

**MASSACHUSETTS COLLEGE OF
LIBERAL ARTS**

(an agency of the Commonwealth of Massachusetts)

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

June 30, 2013

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

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

June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts College of Liberal Arts (an agency of the Commonwealth of Massachusetts) (the "College") which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. We have also audited the financial statements of Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation") as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position 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.

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 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 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 net position of Massachusetts College of Liberal Arts as of June 30, 2013 and 2012, and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-11 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.

Supplementary Schedules

Our audits were conducted for the purpose of forming opinions on the Company's basic financial statements. The supplemental schedules 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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013, on our consideration of Massachusetts College of Liberal Arts' 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 Massachusetts College of Liberal Arts' internal control over financial reporting and compliance.

J'Connor and Drew P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 17, 2013

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2013, 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 1,700 graduate and undergraduate students, with 114 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, 2013, the College's assets of \$64,755,655 exceeded its liabilities and deferred inflows of resources of \$12,586,943 by \$52,168,712. The resulting net position is summarized into the following categories:

• Net investment in capital assets	\$	44,801,836
• Restricted, non-expendable		33,457
• Restricted - expendable		7,437
• Unrestricted		7,325,982
• Total net position	\$	52,168,712

- The College received a general state Appropriation on July 1, 2012 of \$12,559,859. This was increased in August by \$744,597 to cover negotiated collective bargaining costs. In March 2013, the appropriation was reduced in a 9C cut due to reduced state tax collections by \$125,599. The final appropriation was \$13,178,857 less tuition remitted to the state of \$198,483 plus fringe benefits of \$3,514,807.
- The College's total net position increased by \$18,746,542. This is primarily due to additional funds received through the bond outlay for the Center for Science and Innovation and the renovation of Bowman Hall.
- The College is near completion of the new 65,000 sq. ft building called the Center for Science and Innovation and will soon begin the renovation of Bowman Hall in the fall with continued funding from the bond outlay. This is a major academic building.

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June 30, 2013 and 2012

- The College's Trustees may use the unrestricted net position to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net position may also be expended, but only for the purposes for which the donor or grantor intended.

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 Position* presents information on all of the College's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 Position* presents information showing how the College's net position changed during the most recent fiscal year. All changes in net position is 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 12 through 15 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 position and cash flows are also summarized in the Commonwealth's Comprehensive Annual Financial Report in its government – wide financial statements.

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Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 16 through 34 of this report.

Financial Analysis

As noted earlier, net position 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 \$52,168,712 at the close of the most recent fiscal year.

Massachusetts College of Liberal Arts
Statements of Net Position

	June 30, 2013	June 30, 2012
Current assets	\$17,174,212	\$16,902,858
Non-current assets	<u>47,581,443</u>	<u>27,026,950</u>
Total assets	<u>\$64,755,655</u>	<u>\$43,929,808</u>
Current liabilities	5,841,097	5,352,062
Non-current liabilities	<u>5,156,957</u>	<u>3,100,020</u>
Total liabilities	<u>\$10,998,054</u>	<u>\$ 8,452,082</u>
Deferred inflows of resources	<u>\$ 1,588,889</u>	<u>\$ 2,055,556</u>
Net Position:		
Net investment in capital assets	\$44,801,836	\$25,139,372
Restricted, non-expendable	33,457	33,142
Restricted, expendable	7,437	7,101
Unrestricted	<u>7,325,982</u>	<u>8,242,555</u>
Total net position	<u>\$52,168,712</u>	<u>\$33,422,170</u>

By far the largest portion of the Massachusetts College of Liberal Arts net position is 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

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Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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 position increased by \$18,746,542 during the current fiscal year. This increase is largely due to state bond outlay for the new Center for Science and Innovation building. Net Capital assets increased by \$20,531,358. The depreciation expense on its entire amount of capital assets was \$1,445,116.

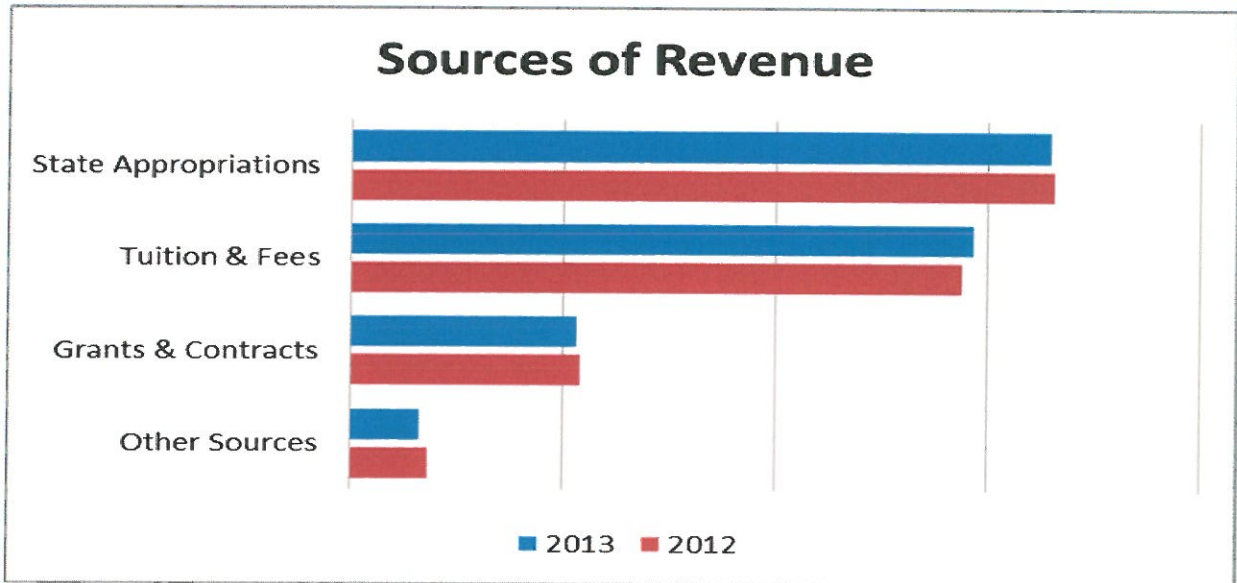
Massachusetts College of Liberal Arts
Changes in Net Position

	For the Fiscal Year Ended June 30, 2013	For the Fiscal Year Ended June 30, 2012
Operating Revenues:		
Net tuition and fees	\$17,582,081	\$17,680,285
Grants and contracts	5,351,864	5,409,004
Other sources	1,636,792	1,844,860
	<hr/>	<hr/>
Total operating revenues	\$24,570,737	\$24,934,149
Total operating expenses	\$42,615,388	\$42,349,365
	<hr/>	<hr/>
Net operating loss	(18,044,651)	(17,415,216)
Non-operating revenues (expenses):		
State appropriation	16,495,181	16,555,782
Capital appropriations	20,330,540	5,658,985
Investment Income	69,876	118,082
Interest Expense	(104,404)	(51,546)
	<hr/>	<hr/>
Increase in net position	18,746,542	4,866,087
Net position – beginning of year	\$33,422,170	\$28,556,083
	<hr/>	<hr/>
Net position – end of year	\$52,168,712	\$33,422,170

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June 30, 2013 and 2012



Highlights of operating revenue activity for the year include:

- Student Fee revenue increased due to an increase in fees approved by the Board of Trustees to offset inflationary pressures in running quality programs.
- Tuition revenue decreased due to a decrease in fall and summer enrollment.
- The Student Activity Fee revenue increased due to an annual fee increase passed by the Student Government Association
- Residence and dining fees increased due to the increased cost of providing these services.
- Grants and contracts remained essentially the same.
- Other sources of revenue decreased due to decreased campus rentals, commissions, and foreign travel programs.

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

	June 30, 2013	June 30, 2012	Change
Tuition	2,239,150	2,325,778	(86,628)
Student Fees:			
Campus Support Fee	9,740,303	9,436,536	303,767
Student Activity Fee	414,708	361,328	53,380

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June 30, 2013 and 2012

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

- 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 \$203,513 for GED and community literacy programs.
- Performance Incentive Grant from the Mass Department of Higher Education to support the completion of 30 credits in 3 semesters. \$99,000
- Race to the Top Grant in the amount of \$139,406 to provide professional development and instructional services to educators from early childhood through higher education.
- Readiness Center Grant in the amount of \$100,000 for a degree completion program for early childhood educators.
- A College Access Grant in the amount of \$93,500 for promoting higher education availability for low income students in Massachusetts
- A Career Pathways grant in the amount of \$51,371 to support building skills needed for college and career success.

Expenses

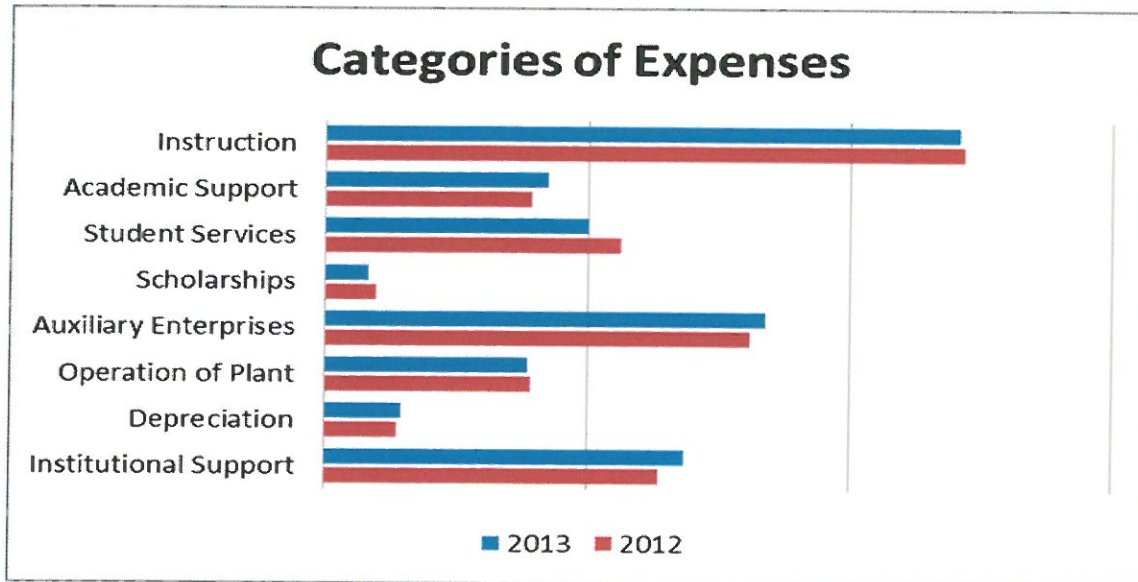
Academic Support expenses increased due to increases in salaries and additional staff in the Continuing Education Division. Student Services decreased due to the separation of the External Affairs Office being moved to Institutional Support. Auxiliary operations enterprises include the operation of the food service and residence hall operations. The revenue generated from these operations for the fiscal year was \$8,033,896, an increase of 2.8% or \$221,281 from the previous fiscal year due to increased room & board rates.

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Non-operating revenues and expenses

The College received its initial General State Appropriation in July, 2012 in the amount of \$12,559,859 plus \$744,597 for collective bargaining. The appropriation was reduced in March by \$125,599 due to lagging tax revenues in a 9C cut resulting in a final appropriation of \$13,178,857. In addition, state payroll fringe benefits in the amount of \$3,514,807 were received for a total appropriation of \$16,693,664. Interest income decreased due to the reduced interest rates on investments. Interest expense increased due to the payment of the bond interest expense for purchasing and razing the Shapiro building and Campus Center Gym renovation. Capital appropriations were received for the construction costs of the new Center for Science and Innovation, a power generator replacement in the Murdock Hall and the demolition of the 29 Highland Avenue Honors House which was deemed beyond repair.

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. Legislation directs The Commonwealth's Department of Higher Education to approve and set tuition. Legislation also provides for The College Board of Trustees to set fees. The College Board of Trustees approves budgets to mitigate losses after Commonwealth appropriations by balancing educational and operational needs with fee revenue.

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Capital Assets and Debts of the College

Capital Assets: The College's investment in capital assets as of June 30, 2013 amounts to \$46,742,168 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:

- Center for Science & Innovation (CIP) \$19,541,576
- Bowman Hall (CIP) \$188,121
- Campus Center Deck Membrane Repair \$56,353
- Murdock Generator \$48,373
- Highland House demolition \$25,870
- Mark Hopkins Concrete Stairs Repair \$39,983
- Facilities Bldg/Ashland St. Parking Lot (CIP) \$399,292
- Campus Center Marketplace Renovation \$134,904
- Smith House Renovations \$20,743
- Variable Speed Drive Replacements \$42,929

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 22 of this report.

Long-term liabilities: The College carries long-term liabilities in the form of accruals for compensated absences and workers compensation (\$3,775,350), a bond with the Mass State College Building Authority (\$2,740,575) for the purchase and construction of the Ashland St. Facilities Building, 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. Capital lease obligations amounts to \$375,319 net of related interest as of June 30, 2013, a decrease of \$155,737.

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June 30, 2013 and 2012

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

The economy continues to make progress. While there have been significant signs of recovery, many students continue to struggle to meet educational expenses. In recent years, state appropriations have been level funded with collective bargaining increases only. However, in a bold move by the legislature approved by the Governor, appropriations have been increased in FY2014 with the caveat that mandatory fees be held at current levels to reduce the burden placed on students. Campus based financial aid has also been increased to remain competitive amongst peer institutions. Public colleges continue to serve unemployed or underemployed workers seeking to update or upgrade their skills for reentry to the labor force. The College has completed construction of its Center for Science and Innovation. The College cannot predict the extent to which enrollment may vary in this current environment. However, given a new science center, several new programs, and increased targeted 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 unless the legislature continues to support additional state appropriations.

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
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Statements of Net Position

June 30,

Assets

	Primary Government		Component Unit	
	2013	2012	2013	2012
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Current Assets:				
Cash and equivalents	\$ 13,808,857	\$ 14,546,305	\$ 2,143,483	\$ 1,458,274
Deposits held by State Treasurer	1,148,341	1,283,857	-	-
Cash held by State Treasurer	563,612	552,832	-	-
Deposits held by MSCBA	1,296,588	81,915	-	-
Restricted cash and equivalents	38,622	36,877	-	-
Accounts receivable, net	258,976	341,902	-	-
Unconditional promises to give	-	-	314,577	273,281
Other assets	59,216	64,848	37,370	14,845
Total Current Assets	<u>17,174,212</u>	<u>16,908,536</u>	<u>2,495,430</u>	<u>1,746,400</u>
Non-Current Assets:				
Funds held by others	33,457	33,142	-	-
Investments	-	-	8,898,450	8,099,688
Unconditional promises to give, net of current portion	-	-	579,971	571,215
Loans receivable, net	772,974	764,312	-	-
Debt service reserve	32,844	13,008	-	-
Investment in capital assets, net	46,742,168	26,210,810	2,256,851	2,338,451
Total Non-Current Assets	<u>47,581,443</u>	<u>27,021,272</u>	<u>11,735,272</u>	<u>11,009,354</u>
Total Assets	<u>\$ 64,755,655</u>	<u>\$ 43,929,808</u>	<u>\$ 14,230,702</u>	<u>\$ 12,755,754</u>

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Unit	
	2013	2013	2013	2012
	<u>College</u>	<u>College</u>	<u>Foundation</u>	<u>Foundation</u>
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 352,556	\$ 288,935	\$ 42,552	\$ 52,810
Accrued payroll	1,992,063	1,968,196	-	-
Compensated absences	2,320,251	2,006,923	-	-
Workers' compensation	56,211	53,340	-	-
Students' deposits and unearned revenue	837,006	848,438	-	-
Funds held for others	-	-	35,957	35,642
Current portion of notes payable	-	-	42,395	40,012
Current portion of bond payable	120,580	30,493	-	-
Current portion of capital lease obligations	162,430	155,737	-	-
Total Current Liabilities	<u>5,841,097</u>	<u>5,352,062</u>	<u>120,904</u>	<u>128,464</u>
Non-Current Liabilities:				
Compensated absences	1,194,863	1,144,019	-	-
Workers' compensation	204,025	189,113	-	-
Notes payable	-	-	1,004,700	1,047,081
Bond payable	2,741,021	597,481	-	-
Capital lease obligations	212,889	375,319	-	-
Grant refundable	804,159	794,088	-	-
Total Non-Current Liabilities	<u>5,156,957</u>	<u>3,100,020</u>	<u>1,004,700</u>	<u>1,047,081</u>
Total Liabilities	<u>10,998,054</u>	<u>8,452,082</u>	<u>1,125,604</u>	<u>1,175,545</u>
Deferred Inflows of Resources	<u>1,588,889</u>	<u>2,055,556</u>	<u>-</u>	<u>-</u>
Net Position:				
Net investment in capital assets	44,801,836	25,139,373	1,209,756	1,251,358
Restricted:				
Nonexpendable	33,457	33,142	8,041,880	7,498,645
Expendable	7,437	7,101	1,582,453	1,131,530
Unrestricted	7,325,982	8,242,554	2,271,009	1,698,676
	<u>52,168,712</u>	<u>33,422,170</u>	<u>13,105,098</u>	<u>11,580,209</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 64,755,655</u>	<u>\$ 43,929,808</u>	<u>\$ 14,230,702</u>	<u>\$ 12,755,754</u>

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	Primary Government		Component Unit	
	2013 College	2012 College	2013 Foundation	2012 Foundation
Operating Revenues:				
Tuition and fees	\$ 14,680,687	\$ 14,401,976	\$ -	\$ -
Residence and dining fees	8,033,896	7,812,615	-	-
Less: Scholarship allowances	<u>(5,132,502)</u>	<u>(4,534,306)</u>	-	-
Net student fees	17,582,081	17,680,285	-	-
Gifts and contributions	-	-	1,906,572	2,246,540
Grants and contracts	5,351,864	5,409,004	-	-
Other sources	<u>1,636,792</u>	<u>1,844,860</u>	<u>235,705</u>	<u>233,999</u>
Total Operating Revenues	<u>24,570,737</u>	<u>24,934,149</u>	<u>2,142,277</u>	<u>2,480,539</u>
Operating Expenses:				
Instruction	12,080,158	12,174,930	-	-
Academic support	4,215,327	3,903,657	-	-
Student services	4,993,039	5,604,504	-	-
Scholarships and fellowships	808,524	949,152	267,427	220,403
Public service	5,972	4,366	-	-
Auxiliary enterprises	8,373,362	8,091,135	-	-
Operation and maintenance of plant	3,835,566	3,902,317	87,130	90,199
Depreciation	1,445,116	1,353,456	81,600	81,823
Fundraising	-	-	176,479	174,915
Management and general	-	-	303,082	386,046
Gifts and contributions	-	-	416,306	1,997,414
Institutional support	<u>6,858,324</u>	<u>6,365,848</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>42,615,388</u>	<u>42,349,365</u>	<u>1,332,024</u>	<u>2,950,800</u>
Net Operating Income (Loss)	<u>(18,044,651)</u>	<u>(17,415,216)</u>	<u>810,253</u>	<u>(470,261)</u>
Non-Operating Revenues (Expenses):				
State appropriations, net	16,495,181	16,555,782	-	-
Net investment income	69,876	118,082	714,636	35,890
Interest expense	<u>(104,404)</u>	<u>(51,545)</u>	<u>-</u>	<u>-</u>
Net Non-Operating Revenues (Expenses)	<u>16,460,653</u>	<u>16,622,319</u>	<u>714,636</u>	<u>35,890</u>
Income Before Other Revenues	<u>(1,583,998)</u>	<u>(792,897)</u>	<u>1,524,889</u>	<u>(434,371)</u>
Capital appropriations	102,400	714,435	-	-
Capital appropriations - DCAM	<u>20,228,140</u>	<u>4,944,550</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Net Position	<u>18,746,542</u>	<u>4,866,088</u>	<u>1,524,889</u>	<u>(434,371)</u>
Net Position:				
Beginning of Year	<u>33,422,170</u>	<u>28,556,082</u>	<u>11,580,209</u>	<u>12,014,580</u>
End of Year	<u>\$ 52,168,712</u>	<u>\$ 33,422,170</u>	<u>\$ 13,105,098</u>	<u>\$ 11,580,209</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>2013</u> <u>College</u>	<u>2012</u> <u>College</u>
Cash Flows from Operating Activities:		
Tuition, residence, dining, and other student fees	\$ 17,497,557	\$ 17,615,594
Grants and contracts	5,513,738	5,297,420
Payments to suppliers	(13,931,371)	(14,381,631)
Payments to employees	(22,446,175)	(21,332,347)
Payments to students	(808,524)	(949,152)
Loans issued to students	(177,742)	(116,454)
Collections on loans issued to students	164,811	151,228
Other sources	<u>1,183,972</u>	<u>3,894,237</u>
Net Cash Applied to Operating Activities	<u>(13,003,734)</u>	<u>(9,821,105)</u>
Cash Flows from Non-Capital Financing Activities:		
Tuition remitted to the State	(198,483)	(235,731)
State appropriations	<u>13,178,857</u>	<u>12,559,848</u>
Net Cash Provided by Non-Capital Financing Activities	<u>12,980,374</u>	<u>12,324,117</u>
Cash Flows from Capital Financing Activities:		
Capital appropriations	102,400	714,435
Purchases of capital assets	(765,316)	(5,379,426)
Principal paid on notes payable and capital leases	(226,976)	(291,444)
Proceeds from bond financing	1,326,258	-
Applied to debt service reserve	(19,836)	-
Interest paid on notes payable and capital leases	<u>(108,812)</u>	<u>(52,445)</u>
Net Cash Applied to (Provided by) Capital Financing Activities	<u>307,718</u>	<u>(5,008,880)</u>
Cash Flows from Investing Activity:		
Interest income	<u>69,876</u>	<u>118,082</u>
Net Increase (Decrease) in Cash and Equivalents	354,234	(2,387,786)
Cash and Equivalents, Beginning of the Year	<u>16,501,786</u>	<u>18,889,572</u>
Cash and Equivalents, End of the Year	<u>\$ 16,856,020</u>	<u>\$ 16,501,786</u>

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>2013</u> <u>College</u>	<u>2012</u> <u>College</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	<u>\$ (18,044,651)</u>	<u>\$ (17,415,216)</u>
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	1,445,116	1,353,456
Fringe benefits provided by State appropriations	3,514,807	4,231,665
Changes in assets and liabilities:		
Accounts receivable, net	82,926	(69,466)
Other current assets	5,632	23,851
Loans receivable	(8,662)	39,066
Funds held by others	(315)	1,778
Accounts payable and accrued liabilities	63,619	(341,963)
Accrued employee compensation and benefits	405,822	419,224
Student deposits and unearned revenues	(478,099)	1,953,519
Grants refundable	<u>10,071</u>	<u>(17,019)</u>
Net Cash Applied to Operating Activities	<u>\$ (13,003,734)</u>	<u>\$ (9,821,105)</u>
Reconciliation of Cash and Equivalents to the Statement of Net Assets		
Cash and equivalents	\$ 13,808,857	\$ 14,546,305
Deposits held by State Treasurer	1,148,341	1,283,857
Cash held by State Treasurer	563,612	552,832
Deposits held by MSCBA	1,296,588	81,915
Restricted cash and equivalents	<u>38,622</u>	<u>36,877</u>
	<u>\$ 16,856,020</u>	<u>\$ 16,501,786</u>
Non-Cash Transactions:		
Fringe benefits provided by the State appropriations	<u>\$ 3,514,807</u>	<u>\$ 4,231,665</u>
Capital improvements provided by capital appropriations	<u>\$ 20,228,140</u>	<u>\$ 4,944,550</u>
Bond proceeds expended by MSCBA for capital acquisitions	<u>\$ 983,018</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2013 and 2012

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 position, revenues, expenses, and changes in net position 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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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 position 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).

Net Position

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

Net investment in capital assetst: 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 position subject to externally imposed conditions such that the College must maintain in perpetuity.

Restricted - expendable: Net position 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 position. Unrestricted net position 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.

Cash and Equivalents

The College has defined cash and equivalents to include cash on hand, demand deposits, and cash and deposits held by state agencies on behalf of the College.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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.

Allowance for Doubtful Accounts

Accounts and pledges receivable are periodically evaluated for collectability 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 Position. Any net earnings not expended are included in net position categories as follows:

- A) as increases in restricted – nonexpendable net position 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 position 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 position 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
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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, 2013 and 2012. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2013 and 2012. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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 unearned and are recorded as revenues as earned. Funds received in advance from various grants and contracts are unearned.

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 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 believes this Statement will not have a material effect on the financial statements.

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

June 30, 2013 and 2012

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

New Governmental Accounting Pronouncements - Continued

GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting, but does not expect any material impact.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, is required for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Management does not believe the Statement will have a material effect on the financial statements.

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.

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

June 30, 2013 and 2012

Note 2 - **Cash and Equivalents - Continued**

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2013 and 2012, the carrying amount of the College's deposits was \$13,847,479 and \$14,583,182, respectively. At June 30, 2013 and 2012, 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 \$563,612 and \$552,832 at June 30, 2013 and 2012, 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.

Note 4 - **Investments - Foundation**

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>2013</u>	<u>2012</u>
Money market funds	\$ 47,567	\$ 58,490
Mutual funds	<u>8,850,883</u>	<u>8,041,198</u>
Total	<u>\$ 8,898,450</u>	<u>\$ 8,099,688</u>

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

	<u>2013</u>	<u>2012</u>
Investment income	\$ 223,172	\$ 250,335
Unrealized gain and losses	132,776	(427,502)
Realized gains and losses	<u>358,688</u>	<u>213,057</u>
Total Investment Return	<u>\$ 714,636</u>	<u>\$ 35,890</u>

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

June 30, 2013 and 2012

Note 5 - **Accounts Receivable**

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

	<u>2013</u>	<u>2012</u>
Student accounts receivable	\$ 236,424	\$ 256,102
Grants receivable	172,917	262,076
Other receivables	<u>53,083</u>	<u>47,227</u>
	<u>462,424</u>	<u>565,405</u>
Less: allowance for doubtful accounts	<u>203,448</u>	<u>223,503</u>
	\$ <u>258,976</u>	\$ <u>341,902</u>

Note 6 - **Unconditional Promises to Give - Foundation**

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>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
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 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.

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

June 30, 2013 and 2012

Note 7 - **Loans Receivable - Continued**

Loans receivable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Perkins loans	\$ 1,174,581	\$ 1,165,919
Allowance for doubtful accounts	<u>(401,607)</u>	<u>(401,607)</u>
	<u>\$ 772,974</u>	<u>\$ 764,312</u>

Note 8 - **Capital Assets**

Capital assets consist of the following at June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>Ending Balance</u>
Capital assets, not depreciated:					
Land	\$ 315,517	\$ 91,450	\$ -	\$ -	\$ 406,967
Construction in progress	<u>6,884,797</u>	<u>21,622,163</u>	<u>-</u>	<u>(150,200)</u>	<u>28,356,760</u>
Total, not depreciated	7,200,314	21,713,613	-	(150,200)	28,763,727
Capital assets, depreciated:					
Buildings, including building and land improvements	37,804,620	75,861	-	94,412	37,974,893
Furnishing and equipment (including cost of capital leases)	<u>3,476,550</u>	<u>187,000</u>	<u>-</u>	<u>55,788</u>	<u>3,719,338</u>
Total capital assets	<u>48,481,484</u>	<u>21,976,474</u>	<u>-</u>	<u>-</u>	<u>70,457,958</u>
Less: accumulated depreciation:					
Buildings, including improvements	19,170,987	1,333,279	-	-	20,504,266
Furnishing and equipment	<u>3,099,687</u>	<u>111,837</u>	<u>-</u>	<u>-</u>	<u>3,211,524</u>
Total accumulated depreciation	<u>22,270,674</u>	<u>1,445,116</u>	<u>-</u>	<u>-</u>	<u>23,715,790</u>
Capital assets, net	<u>\$ 26,210,810</u>	<u>\$ 20,531,358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,742,168</u>

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

June 30, 2013 and 2012

Note 8 - **Capital Assets – Continued**

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>
Capital assets, not depreciated:					
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>
Total, not depreciated	<u>1,711,821</u>	<u>5,947,468</u>	<u>-</u>	<u>(458,975)</u>	<u>7,200,314</u>
Capital assets, depreciated:					
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>
Total capital assets	<u>38,198,542</u>	<u>10,323,976</u>	<u>(41,034)</u>	<u>-</u>	<u>48,481,484</u>
Less: accumulated depreciation:					
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>
Total accumulated depreciation	<u>20,958,252</u>	<u>1,353,456</u>	<u>(41,034)</u>	<u>-</u>	<u>22,270,674</u>
Capital assets, net	<u>\$ 17,240,290</u>	<u>\$ 8,970,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,210,810</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 9 - **Deferred Inflows of Resources**

The College entered into a service concession arrangement with an outside party that manages the College's food service operations. 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. The investment is being amortized into revenue ratably over the life of the arrangement through August 2016 and April 2017, respectively. 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. This balance had previously been recorded on the statements of net position as unearned revenue. In accordance with the implementation of GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows or Resources and Net Position* the 2012 balance has been recategorized to deferred inflows of resources. The recategorization did not result in any changes to the net position of the College. At June 30, 2013 and 2012, the unamortized portion of these investments approximated \$1,589,000 and \$2,056,000, respectively.

Note 10 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2013, consist of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Leases and notes payable:					
Lease obligations	\$ 531,056	\$ -	\$ (155,737)	\$ 375,319	\$ 162,430
Bond payable	616,504	2,195,310	(71,239)	2,740,575	103,009
Bond premium	<u>11,470</u>	<u>113,966</u>	<u>(4,410)</u>	<u>121,026</u>	<u>17,571</u>
Total leases and notes payable	<u>\$ 1,159,030</u>	<u>\$ 2,309,276</u>	<u>\$ (231,386)</u>	<u>\$ 3,236,920</u>	<u>\$ 283,010</u>
Other long-term liabilities:					
Compensated absences	\$ 3,150,942	\$ 520,055	\$ (155,883)	\$ 3,515,114	\$ 2,320,251
Workers' compensation	<u>242,453</u>	<u>17,783</u>	<u>-</u>	<u>260,236</u>	<u>56,211</u>
Total other long-term liabilities	<u>\$ 3,393,395</u>	<u>\$ 537,838</u>	<u>\$ (155,883)</u>	<u>\$ 3,775,350</u>	<u>\$ 2,376,462</u>

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

June 30, 2013 and 2012

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current 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>-</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>-</u>	<u>(8,291)</u>	<u>242,453</u>	<u>53,340</u>
Total other long-term liabilities	<u>\$ 3,292,905</u>	<u>\$ 259,430</u>	<u>\$ (158,940)</u>	<u>\$ 3,393,395</u>	<u>\$ 2,060,263</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, 2013:

Buildings	\$ 4,191,630
Furniture and equipment	<u>1,152,306</u>
	5,343,936
Less: accumulated depreciation	<u>3,823,325</u>
	\$ <u>1,520,611</u>

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

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

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

The following schedule summarizes future minimum payments under non-cancelable leases subsequent to June 30, 2013:

<u>Years</u> <u>Ending</u>	<u>Capital Leases</u> <u>Principal</u>	<u>Interest</u>	<u>Operating</u> <u>Leases</u>	<u>Total</u>
2014	\$ 162,430	\$ 13,322	\$ 58,234	\$ 233,986
2015	169,411	6,341	42,288	218,040
2016	<u>43,478</u>	<u>460</u>	<u>10,841</u>	<u>54,779</u>
	<u>\$ 375,319</u>	<u>\$ 20,123</u>	<u>\$ 111,363</u>	<u>\$ 506,805</u>

Rental expenses for operating leases were \$72,080 and \$87,353 for the years ended June 30, 2013 and 2012, respectively.

Bonds Payable

The College has revenue bonds outstanding issued through 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, 2013, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 120,580	\$ 94,207
2015	133,349	79,694
2016	139,556	75,621
2017	140,626	72,136
2018	145,491	69,538
2019-2023	774,782	276,998
2024-2028	878,668	151,653
2029-2031	<u>528,549</u>	<u>29,915</u>
	<u>\$ 2,861,601</u>	<u>\$ 849,762</u>

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

June 30, 2013 and 2012

Note 11 - Long-Term Debt - Foundation

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:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 42,395	\$ 60,211
2015	44,935	57,671
2016	47,477	55,129
2017	50,477	52,129
2018	53,508	49,098
2019-2023	319,735	193,295
2024-2028	428,578	84,452
2029-2030	<u>59,990</u>	<u>1,220</u>
	\$ <u>1,047,095</u>	\$ <u>553,205</u>

Note 12 - Restricted Net Position

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.

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

June 30, 2013 and 2012

Note 12 - **Restricted Net Position - Continued**

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

Note 13 - **Related Party Transactions**

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

A member of the Board of Trustees of the College is a member of the Board of Trustees of MountainOne Financial Partners which is the parent company of Hoosac Bank, and TrueNorth Financial Services, a division of Hoosac Bank, which handles the investments of the MCLA Foundation. In addition, the MCLA Foundation Board of Director's Chair is the president of an insurance agency which is under the same parent company as the financial services for the Foundation. At June 30, 2013 and 2012, the amounts due to Hoosac Bank were \$572,915 and \$595,730, respectively. These balances are included as part of notes payable on the Statement of Net Position.

Another member of the Board of Trustees of the College is the Executive Vice President of the Adams Community Bank which holds deposits for the College in the form of a certificate of deposit and a money market account totaling \$2,016,695 and \$1,277,727 at June 30, 2013 and 2012, respectively.

Note 14 - **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.

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

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

June 30, 2013 and 2012

Note 14 - **Contingencies - Continued**

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 15 - **Operating Expenses**

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

	<u>2013</u>	<u>2012</u>
Compensation and benefits	\$ 26,366,804	\$ 25,983,237
Supplies and services	13,994,945	14,063,520
Depreciation	1,445,115	1,353,456
Scholarships and fellowships	<u>808,524</u>	<u>949,152</u>
	\$ <u>42,615,388</u>	\$ <u>42,349,365</u>

Note 16 - **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 position 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*.

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 \$1,321,565 and \$1,586,755 for the years ended June 30, 2013 and 2012, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the

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

June 30, 2013 and 2012

Note 16 - **Retirement Plan - Continued**

Retirement System. Annual covered payroll was approximately 83% and 81% of annual total payroll for the College in 2013 and 2012, 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.

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, 2013, 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

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

June 30, 2013 and 2012

Note 16 - **Retirement Plan - Continued**

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 17 - **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*.

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

	<u>2013</u>	<u>2012</u>
Direct unrestricted appropriations	\$ 13,178,857	\$ 12,559,848
Add: Fringe benefits for benefited employees on the state payroll	3,514,807	4,231,665
Less: Day school tuition remitted to the state and included in tuition and fee revenue	<u>(198,483)</u>	<u>(235,731)</u>
Total unrestricted appropriations	<u>16,495,181</u>	<u>16,555,782</u>
Capital appropriations:		
Direct	102,400	714,435
Massachusetts State College Building Authority	497,293	-
Department of Capital Asset Management Allocation	<u>19,730,847</u>	<u>4,944,550</u>
Total Capital Appropriations	<u>20,330,540</u>	<u>5,658,985</u>
Total appropriations	<u>\$ 36,825,721</u>	<u>\$ 22,214,767</u>

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

June 30, 2013 and 2012

Note 17 - **Massachusetts Management Accounting and Reporting System -Continued**

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

	<u>2013</u>	<u>2012</u>
Revenue per MMARS	\$ <u>14,995,819</u>	\$ <u>15,867,038</u>
Revenue per College	\$ <u>14,995,819</u>	\$ <u>15,867,038</u>

Note 18 - **Pass - Through Grants**

The College distributed \$9,509,167 and \$9,714,031 in 2013 and 2012, 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 19 - **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
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Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 20 - **Subsequent Events**

Subsequent to year-end the College entered into five year capital lease agreement to upgrade the College's telecommunication systems valued at approximately \$600,000.

Management has evaluated subsequent events through October 17, 2013, the date for which the financial statements were available for issuance.

SUPPLEMENTAL INFORMATION

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

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

June 30,

Assets

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and equivalents	\$ 1,534,642	\$ 1,779,024
Accounts receivable, net	<u>4,764</u>	<u>5,251</u>
Total Dormitory Trust Fund Assets	<u>\$ 1,539,406</u>	<u>\$ 1,784,275</u>

Liabilities and Net Position

Liabilities:		
Accounts payable	\$ 16,488	\$ 11,647
Accrued payroll	62,275	65,678
Compensated absences	184,778	173,609
Deferred revenue	<u>92,400</u>	<u>102,150</u>
Total Dormitory Trust Fund Liabilities	355,941	353,084
Net Position	<u>1,183,465</u>	<u>1,431,191</u>
Total Dormitory Trust Fund Liabilities and Net Position	<u>\$ 1,539,406</u>	<u>\$ 1,784,275</u>

MASSACHUSETTS COLLEGE OF LIBERAL ARTS
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**Schedules of Revenues, Expenses, and Changes in Net Position -
 Dormitory Trust Fund Report
 (Unaudited)**

For the Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Revenues:		
Student fees	\$ 4,787,813	\$ 4,676,721
Repair income	5,563	7,925
Commissions	23,648	31,275
Rentals	87,381	92,233
Other	<u>10,382</u>	<u>15,036</u>
Total Revenues	<u>4,914,787</u>	<u>4,823,190</u>
Expenses:		
Regular employee compensation	769,494	704,435
Regular employee related	4,585	6,820
Student employee compensation	340,138	336,636
Pension and insurance related	209,702	250,730
Administrative	34,549	35,032
Facility operational	64,476	58,805
Energy cost	502,510	431,060
Consultant services	1,400	2,615
Operational services	296,608	323,642
Equipment purchases	61,614	36,187
Equipment leases	23,196	28,637
Educational assistance	144,400	127,170
Loans and special payments	<u>2,709,841</u>	<u>2,666,017</u>
Total Expenses	<u>5,162,513</u>	<u>5,007,786</u>
Total Increase in Net Position	<u>(247,726)</u>	<u>(184,596)</u>
Net Position, Beginning of Year	<u>1,431,191</u>	<u>1,615,787</u>
Net Position, End of Year	<u>\$ 1,183,465</u>	<u>\$ 1,431,191</u>

**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***



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
North Adams, Massachusetts

We have audited, 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, the financial statements of Massachusetts College of Liberal Arts (the "College"), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Massachusetts College of Liberal Arts' basic financial statements and have issued our report thereon dated October 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Massachusetts College of Liberal Arts' 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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 Massachusetts College of Liberal Arts' 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.

J. Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 17, 2013