

**MASSACHUSETTS COLLEGE OF  
LIBERAL ARTS**  
(an agency of the Commonwealth of Massachusetts)

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

**June 30, 2012**

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
(an agency of the Commonwealth of Massachusetts)

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

**June 30, 2012 and 2011**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Massachusetts College of Liberal Arts  
North Adams, Massachusetts

We have audited the accompanying statements of net assets of the Massachusetts College of Liberal Arts (an agency of the Commonwealth of Massachusetts) (the "College") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. We have also audited the statements of financial position of Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation") as of June 30, 2012 and 2011, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts College of Liberal Arts as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements. The accompanying supplemental information and other information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of the Massachusetts College of Liberal Arts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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.



**Certified Public Accountants  
Braintree, Massachusetts**

October 11, 2012

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(A Component Unit of the Commonwealth of Massachusetts)

## Management's Discussion and Analysis

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2012, and the results of operations for the year then ended. This analysis should be read in conjunction with the College's financial statements and notes which are also presented in this document.

Massachusetts College of Liberal Arts is a public institution of higher education serving approximately 1,900 graduate and undergraduate students, with 113 Full Time Equivalent faculty and 198 staff members. The College offers 17 programs leading to Bachelor of Arts, Bachelor of Science, Professional MBA and Master of Education degrees as well as non-credit programs.

Massachusetts College of Liberal Arts Foundation, Inc. is a non-profit corporation organized under Massachusetts General Laws, Chapter 180. The Corporation is operated exclusively for charitable, scientific and education purposes to benefit Massachusetts College of Liberal Arts. These purposes include holding and administering properties, providing financial aid, and promoting and supporting the educational activities of the College.

### Financial Highlights

- At June 30, 2012, the College's assets of \$43,929,808 exceeded its liabilities of \$10,507,638 by \$33,422,170. These resulting net assets are summarized into the following categories:

• Invested in capital assets, net of related debt	\$ 25,139,373
• Restricted, non-expendable	33,142
• Restricted - expendable	7,101
• Unrestricted	8,242,554
• Total net assets	\$ 33,422,170
- The College received a general State Appropriation of \$12,559,848.
- The College received a \$24,100 grant to the Dual Enrollment Program for high school students.
- The College's total net assets increased by \$4,866,088. This is due to additional funds received through the bond outlay for the Center for Science and Innovation, and Campus Center Capital projects.
- The College has begun the construction of a new 65,000 sq. ft building called the Center for Science and Innovation and the complete renovation of Bowman Hall, a major academic building in the amount of \$54.5 million over the next 2 years.
- The College's Trustees may use the unrestricted net assets to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net assets may also be expended, but only for the purposes for which the donor or grantor intended.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(A Component Unit of the Commonwealth of Massachusetts)

## Management's Discussion and Analysis

### Overview of the Financial Statements

The Massachusetts College of Liberal Arts financial statements comprise two primary components: 1) the financial statements and 2) the notes to the financial statements. Additionally, the financial statements focus on the College as a whole, rather than upon individual funds or activities.

**The Financial Statements:** The financial statements are designed to provide readers with a broad overview of the Massachusetts College of Liberal Arts finances and are comprised of three basic statements.

The *Statement of Net Assets* presents information on all of the College's 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 of the Massachusetts College of Liberal Arts is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the College's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

The *Statement of Cash Flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services.) The Government Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used.

The financial statements can be found on pages 10 through 13 of this report.

The Massachusetts College of Liberal Arts reports its activity as a business – type activity using the full accrual measurement focus and basis of accounting. The College is an agency of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net assets and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government – wide financial statements.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding both the accounting policies and procedures the College has adopted as well as additional detail of certain amounts contained in the financial statements. The notes to the financial statements can be found on pages 14 through 33 of this report.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
(A Component Unit of the Commonwealth of Massachusetts)

**Management's Discussion and Analysis**

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the College's financial position. In the case of Massachusetts College of Liberal Arts, assets exceeded liabilities by \$33,422,170 at the close of the most recent fiscal year.

**Massachusetts College of Liberal Arts Net Assets**

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Current assets	\$16,902,858	\$19,245,029
Non-current assets	<u>27,026,950</u>	<u>18,097,728</u>
Total assets	<u>\$43,929,808</u>	<u>\$37,342,757</u>
Current liabilities	5,818,729	5,408,215
Non-current liabilities	<u>4,688,909</u>	<u>3,378,460</u>
Total liabilities	<u>\$10,507,638</u>	<u>\$8,786,675</u>
Net Assets:		
Invested in capital assets, net of related debt	\$25,139,373	\$16,362,025
Restricted, non-expendable	33,142	34,920
Restricted, expendable	7,101	1,843
Unrestricted	<u>8,242,554</u>	<u>12,157,294</u>
Total net assets	<u>\$33,422,170</u>	<u>\$28,556,082</u>

By far the largest portion of the Massachusetts College of Liberal Arts net assets are its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt, including capital leases, used to acquire those assets that is still outstanding. The College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the College's financial statement, the Commonwealth of Massachusetts regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings by the Commonwealth are not reflected in these financial statements.

The net assets increased by \$4,866,088 during the current fiscal year. This increase is largely due to capital appropriations and a concentrated effort to minimize utility expense. Net Capital assets increased by \$8,970,520. The depreciation expense on its entire amount of capital assets was \$1,353,456.

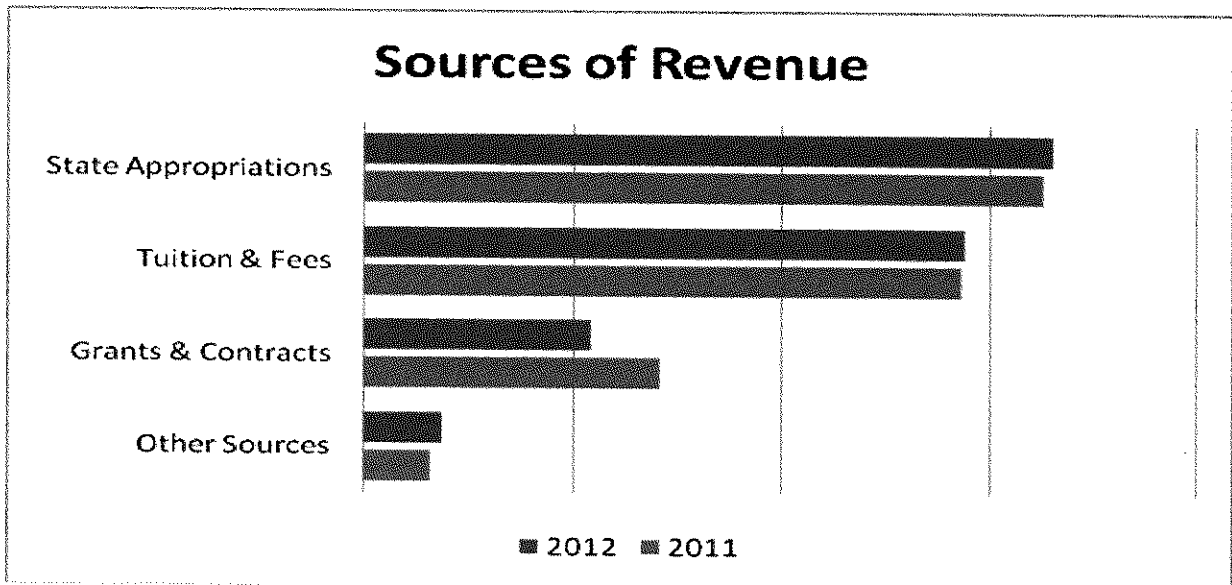
# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(A Component Unit of the Commonwealth of Massachusetts)

## Management's Discussion and Analysis

### Massachusetts College of Liberal Arts Changes in Net Assets

	For the Fiscal Year Ended June 30, 2012	For the Fiscal Year Ended June 30, 2011
Operating Revenues:		
Net tuition and fees	\$17,680,285	\$17,474,429
Grants and contracts	5,409,004	7,057,600
Other sources	1,844,860	1,582,911
<b>Total operating revenues</b>	<b>\$24,934,149</b>	<b>\$26,114,940</b>
<b>Total operating expenses</b>	<b>\$42,349,365</b>	<b>\$39,988,329</b>
<b>Net operating loss</b>	<b>(17,415,216)</b>	<b>(13,873,389)</b>
Non-operating revenues (expenses):		
State appropriation	16,555,782	16,287,867
Capital appropriations	5,658,985	685,246
Investment Income	118,082	179,998
Interest Expense	(51,545)	(70,108)
<b>Increase in net assets</b>	<b>4,866,088</b>	<b>3,209,614</b>
<b>Net assets – beginning of year</b>	<b>\$28,556,082</b>	<b>\$25,346,468</b>
<b>Net assets – end of year</b>	<b>\$33,422,170</b>	<b>\$28,556,082</b>





# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(A Component Unit of the Commonwealth of Massachusetts)

## Management's Discussion and Analysis

### Highlights of operating revenue activity for the year include:

- The state appropriation of \$12,559,848 was level funded to that of FY 2011
- Student Fees increased due to an increase in fees approved by the Board of Trustees to offset inflationary pressures in running quality programs.
- Residence and dining fees increased due to the increased cost of providing these services.
- Grants and contracts decreased due to the reduction in ARRA Stimulus Funds.
- Other sources increased due to, increased campus rentals, commissions, and foreign travel programs.

Undergraduate tuition and fees received by Massachusetts College of Liberal Arts include the following:

	<b>June 30, 2012</b>	<b>June 30, 2011</b>	<b>Change</b>
Tuition	2,325,778	2,253,264	72,514
Student Fees:			
Campus Support Fee	9,436,536	8,963,502	473,034
Student Activity Fee	361,328	377,034	(15,706)

Major grants and contracts received by Massachusetts College of Liberal Arts for the year included the following:

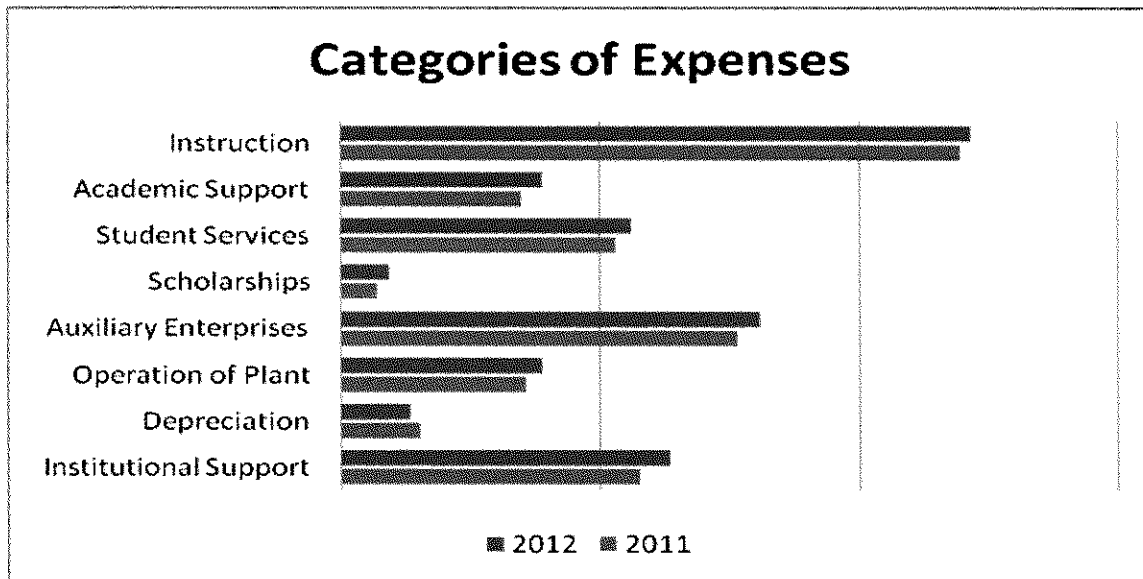
- Race to the Top Grant from the US Department of Education in the amount of \$325,000 for the establishment of the Berkshire Readiness Center and professional development programs for Early Childhood Educators.
- Special Services Grant from U.S. Department of Education in the amount of \$281,510 for the Summer Individual Enrichment Program and continued academic support.
- Adult Basic Ed Grant from Mass. Department of Education in the amount of \$215,454 for GED and community literacy programs.
- Performance Incentive Grant from the Mass Department of Higher Education to support the completion of 30 credits in 3semesters program. \$150,000
- Davis Grant in the amount of \$108,000 for assessment driven instruction and learning.
- Berkshire Training Grant for development of programs and training of Adult Basic Ed students. \$25,397

Auxiliary operations enterprises include the operation of the food service and residence hall operations. The revenue generated from these operations for the fiscal year was \$7,812,615, an increase of 2.1% or \$162,570 from the previous fiscal year due to the number of students residing on campus and the increased room & board rates.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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## Management's Discussion and Analysis



### Non-operating revenues and expenses

The College received its initial General State Appropriation in July, 2011 in the amount of \$12,559,848 plus \$4,231,665 in state payroll fringe benefits less \$235,731 in day school tuition remitted to the State for a total appropriation of \$16,555,782. There were no additions or retractions throughout the fiscal year. Interest income decreased due to the reduced interest rates on investments. Capital appropriations were received for the beginning construction costs of the new Center for Science and Innovation as well as a Fire Alarm replacement system in the Campus Center. Operating Expenses in most categories were slightly higher due to increased staffing and inflationary pressures on program costs. Scholarships and Fellowships increased due to more aid being awarded to meet an increasing student need in these rough economic times.

### Loss from Operations

Due to the nature of public higher education accounting rules, institutions incur a loss from operations. The Legislature approves appropriations to the College which are not considered operating revenues. The Commonwealth's Department of Higher Education approves and sets tuition. The College sets fees. The College approves budgets to mitigate losses after Commonwealth appropriations by balancing educational and operational needs with fee revenue.

### Capital Assets and Debts of the College

**Capital Assets:** The College's investment in capital assets as of June 30, 2012 amounts to \$26,210,810 net of accumulated depreciation. This investment in capital assets includes, land, buildings, (including improvements,) furnishings and equipment, (including the cost of capital leases).

Capital projects, furnishings, and equipment additions increased assets this year. Major projects included:

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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## Management's Discussion and Analysis

- Center for Science & Innovation (CIP) \$4,860,953
- Campus Center Marketplace \$3,558,748
- Campus Center Gym Floor (CIP)\$485,596
- Campus Center Fire Alarm System \$764,956
- Energy Performance Evaluation (CIP)\$85,615
- Facilities Bldg/Ashland St. Parking Lot (CIP)\$401,872
- Smith House Renovation (CIP) \$133,890
- NUCLEA Server Project \$52,804
- Freel Library Renovations \$43,628
- Public Safety Relocation & Renovation \$45,392
- Eldridge Hall A/C Repair \$21,363
- Campus Signage (CIP) \$12,008

All capital asset purchases are included in the College's capital spending plan submitted to the Board of Higher Education and the Commonwealth's fiscal affairs division. Additional information about the Massachusetts College of Liberal Arts capital assets can be found in note 8 on page 23 of this report.

**Long-term liabilities:** The College carries long-term liabilities in the form of accruals for compensated absences and workers compensation (\$3,393,395), a bond with the Mass State College Building Authority (\$627,974) for the purchase of the Ashland St. Facilities Building, new Campus Center Gym floor, and the Athletic Complex tennis courts. The accrual for compensated absences and workers compensation consists of the current and long-term portion of sick and vacation pay relating to employees on the College's payroll. The long term portion of capital lease obligations amounts to \$531,056 net of related interest as of June 30, 2012, a decrease of \$292,749.

### **Economic Factors and Next Year's Tuition and Student Fee Rates**

In this presidential election year, the status of the economy continues to be a major concern. While there are signs of recovery, many students continue to struggle to meet educational expenses. Appropriations have been level funded with expectations for collective bargaining increases only. Our current appropriation is equal to the FY 2002 level. Public colleges have experienced increases in their enrollments due to the current economic conditions as unemployed or underemployed workers seek to update or upgrade their skills for reentry to the labor force. The College has begun construction of a \$54.5 million Center for Science and Innovation. The College cannot predict the extent to which enrollment may vary in this current environment. However, given several new programs, and increased marketing efforts, indications are that enrollment despite decreases in high school graduation populations, will at least remain steady. It is expected that tuition and fees will also continue to grow in order to provide a stable academic experience.

### **Requests for Information**

This financial report is designed to provide a general overview of the College's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Fiscal Officer, Massachusetts College of Liberal Arts, 375 Church St., North Adams, Massachusetts, 01247.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

## Statements of Net Assets

June 30,

Assets	Primary Government		Component Unit	
	2012	2011	2012	2011
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
<b>Current Assets:</b>				
Cash and equivalents	\$ 14,546,305	\$ 16,731,785	\$ 1,458,274	\$ 1,310,621
Deposits held by State Treasurer	1,283,857	1,028,178	-	-
Cash held by State Treasurer	552,832	552,605	-	-
Deposits held by MSCBA	81,915	567,432	-	-
Restricted cash and equivalents	36,877	9,572	-	-
Accounts receivable, net	341,902	272,436	-	-
Unconditional promises to give	-	-	273,281	1,062,903
Other assets	59,170	83,021	5,883	5,133
<b>Total Current Assets</b>	<u>16,902,858</u>	<u>19,245,029</u>	<u>1,737,438</u>	<u>2,378,657</u>
<b>Non Current Assets:</b>				
Funds held by others	33,142	34,920	-	-
Investments	-	-	8,099,688	7,725,938
Unconditional promises to give, net of current portion	-	-	571,215	187,831
Loans receivable, net	764,312	803,378	-	-
Debt service reserve	13,008	13,008	-	-
Investment in capital assets, net	26,210,810	17,240,290	2,338,451	2,932,436
Other non-current assets, net	5,678	6,132	8,962	9,502
<b>Total Non Current Assets</b>	<u>27,026,950</u>	<u>18,097,728</u>	<u>11,018,316</u>	<u>10,855,707</u>
<b>Total Assets</b>	<u>\$ 43,929,808</u>	<u>\$ 37,342,757</u>	<u>\$ 12,755,754</u>	<u>\$ 13,234,364</u>

## Liabilities and Net Assets

Liabilities and Net Assets	Primary Government		Component Unit	
	2012	2012	2012	2011
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
<b>Current Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 288,935	\$ 630,897	\$ 52,810	\$ 57,026
Accrued payroll	1,968,196	1,649,462	-	-
Compensated absences	2,006,923	1,834,935	-	-
Workers' compensation	53,340	49,647	-	-
Students' deposits and unearned revenue	1,315,105	950,475	-	-
Funds held for others	-	-	35,642	38,096
Current portion of notes payable	-	-	40,012	37,574
Current portion of bond payable	30,493	25,050	-	-
Current portion of capital lease obligations	155,737	267,749	-	-
<b>Total Current Liabilities</b>	<u>5,818,729</u>	<u>5,408,215</u>	<u>128,464</u>	<u>132,696</u>
<b>Non Current Liabilities:</b>				
Compensated absences	1,144,019	1,207,226	-	-
Workers' compensation	189,113	201,097	-	-
Unearned revenue	1,588,889	-	-	-
Notes payable	-	-	1,047,081	1,087,088
Bond payable	597,481	627,974	-	-
Capital lease obligations	375,319	531,056	-	-
Grant refundable	794,088	811,107	-	-
<b>Total Non Current Liabilities</b>	<u>4,688,909</u>	<u>3,378,460</u>	<u>1,047,081</u>	<u>1,087,088</u>
<b>Total Liabilities</b>	<u>10,507,638</u>	<u>8,786,675</u>	<u>1,175,545</u>	<u>1,219,784</u>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	25,139,373	16,362,025	1,251,358	1,807,774
Restricted:				
Nonexpendable	33,142	34,920	7,498,645	6,855,220
Expendable	7,101	1,843	1,131,530	1,548,839
Unrestricted	8,242,554	12,157,294	1,698,676	1,802,747
	<u>33,422,170</u>	<u>28,556,082</u>	<u>11,580,209</u>	<u>12,014,580</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 43,929,808</u>	<u>\$ 37,342,757</u>	<u>\$ 12,755,754</u>	<u>\$ 13,234,364</u>

See accompanying notes to the financial statements.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

## Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30,

	Primary Government		Component Unit	
	2012 College	2011 College	2012 Foundation	2011 Foundation
<b>Operating Revenues:</b>				
Tuition and fees	\$ 14,401,976	\$ 14,349,052	\$ -	\$ -
Residence and dining fees	7,812,615	7,650,045	-	-
Less: Scholarship allowances	<u>(4,534,306)</u>	<u>(4,524,668)</u>	-	-
Net student fees	17,680,285	17,474,429	-	-
Gifts and contributions	-	-	2,246,540	1,633,265
Grants and contracts	5,409,004	7,057,600	-	-
Other sources	<u>1,844,860</u>	<u>1,582,911</u>	<u>233,999</u>	<u>228,288</u>
<b>Total Operating Revenues</b>	<u>24,934,149</u>	<u>26,114,940</u>	<u>2,480,539</u>	<u>1,861,553</u>
<b>Operating Expenses:</b>				
Instruction	12,174,930	11,964,584	-	-
Academic support	3,903,657	3,496,735	-	-
Student services	5,604,504	5,325,824	-	-
Scholarships and fellowships	949,152	706,902	220,403	177,018
Public service	4,366	5,446	-	-
Auxiliary enterprises	8,091,135	7,633,512	-	-
Operation and maintenance of plant	3,902,317	3,576,201	90,199	87,653
Depreciation	1,353,456	1,514,976	81,823	83,071
Fundraising	-	-	174,915	129,990
Management and general	-	-	386,046	264,064
Gifts and contributions	-	-	1,997,414	1,037,440
Institutional support	<u>6,365,848</u>	<u>5,764,149</u>	<u>-</u>	<u>-</u>
<b>Total Operating Expenses</b>	<u>42,349,365</u>	<u>39,988,329</u>	<u>2,950,800</u>	<u>1,779,236</u>
<b>Net Operating Income (Loss)</b>	<u>(17,415,216)</u>	<u>(13,873,389)</u>	<u>(470,261)</u>	<u>82,317</u>
<b>Non-Operating Revenues (Expenses):</b>				
State appropriations, net	16,555,782	16,287,867	-	-
Net investment income	118,082	179,998	35,890	1,247,164
Interest expense	<u>(51,545)</u>	<u>(70,108)</u>	-	-
<b>Net Non-Operating Revenues</b>	<u>16,622,319</u>	<u>16,397,757</u>	<u>35,890</u>	<u>1,247,164</u>
<b>Income before Other Revenues</b>	(792,897)	2,524,368	(434,371)	1,329,481
Capital appropriations	714,435	46,000	-	-
Capital appropriations - DCAM	<u>4,944,550</u>	<u>639,246</u>	<u>-</u>	<u>-</u>
<b>Net Increase (Decrease) in Net Assets</b>	<u>4,866,088</u>	<u>3,209,614</u>	<u>(434,371)</u>	<u>1,329,481</u>
<b>Net Assets:</b>				
Beginning of Year	<u>28,556,082</u>	<u>25,346,468</u>	<u>12,014,580</u>	<u>10,685,099</u>
<b>End of Year</b>	<u>\$ 33,422,170</u>	<u>\$ 28,556,082</u>	<u>\$ 11,580,209</u>	<u>\$ 12,014,580</u>

See accompanying notes to the financial statements.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
 (an agency of the Commonwealth of Massachusetts)

**Statements of Cash Flows**

**For the Years Ended June 30,**

	<u>Primary Government</u>	
	<u>2012 College</u>	<u>2011 College</u>
<b>Cash Flows from Operating Activities:</b>		
Tuition, residence, dining, and other student fees	\$ 17,615,594	\$ 17,258,880
Grants and contracts	5,297,420	6,971,410
Payments to suppliers	(14,381,631)	(13,086,523)
Payments to employees	(21,332,347)	(20,162,946)
Payments to students	(949,152)	(706,902)
Loans issued to students	(116,454)	(178,345)
Collections on loans issued to students	151,228	133,589
Other sources	<u>3,894,237</u>	<u>1,566,662</u>
Net Cash Applied to Operating Activities	<u>(9,821,105)</u>	<u>(8,204,175)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Tuition remitted to the State	(235,731)	(343,459)
State appropriations	<u>12,559,848</u>	<u>12,559,859</u>
Net Cash Provided by Non-Capital Financing Activities	<u>12,324,117</u>	<u>12,216,400</u>
<b>Cash Flows from Capital Financing Activities:</b>		
Capital appropriations	714,435	46,000
Purchases of capital assets	(5,379,426)	(846,965)
Principal paid on notes payable and capital leases	(291,444)	(483,524)
Interest paid on notes payable and capital leases	<u>(52,445)</u>	<u>(71,008)</u>
Net Cash Applied to Capital Financing Activities	<u>(5,008,880)</u>	<u>(1,355,497)</u>
<b>Cash Flows from Investing Activity:</b>		
Interest income	<u>118,082</u>	<u>179,998</u>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	<b>(2,387,786)</b>	<b>2,836,726</b>
Cash and Equivalents, Beginning of the Year	<u>18,889,572</u>	<u>16,052,846</u>
<b>Cash and Equivalents, End of the Year</b>	<b><u>\$ 16,501,786</u></b>	<b><u>\$ 18,889,572</u></b>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Statements of Cash Flows - Continued**

	<u>Primary Government</u>	
	<u>2012 College</u>	<u>2011 College</u>
<b>Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:</b>		
Net operating loss	<u>\$ (17,415,216)</u>	<u>\$ (13,873,389)</u>
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	1,353,456	1,514,976
Fringe benefits provided by State appropriations	4,231,665	4,071,467
Changes in assets and liabilities:		
Accounts receivable, net	(69,466)	(37,549)
Other current assets	23,851	11,848
Loans receivable	39,066	(34,041)
Funds held by others	1,778	(3,151)
Accounts payable and accrued liabilities	(341,963)	293,986
Accrued employee compensation and benefits	419,224	138,226
Student deposits and unearned revenues	1,953,519	(284,612)
Grants refundable	<u>(17,019)</u>	<u>(1,936)</u>
Net Cash Applied to Operating Activities	<u>\$ (9,821,105)</u>	<u>\$ (8,204,175)</u>
<b>Reconciliation of Cash and Equivalents to the Statement of Net Assets</b>		
Cash and equivalents	\$ 14,546,305	\$ 16,731,785
Deposits held by State Treasurer	1,283,857	1,028,178
Cash held by State Treasurer	552,832	552,605
Deposits held by MSCBA	81,915	567,432
Restricted cash and equivalents	<u>36,877</u>	<u>9,572</u>
	<u>\$ 16,501,786</u>	<u>\$ 18,889,572</u>
<b>Non Cash Transactions:</b>		
Fringe benefits provided by the State appropriations	<u>\$ 4,231,665</u>	<u>\$ 4,071,467</u>
Capital improvements provided by capital appropriations	<u>\$ 4,944,550</u>	<u>\$ 639,246</u>

*See accompanying notes to the financial statements.*

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

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

**Organization**

Massachusetts College of Liberal Arts (the "College") was founded in 1894. It is one of nine state colleges and universities within the Massachusetts Public Higher Education System. Approximately 1,500 undergraduate students are enrolled including evening students and special program students. The College also offers, through the Division of Continuing Education, credit and non-credit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

**Basis of Presentation and Accounting**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College has determined that it functions as a business type activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis, basic financial statements including the College's discretely presented component unit, the Foundation, and required supplementary information. The College presents statements of net assets, revenues, expenses, and changes in net assets and cash flows on a combined College-wide basis.

The Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation"), a component unit of the College, renders financial assistance and support to the educational programs and development of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included because of the nature and significance of its relationship with the College. Complete financial statements can be obtained from the Foundation's administrative offices in North Adams, Massachusetts.



**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

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

*Basis of Presentation and Accounting - Continued*

The College's policy for defining operating activities in the statements of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35, *Basic Financial Statements and Managements' Discussion and Analysis for Public Colleges and Universities*. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts and interest expense.

The College's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Although the College has the option to apply FASB pronouncements issued after that date, it has chosen not to do so.

*Net Assets*

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

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

Restricted - nonexpendable: Net assets subject to externally imposed conditions such that the College must maintain in perpetuity.

Restricted - expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by actions of the College's Board of Trustees.

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

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

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

*Trust Funds*

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

*Cash and Equivalents*

The College considers cash-on-hand, certificates of deposit, deposits held by the State Treasurer and Massachusetts State College Building Authority and all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

*Allowance for Doubtful Accounts*

Accounts and pledges receivable are periodically evaluated for collectibility based on past history with students. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral and current economic condition.

*Investments*

Investments in marketable securities are stated at fair value.

Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the Statement of Revenues, Expenses, and Changes in Net Assets. Any net earnings not expended are included in net asset categories as follows:

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

The College is currently authorized by its Board of Trustees and the statutes of the Commonwealth of Massachusetts to invest in certificates of deposit.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

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

*Capital Assets*

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the State's capitalization policy, only those items with a unit cost of more than \$50,000 are capitalized. Library materials are generally expensed. Internal costs on debt related to capital assets are capitalized during the construction period. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Buildings are depreciated over useful lives of 40 years; building and land improvements for 20 years; and equipment and furnishings range from 3 to 10 years. The College does not have collections of historical treasures, works of art, or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

*Deposits Held by State Treasurer*

Deposits held represent funds accessible by the College held by the Commonwealth of Massachusetts for payments on payroll.

*Deposits Held by MSCBA*

Deposits held represent funds held by the Massachusetts State College Building Authority for specific projects.

*Funds Held by Others*

Funds held represent funds held by the Foundation for the benefit of the College.

*Fringe Benefits*

The College participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension, and worker's compensation benefits. Health insurance, unemployment, and pension costs are billed through a fringe benefit rate charged to the College. Worker's compensation costs are assessed separately based on the College's actual experience.

*Compensated Absences*

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2012 and 2011. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2012 and 2011. Upon retirement, these employees are entitled to receive payment for this accrued balance

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

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

*Students' Deposits and Unearned Revenue*

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

*Student Fees*

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

*Tax Status*

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

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*New Governmental Accounting Pronouncements*

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator (SCAs) in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. Management has not completed its review of the affects of implementation on the financial statements.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

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

*New Governmental Accounting Pronouncements - Continued*

GASB 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, provides additional criteria for classifying entities as component units to better assess the accountability of officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude. Management is currently evaluating the impact of the adoption of this statement on the College's financial statements.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Management of the College does not expect implementation to affect the financial statements.

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. An item is not considered a deferred outflow of resources or a deferred inflow of resources unless specifically required by a GASB pronouncement. Currently only GASBS 53 *Accounting and Financial Reporting for Derivative Instruments* and GASBS 60 contain this requirement. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

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

*New Governmental Accounting Pronouncements - Continued*

GASB 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with GASBS 63. Management expects this statement to have no effect on the financial statements.

GASB 66, *Technical Corrections - 2012 - an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012 resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

Note 2 - **Cash and Equivalents**

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the College would not be able to recover its deposits that are in the possession of the outside parties. The banking institution that holds the College's funds, obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured levels.

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2012 and 2011, the carrying amount of the College's deposits was \$14,583,182 and \$16,741,357, respectively. At June 30, 2012 and 2011, approximately \$11,000 was exposed to custodial credit risk as uninsured and uncollateralized.

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

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$552,832 and \$552,605 at June 30, 2012 and 2011, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 4 - **Investments**

The Foundation investments consist of mutual funds and other equity investments. In order to minimize excessive risk in geographical, industry and market sectors, the Board of Directors meets quarterly with its investment advisors and reviews the portfolio for such concentrations and other matters.

Foundation investments, which are carried at fair value, as of June 30, are as follows:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 58,490	\$ 26,272
Mutual funds	8,036,945	7,690,454
Limited Partnership	<u>4,253</u>	<u>9,212</u>
Total	<u>\$ 8,099,688</u>	<u>\$ 7,725,938</u>

The following schedule summarizes the Foundation's investment income and its classification in the statements of revenues, expenses, and changes in net assets for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Investment income	\$ 250,335	\$ 227,301
Unrealized gain and losses	(427,502)	714,034
Realized gains and losses	<u>213,057</u>	<u>305,829</u>
Total Investment Return	<u>\$ 35,890</u>	<u>\$ 1,247,164</u>

Note 5 - **Accounts Receivable**

The accounts receivable balance is comprised of the following at June 30:

	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 256,102	\$ 234,000
Grants receivable	262,076	188,617
Other receivables	<u>47,227</u>	<u>51,999</u>
	565,405	474,616
Less: allowance for doubtful accounts	<u>(223,503)</u>	<u>(202,180)</u>
	<u>\$ 341,902</u>	<u>\$ 272,436</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 6 - **Unconditional Promises to Give**

Unconditional promises to give due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 5% and consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 286,728	\$ 1,097,160
Receivable in one to five years	682,749	216,843
Less: discount to net present value	<u>(124,981)</u>	<u>(63,269)</u>
Present value of unconditional promises to give	844,496	1,250,734
Current unconditional promises to give	<u>(273,281)</u>	<u>(1,062,903)</u>
Unconditional promises to give, net of current portion	\$ <u>571,215</u>	\$ <u>187,831</u>

Note 7 - **Loans Receivable**

The College participates in the Federal Perkins Loan Program. This program is funded through a combination of Federal and College resources. The portion of this program that has been funded with Federal funds is ultimately refundable back to the United States Government upon the termination of the College's participation in the program.

Loans receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Perkins loans	\$ 1,165,919	\$ 1,204,985
Allowance for doubtful accounts	<u>(401,607)</u>	<u>(401,607)</u>
	\$ <u>764,312</u>	\$ <u>803,378</u>



**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

Note 8 - **Capital Assets**

Capital assets consist of the following at June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>Ending Balance</u>
<b>Capital assets, not depreciated:</b>					
Land	\$ 315,517	\$ -	\$ -	\$ -	\$ 315,517
Construction in progress	<u>1,396,304</u>	<u>5,947,468</u>	<u>-</u>	<u>(458,975)</u>	<u>6,884,797</u>
<b>Total, not depreciated</b>	<u>1,711,821</u>	<u>5,947,468</u>	<u>-</u>	<u>(458,975)</u>	<u>7,200,314</u>
<b>Capital assets, depreciated:</b>					
Buildings, including building and land improvements	33,117,623	4,228,022	-	458,975	37,804,620
Furnishing and equipment (including cost of capital leases)	<u>3,369,098</u>	<u>148,486</u>	<u>(41,034)</u>	<u>-</u>	<u>3,476,550</u>
<b>Total capital assets</b>	<u>38,198,542</u>	<u>10,323,976</u>	<u>(41,034)</u>	<u>-</u>	<u>48,481,484</u>
<b>Less: accumulated depreciation:</b>					
Buildings, including improvements	(17,912,641)	(1,258,346)	-	-	(19,170,987)
Furnishing and equipment	<u>(3,045,611)</u>	<u>(95,110)</u>	<u>41,034</u>	<u>-</u>	<u>(3,099,687)</u>
<b>Total accumulated depreciation</b>	<u>(20,958,252)</u>	<u>(1,353,456)</u>	<u>41,034</u>	<u>-</u>	<u>(22,270,674)</u>
<b>Capital assets, net</b>	<u>\$ 17,240,290</u>	<u>\$ 8,970,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,210,810</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

Note 8 - **Capital Assets – Continued**

Capital assets consist of the following at June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, non-depreciable:				
Land	\$ 315,517	\$ -	\$ -	\$ 315,517
Construction-in-progress	<u>42,744</u>	<u>1,353,560</u>	<u>-</u>	<u>1,396,304</u>
Total non-depreciable	358,261	1,353,560	-	1,711,821
Capital assets depreciable:				
Buildings, including building and land improvements	33,046,055	71,568	-	33,117,623
Furnishings and equipment (including cost of capital leases)	<u>3,385,756</u>	<u>61,083</u>	<u>(77,741)</u>	<u>3,369,098</u>
Total investment in plant assets	<u>36,790,072</u>	<u>1,486,211</u>	<u>(77,741)</u>	<u>38,198,542</u>
Less: accumulated depreciation:				
Buildings, including improvements	(16,720,393)	(1,192,248)	-	(17,912,641)
Furnishings and equipment	<u>(2,800,624)</u>	<u>(322,728)</u>	<u>77,741</u>	<u>(3,045,611)</u>
Total accumulated depreciation	<u>(19,521,017)</u>	<u>(1,514,976)</u>	<u>77,741</u>	<u>(20,958,252)</u>
Capital Assets, Net	\$ <u>17,269,055</u>	\$ <u>(28,765)</u>	\$ <u>-</u>	\$ <u>17,240,290</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

**Note 9 - Deferred Revenues**

Deferred revenues include tuition received in advance from students for summer courses commencing after June 30, the subsequent fall semester, and grant funds received in advance as well as contributions made by certain vendors. The College's food service operations are managed under agreement by an outside party. In connection with the construction of additional facilities for the College, the vendor invested \$2,000,000 in September 2011 and \$400,000 in May 2012. Either party may terminate this agreement at any time, without cause, by providing sixty days written notice. In the event of termination, the unamortized portion is to be returned. At June 30, 2012, the unamortized portion of these investments approximated \$2,055,000.

Deferred revenues of the college represent the following as of June 30:

	<u>2012</u>	<u>2011</u>
Tuition and fees	\$ 771,039	\$ 834,951
Vendor investments	2,055,556	-
Grants	<u>77,399</u>	<u>115,524</u>
Total deferred revenue	<u>2,903,994</u>	950,475
Less: Current portion	<u>1,315,105</u>	<u>950,475</u>
Long Term Deferred Revenue	<u>\$ 1,588,889</u>	\$ _____

**Note 10 - Long-Term Liabilities**

Long-term liabilities at June 30, 2012, consist of:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Leases and notes payable:					
Lease obligations	\$ 798,805	\$ -	\$ (267,749)	\$ 531,056	\$ 155,737
Bond payable	640,199	-	(23,695)	616,504	29,137
Bond premium	<u>12,825</u>	-	<u>(1,355)</u>	<u>11,470</u>	<u>1,356</u>
Total leases and notes payable	<u>\$ 1,451,829</u>	<u>\$ _____</u>	<u>\$ (292,799)</u>	<u>\$ 1,159,030</u>	<u>\$ 186,230</u>
Other long-term liabilities:					
Compensated absences	\$ 3,042,161	\$ 259,430	\$ (150,649)	\$ 3,150,942	\$ 2,006,923
Workers' compensation	<u>250,744</u>	-	<u>(8,291)</u>	<u>242,453</u>	<u>53,340</u>
Total other liabilities	<u>\$ 3,292,905</u>	<u>\$ 259,430</u>	<u>\$ (158,940)</u>	<u>\$ 3,393,395</u>	<u>\$ 2,060,263</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 10 - **Long-Term Liabilities - Continued**

Long-term liabilities at June 30, 2011, consist of:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Leases and notes payable:					
Lease obligations	\$ 1,258,966	\$ -	\$ (460,161)	\$ 798,805	\$ 267,749
Bond payable	663,562	-	(23,363)	640,199	23,695
Bond premium	<u>14,180</u>	<u>-</u>	<u>(1,355)</u>	<u>12,825</u>	<u>1,355</u>
Total leases and notes payable	<u>\$ 1,936,708</u>	<u>\$ -</u>	<u>\$ (484,879)</u>	<u>\$ 1,451,829</u>	<u>\$ 292,799</u>
Other long-term liabilities:					
Compensated absences	\$ 2,930,340	\$ 331,922	\$ (220,101)	\$ 3,042,161	\$ 1,834,935
Workers' compensation	<u>299,214</u>	<u>-</u>	<u>(48,470)</u>	<u>250,744</u>	<u>49,647</u>
Total other liabilities	<u>\$ 3,229,554</u>	<u>\$ 331,922</u>	<u>\$ (268,571)</u>	<u>\$ 3,292,905</u>	<u>\$ 1,884,582</u>

The College leases certain equipment under various capital and operating leases. The following is a summary of capital assets held under capital lease as of June 30, 2012:

Buildings	<b>\$ 4,191,630</b>
Furniture and equipment	<b><u>1,152,306</u></b>
	<b>5,343,936</b>
Less: accumulated depreciation	<b><u>(3,612,086)</u></b>
	<b>\$ <u>1,731,850</u></b>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
 (an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 10 - **Long-Term Liabilities - Continued**

The following schedule summarizes future minimum payments under non-cancelable leases subsequent to June 30, 2012:

<u>Years</u> <u>Ending</u>	<u>Capital Leases</u>		<u>Operating</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Leases</u>	<u>Total</u>
2013	\$ 155,737	\$ 20,015	\$ 56,053	\$ 231,805
2014	162,430	13,322	24,755	200,507
2015	169,411	6,341	13,941	189,693
2016	<u>43,478</u>	<u>460</u>	<u>1,509</u>	<u>45,447</u>
	<u>\$ 531,056</u>	<u>\$ 40,138</u>	<u>\$ 96,258</u>	<u>\$ 667,452</u>

Rental expenses for operating leases were \$87,353 and \$90,111 for the years ended June 30, 2012 and 2011, respectively.

**Bonds Payable**

The College has revenue bonds outstanding with the Massachusetts State College Building Authority. Principal is payable annually and interest is payable semiannually at a predetermined rate which varies between 2% and 5.6%.

Maturities of the bond payable subsequent to June 30, 2012, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 30,493	\$ 21,697
2014	31,046	20,623
2015	31,820	19,436
2016	32,594	18,142
2017	33,258	17,005
2018-2022	172,297	72,033
2023-2027	198,568	37,394
2028-2030	<u>97,898</u>	<u>7,514</u>
	<u>\$ 627,974</u>	<u>\$ 213,844</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
**(an agency of the Commonwealth of Massachusetts)**

**Notes to the Financial Statements**

**June 30, 2012 and 2011**

Note 11 - **Restricted Net Assets**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. Restricted-nonexpendable funds consist of endowment funds, the incomes from which are available for academic programs. Restricted expendable funds are available for academic programs.

The Foundation's restricted - nonexpendable and expendable net assets consist of investments that are mainly used for various scholarships and program support including the College's library and two endowed lectures.

Note 12 - **Related Party Transactions – Foundation**

The Foundation has purchased services and made investments, all at prevailing market rates, with entities controlled by members of its Board of Directors.

The Chairman of the Board of Trustees of the College is the President and CEO of Mountain One Financial Services which is the parent company of Hoosac Bank and True North Financial Services, Inc. which handles the investments of the MCLA Foundation. In addition, the MCLA Foundation Board of Director's Chair is a partner in an insurance agency which is under the same parent company as the financial services for the Foundation. At June 30, 2012 and 2011, the amounts due to Hoosac Bank were \$595,730 and \$617,300, respectively. These balances are included as part of notes payable on the Statement of Net Assets.

Note 13 - **Contingencies**

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

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 13 - **Contingencies - Continued**

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

Note 14 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, are comprised of the following at June 30:

	<u>2012</u>	<u>2011</u>
Compensation and benefits	\$ 25,983,237	\$ 24,372,640
Supplies and services	14,063,520	13,393,811
Depreciation	1,353,456	1,514,976
Scholarships and fellowships	<u>949,152</u>	<u>706,902</u>
	<u>\$ 42,349,365</u>	<u>\$ 39,988,329</u>

Note 15 - **Retirement Plan**

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension, and worker's compensation benefits. Health insurance and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net assets and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
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**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 15 - **Retirement Plan - Continued**

The Commonwealth is statutorily responsible for the pension benefit of the College's employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the State. The College makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to \$1,586,755 and \$968,657 for the years ended June 30, 2012 and 2011, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 81% of annual total payroll for the College in 2012 and 2011, respectively.

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

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

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



**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 15 - **Retirement Plan - Continued**

The GIC is a quasi-independent state agency governed by an eleven member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2012, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 16 - **Massachusetts Management Accounting and Reporting System**

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System (MMARS) on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. Management believes the amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Education Audited Financial Statements*.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
**(an agency of the Commonwealth of Massachusetts)**

**Notes to the Financial Statements - Continued**

**June 30, 2012 and 2011**

Note 16 - **Massachusetts Management Accounting and Reporting System**

The College's state appropriation is comprised of the following at June 30:

	<u>2012</u>	<u>2011</u>
Direct unrestricted appropriations	\$ 12,559,848	\$ 12,559,859
Add: Fringe benefits for benefited employees on the state payroll	4,231,665	4,071,467
Less: Day school tuition remitted to the state and included in tuition and fee revenue	<u>(235,731)</u>	<u>(343,459)</u>
Total unrestricted appropriations	16,555,782	16,287,867
Capital appropriations:		
Direct	714,435	46,000
Department of Capital Asset Management Allocation	<u>4,944,550</u>	<u>639,246</u>
Total capital Appropriations	<u>5,658,985</u>	<u>685,246</u>
 Total appropriations	 \$ <u>22,214,767</u>	 \$ <u>16,973,113</u>

A reconciliation of revenues between the College and MMARS as of August 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Revenue per MMARS	\$ <u>15,867,038</u>	\$ <u>17,769,508</u>
Revenue per College	\$ <u>15,867,038</u>	\$ <u>17,769,508</u>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
(an agency of the Commonwealth of Massachusetts)

**Notes to the Financial Statements**

**June 30, 2012 and 2011**

Note 17 - **Pass - Through Grants**

The College distributed \$9,714,031 and \$9,843,608 in 2012 and 2011, respectively, for student loans through the U.S. Department of Education Direct Student Loan Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

Note 18 - **Massachusetts State College Building Authority**

The Building Authority was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth as a public instrumentality for the general purpose of providing dormitories, for use by students of the state universities of the Commonwealth.

The College is charged a semi-annual revenue assessment that is based on a certified occupancy report, the current rent schedule and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. The Commonwealth guarantees these obligations. All facilities and obligations of MSCBA are included in the financial statements of MSCBA.

Dormitory trust fund schedules included in the supplemental information include revenues and expenses which are included in residence and dining fees revenue and auxiliary enterprises expenses.

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
 (an agency of the Commonwealth of Massachusetts)

**Schedules of Net Assets -  
 Dormitory Trust Fund Report (Unaudited)**

**June 30,**

**Assets**

	<u>2012</u>	<u>2011</u>
Cash and equivalents	\$ 1,779,024	\$ 1,984,422
Accounts receivable, net	5,251	7,197
Other current assets	<u>-</u>	<u>1,037</u>
<b>Total Dormitory Trust Fund Assets</b>	<b><u>\$ 1,784,275</u></b>	<b><u>\$ 1,992,656</u></b>

**Liabilities and Net Assets**

Accounts payable	\$ 11,647	\$ 62,357
Accrued payroll	65,678	50,766
Compensated absences	173,609	162,520
Deferred revenue	102,150	101,226
Net assets	<u>1,431,191</u>	<u>1,615,787</u>
<b>Total Dormitory Trust Fund Liabilities and Net Assets</b>	<b><u>\$ 1,784,275</u></b>	<b><u>\$ 1,992,656</u></b>

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS**  
 (an agency of the Commonwealth of Massachusetts)

**Schedules of Revenues, Expenses, and Changes in Net Assets -  
 Dormitory Trust Fund Report  
 (Unaudited)**

**For the Years Ended June 30,**

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Student fees	\$ 4,676,721	\$ 4,667,546
Repair income	7,925	12,704
Commissions	31,275	41,458
Rentals	92,233	171,309
Other	<u>15,036</u>	<u>20,048</u>
<b>Total Revenues</b>	<u>4,823,190</u>	<u>4,913,065</u>
<b>Expenses:</b>		
Regular employee compensation	704,435	615,801
Regular employee related	6,820	4,333
Student employee compensation	336,636	286,155
Pension and insurance related	250,730	205,770
Administrative	35,032	41,490
Facility operational	58,805	53,797
Energy cost	431,060	517,427
Consultant services	2,615	7,915
Operational services	323,642	394,660
Equipment purchases	36,187	13,978
Equipment leases	28,637	40,169
Educational assistance	127,170	106,296
Loans and special payments	<u>2,666,017</u>	<u>2,320,203</u>
<b>Total Expenses</b>	<u>5,007,786</u>	<u>4,607,994</u>
<b>Total Increase in Net Assets</b>	<u>(184,596)</u>	<u>305,071</u>
Net Assets, Beginning of Year	<u>1,615,787</u>	<u>1,310,716</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,431,191</u>	<u>\$ 1,615,787</u>



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

To the Board of Trustees of  
Massachusetts College of Liberal Arts  
North Adams, Massachusetts

We have audited the financial statements of Massachusetts College of Liberal Arts (the "College") (an agency of the Commonwealth of Massachusetts) as of, and for the year ended, June 30, 2012, and have issued our report thereon dated October 11, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Massachusetts College of Liberal Arts is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Trustees and management of the College, the Commonwealth of Massachusetts, and Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

O'Connor & Drew, P.C.

**Certified Public Accountants  
Braintree, Massachusetts**

October 11, 2012