

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

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

FINANCIAL STATEMENTS

JUNE 30, 2020

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

Financial Statements

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts College of Art and Design Foundation, Inc. (the "Foundation") (a component unit of Massachusetts College of Art and Design), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Massachusetts College of Art and Design Foundation, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information


We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1 of the financial statements, the Foundation adopted Accounting Standards Update (ASU) 2018-08, *Not for Profit Entities: Clarifying the Scope and Accounting guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2020

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

Statements of Financial Position

June 30, 2020 and 2019

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

Statements of Financial Position

June 30,

Assets

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and equivalents	\$ 7,549,276	\$ 1,660,016
Contributions receivable, net	637,909	554,466
Prepaid expenses	39	-
Investments	<u>7,514,987</u>	<u>12,244,483</u>
Total Assets	<u>\$ 15,702,211</u>	<u>\$ 14,458,965</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses	19,449	13,891
Annuities payable	<u>12,676</u>	<u>9,833</u>
Total Liabilities	<u>32,125</u>	<u>23,724</u>
Net Assets:		
Without donor restrictions	688,849	506,207
With donor restrictions	<u>14,981,237</u>	<u>13,929,034</u>
Total Net Assets	<u>15,670,086</u>	<u>14,435,241</u>
Total Liabilities and Net Assets	<u>\$ 15,702,211</u>	<u>\$ 14,458,965</u>

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

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

Statement of Activities and Changes in Net Assets

**For the Year Ended June 30, 2020
(with comparative totals for 2019)**

	<u>2020</u>		<u>2019</u>	
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
Operating Activities:				
Support and Revenues:				
Contributions	\$ 641,415	\$ 2,612,543	\$ 3,253,958	\$ 2,372,250
Fundraising	1,057,227	44,073	1,101,300	1,533,357
Investment return	4,060	469,698	473,758	885,073
In-kind revenue	672,428	-	672,428	90,970
Net assets released from restrictions	<u>2,074,111</u>	<u>(2,074,111)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues	<u>4,449,241</u>	<u>1,052,203</u>	<u>5,501,444</u>	<u>4,881,650</u>
Expenses:				
Program Services:				
Educational programs, awards and scholarships	2,739,663	-	2,739,663	1,896,125
Capital projects	<u>600,000</u>	<u>-</u>	<u>600,000</u>	<u>5,108,202</u>
Total Program Services	<u>3,339,663</u>	<u>-</u>	<u>3,339,663</u>	<u>7,004,327</u>
Supporting Services:				
Fundraising	684,288	-	684,288	898,308
Management and general	<u>242,648</u>	<u>-</u>	<u>242,648</u>	<u>249,395</u>
Total Supporting Services	<u>926,936</u>	<u>-</u>	<u>926,936</u>	<u>1,147,703</u>
Total Expenses	<u>4,266,599</u>	<u>-</u>	<u>4,266,599</u>	<u>8,152,030</u>
Change in Net Assets from Operations	<u>182,642</u>	<u>1,052,203</u>	<u>1,234,845</u>	<u>(3,270,380)</u>
Net Assets, Beginning of Year	<u>506,207</u>	<u>13,929,034</u>	<u>14,435,241</u>	<u>17,705,621</u>
Net Assets, End of Year	<u>\$ 688,849</u>	<u>\$ 14,981,237</u>	<u>\$ 15,670,086</u>	<u>\$ 14,435,241</u>

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

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

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

Statement of Functional Expenses

For the Year Ended June 30, 2020

(with comparative totals for 2019)

	<u>2020</u>			<u>2019</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Expenses:					
Educational programs, awards and scholarships	\$ 2,739,663	\$ -	\$ -	\$ 2,739,663	\$ 1,896,125
Capital projects	600,000	-	-	600,000	5,108,202
Management expenses - payroll and operations	-	177,943	2,300	180,243	217,368
Professional fees	-	18,073	-	18,073	22,355
Office expenses	-	37,544	-	37,544	18,543
Other expenses	-	4,710	-	4,710	21,250
Conferences and meeting expenses	-	4,378	-	4,378	4,383
Auction expenses	-	-	569,911	569,911	742,795
Fundraising events and cultivation	-	-	112,077	112,077	121,009
	<u>-</u>	<u>-</u>	<u>112,077</u>	<u>112,077</u>	<u>121,009</u>
Total	<u>\$ 3,339,663</u>	<u>\$ 242,648</u>	<u>\$ 684,288</u>	<u>\$ 4,266,599</u>	<u>\$ 8,152,030</u>

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

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

Statements of Cash Flows

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	<u>\$ 1,234,845</u>	<u>\$ (3,270,380)</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized loss (gain) on investments	94,198	(181,546)
Net realized loss (gain) on sales of investments	(230,262)	(93,227)
Changes in assets and liabilities:		
Contributions receivable	(83,443)	181,481
Prepaid expenses	(39)	7,607
Accounts payable and accrued expenses	<u>10,267</u>	<u>(14,662)</u>
Net Adjustments	<u>(209,279)</u>	<u>(100,347)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,025,566</u>	<u>(3,370,727)</u>
Cash Flows from Investing Activities:		
Purchases of investments	(732,681)	(4,237,411)
Proceeds on sales of investments	5,598,241	5,909,070
Payments on annuities payable	<u>(1,866)</u>	<u>(2,578)</u>
Net Cash Provided by Investing Activities	<u>4,863,694</u>	<u>1,669,081</u>
Net Increase (Decrease) in Cash and Equivalents	5,889,260	(1,701,646)
Cash and Equivalents, Beginning of Year	<u>1,660,016</u>	<u>3,361,662</u>
Cash and Equivalents, End of Year	<u>\$ 7,549,276</u>	<u>\$ 1,660,016</u>

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

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

Notes to the Financial Statements

June 30, 2020 and June 30, 2019

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

Organization

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

On March 23, 2020, the Governor of Massachusetts declared a state of emergency and ordered all non-essential business services to temporarily cease due to the COVID-19 outbreak. The Foundation does not perform any essential services but can still fundraise. The Foundation did fundraise after March 23, 2020 but did not conduct any in person fundraising events. The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. Management took steps, such as reducing expenses, to mitigate the negative effects on operations.

Basis of Presentation

The accompanying financial statements have been prepared utilizing the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expensed for any purpose in performing the objectives of the Foundation. These net assets may be used at the discretion of the Foundation’s management and the Board of Directors. There were no board or other designations on the net assets without donor restrictions as of June 30, 2020 and 2019.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**MASSACHUSETTS COLLEGE OF ART
AND DESIGN FOUNDATION, INC.**
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Notes to the Financial Statements

June 30, 2020 and June 30, 2019

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

Net assets with donor restrictions - continued

Restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without restrictions in the statements of activities. Restricted contributions in which the restrictions are met in the same year are reported as without donor restrictions revenue.

Measure of Operations

The statement of activities and changes in net assets reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Foundation's ongoing purpose and the return earned on investments. Non-operating activities are limited to activities considered to be of a more unusual or nonrecurring nature and there were no nonoperating expenses for both 2020 and 2019.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of contributions receivable and annuities payable.

Cash and Equivalents

The Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Amounts exposed to custodial risk at June 30, 2020 and 2019 were approximately \$1,613,000 and \$2,086,000 respectively.

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

Notes to the Financial Statements - Continued

June 30, 2020 and June 30, 2019

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

Financial Instruments

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and equivalents, marketable securities, and contributions receivable. The Foundation maintains its cash and equivalents in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Investments are maintained at brokerage institutions. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions and insured brokerage houses. Management monitors the financial conditions of the banking institutions, along with its balances to keep this potential risk to a minimum. In order to minimize excessive risk in geographical, industry and market sectors, the Board of Directors meets periodically with its investment advisors and reviews the portfolio for such concentrations and other matter. The carrying amounts of certain financial instruments, including cash and equivalents and contributions receivable, approximates fair value because of the relatively short maturity of these instruments. The carrying amounts of investments are reported at market value.

Contribution Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statement of activities and changes in net assets. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statement of activities and changes in net assets in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

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

Notes to the Financial Statements - Continued

June 30, 2020 and June 30, 2019

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

Fair Value Measurements

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

The three levels of the fair value hierarchy are described as follows:

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Fair Value Measurements - continued

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

Annuities Payable

The Foundation has charitable gift annuities as of the year ended June 30, 2020 and 2019. A liability has been recognized at the present value of future cash flows expected to be paid to the donors.

Endowment Funds

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

UPMIFA requires donor-restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as net assets with donor restrictions until approved for expenditure by the Foundation. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as net assets with donor restrictions until approved for expenditure by the Foundation. Management has reviewed and evaluated the terms of all donor-restricted agreements and to the best of their knowledge has categorized all amounts in compliance with these agreements.

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Endowment Funds - continued

The Foundation's board classifies donor-restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to net assets without donor restrictions. Unrealized gains will be classified as net assets without donor restrictions to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with the Foundation's spending policy.

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

From time to time, the fair values of endowment fund assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained for a perpetual duration. The decline below the required perpetual durations, commonly referred to as "underwater", is reported as losses within net assets with donor restrictions. The Board of Directors have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of both June 30, 2020 and 2019, the Foundation, did not have endowment funds below the amount of the donor required levels.

Contributions

Contributions are recognized as revenue when the conditions contained in the respective agreements have been met. Contributions are conditional if there is a barrier that must be overcome before the recipient is entitled to the asset transferred and the donor has the right to request the asset back if it was not used properly.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

**MASSACHUSETTS COLLEGE OF ART
AND DESIGN FOUNDATION, INC.**
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Donated Goods and Services

Donated services are recorded as contributions at their estimated fair market values in the period received. Certain donated services have not been recognized in the statements of activities and changes in net assets as the value of these services is not practicable to determine.

Functional Allocation of Expenses

Expenses are categorized by program services, management and general or fundraising on a direct identification basis where practical and on a percentage allocation basis based on management's judgement. Cost allocation techniques are based on time and effort.

Income Tax Status

The Foundation has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code. As a not-for-profit entity exempt from income taxes, the Foundation may, however, be subject to tax on unrelated business income.

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

Comparative Information

The financial statements include certain prior year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2019 from which the information was derived.

Reclassifications

Certain prior year amounts in the financial statements have been reclassified to conform to the current year presentation.

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

June 30, 2020 and 2019

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

Adoption of New Accounting Pronouncement

FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The purpose of this pronouncement is to provide guidance in determining whether transactions are non-exchange (within the scope of Topic 958) or exchange (within the scope of Topic 606) and determining whether contributions are conditional. The Foundation adopted the provisions of ASU 2018-08 for contributions received on a modified prospective basis as of July 1, 2019. Therefore, it is applied to any remaining portion of existing agreements not yet recognized as of July 1, 2019, in addition to all new agreements entered into after that date. The adoption of this pronouncement did not have a material effect on these financial statements. The Foundation will adopt the provisions for contributions made on July 1, 2020, and does not expect a significant impact on its financial statements.

New Accounting Pronouncements

FASB issued ASU 2019-03, *Updating the Definition of Collections*, an amendment of Topic 958 – Not-for-Profit Entities. The purpose of this pronouncement is to remove the diversity in practice by requiring an entity to disclose its policy for the use of proceeds from when collection items are disposed of and it also slightly modifies the definition of collections. The amendment is effective for periods beginning after December 15, 2019. Management is in the process of evaluating this pronouncement and has not yet determined its impact on the financial statements.

FASB issued ASU 2016-02, *Leases*, which is effective for periods beginning after December 15, 2021. The purpose of this pronouncement will require lessees to recognize on their state of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded.

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

June 30, 2020 and 2019

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

New Accounting Pronouncements - continued

FASB issues ASU 2014-09, *Revenue from Contracts with Customers* and additional ASUs containing modifications to ASU 2014-09 (collectively referred to as “the new revenue recognition standard”). It is effective for period beginning after December 15, 2019 for non-public companies. The purpose of the new revenue recognition standard is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. It requires the Foundation to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition.

Until ASU 2014-09 is adopted, the Foundation recognizes revenue for fundraising events when the event occurs.

Note 2 - **Investments**

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

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

	<u>2020</u>	<u>2019</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Equity mutual funds	\$ 4,958,282	\$ 9,771,332
Fixed income mutual funds	<u>2,556,705</u>	<u>2,473,151</u>
Total investments	<u>\$ 7,514,987</u>	<u>\$ 12,244,483</u>

All investments are classified as Level 1 investments based on the hierarchy because they are actively traded and can be redeemed daily

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Fair Value Measurements**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

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

Fixed Income Mutual Funds: Net asset value of the shares held at fiscal year-end.

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

Note 4 - **Contributions Receivable**

Contributions receivable consist of unconditional promises to be received by the Foundation in future years as of the years ended June 30, 2020 and 2019. The discount on the contribution's receivable as of June 30, 2020 and 2019 is 0.1% and 3.0%, respectively. Contributions receivable are as follows at June 30,:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 587,746	\$ 525,728
Due in two years	52,000	93,748
Due in three years	17,000	30,000
Due in four years	<u>4,000</u>	<u>-</u>
Gross contributions receivable	660,746	649,476
Unamortized discount	(1,004)	(19,527)
Allowance for doubtful accounts	<u>(21,833)</u>	<u>(75,483)</u>
Total Contributions Receivable, net	\$ <u>637,909</u>	\$ <u>554,466</u>

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

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 5 - **Net Assets**

Net assets with donor restriction are restricted for the following purposes at June 30,:

	<u>2020</u>	<u>2019</u>
Educational programs and awards (purpose)	\$ 2,995,971	\$ 2,636,192
Scholarships (purpose)	5,401,214	5,230,984
Capital projects (purpose)	<u>25,194</u>	<u>221,194</u>
Total net assets with donor restrictions for purpose	8,422,379	8,088,370
Educational programs and awards (perpetuity)	1,507,320	1,479,525
Scholarships (perpetuity)	4,462,297	3,818,935
Scholarships (perpetuity and passage of time)	<u>5,337</u>	<u>14,508</u>
Total net assets with donor restrictions in perpetuity	5,974,954	5,312,968
Capital projects (for passage of time)	<u>583,904</u>	<u>527,696</u>
Total Net Assets With Donor Restrictions	\$ <u>14,981,237</u>	\$ <u>13,929,034</u>

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

	<u>2020</u>	<u>2019</u>
Capital projects	\$ 600,000	\$ 5,108,202
Educational programs, awards and scholarships	<u>1,474,111</u>	<u>1,128,820</u>
Total Net Assets Released from Restrictions	\$ <u>2,074,111</u>	\$ <u>6,237,022</u>

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

June 30, 2020 and 2019

Note 6 - **Endowment Net Assets**

All endowment funds consist of donor-restricted funds. The Foundation has no board-designated endowment funds. Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets at June 30, 2018	\$ 17,127,084
Investment return:	
Investment income	592,709
Net appreciation	275,400
Contributions	2,170,863
Net assets released from restriction	<u>(6,237,022)</u>
Endowment net assets at June 30, 2019	13,929,034
Investment return:	
Investment income	335,159
Net appreciation	134,539
Contributions	2,656,616
Net assets released from restriction	<u>(2,074,111)</u>
Endowment net assets at June 30, 2020	\$ <u>14,981,237</u>

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

June 30, 2020 and 2019

Note 7 - **Donated Goods and Services**

The value of certain donated goods and services are recorded at their estimated fair value as of the date of receipt and are included within the statements of activities. For the years ended June 30, 2020 and 2019, the Foundation received \$594,279 and \$50,172, respectively, which has been included in in-kind revenue and related educational programs and awards expense. The Foundation received \$40,560 and \$5,760 for various fundraising events for the years ended June 30, 2020 and 2019, respectively, which has been included in in-kind revenue and related fundraising expense.

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

The College provided accounting and development personnel to the Foundation without charge. During the years ended June 30, 2020 and 2019, the Foundation recognized revenue and related expense of \$37,589 and \$35,038, respectively, which has been included in in-kind revenue and related management and general expenses, for contributed services received from the College based on the fair value of comparable services provided by third parties.

Note 9 - **Risk and Concentrations**

Cash

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

Investment Risk

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

Uncertainties

The COVID-19 crisis as discussed in Note 1 is on-going, however the effect on operations after year end has been minimal. Management cannot reasonably estimate the duration or impact on finances and operations.

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Contributions

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

Note 10 - **Availability and Liquidity**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30,:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and equivalents	\$ 7,549,276	\$ 1,660,016
Current portion of contributions receivable, net	<u>587,746</u>	<u>525,728</u>
 Total financial assets	 8,137,022	 2,185,744
 Less: amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(14,981,237)</u>	<u>(13,929,034)</u>
 Add back: donor-restricted net assets included as a non-current asset	 <u>7,514,987</u>	 <u>12,244,483</u>
 Financial assets available to meet general expenditures within one year:	 <u>\$ 670,772</u>	 <u>\$ 501,193</u>

The Foundation reviews its cash position on a regular basis to ensure that adequate funds are on hand to meet expenses. If funds are not available, management will restructure its discretionary expenses or seek additional donations to meet general expenditures. For the years ended June 30, 2020 and 2019, management of the Foundation believes that no liquidity issues exist.

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

June 30, 2020 and 2019

Note 11 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through September 30, 2020 the date which the financial statements were available for issuance. With the exception of the following event, management has accepted the financial statements and did not identify any events subsequent to June 30, 2020 requiring disclosure in the financial statements.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Massachusetts College of Art and Design Foundation, Inc. (a component unit of the Massachusetts College of Art and Design) (the "Foundation"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Handwritten signature in cursive script that reads "O'Connor + Drew, P.C."

**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2020