

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

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**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Financial Statements**

**June 30, 2015 and 2014**

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## **INDEPENDENT AUDITORS' REPORT**

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

### ***Report of Financial Statements***

We have audited the accompanying financial statements of Massachusetts College of Liberal Arts Foundation, Inc. (a component unit of the Massachusetts College of Liberal Arts) (the "Foundation"), which comprise the Statements of Financial Position as of June 30, 2015 and 2014, the related Statements of Activities and Changes in Net Assets, and Cash Flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Emphasis of Matter**

As discussed in Note 6 to the financial statements, in the year ended June 30, 2015, the entity adopted new accounting guidance Accounting Standards Update 2013-06 *Not-for-Profit Entities, Service Received from Personnel of an Affiliate*. Our opinion is not modified with respect to this matter.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2015 and 2014, and the respective changes in net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2015 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*O'Connor and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

September 22, 2015

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Statements of Financial Position**

**June 30, 2015 and 2014**

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Statements of Financial Position**

**June 30,**

**Assets**

	<u>2015</u>	<u>2014</u>
<b>Current Assets:</b>		
Cash and equivalents	\$ 2,059,255	\$ 2,370,252
Investments	10,283,451	10,042,509
Unconditional promises to give	614,298	737,328
Prepaid expenses	<u>17,356</u>	<u>5,069</u>
<b>Total Current Assets</b>	<u>12,974,360</u>	<u>13,155,158</u>
<b>Property and Equipment</b>	<u>2,162,099</u>	<u>2,202,703</u>
<b>Other Assets:</b>		
Unconditional promises to give, net of current portion	3,463,602	3,806,752
Other assets	<u>7,342</u>	<u>7,882</u>
<b>Total Other Assets</b>	<u>3,470,944</u>	<u>3,814,634</u>
<b>Total Assets</b>	<u>\$ 18,607,403</u>	<u>\$ 19,172,495</u>

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

## Liabilities and Net Assets

	<u>2015</u>	<u>2014</u>
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 49,704	\$ 47,364
Accounts payable and accrued expenses	144,815	85,428
Due to Massachusetts College of Liberal Arts	<u>32,576</u>	<u>37,398</u>
<b>Total Current Liabilities</b>	<b>227,095</b>	<b>170,190</b>
<b>Long-Term Liability:</b>		
Long-term debt, net of current portion	<u>906,988</u>	<u>956,687</u>
<b>Total Liabilities</b>	<b><u>1,134,083</u></b>	<b><u>1,126,877</u></b>
<b>Net Assets:</b>		
Unrestricted:		
Board designated	662,588	584,334
Undesignated	1,916,011	2,242,321
Temporarily restricted	3,112,481	3,641,134
Permanently restricted	<u>11,782,240</u>	<u>11,577,829</u>
<b>Total Net Assets</b>	<b><u>17,473,320</u></b>	<b><u>18,045,618</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 18,607,403</u></b>	<b><u>\$ 19,172,495</u></b>

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

**Statement of Activities and Changes in Net Assets**

**For the Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues:</b>				
Contributions and grants	\$ 223,917	\$ 427,597	\$ 204,411	\$ 855,925
Special fundraising	28,505	-	-	28,505
Contributed services	85,286	-	-	85,286
Investment return	(40,612)	172,581	-	131,969
Rental income	189,630	-	-	189,630
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>1,128,831</u>	<u>(1,128,831)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u>1,615,557</u>	<u>(528,653)</u>	<u>204,411</u>	<u>1,291,315</u>
<b>Contributions, Scholarships and Expenses:</b>				
Program services:				
Contributions to Massachusetts				
College of Liberal Arts (MCLA)	921,283	-	-	921,283
Scholarships for benefit of				
MCLA Students	353,164	-	-	353,164
Functional expenses:				
Building	160,875	-	-	160,875
Management and general	233,074	-	-	233,074
Contributed services	85,286	-	-	85,286
Fundraising	<u>109,931</u>	<u>-</u>	<u>-</u>	<u>109,931</u>
<b>Total Contributions, Scholarships and Expenses</b>	<u>1,863,613</u>	<u>-</u>	<u>-</u>	<u>1,863,613</u>
<b>Changes in Net Assets</b>	(248,056)	(528,653)	204,411	(572,298)
Net Assets, Beginning of Year	<u>2,826,655</u>	<u>3,641,134</u>	<u>11,577,829</u>	<u>18,045,618</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,578,599</u>	<u>\$ 3,112,481</u>	<u>\$ 11,782,240</u>	<u>\$ 17,473,320</u>

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



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

(a component unit of Massachusetts College of Liberal Arts)

**Statements of Activities and Changes in Net Assets**

**For the Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues:</b>				
Contributions and grants	\$ 1,226,143	\$ 902,043	\$ 3,760,293	\$ 5,888,479
Special fundraising revenue	30,565	-	-	30,565
Investment return	72,789	1,177,934	-	1,250,723
Rental income	199,630	-	-	199,630
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>577,392</u>	<u>(577,392)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u>2,106,519</u>	<u>1,502,585</u>	<u>3,760,293</u>	<u>7,369,397</u>
<b>Contributions, Scholarships and Expenses:</b>				
Program services:				
Contributions to Massachusetts College of Liberal Arts (MCLA)	1,586,220	-	-	1,586,220
Scholarships for benefit of MCLA Students	286,156	-	-	286,156
Functional expenses:				
Building	171,026	-	-	171,026
Management and general	214,051	-	-	214,051
Fundraising	<u>171,424</u>	<u>-</u>	<u>-</u>	<u>171,424</u>
<b>Total Contributions, Scholarships and Expenses</b>	<u>2,428,877</u>	<u>-</u>	<u>-</u>	<u>2,428,877</u>
Changes in Net Assets	(322,358)	1,502,585	3,760,293	4,940,520
Net Assets, Beginning of Year	<u>3,149,013</u>	<u>2,138,549</u>	<u>7,817,536</u>	<u>13,105,098</u>
Net Assets, End of Year	<u>\$ 2,826,655</u>	<u>\$ 3,641,134</u>	<u>\$ 11,577,829</u>	<u>\$ 18,045,618</u>

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

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

(a component unit of Massachusetts College of Liberal Arts)

**Statements of Cash Flows**

**For the Years Ended June 30,**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	<u>\$ (572,298)</u>	<u>\$ 4,940,520</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	82,820	82,128
Realized gains on sale of investments	(492,660)	(98,126)
Unrealized (gains) losses on investments	562,252	(963,218)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(11,747)	24,419
Unconditional promises to give	466,180	(3,649,532)
Accounts payable and accrued expenses	59,387	42,876
Due to affiliates	<u>(4,822)</u>	<u>1,441</u>
Net Adjustments	<u>661,410</u>	<u>(4,560,012)</u>
Net Cash Provided by Operating Activities	<u>89,112</u>	<u>380,508</u>
<b>Cash Flows from Financing Activity:</b>		
Payments on long-term debt	<u>(47,359)</u>	<u>(43,044)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(42,216)	(27,980)
Purchase of investments	(3,111,386)	(1,549,795)
Proceeds from sale of investments	<u>2,800,852</u>	<u>1,467,080</u>
Net Cash Applied to Investing Activities	<u>(352,750)</u>	<u>(110,695)</u>
<b>Net (Decrease) Increase in Cash and Equivalents</b>	<b>(310,997)</b>	<b>226,769</b>
Cash and Equivalents, Beginning of Year	<u>2,370,252</u>	<u>2,143,483</u>
<b>Cash and Equivalents, End of Year</b>	<u><b>\$ 2,059,255</b></u>	<u><b>\$ 2,370,252</b></u>

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

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements

June 30, 2015 and 2014

### Note 1 - Summary of Significant Accounting Policies

#### Organization

The Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation") is a nonprofit organization, whose purpose is to receive funds for aiding and participating in the development and improvement of the Massachusetts College of Liberal Arts (the "College"). In addition, the Foundation provides scholarships and financial aid to students attending the College. The purposes of the Foundation are promoted through educational and research programs directed towards individuals, organizations (private and governmental) and the community. The Foundation operates primarily in Massachusetts and receives most of its revenues from donations.

#### Management Estimates

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

#### Basis of Accounting

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

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements - Continued

June 30, 2015 and 2014

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

#### Basis of Accounting – Continued

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently.

#### Adoption of New Accounting Principle

As discussed in Note 6 to the financial statements and in conjunction with Accounting Standards Update 2013-06 *Not-for-Profit Entities, Services Received from Personnel of an Affiliate*, an amendment to Not-for-Profit Entities (Topic 958) of the Accounting Standards Codification ("ASC"), the Foundation recognizes services received from personnel of the College. The adoption of this standard did not have a material impact on the financial position or changes in net assets.

#### Cash and Equivalents

The Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Certain banking institutions that hold the Foundation's funds, obtained specific depository insurance to mitigate the Foundation's credit risk associated with funds deposited in excess of federally insured levels. At June 30, 2015 and 2014, the carrying amount of the Foundation's deposits was \$2,059,255 and \$2,370,252, respectively, with the entire balance insured by specific depository insurance.

#### Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted contributions.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements - Continued

June 30, 2015 and 2014

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

#### Unconditional Promises to Give

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

#### Investments

Investments are recorded at fair market value.

#### Income Taxes

Accounting principles generally accepted in the United States require an entity to assess the probability that a tax position has a “more likely than not” sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances, the statute of limitations may remain open indefinitely. As a not-for-profit entity exempt from income taxes, the Foundation may, however, be subject to tax on unrelated business income.

The Foundation has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax exempt entity under section 501(c)(3) of the Internal Revenue Code. However, rental income from debt-financed property is not directly related to the Organization’s tax-exempt purpose and is subject to federal and state taxation as unrelated business income. Income taxes for such unrelated business income were approximately \$2,200 and \$1,500 in 2015 and 2014, respectively.

#### In-Kind Support

Donated materials are recorded at fair market value as both revenue and expense in the statement of activities and changes in net assets. The Foundation receives a significant amount of contributed time from volunteers that does not meet the requirements of a monetary contribution and accordingly, the value of these services has not been reflected in these financial statements.

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

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Property and Equipment*

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to purchase property and equipment are reported as restricted contributions. Absent donor-imposed restrictions regarding how long those donated assets must be maintained, the Foundation considers them to be unrestricted assets when they are first placed in service as instructed by the donor. Equipment is depreciated using the straight-line method. The costs of normal maintenance and repairs that do not add value or materially extend the useful life of the asset are expensed as incurred.

*Endowment Funds*

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor restricted funds and focuses on the prudent spending of the entire donor restricted fund, including accumulated earnings, rather than the historical dollar concept. UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor's intended purpose of the endowment fund, stipulated or otherwise.

UPMIFA requires donor restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net assets until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net assets until approved for expenditure by the organization. Unconditional promises to give that are restricted by donors for investment in perpetuity are not considered endowment net assets until the proceeds have been received and added to the investments held for endowments. These assets are still classified as permanently restricted net assets.

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Endowment Funds - Continued*

The Foundation's board classifies donor restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to unrestricted net assets. Unrealized gains will be classified as unrestricted net assets to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with the Foundation's spending policy.

The Foundation's investment policy for endowment funds is intended to preserve capital to the extent possible and provides a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

The Foundation is responsible to maintain the value of an endowment that it manages at its original value, unless otherwise determined by the Board of Directors. When the fair value of an endowment fund's assets decrease below the original value of the donation, unrestricted funds are transferred to the endowment fund in an amount sufficient to restore the value. The transfer is returned to unrestricted funds as the endowment fund recovers its value.

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

**Note 2 - Unconditional Promises to Give**

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

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 644,227	\$ 772,549
Receivable in one to twenty years	4,815,877	5,372,233
Less: discount to net present value	<u>1,382,204</u>	<u>1,600,702</u>
 Present value of unconditional promises to give	 4,077,900	 4,544,080
Less: current unconditional promises to give	<u>614,298</u>	<u>737,328</u>
 Unconditional Promises to Give, Net of Current Portion	 <u>\$ 3,463,602</u>	 <u>\$ 3,806,752</u>

**Note 3 - Investments**

The following schedules summarize the investment return and its classification in the statement of activities and changes in net assets for the years ended June 30:

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 94	\$ 201,467	\$ 201,561
Unrealized losses	(40,706)	(521,546)	(562,252)
Realized gains	<u>-</u>	<u>492,660</u>	<u>492,660</u>
 Total Investment Return	 <u>\$ (40,612)</u>	 <u>\$ 172,581</u>	 <u>\$ 131,969</u>
	 <u>2014</u>		
Interest and dividends	\$ 94	\$ 189,285	\$ 189,379
Unrealized gains	72,695	890,523	963,218
Realized gains	<u>-</u>	<u>98,126</u>	<u>98,126</u>
 Total Investment Return	 <u>\$ 72,789</u>	 <u>\$ 1,177,934</u>	 <u>\$ 1,250,723</u>



# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements - Continued

June 30, 2015 and 2014

### Note 4 - Fair Value Measurements

Financial Accounting Standards Codification (ASC) 820-10 establishes a framework for measuring fair value, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The highest priority is assigned to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1                      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2                      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3                      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements - Continued

June 30, 2015 and 2014

### Note 4 - Fair Value Measurements - Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

*Common stocks, equities, corporate bonds and U.S. Government securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual Funds:* Valued at the net asset value (NAV) of the shares held by the Foundation at year end.

*Certificates of deposit:* Valued based upon interest accumulated at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

#### *Assets at Fair Value as of June 30, 2015*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income funds	\$ 2,880,460	\$ -	\$ -	\$ 2,880,460
Other funds	4,620,135	-	-	4,620,135
Equities:				
Blended index funds	1,063,572	-	-	1,063,572
Other index funds	1,679,650	-	-	1,679,650
Cash and equivalents	<u>39,634</u>	<u>-</u>	<u>-</u>	<u>39,634</u>
Total Assets at Fair Value	<u>\$ 10,283,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,283,451</u>

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Assets at Fair Value as of June 30, 2014*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income funds	\$ 2,948,800	\$ -	\$ -	\$ 2,948,800
Other funds	4,852,184	-	-	4,852,184
Equities:				
Blended index funds	883,289	-	-	883,289
Other index funds	1,328,711	-	-	1,328,711
Cash and equivalents	<u>29,525</u>	<u>-</u>	<u>-</u>	<u>29,525</u>
Total Assets at Fair Value	\$ <u>10,042,509</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>10,042,509</u>

**Note 5 - Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 368,864	\$ 368,864
Buildings	1,454,495	1,454,495
Furniture and fixtures	15,628	15,628
Improvements	<u>1,319,024</u>	<u>1,276,808</u>
Total	<u>3,158,011</u>	<u>3,115,795</u>
Less: accumulated depreciation	<u>995,912</u>	<u>913,092</u>
Land, Property and Equipment, Net	\$ <u>2,162,099</u>	\$ <u>2,202,703</u>

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements - Continued

June 30, 2015 and 2014

### Note 6 - Related Party Transactions

#### Professional Fees

A former College trustee is a board member of the financial services company that manages the Foundation's investments and has issued a mortgage note to the Foundation. During the years ended June 30, 2015 and 2014, approximately \$78,000 and \$75,000, respectively, was paid to the above related parties for these services.

#### Due to Massachusetts College of Liberal Arts

Due to Massachusetts College of Liberal Arts represents endowment funds held by the Foundation on behalf of the College.

#### Contributed Services Received from Personnel of an Affiliate

The College provided accounting and development personnel to the Foundation without charge. During the year ended June 30, 2015, the Foundation recognized revenue and related expense of \$85,286 for contributed services received from the College based on the fair value of comparable services provided by third parties.

Prior to 2015, the Foundation did not recognize the value of services provided by personnel of its affiliate, the College. As a result of a change in the accounting standards for not-for-profit entities, the Foundation began recognizing revenue and related expense for contributed services received from personnel of its affiliate in the year 2015.

The change in accounting principle was adopted prospectively in 2015. As a result, there was no cumulative effect of the change on the change in net assets, unrestricted net assets, or total assets as of July 1, 2014. In addition, the change had no effect on the change in net assets, unrestricted assets, or total assets for 2015.

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

**Note 7 - Long-Term Debt**

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

	<u>2015</u>	<u>2014</u>
Mortgage note payable to MountainOne Bank, payable in monthly payments of \$4,117 including interest at 4.04% through March 2029. Secured by real property.	\$ 520,455	\$ 548,220
Mortgage note payable to Greylock Federal Credit Union, payable in monthly payments of \$4,087 including interest at 6.5% through December 2028. Secured by real property.	<u>436,237</u>	<u>455,831</u>
	<u>956,692</u>	1,004,051
Less: Current portion of long-term debt	<u>49,704</u>	<u>47,364</u>
Total Long-Term Debt, Net of Current Portion	\$ <u>906,988</u>	\$ <u>956,687</u>

The Greylock Federal Credit Union mortgage contains a debt service coverage ratio. The Foundation is in technical default of this covenant at June 30, 2015. The Foundation subsequently received a waiver from the financial institution.

Future principal payments subsequent to June 30, 2015 are as follows:

Years Ending <u>June 30,</u>	
2016	\$ 49,704
2017	52,442
2018	55,198
2019	58,109
2020	61,081
Thereafter	<u>680,158</u>
Total	\$ <u>956,692</u>

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

(a component unit of Massachusetts College of Liberal Arts)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Line of Credit*

The Foundation has revolving lines of credit, with two banks, that are not to exceed \$500,000 combined. The interest rate on the lines of credit is based on the prime rate (3.25% at June 30, 2015 and 2014). The Foundation has no debt related to these agreements at June 30, 2015 and 2014.

Interest expense incurred in connection with all debt obligations was \$51,100 and \$58,526 in 2015 and 2014, respectively.

Note 8 - **Temporarily Restricted Net Assets**

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

	<u>2015</u>	<u>2014</u>
Educational programs	\$ 2,004,531	\$ 2,009,343
Student scholarships	<u>1,107,950</u>	<u>1,631,791</u>
	<b>\$ <u>3,112,481</u></b>	<b>\$ <u>3,641,134</u></b>

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

	<u>2015</u>	<u>2014</u>
Educational programs	\$ 775,667	\$ 291,236
Student scholarships	<u>353,164</u>	<u>286,156</u>
	<b>\$ <u>1,128,831</u></b>	<b>\$ <u>577,392</u></b>

# MASSACHUSETTS COLLEGE OF LIBERAL ARTS FOUNDATION, INC.

(a component unit of Massachusetts College of Liberal Arts)

## Notes to the Financial Statements - Continued

June 30, 2015 and 2014

Note 9 - **Endowment Net Assets**

Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows:

	<b>Board Designated</b>			
	<b><u>Endowment -</u></b>	<b><u>Temporarily</u></b>	<b><u>Permanently</u></b>	<b><u>Total</u></b>
	<b><u>Unrestricted</u></b>	<b><u>Restricted</u></b>	<b><u>Restricted</u></b>	
Endowment net assets, at June 30, 2013	\$ 413,138	\$ 1,548,316	\$ 7,661,880	\$ 9,623,334
Investment return	71,196	1,177,934	-	1,249,130
Contributions	-	321,589	462,395	783,984
Transfers to Board designated endowment	100,000	-	-	100,000
Amounts appropriated for expenditure	<u>-</u>	<u>(329,800)</u>	<u>-</u>	<u>(329,800)</u>
Endowment net assets, at June 30, 2014	<b>584,334</b>	<b>2,718,039</b>	<b>8,124,275</b>	<b>11,426,648</b>
Investment return	(28,378)	172,581	-	144,203
Contributions	-	559,783	469,431	1,029,214
Transfers to Board designated endowment	128,900	-	-	128,900
Amounts appropriated for expenditure	<u>(22,268)</u>	<u>(1,128,831)</u>	<u>-</u>	<u>(1,151,099)</u>
Endowment net assets, at June 30, 2015	<b><u>\$ 662,588</u></b>	<b><u>\$ 2,321,572</u></b>	<b><u>\$ 8,593,706</u></b>	<b><u>\$ 11,577,866</u></b>

Board designated endowment funds are funds earmarked by the Foundation's Board to be invested to provide income for specific purposes including the library, seminars, and scholarships.

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

**(a component unit of Massachusetts College of Liberal Arts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 10 - **Leases**

The Foundation leases property to the Commonwealth of Massachusetts under a tenant-at-will agreement, as well as a five-year agreement expiring on September 30, 2017. Total rental revenue for the fiscal years ended 2015 and 2014 were \$189,630 and \$199,630, respectively. Future minimum rental revenue under the lease agreements are as follows:

<u>Years Ending June 30,</u>	
2016	\$ 157,149
2017	157,149
2018	<u>39,287</u>
	\$ <u>353,585</u>

Note 11 - **Supplemental Cash Flow Information**

During the years ended June 30, 2015 and 2014, the Foundation paid \$51,100 and \$58,526 for interest, respectively.

Unrelated business income taxes paid amounted to \$2,457 and \$732 during the years ended June 30, 2015 and 2014, respectively.

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

**Cash**

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

**Investments**

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

**Contributions**

The Foundation is dependent upon continued donor contributions. There is a risk to the extend these contributions are not renewed each year.



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

**(a component unit of Massachusetts College of Liberal Arts)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Commitments*

For fiscal year 2016, the Foundation has committed to pledge to the Commonwealth of Massachusetts two parcels of land which are currently being used as parking lots. These parcels were previously rented to the Commonwealth of Massachusetts as tenant-at-will. The parcels are currently recorded as land and land improvements and have a net book value of \$208,987.

Note 13 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through September 22, 2014, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any events subsequent to June 30, 2015 requiring disclosure in these financial statements.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Massachusetts College of Liberal Arts Foundation Inc. (a component unit of the Massachusetts College of Liberal Arts) (the "Foundation") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and have issued our report thereon dated September 22, 2015.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*O'Connor and Drew, P.C.*

**Certified Public Accountants**

**Braintree, Massachusetts**

September 22, 2015