses and changes in net assets, 3) the statement of cash flows, and 4) notes to the financial statements. The financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating

The *statement of revenues, expenses, and changes in fund net assets* summarizes our operating results and reveals how net assets changed during the year.

The *statement of cash flows* provides information about the cash receipts and cash payments during the accounting period. It also provides information about the operating activities, non-capital and capital related financing activities, and investing activities for the same period.

### ***Financial Highlights***

The College's net assets exceed liabilities by \$12.1 million at the close of the most recent fiscal year. Key components of the College's net assets are presented on the following page.

### **Condensed Statement of Net Assets**

	2008	2007
<b>Assets:</b>		
Current assets.....	\$ 12,251,644	\$ 13,365,679
Noncurrent assets (excluding capital).....	1,133,000	1,133,000
Capital assets, net of accumulated depreciation.....	1,613,081	196,142
<b>Total assets.....</b>	<b>14,997,725</b>	<b>14,694,821</b>
<b>Liabilities:</b>		
Current liabilities.....	2,658,055	3,175,338
Noncurrent liabilities.....	159,547	147,226
<b>Total liabilities.....</b>	<b>2,817,602</b>	<b>3,322,564</b>
<b>Net Assets:</b>		
Invested in Capital Assets.....	1,613,081	196,143
Restricted for Capital Purposes.....	1,133,000	1,133,000
Unrestricted.....	9,434,042	10,043,114
<b>Total net assets.....</b>	<b>\$ 12,180,123</b>	<b>\$ 11,372,257</b>

The College's net of \$1.6 million (11%) reflects its investment in capital assets (e.g. furnishings, leasehold improvements, building improvements, etc). These assets are used to provide services to students and faculty; consequently, these assets are *not* available for future spending.

An additional portion of net assets of \$1.1 million (9.5%) represents the prior year acquisition of Saville Hall. This building was acquired by the City of Quincy, Massachusetts, for specific use by the College. The current organizational structure of the City and the College requires the City to hold title to the actual building. The College is recognizing a capitalized deposit because the actual cash outlay involved cash reserves held by the City for the College.

The remaining balance of net assets \$9.4 million (79.5%) may be used to meet the College's ongoing obligations to students, employees and other stakeholders.

### **Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	2008	2007
Operating revenue.....	\$ 16,150,063	\$ 15,131,136
Operating expenses.....	(15,591,066)	(15,325,295)
Operating income (loss).....	558,997	(194,159)
Non-operating revenues (expenses), net.....	248,869	1,228,647
Change in Net Assets.....	\$ 807,866	\$ 1,034,488

Operating revenues increased over the previous year by \$1 million or 6.7%, while operating expenses increased by \$587,000 or 3.5%. The increase in operating revenues primarily relates to increased enrollments. The increase in operating expenditures primarily relates to expenses associated with moving to new facilities and the hiring of faculty and staff.

### ***Capital Administration***

During the year the College increased the capital asset cost base by \$1.47 million. The increase is related to the renovation work underway at Saville Hall as well as the leasehold improvements at the Newport Avenue facility. The Saville Hall renovations were complete by the start of the 2008-2009 school year and the College will begin depreciating these assets during FY2009.

### ***Requests for Information***

This financial report is designed to provide a general overview of Quincy College's finances for all those with an interest in the College's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President of Administration and Finance, 24 Saville Avenue, Quincy, Massachusetts, 02169.

# ***Financial Statements***

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STATEMENT OF NET ASSETS

JUNE 30, 2008

**ASSETS**

**CURRENT:**

Funds in custody of City Treasurer:

Operating cash and cash equivalents.....	\$ 9,573,219
Investments.....	2,393,529
Accounts receivable, net of allowance for uncollectibles.....	
Student accounts and other.....	284,896

Total current assets.....	12,251,644
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**NONCURRENT:**

Deposit on purchase of property.....	1,133,000
Capital assets, net of accumulated depreciation.....	1,613,081

Total noncurrent assets.....	2,746,081
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TOTAL ASSETS.....	14,997,725
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**LIABILITIES**

Accrued payroll.....	540,446
Accounts payable.....	777,094
Deferred revenue.....	677,444
Contingent liability.....	180,000
Other liabilities.....	454,916
Compensated absences.....	28,155

Total current liabilities.....	2,658,055
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**NONCURRENT LIABILITIES:**

Compensated absences.....	159,547
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TOTAL LIABILITIES.....	2,817,602
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**NET ASSETS**

Invested in capital assets.....	1,613,081
Restricted for capital purposes.....	1,133,000
Unrestricted.....	9,434,042

TOTAL NET ASSETS.....	\$ 12,180,123
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See notes to basic financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

<u>OPERATING REVENUES:</u>	
Tuition, net of discounts of \$372,568 .....	\$ 14,875,805
Books and fees.....	1,100,515
Grant income.....	173,743
	16,150,063
 <u>OPERATING EXPENSES:</u>	
Payroll .....	9,316,441
Custodial salary.....	142,277
Grant expenses.....	173,743
Overtime civil service expense.....	32,372
Employee benefits.....	1,148,846
Pension.....	788,716
Other operating expenses.....	3,751,822
Depreciation.....	236,849
	15,591,066
OPERATING INCOME.....	558,997
 <u>NONOPERATING REVENUES (EXPENSES):</u>	
Investment income.....	403,888
Credit card fees.....	(131,237)
Indirect cost allocation to City of Quincy.....	(103,000)
Contributions.....	79,218
	248,869
CHANGE IN NET ASSETS.....	807,866
NET ASSETS AT BEGINNING OF YEAR.....	11,372,257
NET ASSETS AT END OF YEAR.....	\$ 12,180,123

See notes to basic financial statements.

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2008

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 16,400,770
Payments to vendors.....	(4,459,272)
Payments to employees.....	(9,316,441)
Pension and employee related expenses.....	<u>(2,263,466)</u>
 NET CASH FROM OPERATING ACTIVITIES.....	 <u>361,591</u>
 <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>	
Contributions.....	79,218
Indirect cost allocation to City of Quincy.....	(103,000)
Credit card fees.....	<u>(131,237)</u>
 NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	 <u>(155,019)</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and construction of capital assets.....	<u>(1,473,788)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Sale / (purchase) of investments, net.....	(92,600)
Investment income.....	<u>403,888</u>
 NET CASH FROM INVESTING ACTIVITIES.....	 <u>311,288</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS.....	 (955,928)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	 <u>10,529,147</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR.....	 \$ <u><u>9,573,219</u></u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>	
<u>FROM OPERATING ACTIVITIES:</u>	
Operating Income (loss).....	\$ 558,997
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	236,849
Changes in assets and liabilities:	
Accounts receivable.....	250,707
Accrued payroll.....	155,053
Accounts payable.....	216,706
Compensated absences.....	32,726
Deferred revenue.....	(741,058)
Other liabilities.....	<u>(348,389)</u>
 Total adjustments.....	 <u>(197,406)</u>
 NET CASH FROM OPERATING ACTIVITIES.....	 \$ <u><u>361,591</u></u>

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Quincy College have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

Quincy College is a two-year, municipally affiliated college, operating as an enterprise department of the City of Quincy, Massachusetts and serving approximately 4,100 students at campuses in Quincy and Plymouth, Massachusetts. The College is accredited by the New England Associations of Schools and Colleges and is licensed by the Massachusetts Department of Higher Education to grant the degrees of Associate in Arts and Associate in Science. The College offers 19 associate degree courses programs and 9 certificate programs in a variety of disciplines, including those within liberal arts, business, allied health, and science. For 50 years Quincy College has been providing access to higher education for people of all backgrounds, cultures and economic levels.

These financial statements present only the financial activity and position of Quincy College, an enterprise fund department of the City of Quincy, and do not include trust funds held by the Treasurer of the City of Quincy, Massachusetts for the benefit of the College nor do they include the financial activity or position of the Quincy College Trust, Inc which a separate legal entity.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Cash and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

**D. Accounts Receivable**

The recognition of revenue related to accounts receivable reported in the financial statements are reported under the accrual basis of accounting.

**E. Capital Assets**

Capital assets, which include construction in progress, leasehold improvements, and machinery, equipment, and furnishings, are reported in the financial statements. Capital assets are recorded at historical cost or at estimated historical cost when actual historical cost could not be determined. Donated capital assets are recorded at the estimated fair market value at the date of donation. Construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Leasehold improvements.....	5
Machinery, equipment and furnishings....	5-10

F. Deferred Revenue

Deferred revenue represents tuition charges for courses that have not occurred as of the balance sheet date. College policies dictate that 100% refunds are given to students who drop a course within the 1<sup>st</sup> week of classes. Courses dropped after the 1<sup>st</sup> week of classes but before the 14<sup>th</sup> class will receive a 50% refund. No refunds are given after the 14<sup>th</sup> day of classes.

G. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

H. Pension Participation

Employees of the College are members of the Quincy Contributory Retirement System (the System), a multi-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Plan members are required to contribute between 5% and 11% of their annual covered compensation, in accordance with Commonwealth of Massachusetts regulations, are withheld by the College and forwarded to the System on a periodic basis as determined by the Treasurer of the City of Quincy, Massachusetts.

The College is assessed a yearly amount (employer share) according to the overall funding schedule of the System as determined by a biennial actuarial study. Please refer to the separately audited financial statements of the City of Quincy, Massachusetts and the System for specific information concerning the funding status of the system. These statements may be obtained by contacting the City of Quincy’s Director of Municipal Finance, 1305 Hancock Street, Quincy, MA 02169.

The College contribution to the system for the fiscal years ended June 30, 2008, 2007 and 2006 were \$788,716, \$919,222 and \$956,997, respectively, which equaled its required contribution for each fiscal year.

**NOTE 2 – CASH AND INVESTMENTS**

Cash of the College is under the control of the Treasurer of the City of Quincy, Massachusetts, as required by state law. Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Responsibility for enforcing policies addressing custodial credit risk of the College's deposits vests with the City Treasurer. The Treasurer maintains separate accounts for College activities however the determination of the custodial credit risk involves the commingled of non-College bank accounts under the control of the City Treasurer. Due to the custodial responsibility of the College's cash, information custodial credit risk information is not available.

At fiscal year-end, the carrying amount of deposits totaled \$9,573,219, and the bank balance totaled \$9,614,284.

Investments

As of June 30, 2008, the College's investments consisted of \$2,393,529 invested in mutual funds.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the College will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The \$2,393,528 invested in mutual funds is not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The College does not have an investment policy related to custodial credit risk.

**NOTE 3 – RECEIVABLES**

At June 30, 2008, receivables including the applicable allowance for uncollectible accounts are as follows:

	<u>Gross Amount</u>
<u>Receivables:</u>	
Student accounts .....	\$ 419,008
Student health insurance .....	361,511
Student non credit courses.....	28,192
Due from Quincy College Trust.....	53,329
Due from City of Quincy.....	<u>122,882</u>
Sub-total.....	984,922
Less: Allowance for doubtful accounts.....	<u>(700,026)</u>
Total.....	<u>\$ 284,896</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity of the College for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ -	\$ 789,413	\$ -	\$ 789,413
<u>Capital assets being depreciated:</u>				
Leasehold improvements.....	1,834,489	864,375	-	2,698,864
Machinery, equipment and furnishings.....	<u>1,637,227</u>	<u>-</u>	<u>-</u>	<u>1,637,227</u>
Total capital assets being depreciated.....	<u>3,471,716</u>	<u>864,375</u>	<u>-</u>	<u>4,336,091</u>
<u>Less accumulated depreciation for:</u>				
Leasehold improvements.....	(1,714,478)	(218,621)	-	(1,933,099)
Machinery, equipment and furnishings.....	<u>(1,561,096)</u>	<u>(18,228)</u>	<u>-</u>	<u>(1,579,324)</u>
Total accumulated depreciation.....	<u>(3,275,574)</u>	<u>(236,849)</u>	<u>-</u>	<u>(3,512,423)</u>
Total capital assets being depreciated, net.....	<u>196,142</u>	<u>627,526</u>	<u>-</u>	<u>823,668</u>
Total capital assets, net.....	<u>\$ 196,142</u>	<u>\$ 627,526</u>	<u>\$ -</u>	<u>\$ 1,613,081</u>

Depreciation expense charged during the fiscal year was \$236,849.

**NOTE 5 – OPERATING LEASES**

The College leases certain premises and equipment under operating leases with various expiration dates that extend through 2012. The leases generally provide that the College pay certain maintenance costs and include various renewal provisions. Rent expense 2008 amounted to \$1,530,653. The College’s minimum future obligations under non-cancelable leases are as follows:

2009.....	\$ 1,702,080
2010.....	1,465,968
2011.....	1,465,968
2012.....	1,223,764
2013.....	<u>214,318</u>
Total.....	\$ <u>6,072,098</u>

**NOTE 6 – CHANGES IN LONG-TERM LIABILITIES**

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Balance June 30, 2007	Net Increase (Decrease)	Balance June 30, 2008	Current Portion
Compensated absences.....	\$ <u>154,976</u>	\$ <u>(154,976)</u>	\$ <u>-</u>	\$ <u>4,244,155</u>

**NOTE 7 – CONTINGENCIES**

As an enterprise department of the City of Quincy, the College participates in a federal award program which has been audited in accordance with the provisions of the Single Audit Act Amendments of 1996. The City issues one single audit report for all federal award programs, which includes the Colleges federal award programs. Please refer to this report which can be obtained by contacting the Director of Municipal Finance of the City of Quincy. The programs are still subject to financial and compliance audits as determined by grantor oversight agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

During fiscal year 2008 the College established operations at Newport Hall. The terms of the lease agreement required the landlord to assume financial responsibility for construction costs to renovate the leased space into a suitable classroom environment. Prior to the completion of the project the landlord had presented the College with a bill for additional required work and certain cost escalations. At fiscal year end this bill was in dispute. The College anticipates the ultimate resolution of the payment of the bill to occur during FY2009. The financial statements have recorded a liability for this claim and the related leasehold improvement has been capitalized as construction in process.