

**MASSACHUSETTS COLLEGE OF
LIBERAL ARTS FOUNDATION, INC.**
(a component unit of Massachusetts College of Liberal Arts)

FINANCIAL STATEMENTS

JUNE 30, 2016

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Financial Statements

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Massachusetts College of Liberal Arts Foundation, Inc.
North Adams, Massachusetts

Report of Financial Statements

We have audited the accompanying financial statements of Massachusetts College of Liberal Arts Foundation, Inc. (a component unit of the Massachusetts College of Liberal Arts) (the "Foundation"), which comprise the statements of financial position as of June 30, 2016 and 2015, the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2016 and 2015, and the respective changes in net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016 on our consideration of the Foundation'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 Foundation's internal control over financial reporting and compliance.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 29, 2016

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Statements of Financial Position

June 30, 2016 and 2015

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Statements of Financial Position

June 30,

Assets

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and equivalents	\$ 1,814,317	\$ 2,059,255
Investments	10,249,075	10,283,451
Unconditional promises to give	698,253	614,298
Prepaid expenses	<u>23,239</u>	<u>17,356</u>
Total Current Assets	<u>12,784,884</u>	<u>12,974,360</u>
Property and Equipment	<u>1,920,727</u>	<u>2,162,099</u>
Other Assets:		
Unconditional promises to give, net of current portion	3,185,753	3,463,602
Other assets	<u>6,802</u>	<u>7,342</u>
Total Other Assets	<u>3,192,555</u>	<u>3,470,944</u>
Total Assets	<u>\$ 17,898,166</u>	<u>\$ 18,607,403</u>

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

Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current portion of long-term debt	\$ 52,442	\$ 49,704
Current portion of charitable gift annuity liability	2,250	-
Accounts payable and accrued expenses	4,125	14,217
Due to Massachusetts College of Liberal Arts	<u>447,391</u>	<u>163,174</u>
Total Current Liabilities	506,208	227,095
Long-Term Liability:		
Long-term debt, net of current portion	854,549	906,988
Charitable gift annuity liability, net of current portion	<u>33,574</u>	<u>-</u>
Total Long-Term Liabilities	<u>888,123</u>	<u>906,988</u>
Total Liabilities	<u>1,394,331</u>	<u>1,134,083</u>
Net Assets:		
Unrestricted:		
Board designated	657,043	662,588
Undesignated	1,179,256	1,916,011
Temporarily restricted	2,609,945	3,112,481
Permanently restricted	<u>12,057,591</u>	<u>11,782,240</u>
Total Net Assets	<u>16,503,835</u>	<u>17,473,320</u>
Total Liabilities and Net Assets	<u>\$ 17,898,166</u>	<u>\$ 18,607,403</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions and grants	\$ 297,649	\$ 440,068	\$ 275,351	\$ 1,013,068
Special fundraising	22,808	-	-	22,808
Contributed services	75,597	-	-	75,597
Investment return	7,441	14,898	-	22,339
Rental income	189,630	-	-	189,630
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>957,502</u>	<u>(957,502)</u>	-	-
Total Revenues	<u>1,550,627</u>	<u>(502,536)</u>	<u>275,351</u>	<u>1,323,442</u>
Contributions, Scholarships and Expenses:				
Program services:				
Contributions to Massachusetts College of Liberal Arts (MCLA)	1,102,604	-	-	1,102,604
Donations to Commonwealth of Massachusetts	202,572	-	-	202,572
Scholarships for benefit of MCLA students	363,547	-	-	363,547
Functional expenses:				
Building	166,625	-	-	166,625
Management and general	246,353	-	-	246,353
Contributed services	75,597	-	-	75,597
Fundraising	<u>135,629</u>	<u>-</u>	<u>-</u>	<u>135,629</u>
Total Contributions, Scholarships and Expenses	<u>2,292,927</u>	<u>-</u>	<u>-</u>	<u>2,292,927</u>
Changes in Net Assets	(742,300)	(502,536)	275,351	(969,485)
Net Assets, Beginning of Year	<u>2,578,599</u>	<u>3,112,481</u>	<u>11,782,240</u>	<u>17,473,320</u>
Net Assets, End of Year	<u>\$ 1,836,299</u>	<u>\$ 2,609,945</u>	<u>\$ 12,057,591</u>	<u>\$ 16,503,835</u>

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

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions and grants	\$ 223,917	\$ 427,597	\$ 204,411	\$ 855,925
Special fundraising revenue	28,505	-	-	28,505
Contributed services	85,286	-	-	85,286
Investment return	(40,612)	172,581	-	131,969
Rental income	189,630	-	-	189,630
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>1,128,831</u>	<u>(1,128,831)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>1,615,557</u>	<u>(528,653)</u>	<u>204,411</u>	<u>1,291,315</u>
Contributions, Scholarships and Expenses:				
Program services:				
Contributions to Massachusetts				
College of Liberal Arts (MCLA)	921,283	-	-	921,283
Scholarships for benefit of				
MCLA Students	353,164	-	-	353,164
Functional expenses:				
Building	160,875	-	-	160,875
Management and general	233,074	-	-	233,074
Contributed services	85,286	-	-	85,286
Fundraising	<u>109,931</u>	<u>-</u>	<u>-</u>	<u>109,931</u>
Total Contributions, Scholarships and Expenses	<u>1,863,613</u>	<u>-</u>	<u>-</u>	<u>1,863,613</u>
Changes in Net Assets	(248,056)	(528,653)	204,411	(572,298)
Net Assets, Beginning of Year	<u>2,826,655</u>	<u>3,641,134</u>	<u>11,577,829</u>	<u>18,045,618</u>
Net Assets, End of Year	<u>\$ 2,578,599</u>	<u>\$ 3,112,481</u>	<u>\$ 11,782,240</u>	<u>\$ 17,473,320</u>

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

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Statements of Cash Flows

For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	<u>\$ (969,485)</u>	<u>\$ (572,298)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	83,465	82,820
Realized gains on sale of investments	(70,506)	(492,660)
Donation of land and land improvements to Commonwealth of Massachusetts	202,572	-
Unrealized losses on investments	244,308	562,252
Change in value of charitable gift annuities	(14,176)	-
Changes in assets and liabilities:		
Prepaid expenses and other assets	(5,343)	(11,747)
Unconditional promises to give	193,894	466,180
Accounts payable and accrued expenses	(10,092)	59,387
Due to affiliates	<u>284,217</u>	<u>(4,822)</u>
Net Adjustments	<u>908,339</u>	<u>661,410</u>
Net Cash (Applied to) Provided by Operating Activities	<u>(61,146)</u>	<u>89,112</u>
Cash Flows from Financing Activities:		
Payments on long-term debt	(49,701)	(47,359)
Proceeds from charitable gift annuities issued	<u>50,000</u>	<u>-</u>
Net Cash Applied to Financing Activities	<u>299</u>	<u>(47,359)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(44,665)	(42,216)
Purchase of investments	(1,987,894)	(3,111,386)
Proceeds from sale of investments	<u>1,848,468</u>	<u>2,800,852</u>
Net Cash Applied to Investing Activities	<u>(184,091)</u>	<u>(352,750)</u>
Net Decrease in Cash and Equivalents	(244,938)	(310,997)
Cash and Equivalents, Beginning of Year	<u>2,059,255</u>	<u>2,370,252</u>
Cash and Equivalents, End of Year	<u>\$ 1,814,317</u>	<u>\$ 2,059,255</u>

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

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements

June 30, 2016 and 2015

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

Organization

The Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation") is a nonprofit organization, whose purpose is to receive funds for aiding and participating in the development and improvement of the Massachusetts College of Liberal Arts (the "College"). In addition, the Foundation provides scholarships and financial aid to students attending the College. The purposes of the Foundation are promoted through educational and research programs directed towards individuals, organizations (private and governmental) and the community. The Foundation operates primarily in Massachusetts and receives most of its revenues from donations.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared utilizing the accrual basis of accounting in accordance with generally accepted accounting principles.

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

Basis of Accounting – Continued

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently.

Cash and Equivalents

The Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Certain banking institutions that hold the Foundation's funds, obtained specific depository insurance to mitigate the Foundation's credit risk associated with funds deposited in excess of federally insured levels. At June 30, 2016 and 2015, the carrying amount of the Foundation's deposits was \$1,814,317 and \$2,059,255, respectively, with the entire balance insured by specific depository insurance.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted contributions.

Unconditional Promises to Give

Unconditional promises to give are recorded when made and considered to be available for unrestricted use unless specifically restricted by the donor. A present value is determined on all promises when it is determined the promise will not be received within a year, or it cannot be determined when it will be received.

Investments

Investments are recorded at fair market value.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Income Taxes

Accounting principles generally accepted in the United States require an entity to assess the probability that a tax position has a “more likely than not” sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances, the statute of limitations may remain open indefinitely. As a not-for-profit entity exempt from income taxes, the Foundation may, however, be subject to tax on unrelated business income.

The Foundation has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax exempt entity under section 501(c)(3) of the Internal Revenue Code. However, rental income from debt-financed property is not directly related to the Organization’s tax-exempt purpose and is subject to federal and state taxation as unrelated business income. Income taxes for such unrelated business income were approximately \$0 and \$2,200 in 2016 and 2015, respectively.

In-Kind Support

Donated materials are recorded at fair market value as both revenue and expense in the statement of activities and changes in net assets. The Foundation receives a significant amount of contributed time from volunteers that does not meet the requirements of a monetary contribution and accordingly, the value of these services has not been reflected in these financial statements.

Property and Equipment

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to purchase property and equipment are reported as restricted contributions. Absent donor-imposed restrictions regarding how long those donated assets must be maintained, the Foundation considers them to be unrestricted assets when they are first placed in service as instructed by the donor. Equipment is depreciated using the straight-line method. The costs of normal maintenance and repairs that do not add value or materially extend the useful life of the asset are expensed as incurred.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Endowment Funds

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor restricted funds and focuses on the prudent spending of the entire donor restricted fund, including accumulated earnings, rather than the historical dollar concept. UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor's intended purpose of the endowment fund, stipulated or otherwise.

UPMIFA requires donor restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net assets until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net assets until approved for expenditure by the organization. Unconditional promises to give that are restricted by donors for investment in perpetuity are not considered endowment net assets until the proceeds have been received and added to the investments held for endowments. These assets are still classified as permanently restricted net assets.

The Foundation's board classifies donor restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to unrestricted net assets. Unrealized gains will be classified as unrestricted net assets to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with the Foundation's spending policy.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Endowment Funds - Continued

The Foundation's investment policy for endowment funds is intended to preserve capital to the extent possible and provides a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

The Foundation is responsible to maintain the value of an endowment that it manages at its original value, unless otherwise determined by the Board of Directors. When the fair value of an endowment fund's assets decrease below the original value of the donation, unrestricted funds are transferred to the endowment fund in an amount sufficient to restore the value. The transfer is returned to unrestricted funds as the endowment fund recovers its value.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Foundation receives irrevocable title to contributed assets and agrees to make fixed period payments over the remaining life of the donor and secondary beneficiary. Contributed assets are recorded at fair value at the date of receipt and a liability is established for the present value of future annuity payments. The assets to fund these liabilities are maintained in separate accounts and are included in investments on the Statement of Financial Position.

At the date the annuity is entered into, the excess of contributed assets over the annuity liability is recorded as unrestricted contribution revenue. Any subsequent gain or loss resulting from the computation of the liability for the present value of future annuity payments performed on an annual basis is recorded as an unrestricted change in the value of charitable gift annuities.

Upon termination of the annuity contract, any remaining liability is recognized as change in value of charitable gift annuities on the Statement of Activities and Change in Net Assets.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies - Continued

New Accounting Pronouncements

ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, was issued by the Financial Accounting Standards Board in April 2015 with an effective date for fiscal years beginning after December 15, 2015. The purpose of this amendment is to reduce complexity in accounting standards and to coincide the treatment of debt issuance related costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the related debt, consistent with debt discounts. Implementation of this amendment is to be applied retrospectively. Early application is permitted. Management has not begun its review of the standard, but does not expect implementation to have a material effect on financial position or results of operations.

ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, an amendment to Topic 958, Not-for-Profit Entities, was issued by the Financial Accounting Standards Board in June 2016 with an effective date for fiscal years beginning after December 17, 2017. The purpose of this amendment is to improve the transparency and utility of information contained in the financial statements of such entities. Net assets will be presented in two categories, net assets with donor restrictions and net assets without donor restrictions, as opposed to the current three categories. Additional information and disclosures will be required to enable a reader to more readily understand liquidity limitations due to restrictions on net assets. Early application is permitted. Management has not begun its review of the standard, but does not expect implementation to have a material effect on financial position or results of operations.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 2 - **Unconditional Promises to Give**

Unconditional promises to give are discounted at 5% and consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 727,828	\$ 644,227
Receivable in one to twenty years	4,351,607	4,815,877
Less: discount to net present value	<u>1,195,429</u>	<u>1,382,204</u>
Present value of unconditional promises to give	3,884,006	4,077,900
Less: current unconditional promises to give	<u>698,253</u>	<u>614,298</u>
Unconditional Promises to Give, Net of Current Portion	\$ <u>3,185,753</u>	\$ <u>3,463,602</u>

Note 3 - **Investments**

The following schedules summarize the investment return and its classification in the statement of activities and changes in net assets for the years ended June 30:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 336	\$ 195,805	\$ 196,141
Unrealized losses	(15,557)	(228,751)	(244,308)
Realized gains	<u>22,662</u>	<u>47,844</u>	<u>70,506</u>
Total Investment Return	\$ <u>7,441</u>	\$ <u>14,898</u>	\$ <u>22,339</u>

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 3 - **Investments - Continued**

	<u>2015</u>		
Interest and dividends	\$ 94	\$ 201,467	\$ 201,561
Unrealized gains	(40,706)	(521,546)	(562,252)
Realized gains	-	492,660	492,660
Total Investment Return	\$ <u>(40,612)</u>	\$ <u>172,581</u>	\$ <u>131,969</u>

Note 4 - **Fair Value Measurements**

Financial Accounting Standards Codification (ASC) 820-10 establishes a framework for measuring fair value, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The highest priority is assigned to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. |
| Level 2 | <p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> • Quoted prices for similar assets or liabilities in active markets; • Quoted prices for identical or similar assets or liabilities in inactive markets; • Inputs other than quoted prices that are observable for the asset or liability; • Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

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

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**
(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Fair Value Measurements - Continued**

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Common stocks, equities, corporate bonds and U.S. Government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of the shares held by the Foundation at year end.

Certificates of deposit: Valued based upon interest accumulated at year-end.

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

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - Fair Value Measurements - Continued

The following tables set forth by level the Foundation's assets measured on a recurring basis:

Assets at Fair Value as of June 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income funds	\$ 2,230,979	\$ -	\$ -	\$ 2,230,979
Other funds	4,632,722	-	-	4,632,722
Equities:				
Blended index funds	737,072	-	-	737,072
Other index funds	2,166,229	-	-	2,166,229
Certificates of deposit	462,239	-	-	462,239
Cash and equivalents	<u>19,834</u>	<u>-</u>	<u>-</u>	<u>19,834</u>
Total Assets at Fair Value	<u>\$ 10,249,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,249,075</u>
Charitable gift annuity liability	<u>\$ -</u>	<u>-</u>	<u>\$ (35,824)</u>	<u>\$ (35,824)</u>

Assets at Fair Value as of June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income funds	\$ 2,880,460	\$ -	\$ -	\$ 2,880,460
Other funds	4,620,135	-	-	4,620,135
Equities:				
Blended index funds	1,063,572	-	-	1,063,572
Other index funds	1,679,650	-	-	1,679,650
Cash and equivalents	<u>39,634</u>	<u>-</u>	<u>-</u>	<u>39,634</u>
Total Assets at Fair Value	<u>\$ 10,283,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,283,451</u>

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Fair Value Measurements - Continued**

Charitable Gift Annuity Liability

The level 3 charitable gift annuity liability is valued using the income approach, in the form of present value using an interest rate of 4.50% and the 2012 American Council on Gift Annuities (ACGA) as of June 30, 2016. The discount rate is the IRS published applicable federal rate.

Note 5 - **Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 197,967	\$ 368,864
Buildings	1,454,495	1,454,495
Furniture and fixtures	21,344	15,628
Improvements	<u>1,253,004</u>	<u>1,319,024</u>
Total	<u>2,926,810</u>	3,158,011
Less: accumulated depreciation	<u>1,006,083</u>	<u>995,912</u>
Land, Property and Equipment, Net	<u>\$ 1,920,727</u>	<u>\$ 2,162,099</u>

Note 6 - **Related Party Transactions**

Professional Fees

A Foundation Director is an employee of the financial services company that manages the Foundation's investments and has issued a mortgage note to the Foundation. During the years ended June 30, 2016 and 2015, approximately \$71,000 and \$78,000, respectively, was paid to the above related party for these services.

Due to Massachusetts College of Liberal Arts

Due to Massachusetts College of Liberal Arts represents endowment funds held by the Foundation on behalf of the College and amounts not yet distributed for scholarships and educational programs.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 6 - **Related Party Transactions - Continued**

Contributed Services Received from Personnel of an Affiliate

The College provided accounting and development personnel to the Foundation without charge. During the years ended June 30, 2016 and 2015, the Foundation recognized revenue and related expense of \$75,597 and \$85,286, respectively, for contributed services received from the College based on the fair value of comparable services provided by third parties.

Donation of Land and Land Improvements

The Foundation donated \$202,572 in land and land improvements to the Commonwealth of Massachusetts Division of Capital Asset Management for use as parking lots for the College.

Note 7 - **Long-Term Debt**

At June 30, long-term debt consists of the following:

	<u>2016</u>	<u>2015</u>
Mortgage note payable to MountainOne Bank, payable in monthly payments of \$4,117 including interest at 4.04% through March 2029. Secured by real property.	\$ 491,601	\$ 520,455
Mortgage note payable to Greylock Federal Credit Union, payable in monthly payments of \$4,087 including interest at 6.5% through December 2028. Secured by real property.	<u>415,390</u>	<u>436,237</u>
	906,991	956,692
Less: Current portion of long-term debt	<u>52,442</u>	<u>49,704</u>
Total Long-Term Debt, Net of Current Portion	\$ <u>854,549</u>	\$ <u>906,988</u>

The Greylock Federal Credit Union mortgage contains a debt service coverage ratio. The Foundation is in technical default of this covenant at June 30, 2016. The Foundation subsequently received a waiver from the financial institution.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 7 - **Long-Term Debt - Continued**

Future principal payments subsequent to June 30, 2016 are as follows:

Years Ending <u>June 30,</u>	
2017	\$ 52,442
2018	55,198
2019	58,109
2020	61,081
2021	64,423
Thereafter	<u>615,738</u>
Total	\$ <u>906,991</u>

Line of Credit

The Foundation has revolving lines of credit, with two banks, that are not to exceed \$500,000 combined. The interest rate on the lines of credit is based on the prime rate (3.50% and 3.25% at June 30, 2016 and 2015, respectively). The Foundation has no debt related to these agreements at June 30, 2016 and 2015.

Interest expense incurred in connection with all debt obligations was \$48,761 and \$51,100 in 2016 and 2015, respectively.

Note 8 - **Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, are available as follows:

	<u>2016</u>	<u>2015</u>
Educational programs	\$ 1,600,311	\$ 2,004,531
Student scholarships	<u>1,009,634</u>	<u>1,107,950</u>
	\$ <u>2,609,945</u>	\$ <u>3,112,481</u>

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Temporarily Restricted Net Assets - Continued**

Net assets released from donor restrictions satisfying the purposes specified by the donors for the years ended June 30, are as follows:

	<u>2016</u>	<u>2015</u>
Educational programs	\$ 593,955	\$ 775,667
Student scholarships	<u>363,547</u>	<u>353,164</u>
	\$ <u>957,502</u>	\$ <u>1,128,831</u>

Note 9 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	Board Designated			
	<u>Endowment - Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, at June 30, 2014	\$ 584,334	\$ 2,718,039	\$ 8,124,275	\$ 11,426,648
Investment return	(28,378)	172,581	-	144,203
Contributions	-	559,783	469,431	1,029,214
Transfers to Board designated endowment	128,900	-	-	128,900
Amounts appropriated for expenditure	<u>(22,268)</u>	<u>(1,128,831)</u>	<u>-</u>	<u>(1,151,099)</u>
Endowment net assets, at June 30, 2015	662,588	2,321,572	8,593,706	11,577,866
Investment return	7,345	14,898	-	22,243
Contributions	-	353,912	462,334	816,246
Amounts appropriated for expenditure	<u>(12,890)</u>	<u>(957,502)</u>	<u>-</u>	<u>(970,392)</u>
Endowment net assets, at June 30, 2016	\$ <u>657,043</u>	\$ <u>1,732,880</u>	\$ <u>9,056,040</u>	\$ <u>11,445,963</u>

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Endowment Net Assets - Continued**

Board designated endowment funds are funds earmarked by the Foundation's Board to be invested to provide income for specific purposes including the library, seminars, and scholarships.

Note 10 - **Leases**

The Foundation leases property to the Commonwealth of Massachusetts under a tenant-at-will agreement, as well as a five-year agreement expiring on September 30, 2017. Total rental revenue for the fiscal years ended 2016 and 2015 were \$189,630. Future minimum rental revenue under the lease agreements are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 157,149
2018	<u>39,287</u>
	\$ <u>196,436</u>

Note 11 - **Supplemental Cash Flow Information**

During the years ended June 30, 2016 and 2015, the Foundation paid \$48,761 and \$51,100 for interest, respectively.

Unrelated business income taxes paid amounted to \$2,516 and \$2,457 during the years ended June 30, 2016 and 2015, respectively.

Note 12 - **Commitments, Risks and Uncertainties**

Cash

From time to time, cash balances at financial banking institutions exceeded the federally insured limit. Management monitors the financial condition of the banking institution, along with its balances in cash to keep this potential risk at a minimum.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 12 - **Commitments, Risks and Uncertainties - Continued**

Contributions

The Foundation is dependent upon continued donor contributions. There is a risk to the extent these contributions are not renewed each year.

Note 13 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through September 29, 2016, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any events subsequent to June 30, 2016 requiring disclosure in these financial statements.



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

To the Board of Directors of
Massachusetts College of Liberal Arts Foundation, Inc.
North Adams, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Massachusetts College of Liberal Arts Foundation Inc. (a component unit of the Massachusetts College of Liberal Arts) (the "Foundation") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 29, 2016