MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

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

Financial Statements and Management's Discussion and Analysis

June 30, 2011 and 2010

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O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Massachusetts College of Liberal Arts (an agency of the Commonwealth of Massachusetts) (the "College") as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. We have also audited the statements of financial position of Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation") as of June 30, 2011 and 2010, and the related statements of activities, changes in net assets 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.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts College of Liberal Arts as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements. The accompanying supplemental information contained on pages 33 and 34 is presented for purposes of additional analysis and is 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 financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, on our consideration of the Massachusetts College of Liberal Arts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis (MD&A) on the following pages is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

O'Connor & Drew, P.C.

Certified Public Accountants

October 27, 2011

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Management's Discussion and Analysis

The following discussion and analysis provides management's view of the financial position of the College as of June 30, 2011, 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 1,970 graduate and undergraduate students, with 114 Full Time Equivalent faculty and 179 staff members. The College offers 17 programs leading to Bachelor of Arts, Bachelor of Science, Professional MBA and Master of Education degrees as well as non-credit programs.

Massachusetts College of Liberal Arts Foundation, Inc. is a non-profit corporation organized under Massachusetts General Laws, Chapter 180. The Corporation is operated exclusively for charitable, scientific and education purposes to benefit Massachusetts College of Liberal Arts. These purposes include holding and administering properties, providing financial aid, and promoting and supporting the educational activities of the College.

Financial Highlights

- At June 30, 2011, the College's assets of $37,342,757 exceeded its liabilities of $8,786,675 by $28,556,082. These resulting net assets are summarized into the following categories:

• Invested in capital assets, net of related debt	$	16,362,025
• Restricted, non-expendable		34,920
• Restricted - expendable		1,843
• Unrestricted		12,157,294
• Total net assets	$	28,556,082

- The College received a general State Appropriation of $12,559,859.
- The College received an ARRA (American Recovery and Reinvestment Act) grant in the amount of $1,037,548 as a supplement to the state appropriation and a $24,100 grant to the Dual Enrollment Program for high school students.
- The College's total net assets increased by $3,209,614. This is largely due to additional students, energy cost savings, and increased revenue from capital appropriations.
- The College has received approval and capital bond funding for the planning and construction of a new 65,000 sq. ft building called the Center for Science and Innovation and the complete renovation of Bowman Hall, a major academic building in the amount of $54.5 million over the next 3 years.
- The College's Trustees may use the unrestricted net assets to meet the College's ongoing obligations to its stakeholders. Additionally, the restricted, expendable net assets may also be expended, but only for the purposes for which the donor or grantor intended.

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Management's Discussion and Analysis

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of the College's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Massachusetts College of Liberal Arts is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the College's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

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

The financial statements can be found on pages 10 through 13 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 a component unit of the Commonwealth of Massachusetts. Therefore, the results of the College's operations, its net assets 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 14 through 32 of this report.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS
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Management's Discussion and Analysis

Financial Analysis

As noted earlier, net assets 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 $28,556,082 at the close of the most recent fiscal year.

Massachusetts College of Liberal Arts Net Assets

	June 30, 2011	June 30, 2010
Current assets	$19,245,029	$16,382,602
Non-current assets	18,097,728	18,089,756
Total assets	$37,342,757	$34,472,358
Current liabilities	5,408,215	5,435,491
Non-current liabilities	3,378,460	3,690,399
Total liabilities	$8,786,675	$9,125,890
Net Assets:		
Invested in capital assets, net of related debt	$16,362,025	$15,809,690
Restricted, non-expendable	34,920	31,770
Restricted, expendable	1,843	10,423
Unrestricted	12,157,294	9,494,585
Total net assets	$28,556,082	$25,346,468

By far the largest portion of the Massachusetts College of Liberal Arts net assets are 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 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 College's net assets increased by $3,209,614 during the current fiscal year. This increase is largely due to additional students, capital appropriations and a concentrated effort to minimize expenses in anticipation of a decrease in future appropriation funding. Net Capital assets decreased by $28,765. The depreciation expense on its entire amount of capital assets was $1,514,976.

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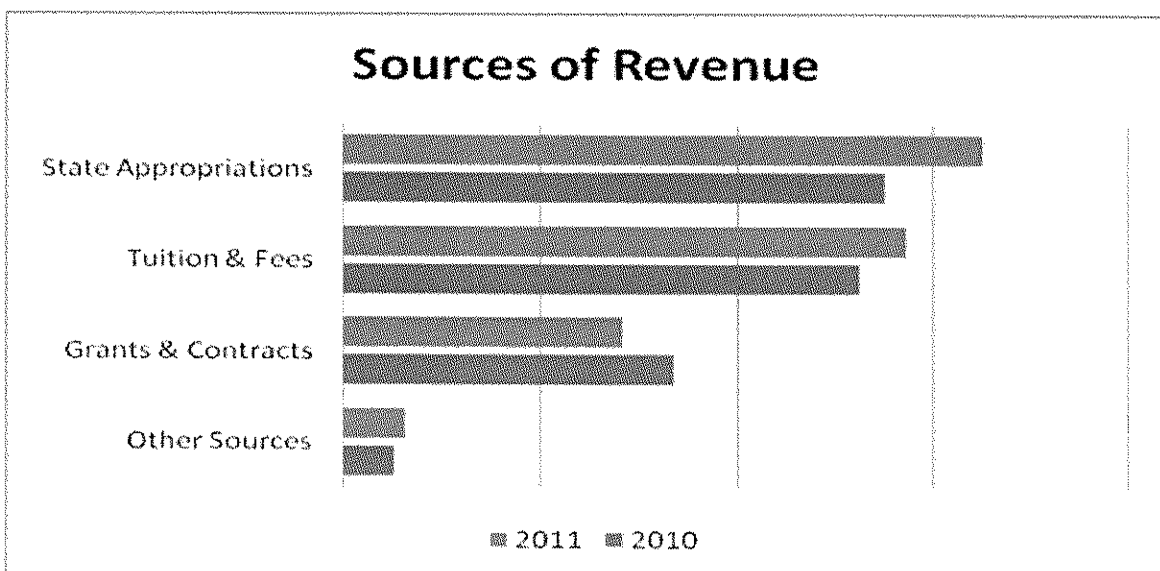
Management's Discussion and Analysis

Massachusetts College of Liberal Arts Changes in Net Assets

	For the Fiscal Year Ended June 30, 2011	For the Fiscal Year Ended June 30, 2010
Operating Revenues:		
Net tuition and fees	$17,474,429	$16,285,593
Grants and contracts	7,057,600	8,408,073
Other sources	1,582,911	1,291,125
Total operating revenues	$26,114,940	$25,984,791
Total operating expenses	$39,988,329	$38,555,766
Net operating loss	(13,873,389)	(12,570,975)
Non-operating revenues (expenses):		
State appropriation	16,287,867	13,754,852
Capital appropriations	685,246	313,166
Investment Income	179,998	218,584
Interest Expense	(70,108)	(93,928)
Increase in net assets	3,209,614	1,621,699
Net assets – beginning of year	$25,346,468	$23,724,769
Net assets – end of year	$28,556,082	$25,346,468



MASSACHUSETTS COLLEGE OF LIBERAL ARTS
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Management's Discussion and Analysis

Highlights of operating revenue activity for the year include:

- The state appropriation of $12,559,859 increased over FY10 by $1,492,081. It was further affected by an increase in the fringe benefit rate which is also appropriated by the state.
- Student Fees increased due to a combination of an enrollment increase and an increase in fees approved by the Board of Trustees.
- Residence and dining fees increased due to the increase in students on campus and the increased cost of providing these services.
- Grants and contracts decreased due to the reduction in ARRA Stimulus Funds, the completion of the $1.8M Title III grant, and a reduction in state contracts.
- Other sources increased due to, increased campus rentals, commissions, and foreign travel programs.

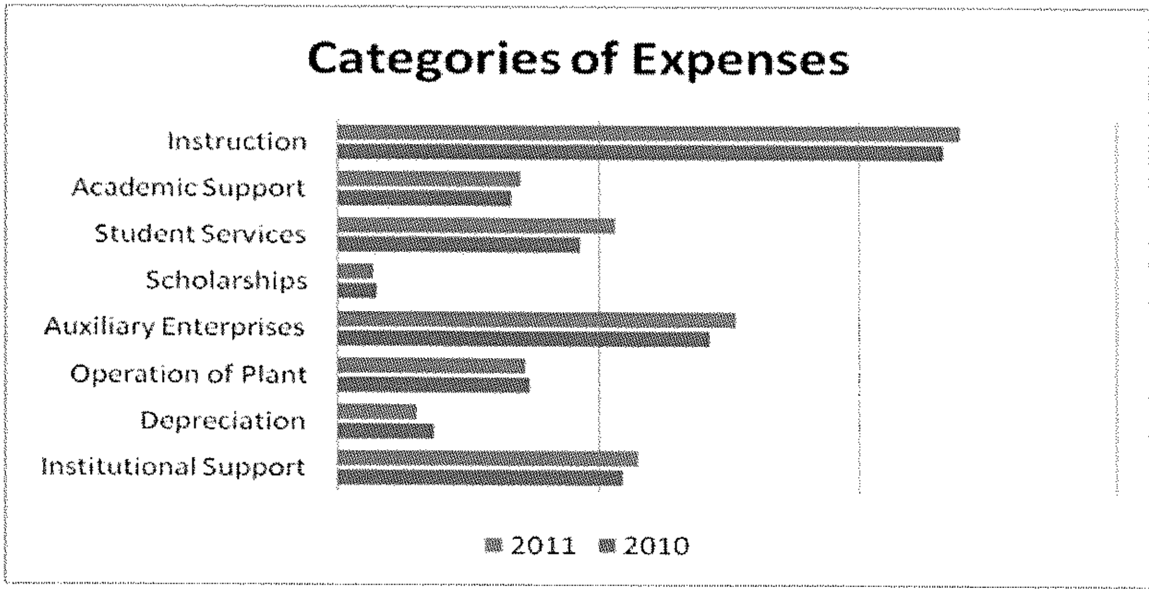
Undergraduate tuition and fees received by Massachusetts College of Liberal Arts include the following:

	June 30, 2011	**June 30, 2010**	**Change**
Tuition	2,253,264	2,180,298	72,966
Student Fees:			
Campus Support Fee	8,963,502	7,798,270	1,165,232
Student Activity Fee	377,034	366,763	10,271

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

- ARRA (American Recovery and Reinvestment Act) Grant in the amount of 1,037,548 for supplemental funding of the general appropriation to meet operational expenses and $24,100 to support the Dual Enrollment Program of High School students.
- Special Services Grant from U.S. Department of Education in the amount of $290,516 for the Summer Individual Enrichment Program and continued academic support.
- Adult Basic Ed Grant from Mass. Department of Education in the amount of $194,759 for GED and community literacy programs.
- National Endowment for the Humanities Grant for a Summer Institute in the amount of $183,468 to explore the shaping role of place in African American Biography.
- Davis Grant in the amount of $86,750 for assessment driven instruction and learning.
- Berkshire Training Grant for development of programs and training of Adult Basic Ed students. $25,397

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 $7,650,045, an increase of 5% or $371,017 from the previous fiscal year due to the number of students residing on campus and the increased room & board rates.



Non-operating revenues and expenses

The College received its initial General State Appropriation in July, 2010 in the amount of $12,339,425 plus $4,071,467 in state payroll fringe benefits which are covered by the state. The College also received an ARRA grant of $1,037,548 to supplement the general appropriation. In November, the appropriation was increased by $220,434 to cover collective bargaining costs for several union contracts. Investment income was reduced due to lower interest rates on investments. Capital appropriations were received for design costs on the new Center for Science and Innovation. Operating Expenses in most categories were slightly higher due to collective bargaining payroll increases and inflationary pressures. Scholarships and Fellowships refunds decreased slightly although more aid was awarded and applied to student accounts.

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. The Commonwealth's Department of Higher Education approves and sets tuition. The College sets fees. The College approves budgets to mitigate losses after Commonwealth appropriations by balancing educational and operational needs with fee revenue.

Capital Assets and Debts of the College

Capital Assets: The College's investment in capital assets as of June 30, 2011 amounts to $17,240,290, net of accumulated depreciation. This investment in capital assets includes, land, buildings, (including improvements,) furnishings and equipment, (including the cost of capital leases).

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

- Center for Science & Innovation (CIP) $593,199
- Campus Center Marketplace (CIP) $412,866

- Campus Center Gym Floor (CIP) $285,825
- Mark Hopkins Parking Lot $71,568
- Fitness Center upgrade $61,210
- Energy Performance Evaluation (CIP) $48,105
- Campus Center Fire Alarm System (CIP) $46,000
- Athletic Field Access Road $46,331
- Campus Signage (CIP) $36,000
- Facilities Building Renovation (CIP) $29,400
- CSC Heating Controls Upgrade $23,335
- Classroom Media Installation $21,374

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 23 of this report.

Long-term liabilities: The College carries long – term liabilities in the form of accruals for compensated absences and workers compensation ($3,292,905), a bond with the Mass State College Building Authority ($653,024) for the new Campus Center Gym floor and the Athletic Complex tennis courts. The accrual for compensated absences consists of the current and long-term portion of sick and vacation pay relating to employees on the College's payroll. The long term portion of capital lease obligations amounts to $798,805 net of related interest as of June 30, 2011, a decrease of $460,161.

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

The status of the economy continues to be a major concern. Appropriations have been supplemented by ARRA (American Reinvestment and Recovery Act) funds but the use of this funding will end in September, 2011. Public colleges have experienced increases in their enrollments due to the current economic conditions as well as unemployed or underemployed workers seeking to update or upgrade their skills to reenter the labor force. The College has completed the design phase of a $54.5 Million Center for Science and Innovation and will have a formal ground breaking for this new building this Fall. The College cannot predict the extent to which enrollment may vary in this current environment. However, given several new programs, and increased marketing efforts, indications are that enrollment, despite decreases in high school graduation populations, will rise or at least remain steady. It is expected that tuition and fees will also continue to grow in order to provide a stable academic experience.

Requests for Information

This financial report is designed to provide a general overview of the College's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Fiscal Officer, Massachusetts College of Liberal Arts, 375 Church St., North Adams, Massachusetts, 01247.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Statements of Net Assets

June 30,

Assets

	Primary Government		Component Unit	
	2011 College	2010 College	**2011 Foundation**	2010 Foundation
Current Assets:				
Cash and equivalents	**$ 16,731,785**	$ 13,873,629	**$ 1,310,621**	$ 917,239
Deposits held by State Treasurer	**1,028,178**	1,230,043	**-**	-
Cash held by State Treasurer	**552,605**	424,288	**-**	-
Deposits held by MSCBA	**567,432**	470,757	**-**	-
Restricted cash and equivalents	**9,572**	54,129	**-**	-
Accounts receivable, net	**272,436**	234,887	**-**	-
Unconditional promises to give	**-**	-	**1,062,903**	501,576
Other assets	**83,021**	94,869	**5,133**	3,206
Total Current Assets	**19,245,029**	16,382,602	**2,378,657**	1,422,021
Non Current Assets:				
Funds held by others	**34,920**	31,770	**-**	-
Investments	**-**	-	**7,725,938**	6,790,099
Unconditional promises to give, net of current portion	**-**	-	**187,831**	710,666
Loans receivable, net	**803,378**	769,337	**-**	-
Debt service reserve	**13,008**	13,008	**-**	-
Investment in capital assets, net	**17,240,290**	17,269,055	**2,932,436**	3,015,507
Other non-current assets, net	**6,132**	6,586	**9,502**	10,042
Total Non Current Assets	**18,097,728**	18,089,756	**10,855,707**	10,526,314
Total Assets	**$ 37,342,757**	$ 34,472,358	**$ 13,234,364**	$ 11,948,335

Liabilities and Net Assets

	Primary Government		Component Unit	
	2011 College	2010 College	**2011 Foundation**	2010 Foundation
Current Liabilities:				
Accounts payable and accrued liabilities	**$ 630,897**	$ 336,911	**$ 57,026**	$ 68,683
Accrued payroll	**1,649,462**	1,574,587	**-**	-
Compensated absences	**1,834,935**	1,751,066	**-**	-
Workers' compensation	**49,647**	52,961	**-**	-
Students' deposits and unearned revenue	**950,475**	1,235,087	**-**	-
Funds held for others	**-**	-	**38,096**	34,270
Current portion of notes payable	**-**	-	**37,574**	35,627
Current portion of bond payable	**25,050**	24,718	**-**	-
Current portion of capital lease obligations	**267,749**	460,161	**-**	-
Total Current Liabilities	**5,408,215**	5,435,491	**132,696**	138,580
Non Current Liabilities:				
Compensated absences	**1,207,226**	1,179,274	**-**	-
Workers' compensation	**201,097**	246,253	**-**	-
Notes payable	**-**	-	**1,087,088**	1,124,656
Long-term portion of bond payable	**627,974**	653,024	**-**	-
Capital lease obligations	**531,056**	798,805	**-**	-
Grant refundable	**811,107**	813,043	**-**	-
Total Non Current Liabilities	**3,378,460**	3,690,399	**1,087,088**	1,124,656
Total Liabilities	**8,786,675**	9,125,890	**1,219,784**	1,263,236
Net Assets:				
Invested in capital assets, net of related debt	**16,362,025**	15,809,690	**1,807,774**	1,855,224
Restricted:				
Nonexpendable	**34,920**	31,770	**6,855,220**	6,649,466
Expendable	**1,843**	10,423	**1,548,839**	475,472
Unrestricted	**12,157,294**	9,494,585	**1,802,747**	1,704,937
	28,556,082	25,346,468	**12,014,580**	10,685,099
Total Liabilities and Net Assets	**$ 37,342,757**	$ 34,472,358	**$ 13,234,364**	$ 11,948,335

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 Assets

For the Years Ended June 30,

	Primary Government		Component Unit	
	2011 College	2010 College	**2011 Foundation**	2010 Foundation
Operating Revenues:				
Tuition and fees	**$ 14,349,052**	$ 13,112,056	**$ -**	$ -
Residence and dining fees	**7,650,045**	7,279,028	**-**	-
Less: Scholarship allowances	**(4,524,668)**	(4,105,491)	**-**	-
Net student fees	**17,474,429**	16,285,593	**-**	-
Gifts and contributions	**-**	-	**1,633,265**	895,848
Grants and contracts	**7,057,600**	8,408,073	**-**	-
Other sources	**1,582,911**	1,291,125	**228,288**	245,159
Total Operating Revenues	**26,114,940**	25,984,791	**1,861,553**	1,141,007
Operating Expenses:				
Instruction	**11,964,584**	11,656,726	**-**	-
Academic support	**3,496,735**	3,327,991	**-**	-
Student services	**5,325,824**	4,653,600	**-**	-
Scholarships and fellowships	**706,902**	759,586	**177,018**	131,968
Public service	**5,446**	7,040	**-**	-
Auxiliary enterprises	**7,633,512**	7,151,720	**-**	-
Operation and maintenance of plant	**3,576,201**	3,685,273	**87,653**	90,799
Depreciation	**1,514,976**	1,853,836	**83,071**	82,995
Fundraising	**-**	-	**129,990**	129,452
Management and general	**-**	-	**264,064**	99,332
Gifts and contributions	**-**	-	**1,037,440**	748,071
Institutional support	**5,764,149**	5,459,994	**-**	-
Total Operating Expenses	**39,988,329**	38,555,766	**1,779,236**	1,282,617
Net Operating Income (Loss)	**(13,873,389)**	(12,570,975)	**82,317**	(141,610)
Non-Operating Revenues (Expenses):				
State appropriations, net	**16,287,867**	13,754,852	**-**	-
Net investment income	**179,998**	218,584	**1,247,164**	734,094
Interest expense	**(70,108)**	(93,928)	**-**	-
Net Non-Operating Revenues	**16,397,757**	13,879,508	**1,247,164**	734,094
Income before Other Revenues	**2,524,368**	1,308,533	**1,329,481**	592,484
Capital appropriations	**46,000**	299,666	**-**	-
Capital appropriations - DCAM	**639,246**	13,500	**-**	-
Net Increase in Net Assets	**3,209,614**	1,621,699	**1,329,481**	592,484
Net Assets:				
Beginning of Year	**25,346,468**	23,724,769	**10,685,099**	10,092,615
End of Year	**$ 28,556,082**	$ 25,346,468	**$ 12,014,580**	$ 10,685,099

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Statements of Cash Flows

For the Years Ended June 30,

	Primary Government	
	2011 College	2010 College
Cash Flows from Operating Activities:		
Tuition, residence, dining, and other student fees	**$ 17,258,880**	$ 16,180,556
Grants and contracts	**6,971,410**	8,290,703
Payments to suppliers	**(13,086,523)**	(13,979,669)
Payments to employees	**(20,162,946)**	(20,186,080)
Payments to students	**(706,902)**	(759,586)
Loans issued to students	**(178,345)**	(189,896)
Collections on loans issued to students	**133,589**	110,956
Other sources	**1,566,662**	1,344,012
Net Cash Applied to Operating Activities	**(8,204,175)**	(9,189,004)
Cash Flows from Non-Capital Financing Activities:		
Tuition remitted to the State	**(343,459)**	(323,441)
State appropriations	**12,559,859**	11,097,860
Net Cash Provided by Non-Capital Financing Activities	**12,216,400**	10,774,419
Cash Flows from Capital Financing Activities:		
Capital appropriations	**46,000**	299,666
Purchases of capital assets	**(846,965)**	(466,347)
Proceeds from bond financing	**-**	498,562
Principal paid on notes payable and capital leases	**(483,524)**	(527,312)
Interest paid on notes payable and capital leases	**(71,008)**	(93,141)
Net Cash Applied to Capital Financing Activities	**(1,355,497)**	(288,572)
Cash Flows from Investing Activity:		
Interest income	**179,998**	218,584
Net Increase in Cash and Equivalents	**2,836,726**	1,515,427
Cash and Equivalents, Beginning of the Year	**16,052,846**	14,537,419
Cash and Equivalents, End of the Year	**$ 18,889,572**	$ 16,052,846

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

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Statements of Cash Flows - Continued

	Primary Government	
	2011 College	2010 College
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	**$ (13,873,389)**	$ (12,601,057)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	**1,514,976**	1,853,836
Fringe benefits provided by State appropriations	**4,071,467**	3,010,515
Changes in assets and liabilities:		
Accounts receivable, net	**(37,549)**	65,915
Other current assets	**11,848**	(29,614)
Loans receivable	**(34,041)**	(71,914)
Funds held by others	**(3,151)**	(2,496)
Accounts payable and accrued liabilities	**293,986**	(1,195,806)
Accrued employee compensation and benefits	**138,226**	(8,496)
Student deposits and unearned revenues	**(284,612)**	(205,331)
Grants refundable	**(1,936)**	(4,556)
Net Cash Applied to Operating Activities	**$ (8,204,175)**	$ (9,189,004)
Reconciliation of Restricted Cash and Equivalents to Cash and Equivalents, end of year		
Cash and equivalents	**$ 16,731,785**	$ 13,873,629
Deposits held by State Treasurer	**1,028,178**	1,230,043
Cash held by State Treasurer	**552,605**	424,288
Deposits held by MSCBA	**567,432**	470,757
Restricted cash and equivalents	**9,572**	54,129
	$ 18,889,572	$ 16,052,846
Non Cash Transactions:		
Fringe benefits provided by the State	**$ 4,071,467**	$ 3,010,515
Capital improvements provided by capital appropriations	**$ 639,246**	$ 13,500

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, 2011 and 2010

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

Organization
Massachusetts College of Liberal Arts (the "College") was founded in 1894. It is one of nine state universities within the Massachusetts Public Higher Education System. Approximately 1,500 undergraduate students are enrolled including evening students and special program students. The College also offers, through the Division of Continuing Education, credit and non-credit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges.

Basis of Presentation and Accounting
The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The College has determined that it functions as a business type activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis, basic financial statements including the College's discretely presented component unit, the Foundation, and required supplementary information. The College presents statements of net assets, revenues, expenses, and changes in net assets and cash flows on a combined College-wide basis.

The Massachusetts College of Liberal Arts Foundation, Inc. (the "Foundation"), an agency 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.

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 assets 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). Governments are also required to follow applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Although the College has the option to apply FASB pronouncements issued after that date, it has chosen not to do so.

Net Assets
Resources are classified for accounting purposes into the following four net asset categories:

Invested in capital assets, net of related debt: 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 assets subject to externally imposed conditions such that the College must maintain in perpetuity.

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

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.

Cash and Equivalents
The College considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents, including cash and deposits held by the State Treasurer and Massachusetts State College Building Authority.

Allowance for Doubtful Accounts
Accounts and pledges receivable are periodically evaluated for collectibility 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 Assets. Any net earnings not expended are included in net asset categories as follows:

A) as increases in restricted – nonexpendable net assets 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 assets 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 assets 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.

Note 1 - Summary of Significant Accounting Policies - Continued

Capital Assets
Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the State's capitalization policy, only those items with a unit cost of more than $50,000 are capitalized. Library materials are generally expensed. Internal costs on debt related to capital assets are capitalized during the construction period. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The College does not have collections of historical treasures, works of art, or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

Deposits Held by State Treasurer
Deposits held represent funds accessible by the College held by the Commonwealth of Massachusetts for payments on payroll.

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

Funds Held by Others
Funds held represent funds held by the Foundation for the benefit of the College.

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

Compensated Absences
Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2011 and 2010. The accrued sick leave balance represents 20% of amounts earned by those employees with ten or more years of state service at June 30, 2011 and 2010. Upon retirement, these employees are entitled to receive payment for this accrued balance.

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

Students' Deposits and Unearned Revenue
Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are deferred and are recorded as revenues as earned.

Student Fees
Student tuition, dining, residence, and other fees are presented net of scholarships and fellowships applied to students' accounts. Certain scholarships are paid directly to, or refunded to, the students and are generally reflected as expenses.

Tax Status
The College is an agency of the Commonwealth of Massachusetts and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Governmental Accounting Pronouncement
GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is required for periods beginning after June 15, 2010. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The initial distinction that it makes is identifying amounts that are considered non-spendable. It also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Management of the College has determined that implementation of this statement will have no impact on the financial statements.

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

New Governmental Accounting Pronouncement - Continued
GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements,* effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. Management has not completed its review of the affects of implementation on the financial statements.

GASB 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34,* effective for periods beginning after June 15, 2012, modifies certain requirements for inclusion of component units in the financial reporting entity. Management of the College does not expect implementation to affect the financial statements.

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

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

New Governmental Accounting Pronouncement - Continued
GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement 53*, effective for periods beginning after June 15, 2011 provides clarification whether an effective hedging relationship continues after the replacement of the swap counterparty or swap counterparty's credit support provider and establishes criteria order to continue or discontinue hedge accounting and the resulting effects of recognition of the deferred outflows or inflows of resources as a component of investment income. Management expects this statement to have no affect on the financial statements.

Note 2 - **Cash and Equivalents**

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the College would not be able to recover its deposits that are in the possession of the outside parties. The banking institution that holds the College's funds, obtained specific depository insurance to mitigate the College's credit risk associated with funds deposited in excess of federally insured levels.

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. At June 30, 2011 and 2010, the carrying amount of the College's deposits was $16,741,359 and $13,927,758, respectively. At June 30, 2011 and 2010, approximately $11,000 was exposed to custodial credit risk as uninsured and uncollateralized.

Note 3 - **Cash Held By State Treasurer**

Accounts payable and accrued salaries to be funded from state-appropriated funds totaled $552,605 and $424,288 at June 30, 2011 and 2010, 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

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:

	2011	2010
Money market funds	$ 26,272	$ 63,145
Mutual funds	7,690,454	6,717,669
Limited Partnership	9,212	9,285
Total	$ 7,725,938	$ 6,790,099

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

	2011	2010
Investment income	$ 227,301	$ 213,577
Unrealized gain and losses	714,034	352,100
Realized gains and losses	305,829	168,417
Total Investment Return	$ 1,247,164	$ 734,094

Note 5 - Accounts Receivable

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

	2011	2010
Student accounts receivable	$ 234,000	$ 276,177
Grants receivable	188,617	161,422
Other receivables	51,999	31,576
	474,616	469,175
Less: allowance for doubtful accounts	(202,180)	(234,288)
	$ 272,436	$ 234,887

Note 6 - Unconditional Promises to Give

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:

	2011	2010
Receivable in less than one year	**$ 1,097,160**	$ 526,428
Receivable in one to five years	**216,843**	816,394
Less: discount to net present value	**(63,269)**	(130,580)
Present value of unconditional promises to give	**1,250,734**	1,212,242
Current unconditional promises to give	**(1,062,903)**	(501,576)
Unconditional promises to give, net of current portion	**$ 187,831**	$ 710,666

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:

	2011	2010
Perkins loans	**$ 1,204,985**	$ 1,170,944
Allowance for doubtful accounts	**(401,607)**	(401,607)
	$ 803,378	$ 769,337

Note 8 - **Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Estimated Lives	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, non-depreciable:					
Land		$ 315,517	$ -	$ -	$ 315,517
Construction-in-progress		42,744	1,353,560	-	1,396,304
Total non-depreciable		358,261	1,353,560	-	1,711,821
Capital assets depreciable:					
Buildings, including building and land improvements	20-40	33,046,055	71,568	-	33,117,623
Furnishings and equipment (including cost of capital leases)	3-10	3,385,756	61,083	(77,741)	3,369,098
Total investment in plant assets		36,790,072	1,486,211	(77,741)	38,198,542
Less: accumulated depreciation:					
Buildings, including improvements		(16,720,393)	(1,192,248)	-	(17,912,641)
Furnishings and equipment		(2,800,624)	(322,728)	77,741	(3,045,611)
Total accumulated depreciation		(19,521,017)	(1,514,976)	77,741	(20,958,252)
Capital Assets, Net		$ 17,269,055	$ (28,765)	$ -	$ 17,240,290

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

June 30, 2011 and 2010

Note 8 - **Capital Assets - Continued**

Capital asset activity for the year ended June 30, 2010, was as follows:

	Estimated Lives	Beginning Balance	Additions	Reclassification	Ending Balance
Capital assets, non-depreciable:					
Land		$ 315,517	$ -	$ -	$ 315,517
Construction-in-progress		1,442,118	42,744	(1,442,118)	42,744
Total non-depreciable		1,757,635	42,744	(1,442,118)	358,261
Capital assets depreciable:					
Buildings, including building and land improvements	20-40	31,219,150	384,787	1,442,118	33,046,055
Furnishings and equipment (including cost of capital leases)	3-10	3,333,440	52,316	-	3,385,756
Total investment in plant assets		36,310,225	479,847	-	36,790,072
Less accumulated depreciation:					
Buildings, including improvements		(15,506,731)	(1,213,662)	-	(16,720,393)
Furnishings and equipment		(2,160,450)	(640,174)	-	(2,800,624)
Total accumulated depreciation		(17,667,181)	(1,853,836)	-	(19,521,017)
Capital Assets, Net		$ 18,643,044	$ (1,373,989)	$ -	$ 17,269,055

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2011 and 2010

Note 9 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2011, consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and notes payable:					
Lease obligations	$ 1,258,966	$ -	$ (460,161)	$ 798,805	$ 267,749
Bond payable	663,562	-	(23,363)	640,199	23,695
Bond premium	14,180	-	(1,355)	12,825	1,355
Total leases and notes payable	$ 1,936,708	$ -	$ (484,879)	$ 1,451,829	$ 292,799
Other long-term liabilities:					
Compensated absences	$ 2,930,340	$ 331,922	$ (220,101)	$ 3,042,161	$ 1,834,935
Workers' compensation	299,214	-	(48,470)	250,744	49,647
Total other liabilities	$ 3,229,554	$ 331,922	$ (268,571)	$ 3,292,905	$ 1,884,582

Long-term liabilities at June 30, 2010, consist of:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and notes payable:					
Lease obligations	$ 1,781,278	$ -	$ (522,312)	$ 1,258,966	$ 460,161
Bond payable	170,000	498,562	(5,000)	663,562	23,363
Bond premium	8,863	6,256	(939)	14,180	1,355
Note payable	-	-	-	-	-
Total leases and notes payable	$ 1,960,141	$ 504,818	$ (528,251)	$ 1,936,708	$ 484,879
Other long-term liabilities:					
Compensated absences	$ 3,023,013	$ 151,858	$ (244,531)	$ 2,930,340	$ 1,751,066
Workers' compensation	225,069	74,145	-	299,214	52,961
Total other liabilities	$ 3,248,082	$ 226,003	$ (244,531)	$ 3,229,554	$ 1,804,027

Note 9 - **Long-Term Liabilities - Continued**

The College leases certain equipment under various capital and operating leases. The following is a summary of capital assets held under capital lease as of June 30, 2011:

Buildings	**$ 4,191,630**
Furniture and equipment	**1,152,306**
	5,343,936
Less: accumulated depreciation	**(3,357,184)**
	$ 1,986,752

The following schedule summarizes future minimum payments under non-cancelable leases subsequent to June 30, 2011:

Years Ending	Capital Leases Principal	Capital Leases Interest	Operating Leases	Total
2012	$ 267,749	$ 28,803	$ 72,655	$ 369,207
2013	155,737	20,015	48,596	224,348
2014	162,430	13,322	18,047	193,799
2015	169,411	6,341	13,940	189,692
2016	43,478	460	1,509	45,447
	$ 798,805	$ 68,941	$ 154,747	$ 1,022,493

Rental expenses for operating leases were $90,111 and $72,366 for the years ended June 30, 2011 and 2010, respectively.

Bonds Payable
The College has revenue bonds outstanding with the 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%.

Note 9 - **Long-Term Liabilities - Continued**

Maturities of the bond payable subsequent to June 30, 2011, are as follows:

Years Ending June 30,	Principal	Interest
2012	$ 25,050	$ 22,321
2013	30,493	21,697
2014	31,046	20,623
2015	31,820	19,436
2016	32,594	18,142
2017-2020	169,481	77,199
2021-2025	204,332	44,377
2026	128,208	12,375
	$ 653,024	$ 236,170

Note 10 - **Restricted Net Assets**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are comprised of the following:

	2011	2010
Restricted - nonexpendable		
Endowment funds	**$ 34,920**	$ 31,770
Restricted - expendable:		
Academic programs	**$ 1,843**	$ 10,423

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

Note 11 - **Related Party Transactions - Foundation**

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

The Chairman of the Board of Trustees of the College is the President and CEO of Mountain One Financial Services which is the parent company of Hoosac Bank and True North Financial Services, Inc. which handles the investments of the MCLA Foundation. Another trustee of the College is a Financial Advisor of True North Financial Services, Inc. In addition, the MCLA Foundation Board of Director's Chair is a partner in an insurance agency which is under the same parent company as the financial services for the Foundation. At June 30, 2011 and 2010, the amounts due to Hoosac Bank were $617,300 and $637,852, respectively. These balances are included as part of notes payable on the Statement of Net Assets.

Note 12 - **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 13 - **Operating Expenses**

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

	2011	2010
Compensation and benefits	**$ 24,372,640**	$ 23,188,099
Supplies and services	**13,393,811**	12,754,245
Depreciation	**1,514,976**	1,853,836
Scholarships and fellowships	**706,902**	759,586
	$ 39,988,329	$ 38,555,766

Note 14 - **Retirement Plan**

The College participates in the Commonwealth's Fringe Benefit programs, including active employee and post-employment health insurance, unemployment, pension, and worker's compensation benefits. Health insurance and pension costs (described in the subsequent paragraph) for active employees and retirees are paid through a fringe benefit rate charged to the College by the Commonwealth and currently the liability is borne by the Commonwealth, as are any effects on net assets and the results of current year operations, due to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

The Commonwealth is statutorily responsible for the pension benefit of the College's employees who participate in the Massachusetts State Employees' Retirement System (the "Retirement System"). The Retirement System, a single employer defined benefit public employee retirement system, is administered by the State. The College makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to $968,657 and $1,041,368 for the years ended June 30, 2011 and 2010, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the Retirement System. Annual covered payroll was approximately 81% of annual total payroll for the College in 2011 and 2010, respectively.

Note 14 - **Retirement Plan - Continued**

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

The Commonwealth's Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns and a small amount of municipalities as an agent multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the College.

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

The GIC is a quasi-independent state agency governed by an eleven member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2011, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for pharmacy, mental health, and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pre-tax health care spending account and dependent care assistance program (for active employees only).

Note 15 - Massachusetts Management Accounting and Reporting System

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System (MMARS) on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. Management believes the amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Education Audited Financial Statements*.

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

	2011	2010
Direct unrestricted appropriations	**$ 12,559,859**	$ 11,067,778
Add: Fringe benefits for benefited employees on the state payroll	**4,071,467**	3,010,515
Less: Day school tuition remitted to the state and included in tuition and fee revenue	**(343,459)**	(323,441)
Total unrestricted appropriations	**16,287,867**	13,754,852
Capital appropriations:		
Direct	**46,000**	299,666
Department of Capital Asset Management Allocation	**639,246**	13,500
Total capital Appropriations	**685,246**	313,166
Total appropriations	**$ 16,333,867**	$ 14,068,018

Note 15 - Massachusetts Management Accounting and Reporting System - Continued

A reconciliation of revenues between the College and MMARS as of August 31, 2010 is as follows:

	2011	2010
Revenue per MMARS	$ 17,769,508	$ 15,157,574
Revenue per College	$ 17,769,508	$ 15,157,574

Note 16 - Pass - Through Grants

The College distributed $9,843,608 and $8,636,064 in 2011 and 2010, respectively, for student loans through the U.S. Department of Education Direct Student Loan Program and Federal Family Educational 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 17 - Massachusetts State College Building Authority

The Building Authority was created pursuant to Chapter 703 of the Act of 1963 of the Commonwealth as a public instrumentality for the general purpose of providing dormitories, for use by students of the state universities of the Commonwealth.

The College is charged a semi-annual revenue assessment that is based on a certified occupancy report, the current rent schedule and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. The Commonwealth guarantees these obligations. All facilities and obligations of MSCBA are included in the financial statements of MSCBA.

Dormitory trust fund schedules included in the supplemental information include revenues and expenses which are included in auxiliary enterprises revenues and expenses.

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

Schedules of Net Assets - Dormitory Trust Fund Report (Unaudited)

June 30,

Assets

	2011	2010
Cash and equivalents	$ 1,984,422	$ 1,609,326
Accounts receivable, net	7,197	3,980
Other current assets	1,037	-
Total Dormitory Trust Fund Assets	$ 1,992,656	$ 1,613,306

Liabilities and Net Assets

	2011	2010
Accounts payable	$ 62,357	$ 9,143
Accrued payroll	50,766	38,971
Compensated absences	162,520	147,601
Deferred revenue	101,226	106,875
Net assets	1,615,787	1,310,716
Total Dormitory Trust Fund Liabilities and Net Assets	$ 1,992,656	$ 1,613,306

MASSACHUSETTS COLLEGE OF LIBERAL ARTS

(an agency of the Commonwealth of Massachusetts)

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

For the Years Ended June 30,

	2011	2010
Revenues:		
Student fees	**$ 4,667,546**	$ 4,375,422
Repair income	**12,704**	14,243
Commissions	**41,458**	31,994
Rentals	**171,309**	130,039
Other	**20,048**	28,588
Total Revenues	**4,913,065**	4,580,286
Expenses:		
Regular employee compensation	**615,801**	637,319
Regular employee related	**4,333**	5,190
Student employee compensation	**286,155**	286,717
Pension and insurance related	**205,770**	178,081
Administrative	**41,490**	28,096
Facility operational	**53,797**	49,562
Energy cost	**517,427**	534,650
Consultant services	**7,915**	3,510
Operational services	**394,660**	392,740
Equipment purchases	**13,978**	7,924
Equipment leases	**40,169**	51,431
Educational assistance	**106,296**	90,000
Loans and special payments	**2,320,203**	2,212,535
Total Expenses	**4,607,994**	4,477,755
Total Increase in Net Assets	**305,071**	102,531
Net Assets, Beginning of Year	**1,310,716**	1,208,185
Net Assets, End of Year	**$ 1,615,787**	$ 1,310,716

O'Connor & Drew P.C.
Certified Public Accountants

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 the financial statements of Massachusetts College of Liberal Arts (the "College") (an agency of the Commonwealth of Massachusetts) as of, and for the year ended, June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Massachusetts College of Liberal Arts is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Trustees and management of the College, the Commonwealth of Massachusetts, and Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

O'Connor & Drew, P.C.

Certified Public Accountants

October 27, 2011