

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

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

June 30, 2017

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

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

June 30, 2017 and 2016

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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 Massachusetts College of Liberal Arts (an agency of the Commonwealth of Massachusetts) (the "College"), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. We have also audited the financial statements of Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation") as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Massachusetts College of Liberal Arts as of June 30, 2017 and 2016, and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-13, the schedule of the College's proportionate share of the net pension liability on page 47, the schedule of the College's contributions on page 48 and the notes to the required supplementary information on page 49 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 19, 2017, 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'Connor and Duran, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 19, 2017

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2017, and the results of operations for the year then ended. This analysis should be read in conjunction with the College's financial statements and notes which are also presented in this document.

Massachusetts College of Liberal Arts is a public institution of higher education serving approximately 1,700 graduate and undergraduate students, with 116 Full Time Equivalent faculty and 226 staff members. The College offers 19 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, 2017, the College's assets and deferred outflows of resources of \$91,352,177 exceeded its liabilities and deferred inflows of resources of \$17,562,734 by \$73,789,443. The resulting net position is summarized into the following categories:

| | |
|---|---------------|
| • Invested in capital assets, net of related debt | \$ 68,786,278 |
| • Restricted, non-expendable | 32,872 |
| • Restricted - expendable | 14,499 |
| • Unrestricted | 4,955,794 |
| • Total net position | \$ 73,789,443 |

- The College received a general state Appropriation for Fiscal Year 2017 of \$16,157,704. An additional appropriation of \$75,000 was received to support the work of the Berkshire Cultural Resource Center (BCRC.) An additional state appropriation was received through the Board of Higher Education as a State University Incentive Grant in the amount of \$161,449. The total amount of these appropriations was \$16,394,153 less tuition remitted to the state of \$206,821 plus fringe benefits of \$5,657,999.

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- The College's total net position decreased by \$277,987. This is primarily due to additional depreciation expense on the new buildings and improvements that were added in the past few years
- The College's Trustees may use the unrestricted net position to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net position may also be expended, but only for the purposes for which the donor or grantor intended.

Overview of the Financial Statements

The Massachusetts College of Liberal Arts financial statements comprise two primary components: 1) the financial statements and 2) the notes to the financial statements. Additionally, the financial statements focus on the College as a whole, rather than upon individual funds or activities.

The Financial Statements: The financial statements are designed to provide readers with a broad overview of the Massachusetts College of Liberal Arts finances and are comprised of three basic statements.

The *Statements 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 *Statements 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 *Statements 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, 2017 and 2016

The financial statements can be found on pages 14 through 17 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 18 through 46 of this report.

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Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

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 \$73,789,443 at the close of the most recent fiscal year.

Massachusetts College of Liberal Arts Net Position

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|----------------------|----------------------|----------------------|
| Current assets | \$ 16,092,568 | \$ 16,317,433 | \$ 14,383,148 |
| Non-current assets | <u>74,085,640</u> | <u>74,426,482</u> | <u>70,532,751</u> |
| Total assets | <u>\$ 90,178,208</u> | <u>\$ 90,743,915</u> | <u>\$ 84,915,899</u> |
| Deferred outflows of resources | <u>\$ 1,173,969</u> | <u>\$ 875,129</u> | <u>\$ 238,315</u> |
| Current liabilities | 6,198,072 | 5,811,178 | 5,479,614 |
| Non-current liabilities | <u>10,648,873</u> | <u>11,176,044</u> | <u>8,047,664</u> |
| Total liabilities | <u>\$ 16,846,945</u> | <u>\$ 16,987,222</u> | <u>\$ 13,527,278</u> |
| Deferred inflows of resources | <u>\$ 715,789</u> | <u>\$ 564,392</u> | <u>\$ 1,892,290</u> |
| Net Position: | | | |
| Invested in capital assets, net of related debt | \$ 68,786,278 | \$ 69,045,708 | \$ 65,615,264 |
| Restricted, non-expendable | 32,872 | 30,730 | 32,576 |
| Restricted, expendable | 14,499 | 22,014 | 5,766 |
| Unrestricted | <u>4,955,794</u> | <u>4,968,978</u> | <u>4,081,039</u> |
| Total net assets | <u>\$ 73,789,443</u> | <u>\$ 74,067,430</u> | <u>\$ 69,734,645</u> |

By far the largest portion of the Massachusetts College of Liberal Arts net position is its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt, including capital leases, used to acquire those assets that is still outstanding. The College uses these capital assets to provide services to students, faculty and administration; consequently, these assets are not available for future spending. Although the College's investment in its capital 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

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June 30, 2017 and 2016

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 \$277,986 during the current fiscal year. This decrease is largely due to the increase in depreciation expense on the new buildings and improvements completed in the last few years. Net Investment in Capital assets decreased by \$259,430. The depreciation expense on its entire amount of capital assets was \$4,114,145 for the year ended June 30, 2017.

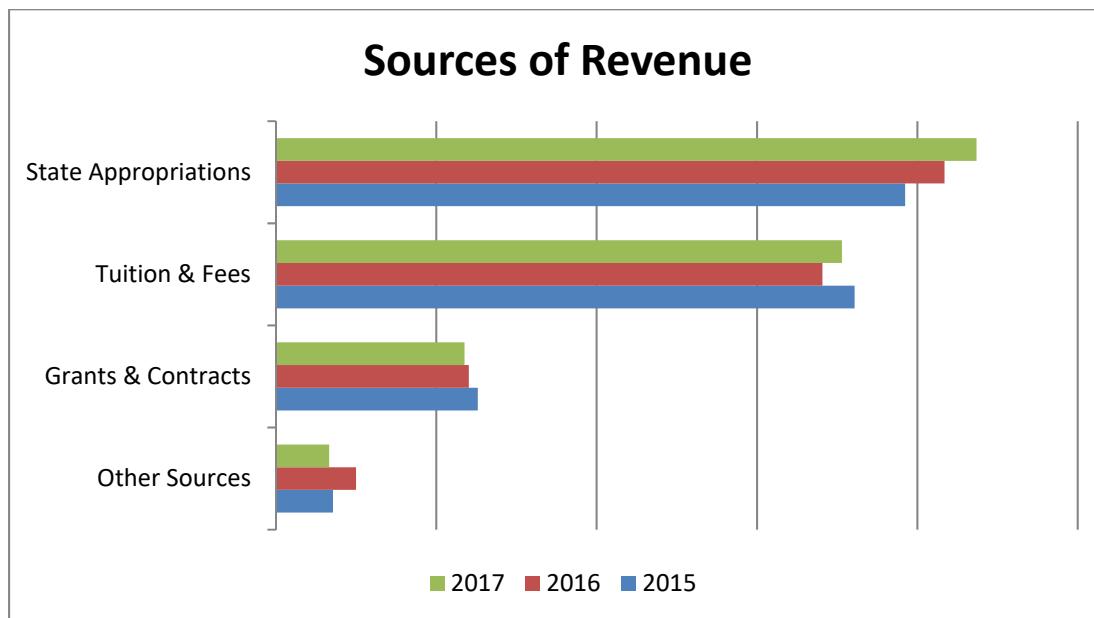
Massachusetts College of Liberal Arts Changes in Net Position

| | For the Fiscal Year Ended June 30, 2017 | For the Fiscal Year Ended June 30, 2016 | For the Fiscal Year Ended June 30, 2015 |
|-------------------------------------|--|--|--|
| Operating Revenues: | | | |
| Net tuition and fees | \$ 17,649,389 | \$ 17,040,028 | \$ 18,043,442 |
| Grants and contracts | 5,883,254 | 6,015,580 | 6,295,058 |
| Other sources | 1,665,224 | 2,501,130 | 1,784,676 |
| Total operating revenues | \$ 25,197,867 | \$ 25,556,738 | \$ 26,123,176 |
| Total operating expenses | \$ 50,514,322 | \$ 47,806,271 | \$ 46,562,345 |
| Net operating loss | (25,316,455) | (22,249,533) | (20,439,169) |
| Non-operating revenues (expenses): | | | |
| State appropriation | 21,845,331 | 20,848,988 | 19,623,252 |
| Capital appropriations | 3,242,570 | 5,788,542 | 13,917,583 |
| Investment Income | 97,864 | 90,792 | 89,791 |
| Interest Expense | (147,297) | (146,004) | (128,062) |
| Loss on disposal of capital assets | - | - | (319,937) |
| Increase (decrease) in net position | (277,987) | 4,332,785 | 12,743,458 |
| Net position – beginning of year | \$ 74,067,430 | \$ 69,734,645 | \$ 56,991,187 |
| Net position – end of year | \$ 73,789,443 | \$ 74,067,430 | \$ 69,734,645 |

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Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016



Highlights of operating revenue activity for the year include:

- Student Fee revenue and Tuition revenue increased due to a small increase in enrollment. Campus Support Fee rates were increased slightly from the previous year.
- Student Activity Fee revenue decreased slightly from the previous year due to more waivers.
- Residence and dining fees increased due to a slight decrease in resident student enrollment and a small rate increase.
- Grants and contracts decreased because the College received less grants.
- Other sources of revenue decreased due to a decrease in support from the Foundation, reflective of a large donation in the previous year for the athletic lights.

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

| | June 30, 2017 | June 30, 2016 | Change |
|----------------------|----------------------|----------------------|---------------|
| Tuition | 2,192,258 | 2,064,359 | 127,899 |
| Student Fees: | | | |
| Campus Support Fee | 9,943,668 | 9,937,157 | 6,511 |
| Student Activity Fee | 366,525 | 374,244 | (7,719) |

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

- Improving Teacher Quality Grant in the amount of \$323,564 from the Mass Department of Higher Education to strengthen the project, Berkshire Early Learning Lab
- Title III The Persistence to Graduation: A Best Practices Program in the amount of \$443,364 to increase persistence and four year graduation rates of MCLA students.
- Adult Basic Ed Grant from Mass. Department of Education in the amount of \$231,254 for GED and community literacy programs
- National Science Foundation Teaching to Learn Grant in the amount of \$209,662 to improve undergraduate science education through engagement in K-7 science
- National Science Foundation S-STEM Pathways Program in the amount of \$166,528 to provide scholarships to students majoring in STEM programs

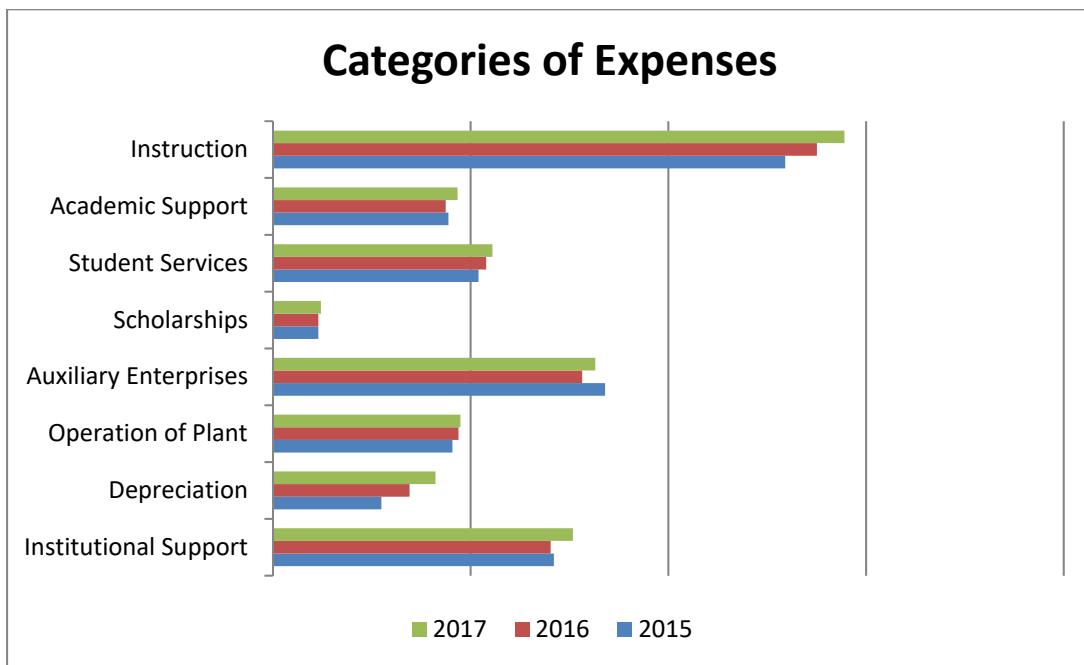
Expenses

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 \$7,976,381, an increase of 2.1% or \$166,222 from the previous fiscal year due to slightly higher rates. Depreciation is higher due to a full year's depreciation on the Bowman Hall renovation.

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Non-operating revenues and expenses

The College received a general state appropriation of \$16,157,704, and an additional unrestricted appropriation of \$161,449 based on formula funding. An additional appropriation of \$75,000 was received to support the College's work with the Berkshire Cultural Resource Center. In addition, state payroll fringe benefits in the amount of \$5,657,999 were received, less tuition remitted to the state of \$206,821, for a total appropriation of \$21,845,331. 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 computer lab equipment. Capital appropriations were received for the addition work to finish the Feigenbaum Center for Science and Innovation and renovations on Bowman Hall, the Water Infiltration project for 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, 2017 and 2016

Capital Assets and Debts of the College

Capital Assets: The College's investment in capital assets as of June 30, 2017 amounts to \$73,348,227 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:

- Feigenbaum Center for Science & Innovation \$2,013,164
- Energy Performance Project (CIP) \$1,048,517
- Public Safety Building Renovation \$187,826
- Bowman Mac Lab \$130,068
- Athletic Complex Lights \$104,045
- Bowman Hall Renovations \$87,510
- Venable Hall Water Infiltration Project \$85,127
- Softball Field Renovation \$59,578
- Campus Center Pool Area Renovation (CIP) \$37,738

All capital asset purchases are included in the College's capital spending plan submitted to the Board of Higher Education and the Commonwealth's fiscal affairs division. Additional information about the Massachusetts College of Liberal Arts capital assets can be found in note 8 on page 28 of this report.

Long-term liabilities: The College carries long-term liabilities in the form of accruals for compensated absences and workers compensation \$3,476,345, bonds with the Mass State College Building Authority \$3,527,158 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 \$1,705,570 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 \$145,362 net of related interest as of June 30, 2017.

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

In FY2017 base appropriations were level funded from FY2016 (including FY2016 formula funding) and partial collective bargaining increase. In FY2018 our base appropriation was level funded from FY2017. There are no additional amounts for formula funding or collective bargaining increases from FY2017. 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

Statements of Net Position

June 30, 2017 and 2016

MASSACHUSETTS COLLEGE OF LIBERAL ARTS
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Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

| | Primary Government | | Component Unit | |
|--|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| | <u>2017</u> <u>College</u> | <u>2016</u> <u>College</u> | <u>2017</u> <u>Foundation</u> | <u>2016</u> <u>Foundation</u> |
| | | | | |
| Current Assets: | | | | |
| Cash and equivalents | \$ 13,460,032 | \$ 13,132,105 | \$ 1,401,417 | \$ 1,814,317 |
| Deposits held by State Treasurer | 1,050,236 | 923,826 | - | - |
| Cash held by State Treasurer | 332,824 | 320,312 | - | - |
| Deposits held by MSCBA | 816,141 | 1,220,000 | - | - |
| Restricted cash and equivalents | 75,299 | 114,325 | - | - |
| Accounts receivable, net | 171,699 | 80,741 | - | - |
| Due from Foundation | 56,901 | 447,391 | - | - |
| Unconditional promises to give | - | - | 626,548 | 698,253 |
| Other assets | <u>129,436</u> | <u>78,733</u> | <u>24,431</u> | <u>30,041</u> |
| Total Current Assets | <u>16,092,568</u> | <u>16,317,433</u> | <u>2,052,396</u> | <u>2,542,611</u> |
| Non-Current Assets: | | | | |
| Investments | - | - | 11,522,374 | 10,249,075 |
| Unconditional promises to give, net of current portion | - | - | 2,935,450 | 3,185,753 |
| Loans receivable, net | 704,569 | 683,492 | - | - |
| Debt service reserve | 32,844 | 32,844 | - | - |
| Investment in capital assets, net | <u>73,348,227</u> | <u>73,710,146</u> | <u>1,880,059</u> | <u>1,920,727</u> |
| Total Non-Current Assets | <u>74,085,640</u> | <u>74,426,482</u> | <u>16,337,883</u> | <u>15,355,555</u> |
| Deferred Outflows of Resources: | | | | |
| Pension related, net | 1,173,969 | 875,129 | - | - |
| Total Assets | <u>\$ 91,352,177</u> | <u>\$ 91,619,044</u> | <u>\$ 18,390,279</u> | <u>\$ 17,898,166</u> |

Liabilities, Deferred Inflows of Resources and Net Position

| | Primary Government | | Component Unit | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2017 <u>College</u> | 2016 <u>College</u> | 2017 <u>Foundation</u> | 2016 <u>Foundation</u> |
| Current Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 476,273 | \$ 555,806 | \$ 7,631 | \$ 4,125 |
| Accrued payroll | 1,594,550 | 1,457,165 | - | - |
| Compensated absences | 2,172,549 | 2,087,917 | - | - |
| Workers' compensation | 50,130 | 42,872 | - | - |
| Students' deposits and unearned revenue | 1,225,391 | 1,059,347 | - | - |
| Due to College | - | - | 56,901 | 447,391 |
| Current portion of notes payable | 350,529 | 308,784 | 65,531 | 52,442 |
| Current portion of charitable gift annuity liability | - | - | 2,250 | 2,250 |
| Current portion of bond payable | 194,661 | 169,780 | - | - |
| Current portion of capital lease obligations | <u>133,989</u> | <u>129,507</u> | <u>—</u> | <u>—</u> |
| Total Current Liabilities | <u>6,198,072</u> | <u>5,811,178</u> | <u>132,313</u> | <u>506,208</u> |
| Non-Current Liabilities: | | | | |
| Compensated absences | 1,026,832 | 1,092,304 | - | - |
| Workers' compensation | 226,834 | 160,315 | - | - |
| Notes payable | 1,355,041 | 1,594,589 | 782,165 | 854,549 |
| Charitable gift annuity liability, net of current portion | - | - | 31,324 | 33,574 |
| Bond payable | 3,332,497 | 3,536,417 | - | - |
| Net pension liability | 3,930,927 | 3,871,254 | - | - |
| Capital lease obligations | 11,373 | 145,361 | - | - |
| Perkins grant refundable | <u>765,369</u> | <u>775,804</u> | <u>—</u> | <u>—</u> |
| Total Non-Current Liabilities | <u>10,648,873</u> | <u>11,176,044</u> | <u>813,489</u> | <u>888,123</u> |
| Total Liabilities | <u>16,846,945</u> | <u>16,987,222</u> | <u>945,802</u> | <u>1,394,331</u> |
| Deferred Inflows of Resources: | | | | |
| Service concession revenue applicable to future years | 55,555 | 188,889 | - | - |
| Pension related, net | <u>660,234</u> | <u>375,503</u> | <u>—</u> | <u>—</u> |
| Total Deferred Inflows of Resources | <u>715,789</u> | <u>564,392</u> | <u>—</u> | <u>—</u> |
| Net Position: | | | | |
| Net investment in capital assets | 68,786,278 | 69,045,708 | 1,032,363 | 1,013,736 |
| Restricted: | | | | |
| Nonexpendable | 32,872 | 30,730 | 12,655,939 | 12,057,591 |
| Expendable | 14,499 | 22,014 | 2,734,501 | 2,609,945 |
| Unrestricted | <u>4,955,794</u> | <u>4,968,978</u> | <u>1,021,674</u> | <u>822,563</u> |
| Total Net Position | <u>73,789,443</u> | <u>74,067,430</u> | <u>17,444,477</u> | <u>16,503,835</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 91,352,177</u> | <u>\$ 91,619,044</u> | <u>\$ 18,390,279</u> | <u>\$ 17,898,166</u> |

See accompanying notes to the financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

| | Primary Government | | Component Unit | |
|--|------------------------|------------------------|---------------------------|---------------------------|
| | 2017 <u>College</u> | 2016 <u>College</u> | 2017 <u>Foundation</u> | 2016 <u>Foundation</u> |
| Operating Revenues: | | | | |
| Tuition and fees | \$ 14,931,915 | \$ 14,506,480 | \$ - | \$ - |
| Residence and dining fees | 7,976,381 | 7,810,159 | - | - |
| Less: Scholarship allowances | (5,258,907) | (5,276,611) | - | - |
| Net student fees | 17,649,389 | 17,040,028 | - | - |
| Gifts and contributions | - | - | 1,090,306 | 1,088,665 |
| Grants and contracts | 5,883,254 | 6,015,580 | - | - |
| Other sources | 1,665,224 | 2,501,130 | 207,604 | 212,438 |
| Total Operating Revenues | 25,197,867 | 25,556,738 | 1,297,910 | 1,301,103 |
| Operating Expenses: | | | | |
| Instruction | 14,453,762 | 13,811,137 | - | - |
| Academic support | 4,672,544 | 4,386,384 | - | - |
| Student services | 5,553,973 | 5,408,759 | - | - |
| Scholarships and fellowships | 1,215,892 | 1,149,936 | 394,618 | 363,547 |
| Public service | 13,838 | 12,354 | - | - |
| Auxiliary enterprises | 8,155,588 | 7,828,103 | - | - |
| Operation and maintenance of plant | 4,745,421 | 4,707,589 | 63,498 | 83,160 |
| Depreciation | 4,114,145 | 3,456,765 | 73,798 | 83,465 |
| Fundraising | - | - | 130,684 | 135,629 |
| Management and general | - | - | 169,566 | 246,353 |
| Gifts and contributions | - | - | 968,860 | 1,380,773 |
| Institutional support | 7,589,159 | 7,045,244 | - | - |
| Total Operating Expenses | 50,514,322 | 47,806,271 | 1,801,024 | 2,292,927 |
| Net Operating Loss | (25,316,455) | (22,249,533) | (503,114) | (991,824) |
| Non-Operating Revenues (Expenses): | | | | |
| State appropriations, net - unrestricted | 21,770,331 | 20,773,988 | - | - |
| State appropriations - restricted | 75,000 | 75,000 | - | - |
| Net investment income | 97,864 | 90,792 | 1,443,756 | 22,339 |
| Interest expense | (147,297) | (146,004) | - | - |
| Net Non-Operating Revenues | 21,795,898 | 20,793,776 | 1,443,756 | 22,339 |
| Net Increase (Decrease) Before Other Revenues | (3,520,557) | (1,455,757) | 940,642 | (969,485) |
| Capital appropriations | 93,380 | 548,955 | - | - |
| Capital appropriations - DCAM | 3,149,190 | 5,239,587 | - | - |
| Net Increase (Decrease) in Net Position | (277,987) | 4,332,785 | 940,642 | (969,485) |
| Net Position: | | | | |
| Beginning of Year | 74,067,430 | 69,734,645 | 16,503,835 | 17,473,320 |
| End of Year | \$ 73,789,443 | \$ 74,067,430 | \$ 17,444,477 | \$ 16,503,835 |

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| | <u>College</u> | <u>College</u> |
| Cash Flows from Operating Activities: | | |
| Tuition, residence, dining, and other student fees | \$ 17,727,811 | \$ 17,217,286 |
| Grants and contracts | 5,866,258 | 6,228,900 |
| Payments to suppliers | (14,059,138) | (13,895,842) |
| Payments to employees | (25,321,496) | (24,456,128) |
| Payments to students | (1,215,892) | (1,149,936) |
| Loans issued to students | (193,660) | (61,991) |
| Collections on loans issued to students | 166,591 | 139,198 |
| Other sources | <u>1,931,597</u> | <u>1,741,134</u> |
| Net Cash Applied to Operating Activities | <u>(15,097,929)</u> | <u>(14,237,379)</u> |
| Cash Flows from Non-Capital Financing Activities: | | |
| Tuition remitted to the State | (206,821) | (251,409) |
| State appropriations | <u>16,394,153</u> | <u>16,233,085</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>16,187,332</u> | <u>15,981,676</u> |
| Cash Flows from Capital Financing Activities: | | |
| Capital appropriations | 93,380 | 548,955 |
| Purchases of capital assets | (603,036) | (2,198,493) |
| Principal paid on bonds, notes and capital leases | (613,100) | (455,619) |
| Proceeds from notes payable | 137,000 | 1,000,000 |
| Proceeds from bond payable | - | 1,238,081 |
| Interest paid on bonds, notes and capital leases | <u>(177,547)</u> | <u>(157,595)</u> |
| Net Cash Applied to Capital Financing Activities | <u>(1,163,303)</u> | <u>(24,671)</u> |
| Cash Flows from Investing Activity: | | |
| Interest income | <u>97,864</u> | <u>90,792</u> |
| Net Increase in Cash and Equivalents | | |
| Cash and Equivalents, Beginning of the Year | 23,964 | 1,810,418 |
| Cash and Equivalents, End of the Year | <u>\$ 15,734,532</u> | <u>\$ 15,710,568</u> |

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

| | 2017 <u>College</u> | 2016 <u>College</u> |
|--|------------------------|------------------------|
| Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities: | | |
| Net operating loss | \$ (25,316,455) | \$ (22,249,533) |
| Adjustments to reconcile net operating loss to net cash applied to operating activities: | | |
| Depreciation | 4,114,145 | 3,456,765 |
| Amortization of service concession agreement | (133,334) | (466,667) |
| Net pension activity | 45,566 | 113,897 |
| Fringe benefits provided by State appropriations | 5,657,999 | 4,867,312 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (90,958) | 163,658 |
| Other current assets | (50,703) | (3,308) |
| Loans receivable | (21,077) | 87,584 |
| Due from Foundation | 390,490 | (284,217) |
| Accounts payable and accrued liabilities | (79,533) | (104,309) |
| Accrued employee compensation and benefits | 230,323 | (25,993) |
| Student deposits and unearned revenues | 166,043 | 226,884 |
| Grants refundable | <u>(10,435)</u> | <u>(19,452)</u> |
| Net Cash Applied to Operating Activities | <u>\$ (15,097,929)</u> | <u>\$ (14,237,379)</u> |
| Reconciliation of Cash and Equivalents to the Statement of Net Assets: | | |
| Cash and equivalents | \$ 13,460,032 | \$ 13,132,105 |
| Deposits held by State Treasurer | 1,050,236 | 923,826 |
| Cash held by State Treasurer | 332,824 | 320,312 |
| Deposits held by MSCBA | 816,141 | 1,220,000 |
| Restricted cash and equivalents | <u>75,299</u> | <u>114,325</u> |
| Cash and Equivalents | <u>\$ 15,734,532</u> | <u>\$ 15,710,568</u> |
| Non-Cash Transactions: | | |
| Fringe benefits provided by the State appropriations | <u>\$ 5,657,999</u> | <u>\$ 4,867,312</u> |
| Capital improvements provided by capital appropriations | <u>\$ 3,149,190</u> | <u>\$ 5,239,587</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, 2017 and 2016

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 1,700 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, 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, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation and Accounting - continued

The College's policy for defining operating activities in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35, *Basic Financial Statements and Managements' Discussion and Analysis for Public Colleges and Universities*. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts and interest expense.

The College's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Net Position

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

Net investment in capital 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, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Trust Funds

In accordance with the requirements of the Commonwealth of Massachusetts, the College's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

Allowance for Doubtful Accounts

Accounts and pledges receivable are periodically evaluated for collectability based on past history with students. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral and current economic condition.

Investments

Investments in marketable securities are stated at fair value.

Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the Statement of Revenues, Expenses, and Changes in Net Position. Any net earnings not expended are included in net position categories as follows:

- A) as increases in restricted – nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- B) as increases in temporarily restricted – expendable net position if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The College has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should generally be classified as restricted - expendable; and
- C) as increases in unrestricted net position in all other cases.

The College is currently authorized by its Board of Trustees and the statutes of the Commonwealth of Massachusetts to invest in certificates of deposit.

Deposits Held by MSCBA

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

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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.

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.

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.

Fringe Benefits

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

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.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2017 and 2016. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2017 and 2016. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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.

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.

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 liability.

Reclassification

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements

GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 17, management is anticipating a restatement of balances during the upcoming fiscal year to include the effect of this Statement.

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 yet evaluated the effects of the implementation of this Statement.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - continued

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 86 – *Certain Debt Extinguishment Issues* is effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and disclosures in the financial statements for debt that is defeased in substance. Management has not completed its review of the requirements of this standard.

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 is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - Cash and Equivalents

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the College would not be able to recover its deposits that are in the possession of the outside parties. The 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, 2017 and 2016, the carrying amount of the College's deposits were \$13,535,331 and \$13,246,430, respectively, none of which was exposed to custodial credit risk as uninsured and uncollateralized.

Note 3 - Cash Held by State Treasurer

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled \$332,824 and \$320,312 at June 30, 2017 and 2016, respectively. The College has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the College, which was subsequently utilized to pay for such liabilities.

Note 4 - Investments - Foundation

The Foundation investments consist of mutual funds and other equity investments. In order to minimize excessive risk in geographical, industry and market sectors, the Board of Directors meets quarterly with its investment advisors and reviews the portfolio for such concentrations and other matters.

Foundation investments, which are carried at fair value, as of June 30, are as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------|----------------------|----------------------|
| Money market funds | \$ 44,699 | \$ 19,834 |
| Equities | 3,119,715 | 2,903,301 |
| Certificates of deposit | 1,002,769 | 462,239 |
| Mutual funds | <u>7,355,191</u> | <u>6,863,701</u> |
| Total | <u>\$ 11,522,374</u> | <u>\$ 10,249,075</u> |

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 4 - **Investments – Foundation - Continued**

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

| | <u>2017</u> | <u>2016</u> |
|-------------------------|---------------------|------------------|
| Investment income | \$ 216,259 | \$ 196,141 |
| Unrealized gain (loss) | 753,431 | (244,308) |
| Realized gains | <u>474,066</u> | <u>70,506</u> |
| Total Investment Return | <u>\$ 1,443,756</u> | <u>\$ 22,339</u> |

Investment fees totaled \$53,577 and \$49,966 for the years ended June 30, 2017 and 2016, respectively, and are 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 5 - **Accounts Receivable**

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

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-------------------|------------------|
| Student accounts receivable | \$ 218,998 | \$ 214,691 |
| Grants receivable | 114,748 | 47,161 |
| Other receivables | <u>2,829</u> | <u>2,586</u> |
| | <u>336,575</u> | <u>264,438</u> |
| Less: allowance for doubtful accounts | <u>164,876</u> | <u>183,697</u> |
| | <u>\$ 171,699</u> | <u>\$ 80,741</u> |

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 6 - Unconditional Promises to Give - Foundation

Unconditional promises to give due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 5% and consist of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Receivable in less than one year | \$ 654,531 | \$ 727,828 |
| Receivable in one to five years | 3,890,714 | 4,351,607 |
| Less: discount to net present value | <u>983,247</u> | <u>1,195,429</u> |
| Present value of unconditional promises to give | 3,561,998 | 3,884,006 |
| Current unconditional promises to give | <u>626,548</u> | <u>698,253</u> |
| Unconditional promises to give, net of current portion | <u>\$ 2,935,450</u> | <u>\$ 3,185,753</u> |

Note 7 - Loans Receivable

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

Loans receivable consist of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|-------------------|-------------------|
| Perkins loans | \$ 1,033,176 | \$ 1,092,891 |
| Allowance for doubtful accounts | <u>(328,607)</u> | <u>(409,399)</u> |
| | <u>\$ 704,569</u> | <u>\$ 683,492</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 can receive a spring semester Perkins loan disbursement. The College is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2018-19 academic year.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - Capital Assets

Capital assets consist of the following at June 30, 2017:

| | <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>3,075,131</u> | <u>1,084,908</u> | <u>-</u> | <u>(393,701)</u> | <u>3,766,338</u> |
| Total, not depreciated | 3,694,573 | 1,084,908 | - | (393,701) | 4,994,955 |
| Capital assets, depreciated: | | | | | |
| Buildings, including building and land improvements | 94,398,983 | 2,537,250 | - | 393,701 | 97,329,934 |
| Furnishing and equipment (including cost of capital leases) | <u>7,434,444</u> | <u>130,068</u> | <u>-</u> | <u>-</u> | <u>7,564,512</u> |
| Total capital assets | <u>105,528,000</u> | <u>3,752,226</u> | <u>-</u> | <u>-</u> | <u>109,280,226</u> |
| Less: accumulated depreciation: | | | | | |
| Buildings, including improvements | 27,131,564 | 3,170,912 | - | - | 30,302,476 |
| Furnishing and equipment | <u>4,686,290</u> | <u>943,233</u> | <u>-</u> | <u>-</u> | <u>5,629,523</u> |
| Total accumulated depreciation | <u>31,817,854</u> | <u>4,114,145</u> | <u>-</u> | <u>-</u> | <u>35,931,999</u> |
| Capital assets, net | <u>\$ 73,710,146</u> | <u>\$ (361,919)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 73,348,227</u> |

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - Capital Assets – Continued

Capital assets consist of the following at June 30, 2016:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Reclassification</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|-------------------------|---------------------------|
| Capital assets, not depreciated | | | | | |
| Land | \$ 406,967 | \$ 212,475 | \$ - | \$ - | \$ 619,442 |
| Construction in progress | <u>15,031,675</u> | <u>2,535,041</u> | <u>-</u> | <u>(14,491,585)</u> | <u>3,075,131</u> |
| Total, not depreciated | 15,438,642 | 2,747,516 | - | (14,491,585) | 3,694,573 |
| Capital assets, depreciated: | | | | | |
| Buildings, including building and land improvements | 76,758,712 | 3,227,509 | - | 14,412,762 | 94,398,983 |
| Furnishing and equipment (including cost of capital leases) | <u>5,892,566</u> | <u>1,463,055</u> | <u>-</u> | <u>78,823</u> | <u>7,434,444</u> |
| Total capital assets | <u>98,089,920</u> | <u>7,438,080</u> | <u>-</u> | <u>-</u> | <u>105,528,000</u> |
| Less: accumulated depreciation: | | | | | |
| Buildings, including improvements | 24,424,240 | 2,707,324 | - | - | 27,131,564 |
| Furnishing and equipment | <u>3,936,849</u> | <u>749,441</u> | <u>-</u> | <u>-</u> | <u>4,686,290</u> |
| Total accumulated depreciation | <u>28,361,089</u> | <u>3,456,765</u> | <u>-</u> | <u>-</u> | <u>31,817,854</u> |
| Capital assets, net | <u>\$ 69,728,831</u> | <u>\$ 3,981,315</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 73,710,146</u> |

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

June 30, 2017 and 2016

Note 9 - Deferred Inflows of Resources

The College entered into a service concession arrangement with an outside party that manages the College's food service operations. In connection with the construction of additional facilities for the College, the vendor invested \$2,000,000 in September 2011 and \$400,000 in May 2012. The investment is being amortized into revenue ratably over the life of the arrangement through August 2016 and April 2017, respectively. 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 \$98,000 and \$100,000 during the years ended June 30, 2017 and 2016, respectively, as well as funding for scholarships. Recognition of these monies in annual revenue for the years ended June 30, 2017 and 2016 was \$133,334 and 467,667, respectively.

Note 10 - Long-Term Liabilities

Long-term liabilities at June 30, 2017, consist of:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|-----------------------------------|--------------------------|-------------------|---------------------|-----------------------|------------------------|
| Leases and notes payable: | | | | | |
| Notes payable | \$ 1,903,373 | \$ 137,000 | \$ (334,803) | \$ 1,705,570 | \$ 350,529 |
| Bond payable | 3,444,114 | - | (148,791) | 3,295,323 | 171,858 |
| Bond premium | 262,082 | - | (30,247) | 231,835 | 22,803 |
| Lease obligations | <u>274,868</u> | <u>—</u> | <u>(129,506)</u> | <u>145,362</u> | <u>133,989</u> |
| Total leases and notes payable | <u>\$ 5,884,437</u> | <u>\$ 137,000</u> | <u>\$ (643,347)</u> | <u>\$ 5,378,090</u> | <u>\$ 679,179</u> |
| Other long-term liabilities: | | | | | |
| Compensated absences | \$ 3,180,221 | \$ 326,235 | \$ (307,075) | \$ 3,199,381 | \$ 2,172,549 |
| Workers' compensation | 203,187 | 73,777 | - | 276,964 | 50,130 |
| Net pension liability | 3,871,254 | 59,673 | - | 3,930,927 | - |
| Perkins grant refundable | <u>775,804</u> | <u>—</u> | <u>(10,435)</u> | <u>765,369</u> | <u>—</u> |
| Total other long-term liabilities | <u>\$ 8,030,466</u> | <u>\$ 459,685</u> | <u>\$ (317,510)</u> | <u>\$ 8,172,641</u> | <u>\$ 2,222,679</u> |

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - Long-Term Liabilities – Continued

Long-term liabilities at June 30, 2016, consist of:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|-------------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| Leases and notes payable: | | | | | |
| Notes payable | \$ 1,062,373 | \$ 1,000,000 | \$ (159,000) | \$ 1,903,373 | \$ 308,784 |
| Bond payable | 2,517,080 | 1,055,000 | (127,965) | 3,444,115 | 150,088 |
| Bond premium | 90,592 | 183,081 | (11,591) | 262,082 | 19,692 |
| Lease obligations | <u>443,522</u> | — | <u>(168,654)</u> | <u>274,868</u> | <u>129,507</u> |
| Total leases and notes payable | <u>\$ 4,113,567</u> | <u>\$ 2,238,081</u> | <u>\$ (467,210)</u> | <u>\$ 5,884,438</u> | <u>\$ 608,071</u> |
| Other long-term liabilities: | | | | | |
| Compensated absences | \$ 3,307,252 | \$ 319,514 | \$ (446,545) | \$ 3,180,221 | \$ 2,087,917 |
| Workers' compensation | 224,030 | — | (20,843) | 203,187 | 42,872 |
| Net pension liability | 2,259,312 | 1,611,942 | — | 3,871,254 | — |
| Perkins grant refundable | <u>795,256</u> | — | <u>(19,452)</u> | <u>775,804</u> | — |
| Total other long-term liabilities | <u>\$ 6,585,850</u> | <u>\$ 1,931,456</u> | <u>\$ (486,840)</u> | <u>\$ 8,030,466</u> | <u>\$ 2,130,789</u> |

Operating Leases

The College leases certain equipment under various operating leases. Rent expense for operating leases was \$9,709 for the year ended June 30, 2016. The College's operating lease agreements expired during 2016.

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 as of June 30, 2017:

| | |
|--------------------------------|-------------------|
| Furniture and equipment | \$ 628,380 |
| Less: accumulated depreciation | <u>439,798</u> |
| | <u>\$ 188,582</u> |

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

June 30, 2017 and 2016

Note 10 - Long-Term Liabilities - Continued

Capital Leases - Continued

The following schedule summarizes future minimum payments under capital leases subsequent to June 30, 2017:

| <u>Years Ending June 30,</u> | |
|----------------------------------|-------------------|
| 2018 | 136,862 |
| 2019 | <u>11,404</u> |
| | 148,266 |
| Less: Interest | <u>2,904</u> |
| | <u>\$ 145,362</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%.

Maturities of the bond payable subsequent to June 30, 2017 are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|---------------------|-------------------|
| 2018 | \$ 194,661 | \$ 103,968 |
| 2019 | 200,770 | 98,842 |
| 2020 | 202,021 | 92,966 |
| 2021 | 208,409 | 87,130 |
| 2022 | 210,067 | 80,893 |
| 2023-2027 | 1,163,821 | 311,024 |
| 2028-2032 | 1,036,510 | 137,261 |
| 2033-2036 | <u>310,899</u> | <u>27,350</u> |
| | <u>\$ 3,527,158</u> | <u>\$ 939,434</u> |

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

June 30, 2017 and 2016

Note 10 - Long-Term Liabilities - Continued

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, 2017 are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|---------------------|-------------------|
| 2018 | \$ 350,529 | \$ 37,990 |
| 2019 | 358,817 | 29,702 |
| 2020 | 367,759 | 20,760 |
| 2021 | 279,106 | 11,986 |
| 2022 | 129,255 | 7,419 |
| 2023-2024 | <u>220,104</u> | <u>4,897</u> |
| | <u>\$ 1,705,570</u> | <u>\$ 112,754</u> |

Note 11 - Long-Term Debt - Foundation

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

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| 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. | \$ 461,505 | \$ 491,601 |
| 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>386,191</u> | <u>415,390</u> |
| Less: Current portion of long-term debt | <u>847,696</u> | <u>906,991</u> |
| | <u>65,531</u> | <u>52,442</u> |
| Total long-term debt, net of current portion | <u>\$ 782,165</u> | <u>\$ 854,549</u> |

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - Long-Term Debt - Foundation - Continued

Future principal payments subsequent to June 30, 2017 are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|-------------------|-------------------|
| 2018 | \$ 65,531 | \$ 32,929 |
| 2019 | 68,253 | 30,208 |
| 2020 | 71,005 | 27,455 |
| 2021 | 73,954 | 24,506 |
| 2022 | 76,982 | 21,479 |
| 2023-2027 | 408,485 | 48,736 |
| 2028-2029 | <u>83,486</u> | <u>3,130</u> |
| | <u>\$ 847,696</u> | <u>\$ 188,443</u> |

Note 12 - Restricted Net Position

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. Restricted-nonexpendable funds consist of endowment funds, the incomes from which are available for academic programs. Restricted expendable funds are available for academic programs.

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

Note 13 - Related Party Transactions

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

A former member of the Board of Trustees of the College, whose term expired during 2014, is a member of the Board of Trustees of MountainOne Financial, MHC, and TrueNorth Financial Services, a division of MountainOne, which handles the investments of the Foundation. In addition, a Foundation Director is an employee of the financial services company that manages the Foundation's investments and has issued a mortgage note to the Foundation. During the years ended June 30, 2017 and 2016, approximately \$73,000 and \$71,000, respectively, was paid to the financial services company for these services.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 13 - Related Party Transactions - Continued

Another member of the Board of Trustees of the College was the Executive Vice President of the Adams Community Bank, until her retirement in February 2017, which holds deposits for the College in the form of a certificate of deposit and a money market account totaling \$2,080,588 and \$2,064,698 at June 30, 2017 and 2016, respectively.

Note 14 - Contingencies

The College receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the College. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the College.

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

Note 15 - Operating Expenses

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

| | <u>2017</u> | <u>2016</u> |
|------------------------------|----------------------|----------------------|
| Compensation and benefits | \$ 31,257,824 | \$ 29,411,344 |
| Supplies and services | 13,926,461 | 13,788,226 |
| Depreciation | 4,114,145 | 3,456,765 |
| Scholarships and fellowships | <u>1,215,892</u> | <u>1,149,936</u> |
| | \$ 50,514,322 | \$ 47,806,271 |

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 16 - Pensions

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$2,138,467 and \$1,960,578 for the years ended June 30, 2017 and 2016, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement System. Annual covered payroll was approximately 86% and 84% of total related payroll for fiscal years end 2017 and 2016, respectively.

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 does not issue a stand-alone financial statement.

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. 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, and group creditable service, and group classification. The authority for amending these provisions rests with 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 cannot retire prior to age 60.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 16 - Pensions - Continued

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:

| Hire Date | Percentage of Compensation |
|---------------------|---|
| 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 |

The College is required to contribute at an actuarially determined rate; the rate was 9.95% and 9.45% of annual covered payroll for the fiscal years ended June 30, 2017 and 2016, respectively. The College contributed \$280,607 and \$204,707 for the fiscal years ended June 30, 2017 and 2016, respectively equal to 100% of the required contributions for each year.

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

At June 30, 2017 and 2016, the College reported a liability of \$3,930,927 and \$3,871,254, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2017, the reporting date, was measured as of June 30, 2016, 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, 2016 rolled forward to June 30, 2016. The net pension liability as of June 30, 2016, the reporting date, was measured as of June 30, 2015, 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, 2015 rolled forward to June 30, 2015.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 16 - Pensions- Continued

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

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 years 2016 and 2015, respectively. The College's proportionate share was based on actual employer contributions to the SERS for fiscal years 2016 and 2015 relative to total contributions of all participating employers for the fiscal years. At June 30, 2016 and 2015, the College's proportion was 0.029% and 0.034%, respectively.

For the years ended June 30, 2017 and 2016, the College recognized a pension expense of \$329,116 and \$323,134, respectively. At June 30, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-------------------|
| <u>Deferred Outflows of Resources</u> | | |
| Contributions subsequent to the measurement date | \$ 280,607 | \$ 204,707 |
| Difference between expected experience | <u>186,709</u> | - |
| Difference between projected and actual investment earnings on pension plan investments | <u>263,876</u> | - |
| Changes in proportion from the Commonwealth of Massachusetts | <u>6,863</u> | - |
| Change in plan investment assumptions | <u>435,914</u> | <u>670,422</u> |
| Total | <u>\$ 1,173,969</u> | <u>\$ 875,129</u> |

Deferred Inflows of Resources

| | | |
|--|-------------------|-------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 34,722 |
| Change in proportion from the Commonwealth of Massachusetts | - | 2,972 |
| Change in proportion due to internal allocation | <u>660,234</u> | <u>337,809</u> |
| Total | <u>\$ 660,234</u> | <u>\$ 375,503</u> |

Contributions of \$280,607 and \$204,707 made during the fiscal years ending 2017 and 2016, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability for the years ended June 30, 2018 and 2017.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 16 - Pensions- Continued

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

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:

| Years Ending <u>June 30,</u> | |
|---------------------------------|-------------------|
| 2018 | \$ 32,551 |
| 2019 | 32,551 |
| 2020 | 138,508 |
| 2021 | 10,215 |
| 2022 | <u>19,303</u> |
| Total | <u>\$ 233,128</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, 2016 | June 30, 2015 |
|---|----------------|----------------|
| Inflation | 3.00% | 3.00% |
| Salary increases | 4.00% to 9.00% | 3.50% to 9.00% |
| Investment rate of return | 7.50% | 7.50% |
| Investment rate credited to annuity savings fund | 3.50% | 3.50% |

For measurement dates June 30, 2016 and 2015, mortality rates were based on:

- Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

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

June 30, 2017 and 2016

Note 16 - Pensions- Continued

Actuarial Assumptions – Contributions

The actuarial assumptions used in the January 1, 2016 valuation rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of actuarial experience study performed as of January 1, 2016.

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. 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, are summarized in the following table:

| Asset Class | 2016 | | 2015 | |
|---------------------------------|--------------------|--|--------------------|--|
| | Target Allocation | Long-term expected real rate of return | Target Allocation | Long-term expected real rate of return |
| Global Equity | 40% | 6.90% | 40% | 6.90% |
| Core Fixed Income | 13% | 1.60% | 13% | 2.40% |
| Hedge Funds | 9% | 4.00% | 9% | 5.80% |
| Private Equity | 10% | 8.70% | 10% | 8.50% |
| Real Estate | 10% | 4.60% | 10% | 6.50% |
| Portfolio Completion Strategies | 4% | 3.60% | 4% | 5.50% |
| Value Added Fixed Income | 10% | 4.80% | 10% | 5.80% |
| Timber/Natural Resources | 4% | 5.40% | 4% | 6.60% |
| | <u><u>100%</u></u> | | <u><u>100%</u></u> | |

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 16 - Pensions- Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.5% at June 30, 2016 and 2015. 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 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.

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

The following table illustrates 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> | | |
|-----------------------------------|----------------------------------|-----------------------------------|
| | Current | |
| 1.00% Decrease (6.50%) | Discount Rate (7.50%) | 1.00% Increase (8.50%) |
| \$ 5,122,607 | \$ 3,930,927 | \$ 2,920,932 |
| <u>June 30, 2016</u> | | |
| | Current | |
| 1.00% Decrease (6.50%) | Discount Rate (7.50%) | 1.00% Increase (8.50%) |
| \$ 5,262,305 | \$ 3,871,254 | \$ 2,671,454 |

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 17 - Fringe Benefits Provided by State

Fringe Benefits

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 and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth, and currently the liability is borne by the Commonwealth, as are any effects on net position and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*. As discussed previously, GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces GASB 45 and will require a restatement of balances at July 1, 2017.

The Commonwealth is statutorily responsible for the pension benefit of the College's employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer-defined benefit public employee retirement system, is administered by the state.

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs, which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

New Accounting Guidance Effective for Fiscal 2018

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the State Retirement Benefits Trust Fund. The College will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net other postemployment benefit ("OPEB") obligation. OPEB expense reported in the College's financial statements will reflect the change in the net OPEB liability for the fiscal year.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 17 - Fringe Benefits Provided by State- Continued

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

The GIC administers a plan included within the State Retirement Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution rates.

The GIC is a quasi-independent state agency governed by an eleven member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2017, 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 of its health plans.

In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 17 - Fringe Benefits Provided by State- Continued

Insurance

The College participates in the various programs administered by the Commonwealth for property, general liability, automobile liability, workers' compensation and health insurance. 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.

Other Employee Benefits

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-outs.

Note 18 - 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 \$75,000 in fiscal years ended June 30, 2017 and 2016 designated to support the work of the Berkshire Cultural Resource Center.

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 18 - Massachusetts Management Accounting and Reporting System - Continued

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

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Direct unrestricted appropriations | <u>\$ 16,319,153</u> | \$ 16,158,085 |
| Add: Fringe benefits for benefited employees on the state payroll | <u>5,657,999</u> | 4,867,312 |
| Less: Day school tuition remitted to the state and included in tuition and fee revenue | <u>(206,821)</u> | <u>(251,409)</u> |
| Total unrestricted appropriations | <u>21,770,331</u> | <u>20,773,988</u> |
| Restricted appropriations | <u>75,000</u> | <u>75,000</u> |
| Capital appropriations: | | |
| Direct | <u>93,380</u> | 548,955 |
| Department of Capital Asset Management Allocation | <u>3,149,190</u> | <u>5,239,587</u> |
| Total Capital Appropriations | <u>3,242,570</u> | <u>5,788,542</u> |
| Total appropriations | <u>\$ 25,087,901</u> | <u>\$ 26,637,530</u> |

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

| | <u>2017</u> | <u>2016</u> |
|---------------------|----------------------|----------------------|
| Revenue per MMARS | <u>\$ 14,585,566</u> | <u>\$ 14,170,256</u> |
| Revenue per College | <u>\$ 14,585,566</u> | <u>\$ 14,170,256</u> |

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

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 19 - Pass - Through Grants

The College distributed \$8,786,542 and \$8,936,115 in 2017 and 2016, respectively, for student loans through the U.S. Department of Education Direct Student Loan Program. These distributions and related funding sources are not included as expenses and revenues or as cash disbursements and cash receipts in the accompanying financial statements.

Note 20 - 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)

| | January 1, 2016 | January 1, 2015 | January 1, 2014 |
|--|-----------------|-----------------|-----------------|
| Valuation date | January 1, 2016 | January 1, 2015 | January 1, 2014 |
| Measurement date | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Proportion of the collective net pension liability | 0.029% | 0.034% | 0.030% |
| Proportionate share of the collective net pension liability | \$ 3,930,927 | \$ 3,871,254 | \$ 2,259,312 |
| Covered-employee payroll | \$ 2,166,212 | \$ 2,049,258 | \$ 2,257,364 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 181.47% | 188.91% | 100.09% |
| Plan fiduciary net position as a percentage of the total pension liability | 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 (Unaudited)

For the Year Ended June 30,

| | 2017 | 2016 | 2015 |
|--|-------------------|-------------------|-------------------|
| Contractually required contribution | \$ 280,607 | \$ 204,707 | \$ 212,918 |
| Contributions in relation to the contractually required contribution | <u>280,607</u> | <u>204,707</u> | <u>212,918</u> |
| Contribution excess | <u>\$ _____ -</u> | <u>\$ _____ -</u> | <u>\$ _____ -</u> |
| Covered employee payroll | \$ 2,820,171 | \$ 2,166,212 | \$ 2,049,258 |
| Contribution as a percentage of covered-employee payroll | 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 (Unaudited)

For the Year Ended June 30, 2017

Note 1 - **Change in Assumptions**

Changes in assumptions about the discount rate range from 8.0% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.029%, 0.034% and 0.030%, respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

The College's portion of these amounts is as follows:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|------------------|
| Changes in assumptions | \$ 812,507 | \$ 812,507 | \$ 31,041 |
| Recognized in current year pension expense | (376,593) | (142,085) | (5,644) |
| Changes in assumptions, net | <u>\$ 435,914</u> | <u>\$ 670,422</u> | <u>\$ 25,397</u> |

Supplemental Information

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

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

June 30,

Assets

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Assets: | | |
| Cash and equivalents | \$ 1,259,761 | \$ 1,493,993 |
| Accounts receivable, net | 6,733 | 4,510 |
| Other current assets | <u>-</u> | <u>1,621</u> |
| Total Dormitory Trust Fund Assets | <u>\$ 1,266,494</u> | <u>\$ 1,500,124</u> |

Liabilities and Net Position

| | | |
|--|----------------------------|----------------------------|
| Liabilities: | | |
| Accounts payable | \$ 33,284 | \$ 7,690 |
| Accrued payroll | 36,073 | 20,538 |
| Compensated absences | 192,816 | 225,651 |
| Unearned revenue | <u>85,950</u> | <u>120,215</u> |
| Total Dormitory Trust Fund Liabilities | 348,123 | 374,094 |
| Net Position | <u>918,371</u> | <u>1,126,030</u> |
| Total Dormitory Trust Fund Liabilities and Net Position | <u>\$ 1,266,494</u> | <u>\$ 1,500,124</u> |

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
(Uaudited)**

For the Years Ended June 30,

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------|----------------------------|
| Revenues: | | |
| Student fees | \$ 4,839,571 | \$ 4,645,888 |
| Repair income | 10,753 | 12,183 |
| Commissions | 27,111 | 33,048 |
| Rentals | 140,793 | 119,622 |
| Other | <u>10,241</u> | <u>142,948</u> |
| Total Revenues | <u>5,028,469</u> | <u>4,953,689</u> |
| Expenses: | | |
| Regular employee compensation | 717,801 | 811,065 |
| Regular employee related | 5,211 | 5,949 |
| Student employee compensation | 346,678 | 341,376 |
| Pension and insurance related | 258,343 | 255,812 |
| Administrative | 18,873 | 22,948 |
| Facility operational | 50,651 | 51,130 |
| Energy cost | 531,782 | 530,675 |
| Consultant services | 3,000 | - |
| Operational services | 278,771 | 263,499 |
| Equipment purchases | 6,274 | 77,803 |
| Equipment leases | 534 | 943 |
| Educational assistance | 147,400 | 132,400 |
| Loans and special payments | <u>2,870,810</u> | <u>2,290,816</u> |
| Total Expenses | <u>5,236,128</u> | <u>4,784,416</u> |
| Net Increase (Decrease) in Net Position | <u>(207,659)</u> | <u>169,273</u> |
| Net Position, Beginning of Year | <u>1,126,030</u> | <u>956,757</u> |
| Net Position, End of Year | <u>\$ 918,371</u> | <u>\$ 1,126,030</u> |

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of 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, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Massachusetts College of Liberal Arts' basic financial statements and have issued our report thereon dated October 19, 2017.

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 Duem, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 19, 2017