MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Financial Statements and Management's Discussion and Analysis

June 30, 2018

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Massachusetts College of Art and Design
Boston, Massachusetts

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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 and its discretely presented component unit as of June 30, 2018, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal year 2018 and required the College to restate beginning net position at July 1, 2017 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the State Retirees' Benefit Trust. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Data

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's financial statements as a whole. The Schedule of Net Position – Dormitory Trust Fund Report and the Schedule of Revenues, Expenses, and Changes in Net Position – Dormitory Trust Fund Report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 12, 2018

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2018

MASSART MASSACHUSETTS COLLEGE OF ART AND DESIGN

This document is intended to provide an overview of the financial position and activities of Massachusetts College of Art and Design (the "College") for the year ended June 30, 2018. This discussion and analysis has been prepared by management and should be read in conjunction with the enclosed financial statements and footnotes. Responsibility for the fairness and completeness of this narrative rests with the College.

Massachusetts College of Art and Design is a member of the Commonwealth's Public Higher Education System. The College serves over 2,400 students, offering baccalaureate, graduate degrees and certificate programs as well as continuing education programs and campus housing. The institution is the only publicly funded, freestanding college of art and design in the United States. The College employs approximately 380 full-time faculty and staff. Our urban campus is located on the Avenue of the Arts (Huntington Avenue) in Boston, Massachusetts.

In FY2004, the College embarked on a New Partnership with the Commonwealth, which allows the College to retain tuition and strategically grow enrollment. In FY2008, the College received confirmation from the Legislative Branch and Executive Branch that the partnership is no longer considered a pilot, and that the status articulated in FY2004 is permanent. In accordance with this legislation the College operates under a five year financial and academic plan approved by the Massachusetts Board of Higher Education and the Massachusetts College of Art and Design Board of Trustees. The current plan was renewed in FY2015.

The Massachusetts College of Art and Design Foundation, Inc. which is a legally separate 501(c)(3) corporation, provides financial support to the College's programs and activities. The Foundation's relationship with the College is highlighted in Massachusetts General Laws Chapter 15a Section 37. In accordance with Governmental Accounting Standards Board, Statement 39, the College reports Foundation financial activity in a separate column in our report.

FINANCIAL HIGHLIGHTS

- For FY2018, the College is implementing a new accounting standard, GASB 75, to report OPEB, Post-Employment Benefits Other than Pensions. The valuation of this new liability and costs is an allocation from the Commonwealth. The net overall effect is a reduction of $4,222,989 to the College's FY2017 Unrestricted Net Position. The assessment of this new liability and other related items are now listed on the College's Statement of Net Position. Also due to this significant accounting change; the audit presentation of the College financials is single year only without a comparative of the prior year, FY2017.

FINANCIAL HIGHLIGHTS - Continued

- In FY2018, the College was funded by both operating revenue (local tuition and fees), and non-operating revenue (state appropriations).

- In FY2018, the College experienced an increase in operating revenue to $50,733,523 of approximately $4.7 million. Tuition & Fee revenue increased by approximately $2.9 million with the transfers to scholarship higher by approximately $640 thousand. Auxiliary enterprises and the other operating revenues experienced increases of approximately $1 million, respectively.

- Non-operating revenue in FY2018 increased by approximately $600k to $26,661,682 mainly due to the increased state funding of fringe benefits.

- The College's operating expenses for FY2018 totaled $74,723,183, an increase from the prior year of approximately $1.15 million.

- In FY2018, the College experienced a net gain of $2,672,022 before Capital Improvements. Capital Improvements additions from the Commonwealth were $279,547 for the fiscal year.

- The College's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources at the close of FY2018, leaving a net position of $67,290,795, an increase of approximately $2.95 million from the FY2017 restated position.

- In the FY2018 financial statements, the College had a net increase in Investment in Plant of approximately $8 million to $93,195,213.

- In FY2018, the College also issued bonds of approximately $7.5 million to assist in the funding the Gallery Project.

- Included in the Non-Current Liabilities for FY2018 is $4,003,270 as a result of the new OPEB liability assessment from the Commonwealth.

- Beginning with the FY2015 financial statements, the College implemented an accounting standard to report the net pension liability for its non-state supported employees. The valuation of this liability is an allocation from the Commonwealth of Massachusetts. This liability and other related items are listed on the Statement of Net Position. For FY2018, this pension liability portion for the College was valued at $1,819,832. The FY2017 liability valuation amount was $2,103,656 and the FY2016 liability was $2,430,633.

USING THE FINANCIAL STATEMENTS

The Massachusetts College of Art and Design's financial statements are comprised of two parts: (1) the financial statements and (2) the notes to the financial statements. These financial statements are presented on a consolidated basis to focus on the College as a whole. These financial statements are prepared in accordance with Government Accounting Standards Board principles. The financial statements include the Statement of Net Position; the Statement of Revenues and Expenses; the Statement of Changes in Net Position and the Statement of Cash Flows.

Assets and liabilities are presented in current (short-term) and non-current (long term) activity. Revenue and expenses are categorized as operating and non-operating; most significant is that the annual state appropriation is presented as non-operating revenue. A brief description of the components of the financial statements is as follows:

The *Statement of Net Position* presents the financial position of the College, showing information on all of the College's assets and liabilities, with the difference reported as *net position*. Assets and liabilities are measured using current values, except capital assets, which are stated at historical cost less a depreciation allowance.

The *Statement of Revenues and Expenses and the Statement of Changes in Net Position* present the change in net position for the fiscal year, showing both the gross and net costs of the College's activities supported by state and other revenues.

The *Statement of Cash Flows* presents cash inflows and outflows as operating, capital and non-capital financing and investing activity.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

In FY2018 the College recorded an increase of $9,045,729 in total assets, an increase of $9,993,050 in total liabilities, along with accounting changes to deferred inflows and outflows of resources, resulting in an overall increase to the net position of $2,912,569.

The College's assets total $113,568,234 of which non-current represents 82%, and 18% represents current assets. It is important to note the primary assets of the College are non-current and represent the value of fixed plant and equipment.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE – Continued

The College's liabilities total $44,919,812 of which 78% represents long-term (non-current) obligations related to accrued employee compensation, debt service costs and the accounting for the net pension liability and the new OPEB liability. Current liabilities consist of accounts payable, deferred revenue and the current portion of long-term obligations.

The College also has deferred outflows of resources of $816,473 and deferred inflows of resources of $2,174,100 at year-end. These account for other changes in the net pension and OPEB valuations plus revenue applicable to future years for service concessions.

The College closed FY2018 in a positive financial position and has sufficient current assets to cover current liabilities, a current ratio of (2.08:1). The current assets are $20,203,948 and the current liabilities are $9,717,713.

	FY2018	FY2017	FY2016
Current Assets	**$20,203,948**	$19,169,162	$20,086,751
Non-Current Assets	**93,364,286**	85,353,343	82,245,710
Total Assets	**113,568,234**	104,522,505	102,332,461
Total Deferred Outflows of Resources	**816,473**	925,192	1,012,513
Total Assets & Deferred Outflows of Resources	**114,384,707**	105,447,697	103,344,974
Current Liabilities	**9,717,713**	9,808,628	9,275,931
Non-Current Liabilities	**35,202,099**	25,118,134	26,334,858
Total Liabilities	**44,919,812**	34,926,762	35,610,789
Total Deferred Inflows of Resources	**2,174,100**	1,958,720	1,926,785
Total Liabilities & Deferred Inflows of Resources	**47,093,912**	36,885,482	37,537,574
Total Net Position = (Total Assets + Deferred Outflows of Resources) - (Total Liabilities + Deferred Inflows of Resources)	**$ 67,290,795**	68,562,215	$ 65,807,400
Overall Adjustment to the Statement of Net Position		(4,222,989)	
Restated FY2017 Net Position		$64,339,226	

NET POSITION

The difference between total assets and deferred outflows of resources, less total liabilities and deferred inflows of resources (net position) is $67,290,795. The net position is detailed as follows:

	FY2018	(Restated) FY2017	FY2016
Unrestricted	**$ 1,614,404**	$ 4,112,532	$ 5,574,497
Adjustment to Unrestricted Net Assets Due to GASB 75 - OPEB		(4,222,989)	
Unrestricted - Restated		(110,457)	
Restricted	**1,447,868**	1,512,282	1,461,153
Investments in Capital Assets, Net	**64,228,523**	62,937,401	58,771,750
Total Net Position	**$ 67,290,795**	$ 64,339,226	$ 65,807,400

The restatement of FY2017 brought the ending Unrestricted Net Assets into a negative position. The College, however has positive balances in all three net position categories at the end of FY2018. Capital assets, representing land, buildings, construction in progress, equipment and educational resource materials, account for 95% of the College's total net position. Restricted funds are for specialized program activities and financial aid loan programs, which are subject to external restrictions on use.

The College, at year-end, has a local unrestricted fund balance of $14,148,031. We also have unfunded liabilities with the Commonwealth of Massachusetts Unrestricted Fund Balance totaling ($12,533,627). The Commonwealth Unrestricted Fund Balance includes liabilities for employee's accumulated sick and vacation leave, net pension activity and OPEB.

College's Unrestricted Fund Balance	$ 14,148,031
Commonwealth of Massachusetts Unrestricted Fund Balance	(12,533,627)
Total Unrestricted Funds	$ 1,614,404

Note 21 of the Financial Statements, *Title to Various Assets and Liabilities*, explains the unrestricted fund balance in more detail.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2018

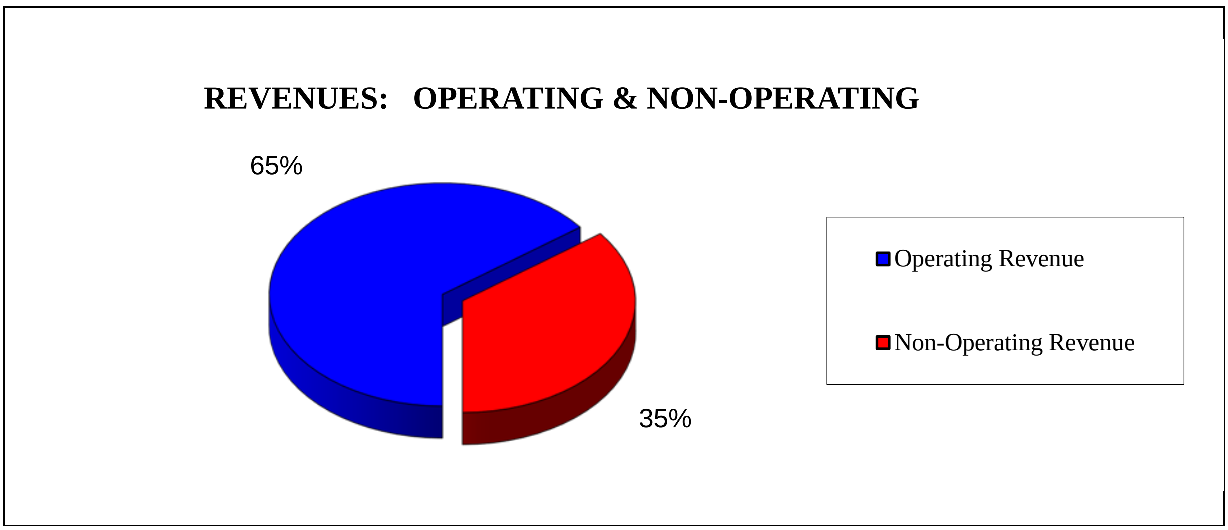
STATEMENT OF REVENUES AND EXPENSES AND STATEMENT OF CHANGES IN NET POSITION

The statement of revenues and expenses and statement of changes in net position presents the College's results of operations. A summary of the FY2018 operating and non-operating revenue, expenses and net position is as follows:

I.	NET POSITION, BEGINNING OF YEAR - Restated		$ 64,339,226
II.	OPERATING REVENUE TUITION, FEES, & OTHER REVENUE	50,733,523	
III.	OPERATIONAL EXPENSES	74,723,183	
IV.	**OPERATING LOSS (II-III)**	***(23,989,660)***	
V.	NON-OPERATING:		
	COMMONWEALTH APPROPRIATIONS	27,398,873	
	CAPITAL APPROPRIATIONS	118,600	
	INVESTMENT INCOME	182,450	
	& INTEREST EXPENSE	(1,038,241)	
	TOTAL NON-OPERATING ACTIVITY	26,661,682	
VI.	NET INCOME BEFORE CAPITAL IMPROVEMENTS (IV+V)	2,672,022	
VII.	CAPITAL IMPROVEMENTS TO BUILDINGS	279,547	
VIII.	*CHANGE IN NET POSITION (VI+VII)*		2,951,569
IX.	NET POSITION, END OF YEAR (I+VIII)		$ 67,290,795

STATEMENT OF REVENUES AND EXPENSES AND STATEMENT OF CHANGES IN NET POSITION - Continued

As of June 30, 2018 the College realized an operating loss of $23,989,660 (IV) due primarily to the nature of the Massachusetts public higher education funding system. The Commonwealth's FY2018 appropriation and fringe support to the College, considered non-operating income, assists in making up the operating loss not covered by tuition, fees and other operating revenue. The Commonwealth's FY2018 funding for Capital Improvements to Buildings increases the net position of the College.



FY2018	Operating	Non- Operating	Total
Revenues	$50,733,523	$27,699,923	$78,433,446
Expenses	$74,723,183	$1,038,241	$75,761,424
Net	($23,989,660)	$26,661,682	$2,672,022

The College develops its budgets based on local revenue and the Commonwealth's appropriation. The Commonwealth's appropriation is a critical component of the College's funding structure. In FY2018, non-operating revenue sources were at 35% of the total annual income compared to a FY2017 level of 37%. In FY2016, it was 37%. In FY2015, 35% and in FY2014, 34%.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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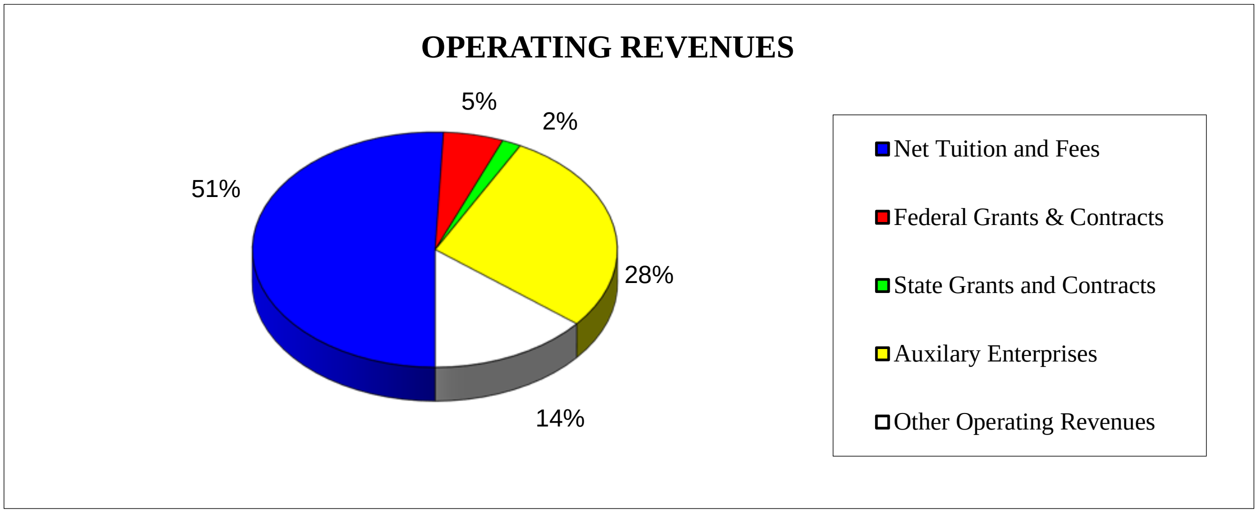
Management's Discussion and Analysis - Continued

June 30, 2018

STATEMENT OF REVENUES AND EXPENSES AND STATEMENT OF CHANGES IN NET POSITION – Continued

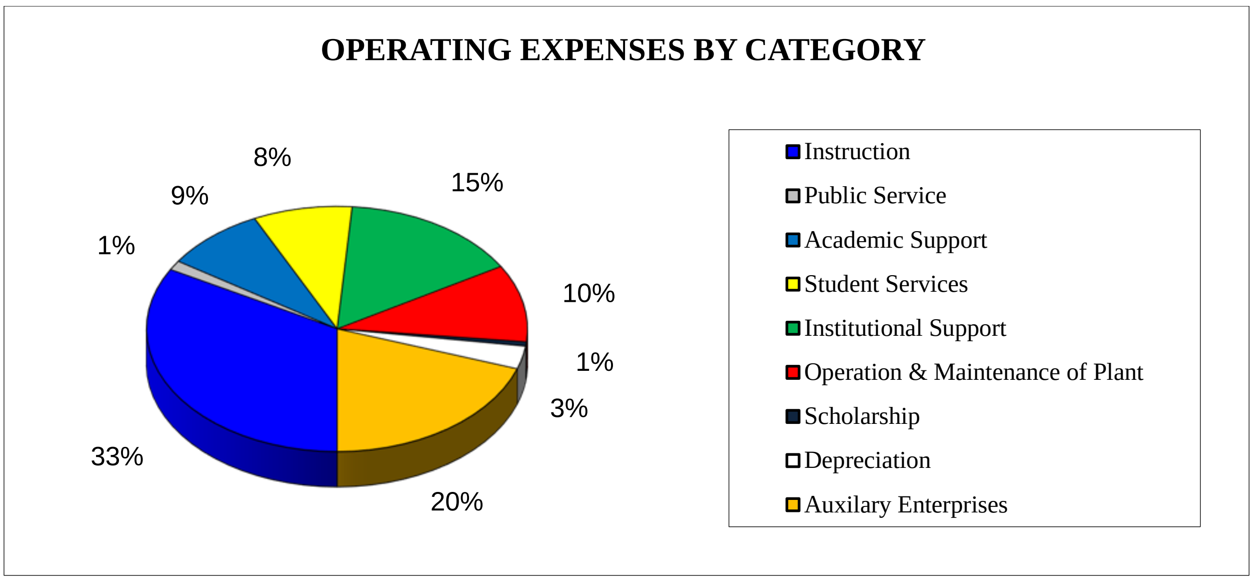
The College combines tuition and fees into a consolidated student charge. These revenues are considered operating income.

	FY2018	FY2017	FY2016
Undergraduate Day Program Student Charges	**$31,574,738**	$28,787,660	$26,629,388
Graduate and Program of Continuing Education Tuition and Fees	**5,381,820**	5,307,275	4,860,749
Total Tuition and Fee Revenue	**$36,956,558**	$34,094,935	$31,490,137
Less: Scholarships	**(11,219,086)**	(10,580,043)	(9,072,041)
Net Tuition and Fees Revenue	**$25,737,472**	$23,514,892	$22,418,096



Tuition and fees are the largest source of operating revenue, accounting for 51% of total operating resources. The College's auxiliary enterprises, consisting of the residence halls and dormitory dining, accounts for 28% of operating revenue. Income from federal and state grants total 7% of operating income and another 14% classified as other operating revenues, derived from a variety of miscellaneous sources. Included in this category is $3,551,288 in support from the Massachusetts College of Art and Design Foundation, Inc.

STATEMENT OF REVENUES AND EXPENSES AND STATEMENT OF CHANGES IN NET POSITION – Continued



Operating expenditures totaled $74,723,183. Consistent with the College's efforts to maintain competitive advantage, our instructional and academic support expenses account for 42% (33% & 9%) of total operating expenses. Auxiliary enterprises are 20% of total operating expenses, institutional (i.e. administrative expenditures) account for 15% of operational costs, which is below peer institution spending rates. Plant (10%) and depreciation (3%) expenses account for 13% of the operating costs. Student Services are at 8% of operating expenditures.

In FY2018, the Commonwealth of Massachusetts, through Division of Capital Asset Management and Maintenance (DCAMM), had Capital Improvements to Buildings of the College in the amount of $279,547. In FY2017, the College had Capital Improvements from the Commonwealth of $4,196.537. $16,964,430 was the FY2016 improvement amount. In FY2015 this Capital amount was $8,767,962. In FY2014 this was $5,541,111 and in FY2013 it was $2,997,618.

STATEMENT OF CASH FLOWS

	FY2018	FY2017	FY2016
Cash, Beginning of Year	**$ 17,816,048**	$ 18,806,422	$ 19,805,975
Cash, End of Year	**$18,661,806**	$17,816,048	$18,806,422

The College's cash and cash equivalents increased by $845,758 in FY2018.

SUMMARY ANALYSIS AND COMMENT

The Board of Trustees of the College approves the operating budget and reviews financial reports on a quarterly basis. Management advises the Board of Trustees of any significant adjustments or concerns in the budget as necessary.

During the fiscal year, monthly reports are disseminated to all employees who have responsibility and involvement in any aspect of the financial activity of the College. This information allows managers to review and monitor their budgets. Weekly reports along with online financial information are available to employees who process financial transactions. At year-end, an audit is conducted and these financial statements are produced.

The College has entered into FY2019; the fourth year of our five-year financial plan (approved by the Board of Trustees, Massachusetts Board of Higher Education and the Secretary of Education) helps guide decisions during the budget process. Management has developed this five-year Financial Plan as part of our Partnership Plan with the Massachusetts Board of Higher Education and the Secretary of Education. In FY2019, the college is almost completed its five year strategic plan with a ten year outlook. Final version will be approved by the BOT this fiscal year. This new strategic plan will help guide the College in both programmatic and budgeting for the next five years.

Management continues to strive to maintain and increase the quality of our academic programs for our students. In addition, the College will continue its commitment to efficient and transparent operations through continuous improvement and transparency. Administration and Finance will continue to coordinate the college wide risk assessments and incorporate the results into the budget process. We will continue to share with the Board of Trustees on an annual basis the results of these assessments. The FY2020 Budget will continue to use Budget Pak as in FY2018 and FY2019 as the main collection tool for budget requests. This tool allows trust fund custodians access to tools and historical data to better build their budget submissions.

SUMMARY ANALYSIS AND COMMENT – Continued

The Paine and Bakalar Galleries Project has moved on to phase two and has a planned completion date of August 2019. Due to non-conforming conditions in electrical, plumbing and Access throughout the entire South Building, the College has closed the building for the academic year to make the necessary deferred to meet code and ensure safety and access to the building for the community. Funding for this project is being covered in large part by DCAMM through its deferred maintenance funding allocated to the college in FY2019-FY2020. The project will upgrade facilities within the South Building to meet industry standards for gallery space and allow the galleries facility to be used on a 12 month program cycle. The South Building will be ADA access compliant and life safety systems will be upgraded to meet current code standards. The college simultaneously begin the process to study the entire campus space and work on planning for the Tower renovation over the next several years.

Student scholarships are another critical component to student success and attracting the most qualified students in the region. The activity in the General Scholarship Account over the years has risen from $800 thousand in FY2008 to $7.3 million in FY2018. Additional student support was allocated for FY2019. The College adjusted its awarding to make more money available to the need-based aid and Massachusetts resident categories. The Fall 2018 incoming class is the second largest class in several years and continues to put the college in a better financial position.

The College will continue to assess its institutional financial aid levels and growth as part of an overall assessment of our recruitment strategies during FY2019. In FY2012, less than 25% of the total financial aid package was in the form of grants. Each year, through increases from the College in institutional aid, we have steadily increased that number to 40%.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2018

Assets and Deferred Outflows of Resources

	Primary Government **College**	Component Unit **Foundation**
Current Assets:		
Cash and equivalents	$ 17,268,850	$ 3,361,662
Deposits held by State Treasurer	1,223,883	-
Accounts receivable, net	796,748	-
Contributions receivable	-	545,669
Loans receivable	717,836	-
Other receivables	27,094	-
Prepaid expenses	10,535	7,607
Investments	-	13,641,369
Inventories	159,002	-
Total Current Assets	20,203,948	17,556,307
Non-Current Assets:		
Restricted cash and equivalents	135,950	-
Restricted deposits held by State Treasurer	33,123	-
Long-term contributions receivable, net	-	190,278
Investment in plant, net	93,195,213	-
Total Non-Current Assets	93,364,286	190,278
Total Assets	113,568,234	17,746,585
Deferred Outflows of Resources:		
Other post-employment benefit related, net	186,646	-
Pension related, net	629,827	-
Total Deferred Outflows of Resources	816,473	-
Total Assets and Deferred Outflows of Resources	$ 114,384,707	$ 17,746,585

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government	Component Unit
	College	**Foundation**
Current Liabilities:		
Accounts payable and accrued expenses	**$ 1,405,103**	**$ 28,553**
Accrued salaries and wages	**1,771,124**	**-**
Accrued compensated absences and benefits	**2,847,467**	**-**
Annuity payable	**-**	**12,411**
Lease payable	**21,401**	**-**
Bonds payable	**1,425,983**	**-**
Unearned revenues and deposits	**2,246,635**	**-**
Total Current Liabilities	**9,717,713**	**40,964**
Non-Current Liabilities:		
Accrued compensated absences and benefits	**1,859,691**	**-**
Lease payable	**47,446**	**-**
Bonds payable	**27,471,860**	**-**
Other post-employment benefit liability	**4,003,270**	**-**
Net pension liability	**1,819,832**	**-**
Total Non-Current Liabilities	**35,202,099**	**-**
Total Liabilities	**44,919,812**	**40,964**
Deferred Inflows of Resources:		
Service concession revenue applicable to future years	**1,104,779**	**-**
Other post-employment benefit related, net	**532,845**	-
Pension related, net	**536,476**	**-**
Total Deferred Inflows of Resources	**2,174,100**	**-**
Net Position:		
Investment in capital assets, net	**64,228,523**	**-**
Restricted:		
Nonexpendable	**58,622**	**5,336,652**
Expendable	**1,389,246**	**11,790,432**
Unrestricted	**1,614,404**	**578,537**
Total Net Position	**67,290,795**	**17,705,621**
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 114,384,707**	**$ 17,746,585**

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses

For the Year Ended June 30, 2018

	Primary Government	Component Unit
	College	Foundation
Operating Revenues:		
Tuition and fees	$ 36,956,558	$ -
Less: scholarships and fellowships	(11,219,086)	-
Net tuition and fees	25,737,472	-
Gifts and contributions	-	4,138,186
Federal grants and contracts	2,698,441	-
State grants and contracts	857,000	-
In-kind revenue	-	93,777
Auxiliary enterprises	14,268,030	-
Other operating revenues	7,172,580	1,385,809
Total Operating Revenues	50,733,523	5,617,772
Operating Expenses:		
Educational and general:		
Instruction	24,601,327	-
Gifts and contributions	-	3,646,527
Public service	933,028	-
Academic support	6,416,623	-
Student services	6,287,342	-
Fundraising	-	695,345
Institutional support	11,405,015	234,838
Operation and maintenance of plant	7,631,255	-
Scholarships and fellowships	426,354	-
Depreciation	2,262,710	-
Auxiliary enterprises	14,759,529	-
Total Operating Expenses	74,723,183	4,576,710
Net Operating (Loss) Gain	(23,989,660)	1,041,062
Non-Operating Revenues (Expenses):		
Commonwealth operating appropriations, net	27,398,873	-
Commonwealth capital appropriations	118,600	-
Net investment income	182,450	692,373
Interest expense	(1,038,241)	-
Total Non-Operating Revenues (Expenses)	26,661,682	692,373
Net Income Before Capital Improvements	2,672,022	1,733,435
Capital Improvements, DCAM	279,547	-
Changes in Net Position	$ 2,951,569	$ 1,733,435

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Statements of Changes in Net Position

For the Year Ended June 30, 2018

College

	Investment in Capital Assets, Net	Restricted Nonexpendable	Restricted Expendable	Unrestricted	Total
Balance, June 30, 2017	**$ 62,937,401**	**$ 58,622**	**$ 1,453,660**	**$ 4,112,532**	**$ 68,562,215**
Prior period adjustment - Adoption of new accounting principle (Note 2)	-	-	-	**(4,222,989)**	**(4,222,989)**
Balance, June 30, 2017, as restated	**62,937,401**	**58,622**	**1,453,660**	**(110,457)**	**64,339,226**
Change in net position for 2018	1,291,122	-	(64,414)	1,724,861	2,951,569
Balance, June 30, 2018	**$ 64,228,523**	**$ 58,622**	**$ 1,389,246**	**$ 1,614,404**	**$ 67,290,795**

Foundation

	Investment in Capital Assets, Net	Restricted Nonexpendable	Restricted Expendable	Unrestricted	Total
Balance, June 30, 2017	**$ -**	**$ 5,060,595**	**$ 10,573,229**	**$ 338,362**	**$ 15,972,186**
Change in net position for 2018	-	276,057	1,217,203	240,175	1,733,435
Balance, June 30, 2018	**$ -**	**$ 5,336,652**	**$ 11,790,432**	**$ 578,537**	**$ 17,705,621**

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows

For the Year Ended June 30, 2018

	Primary Government College
Cash Flows from Operating Activities:	
Tuition and fees	$ 25,690,863
Grants and contracts	3,555,441
Payments to employees	(26,230,274)
Payments to suppliers and vendors	(22,168,686)
Collections on loans	31,309
Scholarships and fellowships	(426,354)
Auxiliary enterprises expenses	(14,759,529)
Auxiliary enterprises revenues	14,268,030
Other operating revenues	6,797,433
Net Cash Applied to Operating Activities	(13,241,767)
Cash Flows from Non-Capital Financing Activities:	
Commonwealth Appropriations	18,078,191
Net Cash Provided by Non-Capital Financing Activities	18,078,191
Cash Flows from Capital Financing Activities:	
Purchases of capital assets	(2,000,000)
Principal paid on capital lease payable	(19,988)
Principal paid on bonds payable	(1,135,697)
Interest paid on bonds payable	(1,017,431)
Net Cash Applied to Capital Financing Activities	(4,173,116)
Cash Flows from Investing Activity:	
Dividends and interest income	182,450
Net Increase in Cash and Equivalents	845,758
Cash and Equivalents, Beginning of Year	17,816,048
Cash and Equivalents, End of Year	$ 18,661,806
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:	
Net operating loss	$ (23,989,660)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	2,262,710
Fringe benefits provided by State appropriations	9,320,682
Deferred inflows of resources	(375,147)
Bad debts	12,118
Changes in assets and liabilities:	
Accounts and loans receivable	(211,308)
Other receivable	26,731
Prepaid expenses	(10,535)
Inventories	(23,839)
Accounts payable and accrued expenses	(197,567)
Accrued salaries and wages	(153,205)
Accrued compensated absences and benefits	(255,609)
Unearned revenues and deposits	157,159
Net other post-employment benefit liability	126,480
Net pension activity	69,223
Net Cash Applied to Operating Activities	$ (13,241,767)

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Statement of Cash Flows - Continued

For the Year Ended June 30, 2018

	Primary Government
	College
Summary of Restricted Cash and Equivalents and Cash and Equivalents, End of Year:	
Cash and equivalents	**$ 17,268,850**
Deposits held by State Treasurer	**1,223,883**
Restricted cash and equivalents	**135,950**
Restricted deposits held by State Treasurer	**33,123**
Cash and Equivalents, End of Year	**$ 18,661,806**
Non-Cash Transactions:	
Fringe benefits provided by Commonwealth appropriations	**$ 9,320,682**
Capital improvements provided by Commonwealth capital appropriations	**$ 118,600**
Capital improvements provided by DCAM	**$ 279,547**
Capital assets acquired through bond proceeds and note payable, MSCBA	**$ 7,857,701**
Deferred inflows of resources - service concession revenue	**$ 375,147**

See accompanying notes to the financial statements.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements

June 30, 2018

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

Organization
Massachusetts College of Art and Design (the "College") is a comprehensive college supported by the Commonwealth of Massachusetts (the "State") that offers a quality education leading to a bachelor's degree in the arts, and master's degrees in fine arts and design and art education. The College's campus is located in Boston, Massachusetts and provides instruction and training in a variety of visual arts. The College also offers, through the Division of Continuing Education, credit and noncredit courses, as well as a variety of summer workshop programs. The College is accredited by the New England Association of Schools and Colleges and the National Association of Colleges of Art and Design.

Basis of Presentation
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").

The Massachusetts College of Art and Design Foundation, Inc. (the "Foundation"), a component unit of the College, was organized to render 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 within these financial statements because of the nature and significance of its relationship with the College. The complete financial statements can be obtained from the Foundation's administrative offices in Boston, Massachusetts.

Revenues are recorded when earned and expenses 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's policy for defining operating activities in the statement of revenues and expenses are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the College's operating and capital appropriations from the Commonwealth of Massachusetts (the "Commonwealth"), net investment income and interest expense.

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

Basis of Presentation - continued

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

Net Position

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

Investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Restricted - non-expendable: Net position, subject to externally imposed conditions that the College must maintain in perpetuity.

Restricted - expendable: Net position, whose use is subject to externally imposed conditions that can be fulfilled by the actions of the College or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the College's Board of Trustees.

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

Net Position - continued
The College has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds.

Trust Funds
In accordance with the requirements of the State, 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 has defined cash and equivalents to include cash on hand, demand deposits, and cash and deposits held by state agencies on behalf of the College.

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

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 statements of revenues and expenses as non-operating revenues (expenses).

Inventories
Inventories consisting of books, publications and supplies are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

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 as of date of acquisition or, in the case of gifts, at fair market value at the date of donation. Capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The costs 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's capitalization threshold is $50,000 with a useful live of greater than one year for capital assets.

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.

Pensions

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

Postemployment Benefits Other Than Pensions ("OPEB")

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

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

Fringe Benefits
The College participates in the State's retirement plan and programs for fringe benefits and others, including health insurance, unemployment and workers' compensation. Health insurance and pension costs are billed through a fringe benefit rate charged to the College.

Compensated Absences
Employees with ten or more years of service are entitled to carry forward 20% of unused sick time. Upon retirement, the employees are entitled to receive payment for their unused balance.

Unearned Revenues and Deposits
Unearned revenues represent unearned income related to certain summer courses and programs that transcend the fiscal year. Deposits are advance payments received from students who will be attending the College in the next academic year and are recognized ratably as revenue upon the students' matriculation.

Student Tuition and Fees
Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts paid directly to the students are generally reflected as operating 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require.

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

Use of Estimates - continued
As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of donated assets and accounts receivable, and estimating depreciation, amortization, net pension and OPEB liability assumptions and the recoverability of long-lived assets.

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

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

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

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

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

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

Note 2 - **Implementation of Newly Effective Accounting Standard**

As a result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, net position was restated to reflect the Net OPEB liability as of June 30, 2017, as displayed below:

	As Previously Reported	As Restated
As of June 30, 2017:		
Statement of Net Position:		
Net OPEB liability	$ -	$ (4,312,093)
Deferred outflows related to OPEB	$ -	$ 89,104
Unrestricted net position	$ 4,112,532	$ (110,457)

Note 3 - **Cash and Equivalents**

Custodial credit risk is 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 balances in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The College does not have a formal deposit policy for custodial credit risk. Deposits in banks in excess of the insured amount are uninsured and uncollateralized. Amounts exposed to custodial risk at June 30, 2018 was approximately $11,799,000.

The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the Massachusetts Municipal Depository Trust ("MMDT"), an external investment pool for cities, towns and other state and local agencies within the Commonwealth. MMDT operates as a Rule 2a-7-like pool and is valued by MMDT's management on amortized cost where the net asset value is $1 per share. At June 30, 2018, the College has $11,798,501, invested with MMDT and is included in cash and equivalents.

Note 4 - **Investments**

Foundation

Investments of the Foundation are stated at fair market value and consist of the following at June 30, 2018:

Equity mutal funds	**$ 8,749,351**
Fixed income mutual funds	**4,881,386**
Common Stock	**10,632**
	$ 13,641,369

Note 4 - **Investments - Continued**

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

Dividend and interest income	$ 333,176
Net loss on sales of investments	(3,150)
Net unrealized gain on investments	362,347
Total net investment income	$ 692,373

Note 5 - **Accounts Receivable**

Accounts receivable comprise the following at June 30, 2018:

Student accounts receivable	$ 909,103
Less: allowance for doubtful accounts	112,355
	$ 796,748

Note 6 - **Contributions Receivable**

Foundation
Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of approximately 2%.

Contributions receivable of the Foundation comprise the following at June 30, 2018:

Due within one year	$ 545,669
Due within one to five years	231,166
Gross contributions receivable	776,835
Unamortized discount and allowance	(40,888)
Total Contributions Receivable	$ 735,947

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 due to the United States Government upon the termination of the College's participation in the program. The Joslin Loan receivable represents monies provided to students as a form of financial aid. Students are required to pay 5% interest on these loans. Management has reviewed loans receivable as of June 30, 2018 and considers the balance to be fully collectible and, accordingly, no allowance for doubtful accounts is required. Loans receivable are comprised of the following at June 30, 2018:

Perkins loans receivable	**$ 646,377**
Joslin loans receivable	**71,459**
	$ 717,836

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 can receive a spring semester Perkins loan disbursement. The College is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2018-19 academic year.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Capital Assets**

Capital assets activity for the year ended June 30, 2018 is as follows:

	Estimated Lives (In Years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Non-depreciable:						
Land		$ 5,677	$ -	$ -	$ -	$ 5,677
Construction in progress		6,522,849	9,826,362	-	-	16,349,211
Total non-depreciable		6,528,526	9,826,362	-	-	16,354,888
Depreciable:						
Buildings, including improvements	40	151,578,358	429,486	-	-	152,007,844
Furnishings and equipment	3 to 10	2,390,898	-	(76,216)	-	2,314,682
Educational resource materials	5	2,057,529	-	-	-	2,057,529
Total depreciable		156,026,785	429,486	(76,216)	-	156,380,055
Less: accumulated depreciation:						
Buildings, including improvements		72,996,890	2,239,690	-	-	75,236,580
Furnishings and equipment		2,298,817	23,020	(76,216)	-	2,245,621
Educational resource materials		2,057,529	-	-	-	2,057,529
Total accumulated depreciation		77,353,236	2,262,710	(76,216)	-	79,539,730
Capital assets, net		$ 85,202,075	$ 7,993,138	$ -	$ -	$ 93,195,213

Note 9 - **Long-Term Liabilities**

Activity in long-term liabilities for the year ended June 30, 2018 consists of the following:

	(Restated) Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 22,175,839	$ 7,857,697	$ 1,135,693	$ 28,897,843	$ 1,425,983
Other non-current liabilities:					
Lease payable	88,835	-	19,988	68,847	21,401
Compensated absences	4,490,864	4,221,989	4,490,864	4,221,989	2,744,611
Worker's compensation	471,903	485,169	471,903	485,169	102,856
Other post-employment benefit liability	4,312,093	-	308,823	4,003,270	-
Net pension liability	2,103,656	-	283,824	1,819,832	-
Total	$ 33,643,190	$ 12,564,855	$ 6,711,095	$ 39,496,950	$ 4,294,851

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

The College has five separate financing agreements with the Massachusetts State College Building Authority ("MSCBA") for improvements to the Student Dining Hall and the Center for Design and Media. The source of financing for the projects is from the revenue bonds issued by MSCBA on behalf of the College. Principal is payable annually, and interest is payable semiannually at a predetermined rate, which varies between 4.00% and 6.00%,

Maturities of bond principal and interest subsequent to June 30, 2018 are as follows:

Fiscal Years Ending June 30,	Principal	Interest
2019	$ 1,425,983	$ 1,325,479
2020	1,578,036	939,121
2021	1,627,507	881,658
2022	1,697,463	822,218
2023	1,767,939	758,710
2024-2028	10,028,143	2,499,553
2029-2033	7,787,772	1,859,943
2034-2038	2,985,000	878,921
	$ 28,897,843	$ 9,965,603

Note 10 - **Pensions**

Defined Benefit Plan Description

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

Note 10 - **Pensions - Continued**

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

Benefit Provisions
The Massachusetts State Employees' Retirement System plan ("SERS") provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws ("MGL") establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated based on the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Massachusetts State Legislature (the "Legislature").

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

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

Note 10 - **Pensions - Continued**

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

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

For employees covered by SERS but not paid from state appropriations, the College is required to contribute at an actuarially determined rate. The rate was 11.78% of annual covered payroll for the fiscal year ended June 30, 2018. The College contributed $127,527 for the fiscal year ended June 30, 2018, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 96% of total related payroll for fiscal year 2018.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the College reported a liability of $1,819,832, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts', collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal year 2018. The College's proportionate share was based on actual employer contributions to the SERS for fiscal year 2018 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.014%.

Note 10 - **Pensions - Continued**

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

For the year ended June 30, 2018, the College recognized pension expense of $196,749.

The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30, 2018:

Deferred Outflows of Resources	
Difference between expected and actual experience	**$ 70,362**
Change in assumptions	**189,381**
Change in proportion from Commonwealth	**6,233**
Change in proportions due to internal allocation	**236,324**
Contributions made after the measurement date	**127,527**
Total	**$ 629,827**

Deferred Inflows of Resources	
Differences between expected and actual experience	**$ 49,513**
Net differences between projected and actual investment earnings on pension plan investments	**21,683**
Change in proportion from Commonwealth	**649**
Change in proportion due to internal allocation	**464,631**
Total	**$ 536,476**

Note 10 - **Pensions - Continued**

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - continued
The College's contributions of $127,527 made during fiscal year ending June 30, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the succeeding year.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases in pension expense as follows:

Years Ending June 30,	
2019	$ 4,419
2020	57,160
2021	(6,699)
2022	(87,751)
2023	(1,305)
	$ (34,176)

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

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

Note 10 - **Pensions - Continued**

Actuarial Assumptions - continued
For measurement dates June 30, 2017, mortality rates were based on:

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

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

Investment assets of SERS are with the Pension Reserves Investment Trust ("PRIT") Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Global Equity	**40.0%**	**5.00%**
Portfolio Completion Strategies	**13.0%**	**3.60%**
Core Fixed Income	**12.0%**	**1.10%**
Private Equity	**11.0%**	**6.60%**
Value Added Fixed Income	**10.0%**	**3.80%**
Real Estate	**10.0%**	**3.60%**
Timber/Natural Resources	**4.0%**	**3.20%**
Hedge Funds	**0.0%**	**3.60%**
	100%	

Note 10 - **Pensions - Continued**

Discount Rate

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

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

The following table illustrates the sensitivity of the net pension liability calculated using the discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate at June 30, 2018:

1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
$ 2,478,535	$ 1,819,832	$ 1,289,231

Note 11 - **Other Post-Employment Benefits ("OPEB")**

General Information about the OPEB Plan

Plan Description

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

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

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

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

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

Benefits Provided
Under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs, which are comparable to contributions required from employees. Dental and vision coverage may be purchased by these groups with no subsidy from the Commonwealth.

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

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

Contributions - continued

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

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.92% of annual covered payroll for the fiscal year ended June 30, 2018. The College contributed $96,553 for the fiscal year ended June 30, 2018 equal to 100% of the required contribution for the year.

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

At June 30, 2018, the College reported a liability of $4,003,270 for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal year 2017. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal year 2017 relative to total contributions of all participating employers for the fiscal year. At June 30, 2018, the College's proportion was 0.020%.

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

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

For the year ended June 30, 2018, the College recognized OPEB expense of $222,909. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30, 2018:

Deferred Outflows of Resources Related to OPEB	
Contributions subsequent to the measurement date	$ 96,553
Changes in proportion from Commonwealth	8,535
Changes in proportion due to internal allocation	81,558
Total deferred outflows related to OPEB	$ 186,646
Deferred Inflows of Resources Related to OPEB	
Net differences between projected and actual earnings on OPEB plan investments	$ 6,472
Differences between expected and actual experience	10,483
Changes in OPEB plan actuarial assumptions	515,890
Total deferred inflows related to OPEB	$ 532,845

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

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

The College's contribution of $96,553 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended June 30,	
2019	$ (93,489)
2020	(93,489)
2021	(93,489)
2022	(93,489)
2023	(68,796)
	$ (442,752)

Actuarial Assumptions

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

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

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

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

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% of current and future contingent eligible participants will elect health care benefits at age 65, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

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

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

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

Actuarial Assumptions - continued

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2018, are the same as discussed in the Pension footnote number 10.

Discount Rate

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

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

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

	1.00% Decrease 2.63%	Discount Rate 3.63%	1.00% Increase 4.63%
Net OPEB liability	$ 4,864,573	$ 4,003,270	$ 3,341,401

Note 11 - **Other Post-Employment Benefits ("OPEB") - Continued**

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

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

	1.00% Decrease (B)	Current Healthcare Cost Trend Rate (A)	1.00% Increase (C)
Net OPEB liability	$ 3,293,038	$ 4,003,270	$ 4,959,801

(A) - The current healthcare cost trend rates are as follows:
9.0% for Medicare, 5.0% for EGWP and 5.0% for administration costs.
(B) - The healthcare cost trend rates after a 1% decrease are as follows:
8.0% for Medicare, 4.0% for EGWP and 4.0% for administration costs.
(C) - The healthcare cost trend rates after a 1% increase are as follows:
10.0% for Medicare, 6.0% for EGWP and 6.0% for administration costs.

Note 12 - **Other Fringe Benefits**

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

Group Insurance Commission

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

Note 12 - **Other Fringe Benefits - Continued**

Group Insurance Commission - continued
The GIC is a quasi-independent state agency governed by a seventeen-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal year ended June 30, 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

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

Note 13 - **Deferred Inflows of Resources**

Campus Dining Facilities Agreement
The College has entered into a service concession arrangement for dining and related services with Chartwell Food Services, Inc. ("Chartwell"). In exchange for this agreement, Chartwell has provided the College with funds to augment the cost of improvements to the College's dining and kitchen facilities. These monies are amortized into revenue ratably over the life of the agreement through June 2021. In the event of termination, as provided for by either party in the agreement, repayment of the unamortized portion would be required. The agreement also requires additional payments from Chartwell to defray costs incurred by the College, as well as revenue sharing, which amounted to approximately $436,000 during the year ended June 30, 2018.

Note 13 - **Deferred Inflows of Resources - Continued**

Campus Bookstore Agreement

Effective July 1, 2015 and expiring June 30, 2020, unless sooner terminated as provided for in the Agreement, and containing automatic one-year renewals requiring 120 days written notice by either party, the College entered into an agreement for the management of its bookstores. The Agreement provides for minimum annual commission payments to the College in years one and two. Minimum annual payments in subsequent years, including renewal years, will be 95% of the preceding years' actual commission payment. In addition, the College received a one-time bonus of approximately $103,300 subject to amortization over the initial life of the agreement. Under the terms of the agreement, the vendor was required to provide certain leasehold improvements to the bookstore with an estimated value of $87,000 during the fiscal year ending 2018. Recognition of deferred inflows in annual revenue related to the Campus Dining Facilities and Campus Bookstore agreements is as follows:

Years Ending June 30,	
2019	$ 375,147
2020	375,147
2021	354,485
	$ 1,104,779

Note 14 - **Restricted Net Position**

The College is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds comprise the following at June 30, 2018:

Restricted - non-expendable, categorized by allowable income usage:		
Scholarships	$	53,714
Loans		4,908
	$	58,622
Restricted - expendable:		
Program activities	$	527,465
Loans		861,781
	$	1,389,246

The Foundation's restricted - non-expendable net position consists of endowment funds to be held in perpetuity, whose income is mainly used for various scholarships and program support including the College's library and endowed lectures.

Note 15 - **Contingencies**

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

The College is periodically involved in legal actions arising in the ordinary course of business. Costs for all known claims not covered by insurance, if any, are recognized in the financial statements. Although the ultimate outcome of certain of these actions cannot be determined, management's opinion is that the College has adequate legal defense with respect to each of these actions, and that the amount of any additional liability would not have a material impact on the financial statements.

Note 15 - **Contingencies - Continued**

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 2.00%. The College is obligated to accept, as payment of tuition, the amount determined by this Program without regard to standard tuition rate in effect at the time of the individual’s enrollment at the College. The effect of the Program cannot be determined as it is contingent on future tuition increases and the number of Program participants who attend the College.

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

Note 16 - **Operating Expenses**

The College’s operating expenses, on a natural classification basis, comprise the following at June 30, 2018:

Compensation and benefits	**$ 44,668,097**
Supplies and services	**27,366,022**
Depreciation	**2,262,710**
Scholarships and fellowships	**426,354**
	$ 74,723,183

Note 17 - **Related Party Transactions**

Massachusetts College of Art and Design Foundation, Inc. is a separate tax-exempt corporation organized for the purpose of fund-raising through private donations for the ultimate benefit of the College. The College received contributions from the Foundation totaling approximately $3,551,000, included within other operating revenues, for the year ended June 30, 2018.

Note 18 - **Pass-Through Student Federal Loans**

The College distributed $11,895,969 for student loans through the United States Department of Education federal direct lending program for the year ended June 30, 2018. These distributions and related funding sources are not included as revenues and expenses or as cash receipts and cash disbursements in the accompanying financial statements.

Note 19 - **Lease Commitments**

During July 2015, the College entered into an operating lease agreement for certain equipment expiring June 2020. Total costs for the year ended June 30, 2018 were $171,000. Future annual lease payments subsequent to June 30, 2018 are as follows:

Years Ending June 30,	
2019	$ 171,000
2020	171,000
	$ 342,000

Capital Lease

The College entered into a lease agreement with Dell Financial Services for the computer server equipment in August 2016. The lease is payable in annual installments of $26,266. There was approximately $6,300 of interest related to this lease for the year ended June 30, 2018. The balance of the lease at June 30, 2018 was $68,847.

Note 19 - **Lease Commitments - Continued**

Capital Lease - continued
The schedule of future lease payments are as follows:

Years Ending June 30,	
2019	$ 26,266
2020	26,266
2021	26,266
	78,798
Interest expense	(9,951)
	$ 68,847

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

Section 15C of Chapter 15A of the Massachusetts General Laws requires State colleges and universities to report activity of campus based funds to the Comptroller of the Commonwealth on the State'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*.

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

The College's state appropriations are comprised of the following at June 30, 2018:

Direct unrestricted appropriations	$	18,078,191
Fringe benefits for benefited employees on the State payroll		9,320,682
Total unrestricted appropriations		27,398,873
Capital appropriations		118,600
Total appropriations	$	27,517,473

In 2004, the College entered into an agreement with the State that allows the College to retain all tuition and fees received by the College. As such, the College is not required to remit day school tuition back to the State.

A reconciliation of revenue between the College and MMARS as of June 30, 2018 is as follows:

Revenue per MMARS	$	59,619,057
Revenue per College		59,619,057
Difference	$	-

A reconciliation of expenditures between the College and MMARS as of June 30, is as follows:

Expenditures per MMARS	$	61,109,623
Expenditures per College		61,109,623
Difference	$	-

Note 21 - **Title to Various Assets and Liabilities**

The College is an agency of the Commonwealth of Massachusetts. Therefore, in accordance with GASB Statement No. 39, the College will ultimately be included in the State's financial statements.

For financial reporting purposes, all capital assets used in the operation of the College will be recorded as investment in plant. In addition to the treatment of capital assets, the College's proportionate share of various other asset and liability accounts has been recorded on the College's financial statements in order for them to be in accordance with generally accepted accounting principles. The cumulative effect of these asset and liability accounts is reflected in the unrestricted net position balance. Included in the unrestricted net position balance are the State's portions of inventories, accrued salaries and wages, compensated absences, and workers' compensation. The College's policy is not to record these assets and liabilities on its internal financial statements.

	Local	State	Total	
Massachusetts College of Art and Design's Preliminary Unrestricted Net Position at June 30, 2018				**$ 15,310,864**
Reconciling items:				
Inventories	**$ 159,002**	**$ -**	**$ 159,002**	
Deferred outflows of resources	**-**	**816,473**	**816,473**	
Deferred inflows of resources	**(1,104,779)**	**(1,069,321)**	**(2,174,100)**	
Accrued interest		**(196,451)**	**(196,451)**	
Accrued salaries and wages	**-**	**(1,771,124)**	**(1,771,124)**	
Accrued compensated absences and benefits	**(217,056)**	**(4,490,102)**	**(4,707,158)**	
Other post-employment benefit liability		**(4,003,270)**	**(4,003,270)**	
Net pension liability	**-**	**(1,819,832)**	**(1,819,832)**	
Total				**(13,696,460)**
Massachusetts College of Art and Design's Audited Unrestricted Net Position at June 30, 2018				**$ 1,614,404**
Distribution of Unrestricted Net Position:				
Local funds				**$ 14,148,031**
State funds				**(12,533,627)**
				$ 1,614,404

Note 22 - **Massachusetts State College Building Authority (Unaudited)**

The Massachusetts State College 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 colleges. The College has three dormitories in which payments are made to the Building Authority. Smith Hall is assessed on a student and building formula by the Building Authority based on a pool of the State colleges. For fiscal year 2018, the College expended $430,309 for Smith Hall. The College also makes payments to the Building Authority for the Artist Residence and Treehouse Residence based on the principal, interest and other costs associated with the debt service on instruments issued for the dormitories. For fiscal year 2018, the College expended $2,179,847 for the Artist Residence. For the year ended June 30, 2018, the College expended $4,171,565 for the Treehouse Residence. Dormitory trust fund reports included as supplemental information include revenues and expenses, which are included in auxiliary enterprises revenues and expenses. The Commonwealth of Massachusetts requires all state colleges and universities to include the dormitory trust fund reports as supplemental information.

REQUIRED SUPPLEMENTARY INFORMATION

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

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

Valuation Date Measurement Date	**January 1, 2017** **June 30, 2017**	January 1, 2016 June 30, 2016	January 1, 2015 June 30, 2015	January 1, 2014 June 30, 2014
Proportion of the collective net pension liability	**0.014%**	0.015%	0.021%	0.017%
Proportionate share of the collective net pension liability	**$ 1,819,832**	$ 2,103,656	$ 2,430,633	$ 1,181,800
College's covered payroll	**$ 1,114,968**	$ 1,159,256	$ 1,286,662	$ 1,180,782
College's proportionate share of the net pension liability as a percentage of its covered payroll	**163.22%**	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the plan's total pension liability	**67.21%**	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplementary information.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Schedules of Contributions (Unaudited)

For the Years Ended June 30,

	2018	2017	2016	2015
Contractually required contribution	**$ 127,527**	$ 110,939	$ 109,550	$ 133,684
Contributions in relation to the contractually required contribution	**127,527**	110,939	109,550	133,684
Contribution excess	**$ -**	$ -	$ -	$ -
Covered payroll	**$ 1,082,572**	$ 1,114,968	$ 1,159,256	$ 1,286,662
Contribution as a percentage of covered payroll	**11.78%**	9.95%	9.45%	10.39%

Notes:

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

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

See accompanying notes to the required supplementary information.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

State Retirees' Benefit Trust

Year ended	June 30, 2018
Measurement date	June 30, 2017
Valuation date	January 1, 2017
Proportion of the collective net OPEB liability	0.020%
Proportionate share of the collective net OPEB liability	$ 4,003,270
College's covered payroll	$ 1,082,572
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	369.79%
Plan fiduciary net position as a percentage of the total OPEB liability	4.80%

Notes:
The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Schedule of Contributions - OPEB (Unaudited)

State Retirees' Benefit Trust

For the Year Ended June 30, 2018

Statutorily required contribution	$ 96,553
Contributions in relation to the statutorily required contribution	(96,553)
Contribution (excess)/deficit	$ -
College's covered payroll	$ 1,082,572
Contribution as a percentage of covered payroll	8.92%

Notes:

Employers participating in the State Retirees' Benefit Trust are required by MA General Laws, Section 32, to contribute an actuarially determined contribution rate each year.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
(an agency of the Commonwealth of Massachusetts)

Notes to the Required Supplementary Information (Unaudited)

June 30, 2018

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

Fiscal year June 30, 2018
Change of Benefits:
Chapter 79 of the Acts of 2014 established an early retirement ("ERI") program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately $10 million as of June 30, 2017.

Assumptions:
The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females

- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 and set forward 1 year for females

- Disability – did not change

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

Fiscal year June 30, 2017
Change of Benefits:
Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan ("ORP") to transfer into the SERS and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS increased by approximately $400 million as of June 30, 2016.

Fiscal year June 30, 2016
Change of Benefits:
Chapter 19 of the Acts of 2015 established an ERI program for certain members of the SERS plan. As a result, the total pension liability of SERS increased by approximately $230 million as of June 30, 2015.

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

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

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)

- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)

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

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

Fiscal year June 30, 2015
Assumptions:
An updated experience study encompassed the period January 1, 2006 to December 31, 2011. The study reviewed salary increases and rates of retirement, disability, turnover and mortality. This study adjusted the mortality assumption which resulted in an increase of approximately $102 million in the total pension liability as of June 30, 2014.

Note 2 - **Change in Plan Assumptions - OPEB**

Fiscal year June 30, 2018

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

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*

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

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

To the Board of Trustees of
Massachusetts College of Art and Design
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 (an agency of the Commonwealth of Massachusetts) (the "College") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and we have issued our report thereon dated October 12, 2018.

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

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

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

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the College'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

October 12, 2018

SUPPLEMENTAL INFORMATION

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Schedule of Net Position -
Dormitory Trust Fund Report (Unaudited)

June 30, 2018

Assets

Asset:	
Cash and equivalents	**$ 3,344,059**
Total Dormitory Trust Fund Assets	**$ 3,344,059**

Liabilities and Net Position

Liabilities:	
Compensated absences	**$ 42,220**
Workers' compensation	**4,852**
Total Dormitory Trust Fund Liabilities	**47,072**
Net Position:	
Dormitory Trust Net Position - Smith Hall	**17,065**
Dormitory Trust Net Position - Artist Residence	**2,236,338**
Dormitory Trust Net Position - Treehouse	**1,043,584**
Total Net Position	**3,296,987**
Total Dormitory Trust Fund Liabilities and Net Position	**$ 3,344,059**

* - At June 30, 2018, a portion of the College's $1,819,832 net pension and $4,003,270 OPEB liability was not allocated, to the Dormitory Trust Fund's net position balance.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

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

For the Year Ended June 30, 2018

Revenues:	
Student rents	**$ 7,097,633**
Contract rents	**4,153,839**
Other	**771,190**
Total Revenues	**12,022,662**
Expenses:	
Loans and special payments	**6,781,714**
Operational services	**5,372,487**
Regular employee compensation	**277,058**
Information technology	**7,787**
Pension and insurance related	**106,485**
Administrative	**2,549**
Regular employee related	**4,398**
Special employee compensation	**7,908**
Equipment purchases	**-**
Equipment leases	**2,646**
Facility operational	**1,095**
Total Expenses	**12,564,127**
Decrease of Revenues Over Expenses	**(541,465)**
Transfers	**(58,465)**
Total Decrease in Net Position	**(599,930)**
Net Position, Beginning of Year	**3,896,917**
Net Position, End of Year	**$ 3,296,987**