

**MASSACHUSETTS COLLEGE OF
LIBERAL ARTS**

(an agency of the Commonwealth of Massachusetts)

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

June 30, 2018

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

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

June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Massachusetts College of Liberal Arts (an agency of the Commonwealth of Massachusetts, the "Commonwealth") (the "College"), and its discretely presented component unit, Massachusetts College of Liberal Arts Foundation, which comprise the statement of net position as of June 30, 2018, the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 respective financial position of Massachusetts College of Liberal Arts and its discretely presented component unit as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, GASB Statement Number 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, is effective for fiscal year 2018 and required the College to restate beginning net position at July 1, 2017 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the State Retirees' Benefit Trust.

As discussed in Note 2 to the financial statements, we have previously issued an unmodified opinion on the financial statements dated October 25, 2018. Subsequent to the issuance of the financial statements, it was discovered that the calculation of postemployment benefits other than pensions as of June 30, 2018 and July 1, 2017 was misstated.

Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information as listed in the table of contents 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.

Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the College'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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the College'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 College's internal control over financial reporting and compliance.

O'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 25, 2018 (except for Management's Discussion and Analysis, Note 2, Note 11, Note 16, Note 18, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is March 13, 2019)

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2018, 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 that are presented in this document.

Massachusetts College of Liberal Arts is a public institution of higher education serving approximately 1,600 graduate and undergraduate students, with 113 Full Time Equivalent faculty and 227 staff members. The College offers 21 programs leading to Bachelor of Arts, Bachelor of Science, Master of Business Administration, 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, 2018, the College's assets and deferred outflows of resources of \$92,549,648 exceeded its liabilities and deferred inflows of resources of \$27,674,546 by \$64,875,102. The resulting net position is summarized into the following categories:

• Invested in capital assets, net of related debt	\$	67,019,004
• Restricted, non-expendable		33,842
• Restricted - expendable		9,771
• Unrestricted		(2,187,515)
• Total net position	\$	64,875,102
- The College received a general state Appropriation for Fiscal Year 2018 of \$16,319,534. An additional appropriation of \$74,996 was received to support the work of the Berkshire Cultural Resource Center (BCRC.) The total amount of these appropriations was \$16,394,530 less tuition remitted to the state of \$210,515 plus fringe benefits of \$5,939,670.
- The College's total net position decreased by \$2,145,698. This decrease is largely due to the net depreciation expense on prior year construction exceeding new capital improvements made in FY2018.

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June 30, 2018 and 2017

- The College's Trustees may use the unrestricted net assets to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net assets may also be used, 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 are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

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

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Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

The financial statements can be found on pages 14 through 18 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.

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 19 through 51 of this report.

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Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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 \$64,875,102 at the close of the most recent fiscal year.

Massachusetts College of Liberal Arts Net Position

	June 30, 2018	June 30, 2017
Current assets	\$ 16,433,198	\$ 16,092,568
Non-current assets	<u>71,957,575</u>	<u>74,085,640</u>
Total assets	<u>\$ 88,390,773</u>	<u>\$ 90,178,208</u>
Deferred outflows of resources	<u>\$ 4,158,875</u>	<u>\$ 1,399,350</u>
Current liabilities	6,058,442	6,198,072
Non-current liabilities	<u>19,789,414</u>	<u>17,642,897</u>
Total liabilities	<u>\$ 25,847,856</u>	<u>\$ 23,840,969</u>
Deferred inflows of resources	<u>\$ 1,826,690</u>	<u>\$ 715,789</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 67,019,004	\$ 68,786,278
Restricted, non-expendable	33,842	32,872
Restricted, expendable	9,771	14,499
Unrestricted	<u>(2,187,515)</u>	<u>(1,812,849)</u>
Total net position	<u>\$ 64,875,102</u>	<u>\$ 67,020,800</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.

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June 30, 2018 and 2017

Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Also, in addition to the debt noted above, which is reflected in the College's financial statement, the Commonwealth of Massachusetts regularly provides financing for certain capital projects through the issuance of general obligation bonds. These borrowings by the Commonwealth are not reflected in these financial statements.

The net position decreased by \$2,145,698 during the current fiscal year. This decrease is largely due to the depreciation expense on prior year construction and the absence of any new capital improvements made in FY2018. Net capital assets decreased by \$2,168,244. The depreciation expense on its entire amount of capital assets was \$4,117,797 for the year ended June 30, 2018.

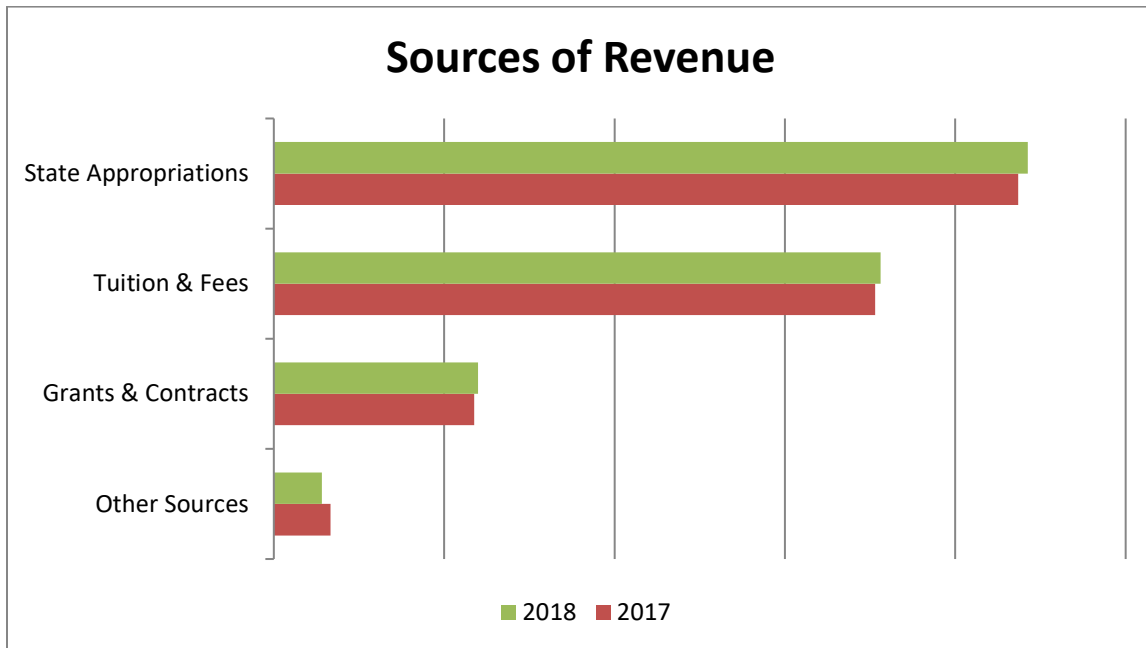
Massachusetts College of Liberal Arts Changes in Net Position

	For the Fiscal Year Ended June 30, 2018	For the Fiscal Year Ended June 30, 2017
Operating Revenues:		
Net tuition and fees	\$ 17,805,410	\$ 17,649,389
Grants and contracts	5,992,334	5,883,254
Other sources	1,409,283	1,665,224
Total operating revenues	\$ 25,207,027	\$ 25,197,867
Total operating expenses	\$ 51,127,658	\$ 50,514,322
Net operating loss	(25,920,631)	(25,316,455)
Non-operating revenues (expenses):		
State appropriation	22,123,685	21,845,331
Capital appropriations	1,688,540	3,242,570
Investment Income	106,153	97,864
Interest Expense	(143,445)	(147,297)
Loss on disposal of capital assets	-	-
Increase (decrease) in net position	(2,145,698)	(277,987)
Net position – beginning of year	\$ 67,020,800	\$ 67,298,787
Net position – end of year	\$ 64,875,102	\$ 67,020,800

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Management’s Discussion and Analysis (Unaudited)

June 30, 2018 and 2017



Highlights of operating revenue activity for the year include:

- Net Student Fee revenue and Tuition revenue increased due to increases in both Undergraduate and Graduate rates. These helped offset any revenue loss from enrollment declines.
- Student Activity Fee revenue decreased slightly because of lower enrollments.
- Residence and dining revenue increase due to increased room and board rates. These helped offset any revenue loss from residential occupancy declines related to lower enrollment.
- Grants and contracts revenue increased because more revenue was drawn down on grants in proportion to more grant activity expense.
- Other sources of revenue decreased due to fewer projects funded by the Foundation than in the previous year.

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

	June 30, 2018	June 30, 2017	Change
Tuition	2,182,099	2,192,258	(10,159)
Student Fees:			
Campus Support Fee	9,860,811	9,943,668	(82,857)
Student Activity Fee	353,358	366,525	(13,167)

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Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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

- Title III “The Persistence to Graduation: A Best Practices Program” in the amount of \$443,520 to increase persistence and four year graduation rates of MCLA students.
- Adult Basic Ed Grant from Mass. Department of Education in the amount of \$213,508 for GED and community literacy programs
- National Science Foundation Teaching to Learn Grant in the amount of \$206,062 to improve undergraduate science education through engagement in K-7 science
- National Science Foundation S-STEM Pathways Program in the amount of \$161,458 to provide scholarships to students majoring in STEM programs

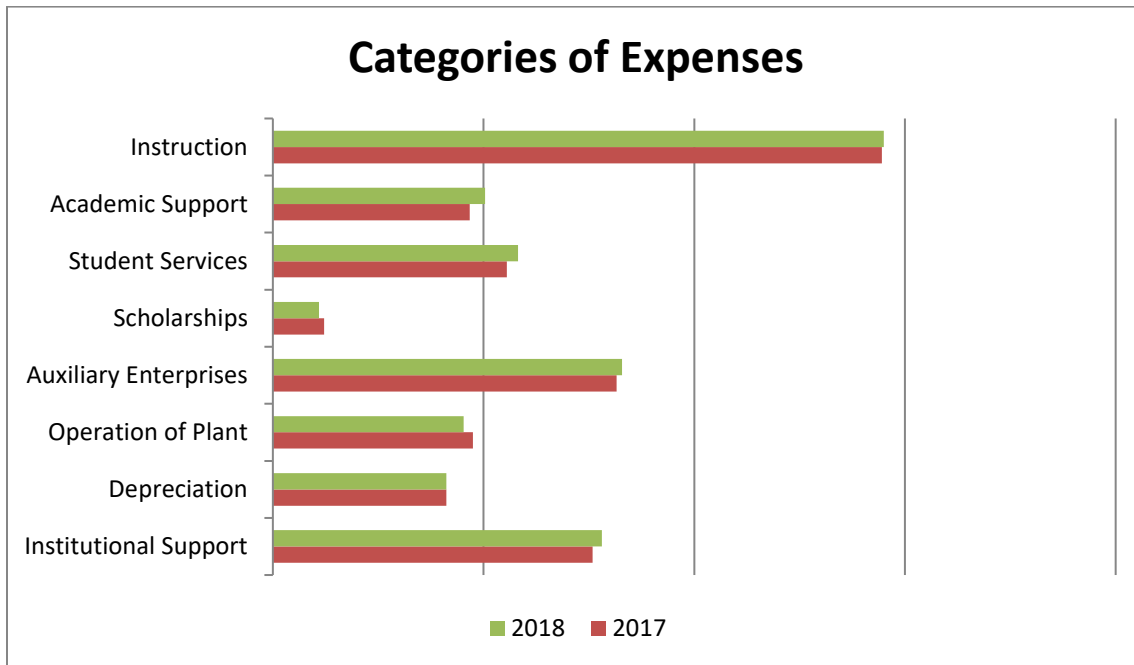
Expenses

Instruction, Academic Support, Student Services, Operation and Maintenance of Plant, and Institutional Support all had an increase in expenses due to contractual increases in salaries and fringe benefits. 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 \$8,076,303, an increase of 1.2% or \$96,922 from the previous fiscal year due to slightly higher rates.

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Management's Discussion and Analysis (Unaudited)

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Non-operating revenues and expenses

The College received a general state appropriation of \$16,319,534. An additional appropriation of \$74,996 was received to support the College's work with the Berkshire Cultural Resource Center. In addition, state payroll fringe benefits in the amount of \$5,939,670 were received, less tuition remitted to the state of \$210,515, for a total appropriation of \$22,123,685. Interest income increased due to slightly higher rates received on our certificates of deposit. Interest expense increased slightly due to the payment of note interest on the borrowings used to purchase equipment. Capital appropriations were received for the repair of a major water line leak at Venable Hall and continued work on the Energy Performance project.

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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Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Capital Assets and Debts of the College

Capital Assets: The College's investment in capital assets as of June 30, 2018 amounts to \$71,179,983 net of accumulated depreciation. This investment in capital assets includes, land, buildings, (including improvements,) leasehold improvements, furnishings and equipment, (including the cost of capital leases).

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

- Energy Performance Project (CIP) \$1,292,694
- Bowman Hall Renovations \$73,896
- Venable Hall Water Line Repair \$220,750
- Physics Lab Spectrophotometer (Title III) \$61,900
- Campus Center Pool Area Renovation (CIP) \$61,400
- Studies for Mark Hopkins Renovation (CIP) \$19,200

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 9 on page 30 of this report.

Long-term liabilities: The College carries long-term liabilities in the form of accruals for compensated absences and workers compensation \$3,361,991, bonds with the Mass State College Building Authority \$3,326,056 for the purchase and construction of the Ashland St. Facilities Building, Campus Center Gym floor, Campus Center & Shipping/Receiving drainage project, the Athletic Complex tennis courts, and various other projects, and notes payable \$1,536,222 for the construction of the Ashland Street Facilities Building and furniture and equipment for Bowman Hall. 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 \$11,373 net of related interest as of June 30, 2018.

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Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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

In FY2018 base appropriations were level funded from FY2017. There are no additional amounts for formula funding or collective bargaining increases from in FY2018. The College increased its fees to help mitigate the shortfall.

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 cannot predict the extent to which enrollment may vary in this current environment. The College has seen a slight decrease in enrollment for FY2018. In FY2018 two new majors, Health Education and Health Sciences were added. Together with the new capital improvements of the last several years, including the new Feigenbaum Center for Science and Innovation and the complete renovation of Bowman Hall, enrollment is expected to increase, despite decreases in high school graduation populations. 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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Statement of Net Position

June 30, 2018

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Current Assets:		
Cash and equivalents	\$ 13,648,724	\$ 1,628,783
Deposits held by State Treasurer	756,610	-
Cash held by State Treasurer	823,370	-
Deposits held by MSCBA	712,672	-
Restricted cash and equivalents	50,747	-
Accounts receivable, net	178,216	-
Due from Foundation	142,476	-
Unconditional promises to give	-	521,487
Other assets	<u>120,383</u>	<u>31,219</u>
Total Current Assets	<u>16,433,198</u>	<u>2,181,489</u>
Non-Current Assets:		
Investments	-	12,400,277
Unconditional promises to give, net of current portion	-	2,603,565
Loans receivable, net	744,748	-
Debt service reserve	32,844	-
Investment in capital assets, net	<u>71,179,983</u>	<u>1,870,114</u>
Total Non-Current Assets	<u>71,957,575</u>	<u>16,873,956</u>
Deferred Outflows of Resources:		
Pension related, net	1,715,802	-
OPEB related, net	<u>2,443,073</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>4,158,875</u>	<u>-</u>
Total Assets	<u>\$ 92,549,648</u>	<u>\$ 19,055,445</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 751,182	\$ 5,695
Accrued payroll	1,490,930	-
Compensated absences	2,102,556	-
Workers' compensation	61,459	-
Students' deposits and unearned revenue	1,028,374	-
Due to College	-	142,476
Current portion of notes payable	412,687	65,330
Current portion of charitable gift annuity liability	-	2,250
Current portion of bond payable	199,881	-
Current portion of capital lease obligations	<u>11,373</u>	<u>-</u>
Total Current Liabilities	<u>6,058,442</u>	<u>215,751</u>
Non-Current Liabilities:		
Compensated absences	969,532	-
Workers' compensation	228,444	-
Notes payable	1,123,535	717,013
Charitable gift annuity liability, net of current portion	-	29,073
Bond payable	3,126,175	-
Net pension liability	4,603,049	-
Net OPEB liability	8,952,955	-
Perkins grant refundable	<u>785,724</u>	<u>-</u>
Total Non-Current Liabilities	<u>19,789,414</u>	<u>746,086</u>
Total Liabilities	<u>25,847,856</u>	<u>961,837</u>
Deferred Inflows of Resources:		
Pension related, net	775,756	-
OPEB related, net	<u>1,050,934</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>1,826,690</u>	<u>-</u>
Net Position:		
Net investment in capital assets	67,019,004	1,087,771
Restricted:		
Nonexpendable	33,842	12,783,697
Expendable	9,771	3,005,855
Unrestricted	<u>(2,187,515)</u>	<u>1,216,285</u>
Total Net Position	<u>64,875,102</u>	<u>18,093,608</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 92,549,648</u>	<u>\$ 19,055,445</u>

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS
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Statement of Revenues and Expenses

For the Year Ended June 30, 2018

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 15,041,472	\$ -
Residence and dining fees	8,076,303	-
Less: Scholarship allowances	<u>(5,312,365)</u>	<u>-</u>
Net student fees	17,805,410	-
Gifts and contributions	-	1,211,211
Grants and contracts	5,992,334	-
Other sources	<u>1,409,283</u>	<u>207,511</u>
Total Operating Revenues	<u>25,207,027</u>	<u>1,418,722</u>
Operating Expenses:		
Instruction	14,472,871	-
Academic support	5,028,631	-
Student services	5,810,794	-
Scholarships and fellowships	1,093,628	409,017
Public service	4,081	-
Auxiliary enterprises	8,282,918	-
Operation and maintenance of plant	4,520,349	56,266
Depreciation	4,117,797	67,384
Fundraising	-	98,452
Management and general	-	91,774
Gifts and contributions	-	1,100,866
Institutional support	<u>7,796,589</u>	<u>-</u>
Total Operating Expenses	<u>51,127,658</u>	<u>1,823,759</u>
Net Operating Loss	<u>(25,920,631)</u>	<u>(405,037)</u>
Non-Operating Revenues (Expenses):		
State appropriations, net - unrestricted	22,048,689	-
State appropriations - restricted	74,996	-
Net investment income	106,153	1,054,167
Interest expense	<u>(143,445)</u>	<u>-</u>
Net Non-Operating Revenues	<u>22,086,393</u>	<u>1,054,167</u>
Net Increase (Decrease) Before Other Revenues	<u>(3,834,238)</u>	<u>649,130</u>
Capital appropriations	579,346	-
Capital appropriations - DCAM	<u>1,109,194</u>	<u>-</u>
Net Increase (Decrease) in Net Position	<u>\$ (2,145,698)</u>	<u>\$ 649,130</u>

See accompanying notes to the financial statements.

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

Statement of Changes in Net Position

For the Year Ended June 30, 2018

	College				
	<u>Investment in capital assets, net</u>	<u>Restricted Expendable</u>	<u>Restricted Non-expendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2017, as previously reported	\$ 68,786,278	\$ 14,499	\$ 32,872	\$ 4,955,797	\$ 73,789,446
Prior period adjustment - See Note 2	-	-	-	(6,768,646)	(6,768,646)
Balance at June 30, 2017, as restated	68,786,278	14,499	32,872	(1,812,849)	67,020,800
Changes in net position	(1,767,274)	(4,728)	970	(374,666)	(2,145,698)
Balance at June 30, 2018	<u>\$ 67,019,004</u>	<u>\$ 9,771</u>	<u>\$ 33,842</u>	<u>\$ (2,187,515)</u>	<u>\$ 64,875,102</u>

	Foundation				
	<u>Investment in capital assets, net</u>	<u>Restricted Expendable</u>	<u>Restricted Non-expendable</u>	<u>Unrestricted Net Position</u>	<u>Total</u>
Balance at June 30, 2017	\$ 1,032,363	\$ 2,734,501	\$ 12,655,939	\$ 1,021,675	\$ 17,444,478
Changes in net position	55,408	271,354	127,758	194,610	649,130
Balance at June 30, 2018	<u>\$ 1,087,771</u>	<u>\$ 3,005,855</u>	<u>\$ 12,783,697</u>	<u>\$ 1,216,285</u>	<u>\$ 18,093,608</u>

See accompanying notes to the financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2018

	<u>College</u>
Cash Flows from Operating Activities:	
Tuition, residence, dining, and other student fees	\$ 17,613,489
Grants and contracts	5,992,961
Payments to suppliers	(13,972,948)
Payments to employees	(24,902,922)
Payments to students	(1,093,628)
Loans issued to students	(151,192)
Collections on loans issued to students	112,304
Funds held for others	3,278
Other sources	<u>1,274,975</u>
Net Cash Applied to Operating Activities	<u>(15,123,683)</u>
Cash Flows from Non-Capital Financing Activities:	
Tuition remitted to the State	(210,515)
State appropriations	<u>16,394,530</u>
Net Cash Provided by Non-Capital Financing Activities	<u>16,184,015</u>
Cash Flows from Capital Financing Activities:	
Capital appropriations	579,346
Purchases of capital assets	(840,359)
Principal paid on bonds, notes and capital leases	(698,181)
Proceeds from notes payable	220,000
Interest paid on bonds, notes and capital leases	<u>(169,700)</u>
Net Cash Applied to Capital Financing Activities	<u>(908,894)</u>
Cash Flows from Investing Activity:	
Interest income	<u>106,153</u>
Net Increase in Cash and Equivalents	257,591
Cash and Equivalents, Beginning of the Year	<u>15,734,532</u>
Cash and Equivalents, End of the Year	<u><u>\$ 15,992,123</u></u>

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

Statement of Cash Flows - Continued

For the Year Ended June 30, 2018

	<u>College</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:	
Net operating loss	\$ (25,920,631)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	4,117,797
Amortization of service concession agreement	(55,555)
Net pension activity	245,811
Net OPEB activity	792,170
Fringe benefits provided by State appropriations	5,939,670
Changes in assets and liabilities:	
Accounts receivable, net	(5,307)
Other current assets	9,052
Loans receivable	(40,179)
Due from Foundation	(86,785)
Accounts payable and accrued liabilities	274,910
Accrued employee compensation and benefits	(217,973)
Student deposits and unearned revenues	(197,018)
Grants refundable	<u>20,355</u>
Net Cash Applied to Operating Activities	<u>\$ (15,123,683)</u>
Reconciliation of Cash and Equivalents to the Statement of Net Assets:	
Cash and equivalents	\$ 13,648,724
Deposits held by State Treasurer	756,610
Cash held by State Treasurer	823,370
Deposits held by MSCBA	712,672
Restricted cash and equivalents	<u>50,747</u>
Cash and Equivalents	<u>\$ 15,992,123</u>
Non-Cash Transactions:	
Fringe benefits provided by the State appropriations	<u>\$ 5,939,670</u>
Capital improvements provided by capital appropriations	<u>\$ 1,109,194</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, 2018

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

Organization

Massachusetts College of Liberal Arts (the “College”) was founded in 1894 and is located in North Adams, Massachusetts. It is one of nine state colleges and universities within the Massachusetts Public Higher Education System. Approximately 1,600 graduate and 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 and 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, 2018

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 and 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 assets: 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, 2018

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

Deposits Held by State Treasurer

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

Deposits Held by MSCBA

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

Restricted Cash and Equivalents

Restricted cash and equivalents is monies held by the College restricted by the United States Government for use as part of the Federal Perkins Loan Program.

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.

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, 2018

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 has a collection of art displayed in the Feigenbaum Center for Science and Innovation. The College's policies regarding the display and management of the collection meet the guidelines of GASB 34, exempting it from capitalization.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employees' Retirement System plan ("SERS") and the additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions ("OPEB")

For purposes of measuring the College's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Retirees' Benefit Trust ("SRBT") and additions to/deductions from SRBT's fiduciary net position have been determined on the same basis as they are reported by SRBT. For this purpose, SRBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Fringe Benefits

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

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.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2018. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2018. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

Use of Estimates

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

New Governmental Accounting Pronouncements

GASB Statement 83 – *Certain Asset Retirement Obligations* (“AROs”) is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be combined and shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not completed its review of the requirements of this standard and its applicability.

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

Notes to the Financial Statements - Continued

June 30, 2018

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

New Governmental Accounting Pronouncements - continued

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Standard. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Placements* is effective for years beginning after June 15, 2018. Implementation of this standard will require additional disclosures in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management has not completed its review of the requirements of this standard and its applicability.

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 2 - **Implementation of Newly Effective Accounting Standard and Restatement of Previously Issued Financial Statements**

The College implemented GASB Statement Number 75 (“GASB 75”), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017.

Subsequent to the original issuance of these financial statements, management was advised of an error in the calculation of OPEB pertaining to projected pay increases for employees in the allocation of the actuarial present value of projected benefit payments to past and future services as of June 30, 2018 and July 1, 2017.

The table below presents the effects of implementing GASB 75 and the correction to the previously issued financial statements.

	As Previously Reported <u>at June 30, 2017</u>	Implementation of <u>GASB 75</u>	As Previously Reported <u>at July 1, 2017</u>	Correction of <u>the Error</u>	As Restated <u>at July 1, 2017</u>
Statement of Net Position:					
Deferred outflows related to OPEB	\$ -	225,378	225,378	-	\$ 225,378
Net OPEB liability	\$ -	8,057,672	8,057,672	(1,063,648)	\$ 6,994,024
Unrestricted net position	\$ 4,955,797	(7,832,294)	(2,876,497)	1,063,648	\$ (1,812,849)
	As Previously Reported <u>at June 30, 2018</u>	Correction of <u>the Error</u>	As Restated <u>at June 30, 2018</u>		
Statement of Net Position:					
Deferred outflows related to OPEB	\$ 2,784,304	(341,231)	\$ 2,443,073		
Net OPEB liability	\$ 10,125,772	(1,172,817)	\$ 8,952,955		
Deferred inflows related to OPEB	\$ 1,347,765	(296,831)	\$ 1,050,934		
Unrestricted net position	\$ (3,315,932)	1,128,417	\$ (2,187,515)		
Statement of Revenues and Expenses:					
Operating expenses	\$ 51,192,427	(64,769)	\$ 51,127,658		

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

June 30, 2018

Note 3 - **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 College's policy is to mitigate as much custodial credit risk associated with its cash assets as possible. The College deposits funds with a banking institution that obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured levels.

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2018, the carrying amount of the College's deposits were \$13,699,471 none of which was exposed to custodial credit risk as uninsured and uncollateralized.

Note 4 - **Cash Held by State Treasurer**

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$823,370 June 30, 2018. 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 5 - **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, 2018 is as follows:

Money market funds	\$ 36,263
Equities	3,554,379
Certificates of deposit	991,704
Mutual funds	<u>7,817,931</u>
Total	\$ <u>12,400,277</u>

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 5 - **Investments - Foundation - Continued**

The following schedule summarizes the Foundation's investment income and its classification in the statements of revenues and expenses for the year ended June 30, 2018:

Investment income	\$ 259,025
Unrealized gain (loss)	321,943
Realized gains	<u>473,199</u>
Total Investment Return	\$ <u>1,054,167</u>

Investment fees totaled \$60,364 for the year ended June 30, 2018 and is recorded as management and general expense.

Promulgations of the Financial Accounting Standards Board have established a framework for measuring fair value of the investments, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Please refer to the financial statements of the Foundation for more information.

Note 6 - **Accounts Receivable**

The accounts receivable balance comprised of the following at June 30, 2018:

Student accounts receivable	\$ 265,180
Grants receivable	116,299
Other receivables	<u>1,165</u>
	382,644
Less: allowance for doubtful accounts	<u>204,428</u>
	\$ <u>178,216</u>

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

June 30, 2018

Note 7- **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, 2018:

Receivable in less than one year	\$ 546,245
Receivable in one to five years	3,419,112
Less: discount to net present value	<u>840,305</u>
Present value of unconditional promises to give	3,125,052
Current unconditional promises to give	<u>521,487</u>
Unconditional promises to give, net of current portion	\$ <u>2,603,565</u>

Note 8 - **Loans Receivable**

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

Loans receivable consist of the following at June 30, 2018:

Perkins loans	\$ 1,069,892
Allowance for doubtful accounts	<u>(325,144)</u>
	\$ <u>744,748</u>

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 were eligible to receive a spring semester Perkins loan disbursement. No further extensions were granted for the program as of the date of issuance of these financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 9 - **Capital Assets**

Capital assets consist of the following at June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>Ending Balance</u>
Capital assets, not depreciated					
Land	\$ 619,442	\$ -	\$ -	\$ -	\$ 619,442
Construction in progress	<u>3,766,338</u>	<u>1,373,324</u>	<u>-</u>	<u>-</u>	<u>5,139,662</u>
Total, not depreciated	4,385,780	1,373,324	-	-	5,759,104
Capital assets, depreciated:					
Buildings, including building and land improvements	97,329,934	294,647	-	-	97,624,581
Furnishing and equipment (including cost of capital leases)	<u>7,564,512</u>	<u>281,582</u>	<u>-</u>	<u>-</u>	<u>7,846,094</u>
Total capital assets	<u>109,280,226</u>	<u>1,949,553</u>	<u>-</u>	<u>-</u>	<u>111,229,779</u>
Less: accumulated depreciation:					
Buildings, including improvements	30,302,476	3,219,761		-	33,522,237
Furnishing and equipment	<u>5,629,523</u>	<u>898,036</u>	<u>-</u>	<u>-</u>	<u>6,527,559</u>
Total accumulated depreciation	<u>35,931,999</u>	<u>4,117,797</u>	<u>-</u>	<u>-</u>	<u>40,049,796</u>
Capital assets, net	\$ <u>73,348,227</u>	\$ <u>(2,168,244)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>71,179,983</u>

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **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 \$400,000 in May 2012. The investment is being amortized into revenue ratably over the life of the arrangement through April 2018. The agreement shall renew automatically thereafter for successive one-year periods unless terminated earlier in accordance with the agreement. 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. The agreement also requires revenue sharing, which amounted to approximately \$99,000 during the year ended June 30, 2018 as well as funding for scholarships. The service concession agreement expired in April 2018 and recognition of these monies in annual revenue for the year ended June 30, 2018 was \$55,555.

The College has entered into a new agreement with the food service operation which includes a financial commitment of \$3,000,000. The agreement is effective July 1, 2018 with an amortization period of sixty months.

Note 11 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2018, consist of:

	(Restated) Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Leases and notes payable:					
Lease obligations	\$ 145,362	\$ -	\$ (133,989)	\$ 11,373	\$ 11,373
Notes payable	1,705,570	220,000	(389,348)	1,536,222	412,687
Bonds payable	3,295,324	-	(174,844)	3,120,480	178,863
Bond premium	<u>231,833</u>	<u>-</u>	<u>(26,257)</u>	<u>205,576</u>	<u>21,018</u>
Total leases and notes payable	<u>\$ 5,378,089</u>	<u>\$ 220,000</u>	<u>\$ (724,438)</u>	<u>\$ 4,873,651</u>	<u>\$ 623,941</u>
Other long-term liabilities:					
Compensated absences	\$ 3,199,381	\$ 185,187	\$ (312,480)	\$ 3,072,088	\$ 2,102,556
Workers' compensation	276,964	12,939	-	289,903	61,459
Net pension liability	3,930,927	672,122	-	4,603,049	-
OPEB liability	6,994,024	1,958,931	-	8,952,955	-
Perkins grant refundable	<u>765,369</u>	<u>20,355</u>	<u>-</u>	<u>785,724</u>	<u>-</u>
Total other long-term liabilities	<u>\$ 15,166,665</u>	<u>\$ 2,849,534</u>	<u>\$ (312,480)</u>	<u>\$ 17,703,719</u>	<u>\$ 2,164,015</u>

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 11 - **Long-Term Liabilities – Continued**

Capital Leases

The College leases a turf field and certain equipment under various capital leases. The following is a summary of capital assets held under capital lease at June 30, 2018:

Furniture and equipment	\$ 628,380
Less: accumulated depreciation	<u>565,405</u>
	\$ <u>62,975</u>

The following schedule summarizes future minimum payments under capital leases subsequent to June 30, 2018:

Year Ending	
<u>June 30,</u>	
2019	\$ 11,405
Less: Interest	<u>32</u>
	\$ <u>11,373</u>

Bonds Payable

The College has project revenue bonds outstanding (series 2006A, 2009B, 2009C, 2015A) 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%.

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

June 30, 2018

Note 11 - **Long-Term Liabilities - Continued**

Bonds Payable - Continued

Maturities of the bond payable subsequent to June 30, 2018 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 199,881	\$ 99,841
2020	201,165	93,979
2021	207,679	88,060
2022	209,324	81,873
2023	221,363	76,197
2024-2028	1,176,120	279,740
2029-2033	873,897	106,067
2034-2036	<u>236,627</u>	<u>16,625</u>
	<u>\$ 3,326,056</u>	<u>\$ 842,382</u>

Notes Payable

The College has notes payable outstanding for the purpose of financing capital assets. The payables are due in monthly installments ranging from \$11,930 to \$17,983, with interest set at 2.0% above the bank's certificate deposit rate, currently 2.49%, adjusted annually. The notes are collateralized by first priority security interest in the College's deposits held by the bank.

Maturities of the notes payable subsequent to June 30, 2018 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 412,687	\$ 33,705
2020	423,015	23,357
2021	336,742	16,779
2022	143,843	7,415
2023	132,600	4,074
2024	<u>87,335</u>	<u>817</u>
	<u>\$ 1,536,222</u>	<u>\$ 86,147</u>

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Notes to the Financial Statements - Continued

June 30, 2018

Note 12 - **Long-Term Debt - Foundation**

At June 30 2018, long-term debt consists of the following:

Mortgage note payable to MountainOne Bank, payable in monthly installments of \$4,117 including interest at 4.04% through March 2029. Secured by real property.	\$ 430,168
Mortgage note payable to Greylock Federal Credit Union, payable in monthly installments of \$4,087 including interest at 6.5% through December 2028. Secured by real property.	<u>352,175</u>
	782,343
Less: Current portion of long-term debt	<u>65,330</u>
Total long-term debt, net of current portion	\$ <u>717,013</u>

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 65,330	\$ 33,130
2020	66,216	32,245
2021	69,475	28,985
2022	72,855	25,606
2023	76,403	22,058
2024-2028	395,627	34,333
2029	<u>36,437</u>	<u>618</u>
	\$ <u>782,343</u>	\$ <u>176,975</u>

Note 13 - **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 income 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, 2018

Note 13 - **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 14 - **Related Party Transactions**

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

Note 15 - **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 various programs administered by the Commonwealth for property, general liability, automobile liability and workers' compensation. The Commonwealth is self-insured for employees' workers' compensation, casualty, theft, tort claims, and other losses. Such losses, including estimates of amounts incurred but not reported, are obligations of the Commonwealth. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

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

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

June 30, 2018

Note 16 - **Operating Expenses**

The College's operating expenses, on a natural classification basis, are comprised of the following at June 30, 2018:

Compensation and benefits	\$ 31,663,096
Supplies and services	14,253,137
Depreciation	4,117,797
Scholarships and fellowships	<u>1,093,628</u>

\$ 51,127,658

Note 17 - **Pensions**

Defined Benefit Plan Description

Certain employees of the College participate in a cost-sharing multiple-employer defined-benefit pension plan – the Massachusetts State Employees' Retirement System – administered by the Massachusetts State Board of Retirement (the "Board"), which is a public employee retirement system ("PERS"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits through the plan, regardless of the status of the employers' payment of its pension obligations to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The Massachusetts State Employees' Retirement System ("SERS") does not issue stand-alone financial statements. Additional information regarding the Plan is contained in the Commonwealth's financial statements, which is available on-line from the Office of State Comptroller's website.

Benefit Provisions

SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws ("MGL") establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 17 - **Pensions - Continued**

Benefit Provisions - Continued

For employees hired after April 1, 2012, retirement allowances are calculated based on the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Massachusetts State Legislature (the "Legislature").

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 are not eligible for retirement until they have reached age 60.

Contributions

The SERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for SERS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>Percent of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30,000

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

June 30, 2018

Note 17 - **Pensions - Continued**

Contributions - Continued

The Commonwealth does not require the College to contribute funding from its local trust funds for employee paid by state appropriations. Pension funding for employees paid from state appropriations are made through a benefit charge assessed by the Commonwealth. Such pension contributions amounted to \$2,007,152, \$2,138,467 and \$1,960,578 for the years ended June 30, 2018, 2017 and 2016, respectively.

For employees covered by SERS but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 11.78%, 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2018, 2017 and 2016, respectively. The College contributed \$263,226, \$280,607 and \$204,707 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 85%, 86% and 84% of total related payroll for fiscal years ended 2018, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the College reported a liability of \$4,603,049 for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts' collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2018. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal year 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2017, the College's proportion was 0.036%.

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

June 30, 2018

Note 17 - **Pensions - Continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources - Continued

For the year ended June 30, 2018, the College recognized pension expense of \$509,035. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30, 2018:

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$ 263,226
Difference between expected experience	177,973
Changes in proportion due to internal allocation	779,820
Changes in proportion from the Commonwealth of Massachusetts	15,766
Change in plan assumptions	<u>479,017</u>
Total	\$ <u>1,715,802</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Inflows of Resources

Net difference between projected and actual earnings on pension plan investments	\$ 54,845
Difference between expected experience	125,237
Change in proportion from the Commonwealth of Massachusetts	1,641
Change in proportion due to internal allocation	<u>594,033</u>
Total	\$ <u>775,756</u>

The College's contributions of \$263,226 made during the fiscal year ending 2018 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the succeeding year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

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

June 30, 2018

Note 17 - **Pensions - Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources - Continued*

Years Ending June 30,	
2018	\$ 201,986
2019	335,380
2020	173,865
2021	(31,134)
2022	<u>(3,277)</u>
Total	\$ <u>676,820</u>

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement date	June 30, 2017
Inflation	3.00%
Salary increases	4.00% to 9.00%
Investment rate of return	7.50%
Interest rate credited to annuity savings fund	3.50%

For measurement dates June 30, 2017, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females
- Disability - reflects RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct)

The 2018 pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 and rolled forward to June 30, 2017.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 17 - **Pensions - Continued**

Investment assets of SERS are with the Pension Reserves Investment Trust (“PRIT”) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

Actuarial Assumptions

Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Global Equity	40%	5.00%
Core Fixed Income	12%	1.10%
Hedge Funds	0%	3.60%
Private Equity	11%	6.60%
Real Return	10%	3.60%
Portfolio Completion Strategies	13%	3.60%
Value Added Fixed Income	10%	3.80%
Timber/Natural Resources	4%	3.20%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

June 30, 2018

Note 17 - **Pensions - Continued**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table illustrate the sensitivity of the net pension liability calculated using the discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

	<u>June 30, 2017</u>	
1.00% Decrease	Current	1.00% Increase
(6.50%)	Discount Rate	(8.50%)
(7.50%)	(7.50%)	(8.50%)
\$ 6,269,161	\$ 4,603,049	\$ 3,260,956

Note 18 - **Other Postemployment Benefits (OPEB)**

Plan Description

As an agency of the Commonwealth, certain employees of the College participate in the Commonwealth's single employer defined benefit-OPEB plan – the State Retirees' Benefit Trust ("SRBT"). Benefits are managed by the Group Insurance Commission ("GIC") and investments are managed by the Pension Reserves Investment Management ("PRIM") Board. The GIC has representation on the Board of Trustees of the State Retirees' Benefits Trust ("Trustees").

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Management of the SRBT is vested with the board of trustees, which consists of 7 members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of Public Employee Retirement Administration Commission ("PERAC") (or their designee), the State Treasurer (or their designee), the Comptroller (or a designee), 1 person appointed by the Governor and 1 person appointed by the State Treasurer. These members elect 1 person to serve as chair of the board.

The SRBT does not issue a stand-alone audited financial statement but is reflected as a fiduciary fund in the Commonwealth's audited financial statements.

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

June 30, 2018

Note 18 - **Other Postemployment Benefits (OPEB) - Continued**

Benefits Provided

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 are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2017, and as of the valuation date (January 1, 2017), participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

Effective beginning in fiscal year 2014, the Commonwealth is required by statute to allocate to the SRBT a portion of revenues received under the Master Settlement Agreement with tobacco companies, increasing from 10% in fiscal year 2014 to 100% by fiscal year 2023. In fiscal year 2017, 10% of tobacco settlement proceeds or approximately \$25 million was allocated to the SRBT. The percentage of proceeds to be transferred to the SRBT in fiscal year 2017 was set at 10%, overriding existing statute.

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.92% of annual covered payroll for the fiscal year ended June 30, 2018. The College contributed \$199,293 for the fiscal year ended June 30, 2018 equal to 100% of the required contribution for the year.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 18 - **Other Postemployment Benefits (OPEB) - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the College reported a liability of \$8,952,955 for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal year 2017. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal year 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.051%.

For the year ended June 30, 2018, the College recognized OPEB expense of \$1,005,501. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30, 2018:

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$ 199,293
Changes in proportion due to internal allocation	2,225,042
Changes in proportion from the Commonwealth of Massachusetts	<u>18,738</u>
Total	\$ <u>2,443,073</u>

Deferred Inflows of Resources

Net difference between projected and actual earnings on pension plan investments	\$ 16,334
Difference between expected experience	20,584
Change in plan assumptions	<u>1,014,016</u>
Total	\$ <u>1,050,934</u>

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Notes to the Financial Statements - Continued

June 30, 2018

Note 18 - **Other Postemployment Benefits (OPEB) - Continued**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The College's contribution of \$199,293 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending <u>June 30,</u>	
2018	\$ 226,525
2019	226,525
2020	226,525
2021	226,525
2022	<u>286,746</u>
Total	\$ <u>1,192,846</u>

Actuarial Assumptions

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2017
Inflation	3.00%
Salary increases	4.5% per year
Investment rate of return	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for Medical; 5.0% for EGWP; 5.0% for administrative costs

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Notes to the Financial Statements - Continued

June 30, 2018

Note 18 - **Other Postemployment Benefits (OPEB) - Continued**

Actuarial Assumptions - continued

The mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.

The participation rates are actuarially assumed as below:

- coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% of current and future contingent eligible participants will elect health care benefits at age 65, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

	<u>Retirement Age</u>	
	<u>Under 65</u>	<u>Age 65+</u>
Indemnity	40.0%	85.0%
POS/PPO	50.0%	0.0%
HMO	10.0%	15.0%

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the periods ranging July 1, 2015 through December 31, 2016, depending upon the criteria being evaluated. As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2017 actuarial valuation to more closely reflect actual experience as a result of the recent experience study completed by PERAC.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class.

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

June 30, 2018

Note 18 - **Other Postemployment Benefits (OPEB) - Continued**

Actuarial Assumptions - continued

These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2018, are the same as discussed in Note 17.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.63%. This rate was based on a blend of the Bond Buyer Index rate (3.58%) as of the measurement date and the expected rate of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2023. Therefore, the long-term expected rate of return on OPEB plan investments of 7.50% per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the College's proportionate share of the net OPEB liability, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

1.00% Decrease	Current Discount Rate	1.00% Increase
(2.63%)	(3.63%)	(4.63%)
\$ 10,627,874	\$ 8,952,955	\$ 7,621,264

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Notes to the Financial Statements - Continued

June 30, 2018

Note 18 - **Other Postemployment Benefits (OPEB) - Continued**

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the College's proportionate share of the net OPEB liability, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
(B)	(A)	(C)
\$ 7,407,432	\$ 8,952,955	\$ 10,986,770

(A) - The current healthcare cost trend rates are as follows:

9.0% for Medicare, 5.0% for EGWP and 5.0% for administration costs.

(B) - The healthcare cost trend rates after a 1% decrease are as follows:

8.0% for Medicare, 4.0% for EGWP and 4.0% for administration costs.

(C) - The healthcare cost trend rates after a 1% increase are as follows:

10.0% for Medicare, 6.0% for EGWP and 6.0% for administration costs.

Note 19 - **Fringe Benefits Provided by State**

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension and workers' compensation benefits. Health insurance for active employees and retirees is paid through a fringe benefit rate charged to the College by the Commonwealth.

Group Insurance Commission

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 number of municipalities as an agent multiple-employer program, accounted for as an agency fund activity of the Commonwealth, not the College.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 19 - **Fringe Benefits Provided by State - Continued**

Group Insurance Commission - Continued

The GIC is a quasi-independent state agency governed by a seventeen member body (the “Commission”) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it 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, 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

Other Retirement Plans

The employees of the College can elect to participate in two defined contribution plans offered and administered by the Massachusetts Department of Higher Education – an IRC 403(b) Tax-Deferred Annuity Plan and an IRC 457 Deferred Compensation SMART Plan. Employees can contribute by payroll deduction a portion of before-tax salary into these plans up to certain limits. The College has no obligation to contribute to these plans and no obligation for any future pay-out.

Note 20 - **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 received restricted state appropriations of \$74,996 to support the work of the Berkshire Cultural Resource Center.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 20 - **Massachusetts Management Accounting and Reporting System - Continued**

The College's state appropriation comprises the following at June 30, 2018

Direct unrestricted appropriations	\$ 16,319,534
Add: Fringe benefits for benefited employees on the state payroll	5,939,670
Less: Day school tuition remitted to the state and included in tuition and fee revenue	<u>(210,515)</u>
Total unrestricted appropriations	<u>22,048,689</u>
Restricted appropriations	<u>74,996</u>
Capital appropriations:	
Direct	579,346
Department of Capital Asset Management Allocation	<u>1,109,194</u>
Total Capital Appropriations	<u>1,688,540</u>
Total appropriations	\$ <u>23,812,225</u>

A reconciliation of revenues between the College and MMARS as of August 31, 2018 is as follows (unaudited):

Revenue per MMARS	\$ <u>14,456,081</u>
Revenue per College	\$ <u>14,456,081</u>

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

Notes to the Financial Statements - Continued

June 30, 2018

Note 21 - **Pass - Through Grants**

The College distributed \$8,438,446 in 2018 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 22 - **Massachusetts State College Building Authority**

The Massachusetts State College Building Authority (the "MSCBA") 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.

Required Supplementary Information

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

Schedule of the Proportionate Share of the Net Pension Liability (Unaudited)

Massachusetts State Employee Retirement System

Year end	June 30 2018	June 30 2017	June 30 2016	June 30 2015
Valuation date	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.036%	0.029%	0.034%	0.030%
Proportionate share of the collective net pension liability	\$ 4,603,049	\$ 3,930,927	\$ 3,871,254	\$ 2,259,312
Covered payroll	\$ 2,820,171	\$ 2,166,212	\$ 2,049,258	\$ 2,257,364
Proportionate share of the net pension liability as a percentage of its covered payroll	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the total pension liability	67.21%	63.48%	67.87%	76.32%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

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

Schedule of the Contributions - Pension (Unaudited)

Massachusetts State Employee Retirement System

For the Year Ended June 30,

	2018	2017	2016	2015
Contractually required contribution	\$ 263,226	\$ 280,607	\$ 204,707	\$ 212,918
Contributions in relation to the contractually required contribution	<u>263,226</u>	<u>280,607</u>	<u>204,707</u>	<u>212,918</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,234,516	\$ 2,820,171	\$ 2,166,212	\$ 2,049,258
Contribution as a percentage of covered payroll	11.78%	9.95%	9.45%	10.39%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

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

Notes to the Required Supplementary Information - SERS (Unaudited)

June 30, 2018

Note 1 - **Change in Plan Actuarial and Assumptions**

Fiscal year June 30, 2018

Change of Benefits:

Chapter 79 of the Acts of 2014 established an early retirement (“ERI”) program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately \$10 million as of June 30, 2017.

Assumptions:

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Disability – did not change

These mortality rate changes resulted in an increase of approximately \$304 million in the total pension liability of SERS as of June 30, 2017.

Fiscal year June 30, 2017

Change of Benefits:

Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (“ORP”) to transfer into the SERS and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS increased by approximately \$400 million as of June 30, 2016.

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

Notes to the Required Supplementary Information - SERS (Unaudited)

June 30, 2018

Fiscal year June 30, 2016

Change of Benefits:

Chapter 19 of the Acts of 2015 established an ERI program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

Assumptions:

The discount rate to calculate the pension liability decreased from 7.75% to 7.5%. This change resulted in an increase of approximately \$933 million in the total pension liability of SERS as of June 30, 2015.

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability – was changed from RP-2000 table projected 5 years with Scale AA (gender distinct) set forward three years for males to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

These mortality changes resulted in an increase of approximately \$1.397 billion in the total pension liability of SERS as of June 30, 2015.

Fiscal year June 30, 2015

Assumptions:

An updated experience study encompassed the period January 1, 2006 to December 31, 2011. The study reviewed salary increases and rates of retirement, disability, turnover and mortality. This study adjusted the mortality assumption which resulted in an increase of approximately \$102 million in the total pension liability as of June 30, 2014.

See Independent Auditor's Report.

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

Schedule of the Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

Year end	June 30 2018
Valuation date	January 1, 2017
Measurement date	June 30, 2017
Proportion of the collective net pension liability	0.051%
Proportionate share of the collective net pension liability	\$ 8,952,955
Covered payroll	\$ 2,820,171
Proportionate share of the net pension liability as a percentage of its covered payroll	317.46%
Plan fiduciary net position as a percentage of the total pension liability	5.39%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

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

Schedule of the Contributions - OPEB (Unaudited)

Massachusetts State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2018</u>
Contractually required contribution	\$ 199,293
Contributions in relation to the contractually required contribution	<u>199,293</u>
Contribution excess	<u>\$ -</u>
Covered payroll	\$ 2,234,516
Contribution as a percentage of covered payroll	8.92%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplemental information.

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

Notes to the Required Supplementary Information – SRBT (Unaudited)

June 30, 2018

Note 1 - **Change in Plan Assumptions**

Fiscal year June 30, 2018

Assumptions:

The discount rate was increased to 3.63% based upon a blend of the Bond Buyer Index rate as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%. This increase in the discount rate resulted in a decrease in the net OPEB liability of approximately \$3.08 billion as of June 30, 2017.

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, 2018

Assets

Assets:

Cash and equivalents	\$ 1,239,326
Accounts receivable, net	<u>6,909</u>

Total Dormitory Trust Fund Assets	<u>\$ 1,246,235</u>
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Liabilities and Net Position

Liabilities:

Accounts payable	\$ 41,105
Accrued payroll	40,176
Compensated absences	210,377
Unearned revenue	<u>106,551</u>

Total Dormitory Trust Fund Liabilities	398,209
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Net Position	<u>848,026</u>
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Total Dormitory Trust Fund Liabilities and Net Position	<u>\$ 1,246,235</u>
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MASSACHUSETTS COLLEGE OF LIBERAL ARTS
(an agency of the Commonwealth of Massachusetts)

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

For the Year Ended June 30, 2018

Revenues:

Student fees	\$ 4,866,867
Repair income	9,479
Commissions	29,059
Rentals	154,489
Other	<u>30,119</u>

Total Revenues 5,090,013

Expenses:

Regular employee compensation	747,513
Regular employee related	2,882
Student employee compensation	321,517
Pension and insurance related	270,538
Administrative	16,000
Facility operational	37,509
Energy costs	501,316
Consultant services	-
Operational services	250,019
Equipment purchases	6,598
Equipment leases	582
Educational assistance	95,478
Loans and special payments	<u>2,910,406</u>

Total Expenses 5,160,358

Net Decrease in Net Position (70,345)

Net Position, Beginning of Year 918,371

Net Position, End of Year \$ 848,026

**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 Trustees 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, 2018, and the related statements of revenues and expenses, and changes in net position, and cash flows for the year 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 with a dual date of October 25, 2018 and March 13, 2019.

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.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 25, 2018 (except for Management's Discussion and Analysis, Note 2, Note 11, Note 16, Note 18, and Schedule of Proportionate Share of the Net OPEB Liability, as to which the date is March 13, 2019)