

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

FINANCIAL STATEMENTS

JUNE 30, 2013

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

(a component unit of Massachusetts College of Liberal Arts)

Financial Statements

June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

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

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, 2013 and 2012, and the related Statements of Activities and Changes in Net Assets, and Cash Flows, 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 opinions 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

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, 2013 and 2012, and the respective changes in net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013 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 Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts
September 26, 2013

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

(a component unit of Massachusetts College of Liberal Arts)

Statements of Financial Position

June 30, 2013 and 2012

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

(a component unit of Massachusetts College of Liberal Arts)

Statements of Financial Position

June 30,

Assets

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and equivalents	\$ 2,143,483	\$ 1,458,274
Investments	8,898,450	8,099,688
Unconditional promises to give	314,577	273,281
Prepaid expenses	<u>28,948</u>	<u>5,883</u>
Total Current Assets	<u>11,385,458</u>	<u>9,837,126</u>
Property and Equipment	2,256,851	2,338,451
Other Assets:		
Unconditional promises to give, net of current portion	579,971	571,215
Other assets	<u>8,422</u>	<u>8,962</u>
Total Other Assets	<u>588,393</u>	<u>580,177</u>
Total Assets	<u>\$ 14,230,702</u>	<u>\$ 12,755,754</u>

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

Liabilities and Net Assets

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current portion of long-term debt	\$ 42,395	\$ 40,012
Accounts payable and accrued expenses	42,552	52,810
Due to affiliates	<u>35,957</u>	<u>35,642</u>
Total Current Liabilities	<u>120,904</u>	<u>128,464</u>
Long-Term Liability:		
Long-term debt, net of current portion	<u>1,004,700</u>	<u>1,047,081</u>
Total Liabilities	<u>1,125,604</u>	<u>1,175,545</u>
Net Assets:		
Unrestricted	3,480,765	2,950,034
Temporarily restricted	1,582,453	1,131,530
Permanently restricted	<u>8,041,880</u>	<u>7,498,645</u>
Total Net Assets	<u>13,105,098</u>	<u>11,580,209</u>
Total Liabilities and Net Assets	<u>\$ 14,230,702</u>	<u>\$ 12,755,754</u>

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

(a component unit of Massachusetts College of Liberal Arts)

Statements of Activities and Changes in Net Assets

**For the Year Ended June 30, 2013
(with comparative totals for the year ended June 30, 2012)**

	2013				2012
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Revenues:					
Contributions and grants	\$ 1,018,085	\$ 345,252	\$ 543,235	\$ 1,906,572	\$ 2,246,540
Special fundraising revenue	26,075	-	-	26,075	24,369
Investment return	44	714,592	-	714,636	35,890
Rental income	209,630	-	-	209,630	209,630
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>608,921</u>	<u>(608,921)</u>	-	-	-
Total Revenues	<u>1,862,755</u>	<u>450,923</u>	<u>543,235</u>	<u>2,856,913</u>	<u>2,516,429</u>
Contributions, Scholarships and Expenses:					
Program services:					
Contributions to Massachusetts					
College of Liberal Arts (MCLA)	416,306	-	-	416,306	1,997,414
Scholarships for benefit of					
MCLA Students	267,427	-	-	267,427	220,403
Functional expenses:					
Building	168,730	-	-	168,730	172,022
Management and general	303,082	-	-	303,082	386,046
Fundraising	<u>176,479</u>	-	-	<u>176,479</u>	<u>174,915</u>
Total Contributions, Scholarships and Expenses	<u>1,332,024</u>	-	-	<u>1,332,024</u>	<u>2,950,800</u>
Changes in Net Assets	<u>530,731</u>	<u>450,923</u>	<u>543,235</u>	<u>1,524,889</u>	<u>(434,371)</u>
Net assets, Beginning of Year	<u>2,950,034</u>	<u>1,131,530</u>	<u>7,498,645</u>	<u>11,580,209</u>	<u>12,014,580</u>
Net assets, End of Year	<u>\$ 3,480,765</u>	<u>\$ 1,582,453</u>	<u>\$ 8,041,880</u>	<u>\$ 13,105,098</u>	<u>\$ 11,580,209</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>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Change in net assets	<u>\$ 1,524,889</u>	<u>\$ (434,371)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	81,600	81,823
Realized gains on sale of investments	(358,688)	(213,057)
Donation of land and land improvements	-	523,926
Unrealized (gains) losses on investments	(132,776)	427,502
Changes in assets and liabilities:		
Prepaid expenses and other assets	(22,525)	(210)
Unconditional promises to give	(50,052)	406,238
Accounts payable and accrued expenses	(10,258)	(4,216)
Due to affiliates	<u>315</u>	<u>(2,454)</u>
Net Adjustments	<u>(492,384)</u>	<u>1,219,552</u>
Net Cash Provided by Operating Activities	<u>1,032,505</u>	<u>785,181</u>
Cash Flows from Financing Activities:		
Payments on long-term debt	<u>(39,998)</u>	<u>(37,569)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	-	(11,764)
Purchase of investments	(3,545,712)	(4,286,620)
Proceeds from sale of investments	<u>3,238,414</u>	<u>3,698,425</u>
Net Cash Applied to Investing Activities	<u>(307,298)</u>	<u>(599,959)</u>
Net Increase in Cash and Equivalents	685,209	147,653
Cash and Equivalents, Beginning of Year	<u>1,458,274</u>	<u>1,310,621</u>
Cash and Equivalents, End of Year	<u>\$ 2,143,483</u>	<u>\$ 1,458,274</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, 2013 and 2012

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 raise funds for aiding and participating in the development and improvement of the Massachusetts College of Liberal Arts (the "College"). In addition, the Foundation also 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 and a matching incentive program sponsored by the Commonwealth of Massachusetts.

Management Estimates

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

Method of Accounting

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

Financial Statement Presentation

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2012 from which the summarized information was derived.

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Assets and 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, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Financial Statement Presentation - 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 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, 2013 and 2012, the carrying amount of the Foundation's deposits were \$2,143,483 and \$1,458,274, respectively, with the entire balance being 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.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Income Taxes

Generally accepted accounting principles as practiced in the United States of America require an entity to assess the probability that a tax position has a “more likely than not” (“MLTN”) 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. Interest and penalties, if any, related to assessments by tax authorities, will be classified as a component of management and general expense in the statement of activities. A tax position may be considered as taken any time a taxpayer chooses amongst alternatives that affect the amount of their tax obligations and include for example: tax exempt status; status as a pass-through entity (S Corporations); decisions made in the process of conforming with tax laws; decisions not to file in certain jurisdictions; allocation of income between jurisdictions and the characterization of income or expenses. 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.

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. Since the continuance of this status is based upon continuing qualification, the Foundation has identified this as a tax position. However, it has determined that this tax position meets MLTN sustainability and does not result in an uncertainty requiring recognition.

The Foundation does not expect any material changes in its position regarding this matter in the next twelve months.

Unconditional Promises to Give

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

Investments

Investments are recorded at fair market value.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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.

In-Kind Support

Donated materials are recorded at fair market value as both revenue and expense in the statement of activities. 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.

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.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Endowment Funds - Continued

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.

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 provide a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

New Accounting Pronouncements

Accounting Standards Update 2013-06 *Not-for-Profit Entities, Services Received from Personnel of an Affiliate* an amendment to Not-for-Profit Entities (Topic 958) of the Accounting Standards Codification ("ASC") will require a recipient not-for-profit entity to recognize services received from personnel of an affiliate from which they directly benefit. These services should be measured at the affiliate's cost except when those costs significantly overstate or understate the value of the services received, in which case the recipient entity may elect to recognize these services at their fair value. ASU 2013-06 is effective for periods beginning after June 15, 2014, with early adoption permitted. Management does not expect the adoption of this standard to have a material impact on the financial position or changes in net assets.

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

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Unconditional Promises to Give**

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

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 326,827	\$ 286,728
Receivable in one to five years	677,535	682,749
Less: discount to net present value	<u>109,814</u>	<u>124,981</u>
Present value of unconditional promises to give	894,548	844,496
Less: Current unconditional promises to give	<u>314,577</u>	<u>273,281</u>
Unconditional promises to give, net of current portion	\$ <u>579,971</u>	\$ <u>571,215</u>

Note 3 - **Investments**

Investments recorded at fair market value at June 30, are as follows:

	<u>2013</u>	<u>2012</u>
General Investments:		
Money market funds	\$ 47,567	\$ 58,490
Equities	1,951,680	1,322,036
Certificates of deposit	182,709	372,590
Mutual funds	<u>6,716,494</u>	<u>6,346,572</u>
Total	\$ <u>8,898,450</u>	\$ <u>8,099,688</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, 2013 and 2012

Note 3 - Investments - Continued

The following schedules summarizes the investment return and its classification in the statement of activities for the years ended June 30:

	<u>2013</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 80	\$ 223,092	\$ 223,172
Unrealized gains and losses	(36)	132,812	132,776
Realized gains	<u>-</u>	<u>358,688</u>	<u>358,688</u>
Total Investment Return	\$ <u>44</u>	\$ <u>714,592</u>	\$ <u>714,636</u>
		<u>2012</u>	
Interest and dividends	\$ 270	\$ 250,065	\$ 250,335
Unrealized gains and losses	(4,506)	(422,996)	(427,502)
Realized gains	<u>-</u>	<u>213,057</u>	<u>213,057</u>
Total Investment Return	\$ <u>(4,236)</u>	\$ <u>40,126</u>	\$ <u>35,890</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, 2013 and 2012

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

- 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;
 - 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, 2013.

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 FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

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

Assets at Fair Value as of June 30, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income funds	\$ 2,749,429	\$ -	\$ -	\$ 2,749,429
Other funds	3,967,065	-	-	3,967,065
Equities				
Bond index funds	890,308	-	-	890,308
Other index funds	1,061,372	-	-	1,061,372
Certificates of deposit	182,709	-	-	182,709
Cash and equivalents	<u>47,567</u>	<u>-</u>	<u>-</u>	<u>47,567</u>
Total assets at fair value	<u>\$ 8,898,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,898,450</u>

Assets at Fair Value as of June 30, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income funds	\$ 2,756,037	\$ -	\$ -	\$ 2,756,037
Other funds	3,590,535	-	-	3,590,535
Equities				
Bond index funds	796,235	-	-	796,235
Other index funds	525,801	-	-	525,801
Certificates of deposit	372,590	-	-	372,590
Cash and equivalents	<u>58,490</u>	<u>-</u>	<u>-</u>	<u>58,490</u>
Total assets at fair value	<u>\$ 8,099,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,099,688</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, 2013 and 2012

Note 5 - **Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 368,864	\$ 368,864
Buildings	1,454,495	1,454,495
Furniture and fixtures	15,628	15,628
Improvements	<u>1,248,828</u>	<u>1,248,828</u>
Total	<u>3,087,815</u>	<u>3,087,815</u>
 Less: accumulated depreciation	 <u>830,964</u>	 <u>749,364</u>
 Land, buildings and improvements, net	 <u>\$ 2,256,851</u>	 <u>\$ 2,338,451</u>

Note 6 - **Related Party Transactions**

A member of the Board of Directors is a principal of the certified public accounting firm that provides bookkeeping services to the Foundation. During the year ended June 30, 2012, approximately \$220 was paid to the firm for these services.

Several trustees to the College, Foundation directors, and Foundation sub-committee members are board members or employees of banks which have issued mortgage notes to the Foundation. A College trustee is a board member of the financial services company that manages the Foundation's investments. During the years ended June 30, 2013 and 2012, approximately \$43,000 and \$38,000, respectively, was paid to the firm for these services.

Due to affiliates represents endowment funds held by the Foundation on behalf of the College.

During fiscal year ended 2012, the Foundation donated \$523,926 in land and land improvements to the Commonwealth of Massachusetts Division of Capital Asset Management for use in the building of a new science center for the College.

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

(a component unit of Massachusetts College of Liberal Arts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 7 - **Long-Term Debt**

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

	<u>2013</u>	<u>2012</u>
Mortgage note payable to Hoosac Bank, payable in monthly payments of \$4,463 including interest at 5.25% through March 2029. Secured by real property.	\$ 572,916	\$ 595,735
Mortgage note payable to Greylock Federal Credit Union, payable in monthly payments of \$4,087 including interest at 6.5% through December 2028. Secured by real property.	<u>474,179</u>	<u>491,358</u>
	1,047,095	1,087,093
Less: Current portion of long-term debt	<u>42,395</u>	<u>40,012</u>
Total long-term debt, net of current portion	\$ <u>1,004,700</u>	\$ <u>1,047,081</u>

Future principal payments subsequent to June 30, 2013, are as follows:

Years Ending <u>June 30,</u>	
2014	\$ 42,395
2015	44,935
2016	47,477
2017	50,477
2018	53,508
Thereafter	<u>808,303</u>
Total	\$ <u>1,047,095</u>

Line of Credit

The Foundation has a revolving line of credit, with two banks, that is not to exceed \$500,000 combined. The interest rate on the lines of credit is based on the prime rate (3.25% at June 30, 2013 and 2012). The Foundation has no debt related to these agreements at June 30, 2013 and 2012.

Interest expense incurred in connection with all debt obligations was \$62,609 and \$65,036 in 2013 and 2012, 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, 2013 and 2012

Note 8 - **Temporarily Restricted Net Assets**

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

	<u>2013</u>	<u>2012</u>
Educational programs	\$ 919,261	\$ 662,582
Student scholarships	<u>663,192</u>	<u>468,948</u>
	<u>\$ 1,582,453</u>	<u>\$ 1,131,530</u>

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

	<u>2013</u>	<u>2012</u>
Educational programs	\$ 343,494	\$ 1,235,684
Student scholarships	<u>265,427</u>	<u>220,403</u>
	<u>\$ 608,921</u>	<u>\$ 1,456,087</u>

Note 9 - **Endowment Net Assets**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, at June 30, 2011	\$ -	\$ 1,548,839	\$ 6,855,220	\$ 8,404,059
Investment return				
Investment gain	-	463,122	-	463,122
Net depreciation	-	(422,996)	-	(422,996)
Contributions	-	998,652	643,425	1,642,077
Amounts appropriated for expenditure	<u>-</u>	<u>(1,456,087)</u>	<u>-</u>	<u>(1,456,087)</u>
Endowment net assets, at June 30, 2012	-	1,131,530	7,498,645	8,630,175

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

June 30, 2013 and 2012

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, at June 30, 2012	-	1,131,530	7,498,645	8,630,175
Investment return				
Investment gain	-	581,780	-	581,780
Net appreciation	-	132,812	-	132,812
Contributions	-	345,252	543,235	888,487
Amounts appropriated for expenditure	-	(608,921)	-	(608,921)
Endowment net assets, at June 30, 2013	\$ -	\$ <u>1,582,453</u>	\$ <u>8,041,880</u>	\$ <u>9,624,333</u>

All endowment funds consist of donor-restricted funds. The Foundation has no board-designated endowment funds.

Note 10 - **Leases**

The Foundation leases property to the Commonwealth of Massachusetts under a tenant at will agreement, as well as a five year agreement expiring on September 30, 2017. Total rental revenues for each of the fiscal years ended 2013 and 2012 was approximately \$209,600. Future minimum rental income under a lease agreement are as follows:

Years Ending <u>June 30,</u>	
2014	\$ 157,149
2015	157,149
2016	157,149
2017	157,149
2018	<u>39,287</u>
	\$ <u>667,883</u>

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

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Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 11 - **Risks and Uncertainties**

Cash

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

Investments

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

Subsequent Events

Subsequent to year-end the Foundation received a pledged contribution of approximately \$5 million for the creation of an endowment for programs and scholarships.

Management has evaluated subsequent events through September 26 2013, the date for which the financial statements were available for issuance.



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
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, 2013, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 26, 2013