

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

FINANCIAL STATEMENTS

JUNE 30, 2018

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

(a component unit of Massachusetts College of Liberal Arts)

Financial Statements

June 30, 2018 and 2017

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT

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

Report on 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, 2018 and 2017, 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, 2018 and 2017, 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 October 4, 2018 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**

October 4, 2018

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

(a component unit of Massachusetts College of Liberal Arts)

Statements of Financial Position

June 30, 2018 and 2017

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Statements of Financial Position

June 30,

Assets

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Current Assets: | | |
| Cash and equivalents | \$ 1,628,783 | \$ 1,401,417 |
| Investments | 12,400,277 | 11,522,374 |
| Unconditional promises to give | 521,487 | 626,548 |
| Prepaid expenses | <u>25,497</u> | <u>18,169</u> |
| Total Current Assets | <u>14,576,044</u> | <u>13,568,508</u> |
| Property and Equipment | <u>1,870,114</u> | <u>1,880,059</u> |
| Other Assets: | | |
| Unconditional promises to give, net of current portion | 2,603,565 | 2,935,450 |
| Other assets | <u>5,722</u> | <u>6,262</u> |
| Total Other Assets | <u>2,609,287</u> | <u>2,941,712</u> |
| Total Assets | <u>\$ 19,055,445</u> | <u>\$ 18,390,279</u> |

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

Liabilities and Net Assets

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 65,330 | \$ 65,531 |
| Current portion of charitable gift annuity liability | 2,250 | 2,250 |
| Accounts payable and accrued expenses | 4,485 | 7,631 |
| Due to Massachusetts College of Liberal Arts | <u>143,686</u> | <u>56,901</u> |
| Total Current Liabilities | <u>215,751</u> | <u>132,313</u> |
| Long-Term Liability: | | |
| Long-term debt, net of current portion | 717,013 | 782,165 |
| Charitable gift annuity liability, net of current portion | <u>29,073</u> | <u>31,324</u> |
| Total Long-Term Liabilities | <u>746,086</u> | <u>813,489</u> |
| Total Liabilities | <u>961,837</u> | <u>945,802</u> |
| Net Assets: | | |
| Unrestricted: | | |
| Board designated | 740,864 | 724,153 |
| Undesignated | 1,563,192 | 1,329,884 |
| Temporarily restricted | 3,005,855 | 2,734,501 |
| Permanently restricted | <u>12,783,697</u> | <u>12,655,939</u> |
| Total Net Assets | <u>18,093,608</u> | <u>17,444,477</u> |
| Total Liabilities and Net Assets | <u>\$ 19,055,445</u> | <u>\$ 18,390,279</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, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues: | | | | |
| Contributions and grants | \$ 587,317 | \$ 396,733 | \$ 127,758 | \$ 1,111,808 |
| Special events | 17,880 | - | - | 17,880 |
| Contributed services | 99,403 | - | - | 99,403 |
| Investment return | 61,703 | 992,464 | - | 1,054,167 |
| Rental income | 189,631 | - | - | 189,631 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | <u>1,117,843</u> | <u>(1,117,843)</u> | <u>-</u> | <u>-</u> |
| Total Revenues | <u>2,073,777</u> | <u>271,354</u> | <u>127,758</u> | <u>2,472,889</u> |
| Contributions, Scholarships and Expenses: | | | | |
| Program services: | | | | |
| Contributions to Massachusetts | | | | |
| College of Liberal Arts (MCLA) | 1,001,463 | - | - | 1,001,463 |
| Scholarships for benefit of | | | | |
| MCLA students | 409,017 | - | - | 409,017 |
| Administrative expenses: | | | | |
| Building | 123,649 | - | - | 123,649 |
| Management and general | 91,774 | - | - | 91,774 |
| Contributed services | 99,403 | - | - | 99,403 |
| Fundraising | <u>98,452</u> | <u>-</u> | <u>-</u> | <u>98,452</u> |
| Total Contributions, Scholarships and Expenses | <u>1,823,758</u> | <u>-</u> | <u>-</u> | <u>1,823,758</u> |
| Changes in Net Assets | 250,019 | 271,354 | 127,758 | 649,131 |
| Net Assets, Beginning of Year | <u>2,054,037</u> | <u>2,734,501</u> | <u>12,655,939</u> | <u>17,444,477</u> |
| Net Assets, End of Year | <u>\$ 2,304,056</u> | <u>\$ 3,005,855</u> | <u>\$ 12,783,697</u> | <u>\$ 18,093,608</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, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues: | | | | |
| Contributions and grants | \$ 258,946 | \$ 467,759 | \$ 297,016 | \$ 1,023,721 |
| Special events | 17,974 | - | - | 17,974 |
| Contributed services | 66,585 | - | - | 66,585 |
| Investment return | 86,157 | 1,357,599 | - | 1,443,756 |
| Rental income | 189,630 | - | - | 189,630 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | <u>1,399,470</u> | <u>(1,399,470)</u> | <u>-</u> | <u>-</u> |
| Total Revenues | <u>2,018,762</u> | <u>425,888</u> | <u>297,016</u> | <u>2,741,666</u> |
| Contributions, Scholarships and Expenses: | | | | |
| Program services: | | | | |
| Contributions to Massachusetts | | | | |
| College of Liberal Arts (MCLA) | 976,433 | - | - | 976,433 |
| Scholarships for benefit of | | | | |
| MCLA Students | 394,618 | - | - | 394,618 |
| Administrative expenses: | | | | |
| Building | 137,296 | - | - | 137,296 |
| Management and general | 95,408 | - | - | 95,408 |
| Contributed services | 66,585 | - | - | 66,585 |
| Fundraising | <u>130,684</u> | <u>-</u> | <u>-</u> | <u>130,684</u> |
| Total Contributions, Scholarships and Expenses | <u>1,801,024</u> | <u>-</u> | <u>-</u> | <u>1,801,024</u> |
| Changes in Net Assets | 217,738 | 425,888 | 297,016 | 940,642 |
| Net Assets, Beginning of Year | <u>1,836,299</u> | <u>2,609,945</u> | <u>12,057,591</u> | <u>16,503,835</u> |
| Reclassification | <u>-</u> | <u>(301,332)</u> | <u>301,332</u> | <u>-</u> |
| Net Assets, End of Year | <u>\$ 2,054,037</u> | <u>\$ 2,734,501</u> | <u>\$ 12,655,939</u> | <u>\$ 17,444,477</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>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | <u>\$ 649,131</u> | <u>\$ 940,642</u> |
| Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities: | | |
| Depreciation | 67,384 | 73,798 |
| Realized gains on sale of investments | (473,199) | (474,066) |
| Unrealized gains on investments | (321,943) | (753,431) |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other assets | (6,788) | 5,610 |
| Unconditional promises to give | 436,946 | 322,008 |
| Accounts payable and accrued expenses | (3,146) | 3,506 |
| Due to Massachusetts College of Liberal Arts | <u>86,785</u> | <u>(390,490)</u> |
| Net Adjustments | <u>(213,961)</u> | <u>(1,213,065)</u> |
| Net Cash Provided by (Applied to) Operating Activities | <u>435,170</u> | <u>(272,423)</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (57,439) | (33,130) |
| Purchase of investments | (971,189) | (3,841,564) |
| Proceeds from sale of investments | <u>888,428</u> | <u>3,795,762</u> |
| Net Cash Applied to Investing Activities | <u>(140,200)</u> | <u>(78,932)</u> |
| Cash Flows from Financing Activities: | | |
| Payments on long-term debt | (65,353) | (59,295) |
| Payments on charitable gift annuity | <u>(2,251)</u> | <u>(2,250)</u> |
| Net Cash Applied to Financing Activities | <u>(67,604)</u> | <u>(61,545)</u> |
| Net Increase (Decrease) in Cash and Equivalents | 227,366 | (412,900) |
| Cash and Equivalents, Beginning of Year | <u>1,401,417</u> | <u>1,814,317</u> |
| Cash and Equivalents, End of Year | <u>\$ 1,628,783</u> | <u>\$ 1,401,417</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, 2018 and 2017

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 solicit and 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the present value of unconditional promises to give, allowance for doubtful accounts, estimating depreciation, and valuing the annuity payable.

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.

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Basis of Accounting – continued

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.

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, 2018 and 2017, the entire carrying amount of the Foundation's deposits was 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. Temporarily restricted contributions received during the year, meeting donor-imposed stipulations, are recorded as unrestricted contributions.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies - Continued

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.

Income Taxes

Accounting principles generally accepted in the United States of America 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. The Foundation paid no income taxes for such unrelated business income in 2018 and 2017.

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.

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

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.

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. Net unconditional promises to give of \$2,830,406 and \$3,101,279 are recorded as permanently restricted net assets at June 30, 2018 and 2017, respectively.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies - Continued

Endowment Funds - continued

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.

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 Annuity

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.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies - Continued

Charitable Gift Annuity - continued

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.

New Accounting Pronouncements

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 15, 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 does not expect implementation to have a material effect on financial position or results of operations.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, an amendment to Topic 958 - Not for Profit Entities was issued by FASB in June 2018. The purpose of this amendment is to provide guidance in determining whether resource providers and resource recipients are participating in an exchange transaction, or if the transfer of funds is a contribution, by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The amendments in this update should be applied on a modified prospective basis, however, retrospective application is permitted. For resource recipients involved in public markets, including over-the-counter exchanges, the amendments are effective for periods beginning after June 15, 2018. For all other resource recipient entities, it is effective for annual periods beginning after December 15, 2018. The effective date for resource providers involved in public markets is periods beginning after December 15, 2018. All other resource providers should apply the amendment to periods beginning after December 15, 2019. Early adoption is permitted. Although management has not concluded its review of this standards update, based on the nature of the Foundation's activities, it does not believe implementation will have a material effect on the financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Reclassifications

During 2017, due to a change in the stipulations of a donor and reassessment by the Foundation of a donor's intentions certain unconditional promises to give have been reclassified from temporarily restricted net assets to permanently restricted net assets.

Certain other amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

Note 2 - **Unconditional Promises to Give**

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------------|-------------------------|
| Receivable in less than one year | \$ 546,245 | \$ 654,531 |
| Receivable in one to twenty years | 3,419,112 | 3,890,714 |
| Less: discount to net present value | <u>840,305</u> | <u>983,247</u> |
| Present value of unconditional promises to give | 3,125,052 | 3,561,998 |
| Less: current unconditional promises to give | <u>521,487</u> | <u>626,548</u> |
| Unconditional Promises to Give, Net of Current Portion | <u>\$ 2,603,565</u> | <u>\$ 2,935,450</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, 2018 and 2017

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>2018</u> | | |
|-------------------------|---------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Interest and dividends | \$ 1,118 | \$ 257,907 | \$ 259,025 |
| Unrealized gains | 19,671 | 302,272 | 321,943 |
| Realized gains | <u>40,914</u> | <u>432,285</u> | <u>473,199</u> |
| Total Investment Return | \$ <u>61,703</u> | \$ <u>992,464</u> | \$ <u>1,054,167</u> |
| | <u>2017</u> | | |
| Interest and dividends | \$ 780 | \$ 215,479 | \$ 216,259 |
| Unrealized gains | 45,596 | 707,835 | 753,431 |
| Realized gains | <u>39,781</u> | <u>434,285</u> | <u>474,066</u> |
| Total Investment Return | \$ <u>86,157</u> | \$ <u>1,357,599</u> | \$ <u>1,443,756</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. |
|---------|---|

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

Notes to the Financial Statements - Continued

June 30, 2018 and 2017

Note 4 - **Fair Value Measurements**

Level 2

Inputs to the valuation methodology include:

- 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; and
- 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.

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, 2018.

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.

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

June 30, 2018 and 2017

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

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

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

Assets at Fair Value as of June 30, 2018

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|----------------------|----------------|--------------------|----------------------|
| Mutual funds: | | | | |
| Fixed income funds | \$ 2,298,234 | \$ - | \$ - | \$ 2,298,234 |
| Other funds | 5,519,697 | - | - | 5,519,697 |
| Equities: | | | | |
| Blended index funds | 245,241 | - | - | 245,241 |
| Other index funds | 3,309,138 | - | - | 3,309,138 |
| Certificates of deposit | 991,704 | - | - | 991,704 |
| Cash and equivalents | <u>36,263</u> | <u>-</u> | <u>-</u> | <u>36,263</u> |
| Total Assets at Fair Value | <u>\$ 12,400,277</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,400,277</u> |
| Charitable gift annuity liability | <u>\$ -</u> | <u>-</u> | <u>\$ (31,323)</u> | <u>\$ (31,323)</u> |

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Assets at Fair Value as of June 30, 2017

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------------|--------------------------|-----------------|------------------------|--------------------------|
| Mutual funds: | | | | |
| Fixed income funds | \$ 2,000,646 | \$ - | \$ - | \$ 2,000,646 |
| Other funds | 5,354,545 | - | - | 5,354,545 |
| Equities: | | | | |
| Blended index funds | 216,593 | - | - | 216,593 |
| Other index funds | 2,903,122 | - | - | 2,903,122 |
| Certificates of deposit | 1,002,769 | - | - | 1,002,769 |
| Cash and equivalents | <u>44,699</u> | <u>-</u> | <u>-</u> | <u>44,699</u> |
| Total Assets at Fair Value | \$ <u>11,522,374</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>11,522,374</u> |
| Charitable gift annuity liability | \$ <u>-</u> | <u>-</u> | \$ <u>(33,574)</u> | \$ <u>(33,574)</u> |

Charitable Gift Annuity Liability

The Level 3 charitable gift annuity liability is valued using the income approach, in the form of present value using a payout rate of 4.50% as determined by the 2012 American Council on Gift Annuities ("ACGA") Table as of June 30, 2018 and 2017. 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>2018</u> | <u>2017</u> |
|---------------------------------------|-------------------------|-------------------------|
| Land | \$ 197,967 | \$ 197,967 |
| Buildings | 1,454,495 | 1,454,495 |
| Furniture and fixtures | 21,344 | 21,344 |
| Improvements | <u>1,343,573</u> | <u>1,286,134</u> |
| Total | <u>3,017,379</u> | <u>2,959,940</u> |
| Less: accumulated depreciation | <u>1,147,265</u> | <u>1,079,881</u> |
| Land, Property and Equipment, net | \$ <u>1,870,114</u> | \$ <u>1,880,059</u> |

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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, 2018 and 2017, approximately \$60,000 and \$54,000, respectively, was paid for investment advisory services as well as approximately \$18,000 and \$19,000, respectively, was paid as interest on the mortgage note to the above related party.

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.

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, 2018 and 2017, the Foundation recognized revenue and related expense of \$99,403 and \$66,585, respectively, for contributed services received from the College based on the fair value of comparable services provided by third parties.

Note 7 - **Long-Term Debt**

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

| | <u>2018</u> | <u>2017</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. | \$ 430,168 | \$ 461,505 |
| Mortgage note payable to Greylock Federal Credit Union, payable in monthly payments of \$4,087 including interest at 4.0% through November 8, 2018, and every three years thereafter, when the rate will switch to the Wall Street Journal prime rate plus .5% Secured by real property. | <u>352,175</u> | <u>386,191</u> |
| | <u>782,343</u> | 847,696 |
| Less: Current portion of long-term debt | <u>65,330</u> | <u>65,531</u> |
| Total Long-Term Debt, Net of Current Portion | \$ <u>717,013</u> | \$ <u>782,165</u> |

**MASSACHUSETTS COLLEGE OF LIBERAL ARTS
FOUNDATION, INC.**
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Notes to the Financial Statements - Continued

June 30, 2018 and 2017

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

Future principal payments subsequent to June 30, 2018 are as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|-------------------|
| 2019 | \$ 65,330 |
| 2020 | 66,216 |
| 2021 | 69,475 |
| 2022 | 72,855 |
| 2023 | 76,403 |
| Thereafter | <u>432,064</u> |
| Total | \$ <u>782,343</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 (5.00% and 4.25% at June 30, 2018 and 2017, respectively). The Foundation has no debt related to these agreements at June 30, 2018 and 2017.

Interest expense incurred in connection with all debt obligations was \$33,108 and \$39,165 in 2018 and 2017, respectively.

Note 8 - **Temporarily Restricted Net Assets**

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

| | <u>2018</u> | <u>2017</u> |
|----------------------|----------------------------|---------------------|
| Educational programs | \$ 1,765,138 | \$ 1,635,234 |
| Student scholarships | <u>1,240,717</u> | <u>1,099,267</u> |
| | \$ <u>3,005,855</u> | \$ <u>2,734,501</u> |

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

June 30, 2018 and 2017

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>2018</u> | <u>2017</u> |
|----------------------|----------------------------|----------------------------|
| Educational programs | \$ 708,826 | \$ 1,004,852 |
| Student scholarships | <u>409,017</u> | <u>394,618</u> |
| | \$ <u>1,117,843</u> | \$ <u>1,399,470</u> |

Note 9 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2018 and 2017 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, 2016 | \$ 657,043 | \$ 1,732,880 | \$ 9,056,040 | \$ 11,445,963 |
| Investment return | 86,051 | 1,357,599 | - | 1,443,650 |
| Contributions | - | 594,050 | 488,543 | 1,082,593 |
| Amounts appropriated for expenditure | <u>(18,941)</u> | <u>(1,399,470)</u> | <u>-</u> | <u>(1,418,411)</u> |
| Endowment net assets, at June 30, 2017 | 724,153 | 2,285,059 | 9,544,583 | 12,553,795 |
| Investment return | 61,582 | 992,464 | - | 1,054,046 |
| Contributions | - | 556,205 | 408,708 | 964,913 |
| Amounts appropriated for expenditure | <u>(44,871)</u> | <u>(1,117,843)</u> | <u>-</u> | <u>(1,162,714)</u> |
| Endowment net assets, at June 30, 2018 | \$ <u>740,864</u> | \$ <u>2,715,885</u> | \$ <u>9,953,291</u> | \$ <u>13,410,040</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, 2018 and 2017

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. As described in Note 1, unconditional promises to give are not considered endowment net assets. The balance held as endowment net assets consist of funds held as cash or investments. Contributions to the endowment include both current year revenues as well as collections on receivables from prior years.

Note 10 - **Leases**

The Foundation leases property to the Commonwealth of Massachusetts under a ten-year agreement expiring on September 30, 2027. Total rental revenue for the fiscal years ended 2018 and 2017 was approximately \$189,630. Future minimum rental revenue under the lease agreements are as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|---------------------|
| 2019 | \$ 189,632 |
| 2020 | 189,632 |
| 2021 | 189,632 |
| 2022 | 189,632 |
| 2023 | 189,632 |
| Thereafter | <u>805,936</u> |
| Total | \$ <u>1,754,096</u> |

Note 11 - **Supplemental Cash Flow Information**

During the years ended June 30, 2018 and 2017, the Foundation paid \$33,108 and \$39,165 for interest, respectively.

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

Cash

From time to time, cash balances at financial banking institutions exceeded the federally insured limit. As discussed in Note 1, the Foundation has obtained specific depository to mitigate the risks associated with funds deposited in excess of federally insured limits.

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

June 30, 2018 and 2017

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

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. The Foundation's holdings of equities, fixed income funds and certificates of deposit are held in a brokerage account with a national brokerage firm. These accounts are protected by the Securities Investor Protection Corporation ("SIPC"). In the event of broker-dealer failure, up to \$500,000 in these accounts will be protected from loss. The SIPC insurance does not protect against market losses on investments. The Foundation's investments in common pooled funds is not covered under SIPC insurance.

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 October 4, 2018 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, 2018 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, 2018, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated October 4, 2018.

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'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 4, 2018