

**MASSACHUSETTS COLLEGE  
OF ART AND DESIGN  
FOUNDATION, INC.**

**(a component unit of Massachusetts College of  
Art and Design)**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Financial Statements**

**June 30, 2015 and 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Massachusetts College of Art and Design Foundation, Inc.  
Boston, Massachusetts

### Report on the Financial Statements

We have audited the accompanying statements of financial position of Massachusetts College of Art and Design Foundation, Inc. (the "Foundation") (a component unit of Massachusetts College of Art and Design) as of June 30, 2015 and 2014, the related statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### **Opinion**

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

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2015, Massachusetts College of Art and Design Foundation, Inc. adopted new accounting guidance regarding services received from personnel of an affiliate. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2015, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

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

**Certified Public Accountants  
Braintree, Massachusetts**

September 18, 2015

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Statements of Financial Position**

**June 30, 2015 and 2014**

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Statements of Financial Position**

**June 30,**

**Assets**

	<u>2015</u>	<u>2014</u>
<b>Assets:</b>		
Cash and equivalents	\$ 3,562,145	\$ 3,847,616
Investments	11,507,214	11,441,743
Contributions receivable	633,405	756,353
Prepaid expenses	<u>-</u>	<u>1,324</u>
<b>Total Assets</b>	<u><b>\$ 15,702,764</b></u>	<u><b>\$ 16,047,036</b></u>

**Liabilities and Net Assets**

<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 13,491	\$ 18,790
Annuities payable	<u>43,725</u>	<u>8,223</u>
<b>Total Liabilities</b>	<u><b>57,216</b></u>	<u><b>27,013</b></u>
<b>Net Assets:</b>		
Unrestricted	28,626	74,298
Temporarily restricted	11,112,918	11,615,557
Permanently restricted	<u>4,504,004</u>	<u>4,330,168</u>
<b>Total Net Assets</b>	<u><b>15,645,548</b></u>	<u><b>16,020,023</b></u>
<b>Total Liabilities and Net Assets</b>	<u><b>\$ 15,702,764</b></u>	<u><b>\$ 16,047,036</b></u>

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

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Statement of Activities**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>Revenues:</b>				
Contributions	\$ 381,206	\$ 1,418,125	\$ 173,836	\$ 1,973,167
Fundraising	1,067,950	155,565	-	1,223,515
Investment return	14,523	141,794	-	156,317
In-kind revenue	245,876	28,367	-	274,243
Net assets released from restrictions	<u>2,218,490</u>	<u>(2,218,490)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u>3,928,045</u>	<u>(474,639)</u>	<u>173,836</u>	<u>3,627,242</u>
<b>Expenses:</b>				
Program Services:				
Educational programs and awards	1,008,927	-	-	1,008,927
Scholarships	1,019,146	-	-	1,019,146
Capital projects	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
<b>Total Program Services</b>	<u>3,028,073</u>	<u>-</u>	<u>-</u>	<u>3,028,073</u>
Supporting Services:				
Fundraising	714,503	-	-	714,503
Management and general	231,141	-	-	231,141
Loss on uncollectible contributions receivable	<u>-</u>	<u>28,000</u>	<u>-</u>	<u>28,000</u>
<b>Total Supporting Services</b>	<u>945,644</u>	<u>28,000</u>	<u>-</u>	<u>973,644</u>
<b>Total Expenses</b>	<u>3,973,717</u>	<u>28,000</u>	<u>-</u>	<u>4,001,717</u>
<b>Change in Net Assets</b>	<u>\$ (45,672)</u>	<u>\$ (502,639)</u>	<u>\$ 173,836</u>	<u>\$ (374,475)</u>

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

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Statement of Activities**

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

	<u>(Restated)</u> <u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Totals</u>
<b>Revenues:</b>				
Contributions	\$ 547,790	\$ 1,122,653	\$ 56,371	\$ 1,726,814
Fundraising	792,048	-	-	792,048
Investment return	9,379	1,239,782	-	1,249,161
In-kind revenue	87,862	42,296	-	130,158
Net assets released from restrictions	<u>940,852</u>	<u>(940,852)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<u>2,377,931</u>	<u>1,463,879</u>	<u>56,371</u>	<u>3,898,181</u>
<b>Expenses:</b>				
Program Services:				
Educational programs and awards	617,006	-	-	617,006
Scholarships	<u>917,476</u>	<u>-</u>	<u>-</u>	<u>917,476</u>
<b>Total Program Services</b>	<u>1,534,482</u>	<u>-</u>	<u>-</u>	<u>1,534,482</u>
Supporting Services:				
Fundraising	550,351	-	-	550,351
Management and general	257,728	-	-	257,728
Loss on uncollectible contributions receivable	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>30,000</u>
<b>Total Supporting Services</b>	<u>808,079</u>	<u>-</u>	<u>30,000</u>	<u>838,079</u>
<b>Total Expenses</b>	<u>2,342,561</u>	<u>-</u>	<u>30,000</u>	<u>2,372,561</u>
<b>Change in Net Assets</b>	<u>\$ 35,370</u>	<u>\$ 1,463,879</u>	<u>\$ 26,371</u>	<u>\$ 1,525,620</u>

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



**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Statements of Changes in Net Assets**

**For the Years Ended June 30, 2015 and 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Balance, June 30, 2013</b>	\$ 38,928	\$ 10,151,678	\$ 4,303,797	\$ 14,494,403
Change in net assets	<u>35,370</u>	<u>1,463,879</u>	<u>26,371</u>	<u>1,525,620</u>
<b>Balance, June 30, 2014</b>	74,298	11,615,557	4,330,168	16,020,023
Change in net assets	<u>(45,672)</u>	<u>(502,639)</u>	<u>173,836</u>	<u>(374,475)</u>
<b>Balance, June 30, 2015</b>	<u>\$ 28,626</u>	<u>\$ 11,112,918</u>	<u>\$ 4,504,004</u>	<u>\$ 15,645,548</u>

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

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Statements of Cash Flows**

**For the Years Ended June 30,**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ <u>(374,475)</u>	\$ <u>1,525,620</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on uncollectible contributions receivable	28,000	30,000
Increase in amortization of annuities payable due to change in estimate	45,855	-
Amortization of present value of annuities payable	726	4,251
Net unrealized (gain) loss on investments	222,474	(758,892)
Net realized gains on sales of investments	(2,712)	(142,113)
Changes in assets and liabilities:		
Contributions receivable	94,948	301,675
Prepaid expenses	1,324	-
Accounts payable and accrued expenses	<u>(5,299)</u>	<u>17,934</u>
Net Adjustments	<u>385,316</u>	<u>(547,145)</u>
Net Cash Provided by Operating Activities	<u>10,841</u>	<u>978,475</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(329,364)	(3,138,694)
Proceeds on sales of investments	44,131	1,966,672
Payments on annuities payable	<u>(11,079)</u>	<u>(8,649)</u>
Net Cash Applied to Investing Activities	<u>(296,312)</u>	<u>(1,180,671)</u>
<b>Net Decrease in Cash and Equivalents</b>	<b>(285,471)</b>	<b>(202,196)</b>
Cash and Equivalents, Beginning of Year	<u>3,847,616</u>	<u>4,049,812</u>
<b>Cash and Equivalents, End of Year</b>	<b><u>\$ 3,562,145</u></b>	<b><u>\$ 3,847,616</u></b>

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

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements**

**June 30, 2015 and 2014**

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

*Organization*

Massachusetts College of Art and Design Foundation, Inc. (the "Foundation") was organized in 1981 as a not-for-profit organization, exempt from income taxes under 501(c)(3) of the Internal Revenue Code, for the purpose of providing financial assistance and support to the educational programs and development of Massachusetts College of Art and Design. The Foundation operates primarily in Massachusetts and receives its revenues from both corporate and individual donations.

*Management Estimates*

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

*Financial Instruments*

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and equivalents, investments, and contributions receivable. The Foundation maintains its cash and equivalents in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Investments are maintained at brokerage institutions. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions and insured brokerage houses.

The carrying amounts of certain financial instruments, including cash and equivalents and contributions receivable, approximate fair value because of the relatively short maturity of these instruments. The carrying amounts of investments are reported at market value.

*Method of Accounting*

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

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Financial Statement Presentation*

Assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

*Cash and Equivalents*

The Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Amounts exposed to custodial risk at June 30, 2015 and 2014 were approximately \$3,335,000 and \$3,608,000, respectively.

*Contributions*

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted contributions, depending on the nature of the restrictions. However, if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Foundation reports the support (revenue) as unrestricted. Contributions, including unconditional promises to give that are written, or otherwise verifiable, are recognized as revenues in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 1 - Summary of Significant Accounting Policies - Continued

Contributions - Continued

Unconditional promises to give are included in the financial statements as pledges receivable and revenue for the appropriate net asset category. Pledges are recorded at the present value of the expected future cash flows using a risk-free interest rate commensurate with the date of the donation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Fair Value Measurements

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

- |         |  |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.  |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> |

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

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

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Fair Value Measurements - Continued*

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

Management establishes the fair value measurement valuation policies for the valuation of all investments. Annually, at a minimum, management reviews the continuing viability of the valuation techniques used to establish fair value measurements and evaluates and adjusts, as necessary, the unobservable inputs used in the fair value measurements based on current market conditions and other third party information. The Board of Directors assesses and approves these policies. Any transfers between levels of the fair value hierarchy are recognized at the end of a reporting period.

*Annuities Payable*

The Foundation has charitable gift annuities as of the year ended June 30, 2015. A liability has been recognized at the present value of future cash flows expected to be paid to the donors.

*Endowment Funds*

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

**MASSACHUSETTS COLLEGE OF ART  
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**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Endowment Funds - Continued*

UPMIFA requires donor restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net assets until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net assets until approved for expenditure by the organization.

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

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

*Income Tax Status*

Accounting principles generally accepted in the United States require an entity to assess the probability that a tax position has a "more likely than not" (MLTN) sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances the statute of limitations may remain open indefinitely.

As a not-for-profit entity exempt from income taxes, the Foundation may, however, be subject to tax on unrelated business income.

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

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

*Donated Goods and Services*

Donated goods and services are recorded as contributions at their estimated fair market values in the period received.

*Adoption of New Accounting Principle*

As discussed in Note 8 to the financial statements and in conjunction with Accounting Standards Update 2013-06 *Not-for-Profit Entities, Services Received from Personnel of an Affiliate* an amendment to Not-for-Profit Entities (Topic 958) of the Accounting Standards Codification ("ASC"), the Foundation recognizes services received from personnel of the College.

*Change in Accounting Estimate*

During fiscal year 2015, the Foundation used revised mortality tables to determine the annuities payable at June 30, 2015. This change in methodology resulted in a total increase of approximately \$38,000 in annuities payable.

*Reclassifications*

Certain amounts in the 2014 financial statements have been reclassified to conform with the 2015 presentation.

Note 2 - **Investments**

The Foundation invests in equity and fixed income mutual funds and hedge funds that are held by a national investment banking and financial services institution. These funds are managed by an investment advisor in accordance with the terms of an investment advisory policy.



**MASSACHUSETTS COLLEGE OF ART  
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**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 2 - **Investments - Continued**

Investments, stated at market value, are comprised of the following at June 30:

	<u>2015</u>	<u>2014</u>
Equity mutual funds	\$ 7,443,285	\$ 7,354,443
Fixed income mutual funds	3,462,782	3,508,673
Hedge funds	<u>601,147</u>	<u>578,627</u>
Total investments	\$ <u>11,507,214</u>	\$ <u>11,441,743</u>

The following schedule summarizes the investment return for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Dividend and interest income	\$ 376,079	\$ 348,156
Net realized gains on investments	2,712	142,113
Net unrealized gains (losses) on investments	<u>(222,474)</u>	<u>758,892</u>
Total investments	\$ <u>156,317</u>	\$ <u>1,249,161</u>

Note 3 - **Fair Value Measurements**

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

*Mutual Funds:* Net asset value of the shares held at fiscal year end.

*Hedge Funds:* Net asset value of the shares held at fiscal year end.

**MASSACHUSETTS COLLEGE OF ART  
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**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 3 - **Fair Value Measurements - Continued**

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

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

**June 30, 2015**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 10,906,067	\$ -	\$ -	\$ 10,906,067
Hedge funds	<u>-</u>	<u>-</u>	<u>601,147</u>	<u>601,147</u>
<b>Total Assets at Fair Value</b>	<b>\$ <u>10,906,067</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>601,147</u></b>	<b>\$ <u>11,507,214</u></b>

**June 30, 2014**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 10,863,116	\$ -	\$ -	\$ 10,863,116
Hedge funds	<u>-</u>	<u>-</u>	<u>578,627</u>	<u>578,627</u>
<b>Total Assets at Fair Value</b>	<b>\$ <u>10,863,116</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>578,627</u></b>	<b>\$ <u>11,441,743</u></b>

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 3 - **Fair Value Measurements - Continued**

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the years ended June 30:

	<u>Hedge Funds</u>	
	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 578,627	\$ 536,595
Change in unrealized gains or losses for the period included in the change in temporarily restricted net assets, for assets held at the end of the reporting period	<u>22,520</u>	<u>42,032</u>
Balance, end of year	\$ <u>601,147</u>	\$ <u>578,627</u>

Note 4 - **Contributions Receivable**

Contributions receivable consist of unconditional promises to be received by the Foundation in future years as of the years ended June 30, 2015 and 2014. Contributions receivable are as follows at June 30:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 342,765	\$ 602,185
Due within one to five years	<u>309,833</u>	<u>177,500</u>
Gross contributions receivable	652,598	779,685
Unamortized discount	<u>(19,193)</u>	<u>(23,332)</u>
Total Contributions Receivable	\$ <u>633,405</u>	\$ <u>756,353</u>

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 5 - Net Assets and Net Assets Released from Restrictions

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Educational programs and awards	\$ 2,334,148	\$ 2,183,509
Scholarships	4,805,350	4,952,935
Capital projects	<u>3,973,420</u>	<u>4,479,113</u>
Total Temporarily Restricted Net Assets	\$ <u>11,112,918</u>	\$ <u>11,615,557</u>

Permanently restricted net assets are restricted for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Educational programs and awards	\$ 1,272,471	\$ 1,168,248
Scholarships	<u>3,231,533</u>	<u>3,161,920</u>
Total Permanently Restricted Net Assets	\$ <u>4,504,004</u>	\$ <u>4,330,168</u>

Net assets released from restrictions satisfying the purposes specified by the donors are as follows at June 30:

	<u>2015</u>	<u>2014</u>
Capital projects	\$ 1,000,000	\$ -
Educational programs and awards	706,360	498,037
Scholarships	501,024	439,279
Fundraising	<u>11,106</u>	<u>3,536</u>
Total Net Assets Released from Restrictions	\$ <u>2,218,490</u>	\$ <u>940,852</u>

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
(a component unit of Massachusetts College of Art and Design)

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 6 - **Endowment Net Assets**

All endowment funds consist of donor restricted funds. The Foundation has no board designated endowment funds. Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<b>Endowment net assets at June 30, 2013</b>	\$ -	\$ 10,151,678	\$ 4,303,797	\$ 14,455,475
Investment return:				
Investment income	-	342,916	-	342,916
Net appreciation	-	896,866	-	896,866
Contributions	-	1,164,949	56,371	1,221,320
Uncollectible contributions receivable	-	-	(30,000)	(30,000)
Amounts appropriated for expenditure	-	(940,852)	-	(940,852)
<b>Endowment net assets at June 30, 2014</b>	-	11,615,557	4,330,168	15,945,725
Investment return:				
Investment income	-	372,474	-	372,474
Net depreciation	-	(230,680)	-	(230,680)
Contributions	-	1,602,057	173,836	1,775,893
Uncollectible contributions receivable	-	(28,000)	-	(28,000)
Amounts appropriated for expenditure	-	(2,218,490)	-	(2,218,490)
<b>Endowment net assets at June 30, 2015</b>	\$ -	\$ 11,112,918	\$ 4,504,004	\$ 15,616,922

**MASSACHUSETTS COLLEGE OF ART  
AND DESIGN FOUNDATION, INC.**  
**(a component unit of Massachusetts College of Art and Design)**

**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

**Note 7 - Donated Goods and Services**

The value of certain donated goods and services are recorded at their estimated fair value as of the date of receipt and are included within the Statements of Activities. For the years ended June 30, 2015 and 2014, the Foundation received \$168,162 and \$13,902, respectively, of which the Foundation has included in in-kind revenue and related educational programs and awards expense. The Foundation received \$77,303 and \$98,405 for various fundraising events for the years ended June 30, 2015 and 2014, respectively, of which the Foundation has included in in-kind revenue and related fundraising expense.

**Note 8 - Contributed Services Received from Personnel of an Affiliate**

The College provided accounting and development personnel to the Foundation without charge. During the years ended June 30, 2015 and 2014, the Foundation recognized revenue and related expense of \$28,778 and \$17,851, respectively, of which the Foundation has included in in-kind revenue and related management and general expenses, for contributed services received from the College based on the fair value of comparable services provided by third parties.

The change in accounting principle was adopted retrospectively to the year ended June 30, 2014. As a result, revenues and expenses were restated to reflect this adjustment. This had no effect on the change in net assets, unrestricted net assets or total assets for June 30, 2014.

**Note 9 - Risk and Concentrations**

Cash

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

**MASSACHUSETTS COLLEGE OF ART  
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**Notes to the Financial Statements - Continued**

**June 30, 2015 and 2014**

Note 9 - **Risk and Concentrations - Continued**

*Investment Risk*

The Foundation's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Foundation's financial position.

Note 10 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through September 18, 2015, the date for which the financial statements were available for issuance.

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





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

To the Board of Directors of  
Massachusetts College of Art and Design Foundation, Inc.  
Boston, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Massachusetts College of Art and Design Foundation, Inc. (a component unit of the Massachusetts College of Art and Design) (the "Foundation") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Foundation's basic financial statements, and we have issued our report thereon dated September 18, 2015.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

**Certified Public Accountants  
Braintree, Massachusetts**

September 18, 2015