

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

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

JUNE 30, 2016

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

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

June 30, 2016 and 2015

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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 "College"), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended and the related notes to the financial statements. We have also audited the financial statements of Massachusetts College of Art and Design Foundation, Inc. (the "Foundation") as of June 30, 2016 and 2015, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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 as of June 30, 2016 and 2015, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-14 and the schedules of proportionate share of the net pension liability on page 47, and the schedules of contributions on page 48 and the notes to the required supplemental information on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's financial statements as a whole. The Schedules of Net Position – Dormitory Trust Fund Report and the Schedules 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 audits 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 13, 2016, 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 13, 2016

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016. 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 375 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.

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. In accordance with Governmental Accounting Standards Board, Statement 39, the College reports Foundation financial activity in a separate column in our report.

FINANCIAL HIGHLIGHTS

- In FY2016, the College was funded by both operating revenue (local tuition and fees), and non-operating revenue (state appropriations).
- In FY2016, the College experienced a very slight increase in operating revenue to \$44,018,959. Non-operating revenue in FY2016 increased by approximately \$1.4 million to \$24,599,682.
- The College's operating expenses for FY2016 totaled \$69,492,158, an increase from the prior year of approximately \$2.9 million.
- Depreciation, a non-cash expense increased by approximately \$625,000 in FY2016 mainly due to the new Design & Media Center of \$48.5 million coming on-line in January, 2016.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

FINANCIAL HIGHLIGHTS - Continued

- In FY2016, the College experienced a net loss of \$873,517 before Capital Improvements.
- The College in FY2016, had Capital Improvement to Buildings from the Commonwealth of Massachusetts of approximately \$17 million.
- The College's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources at the close of FY2016, leaving a net position of \$65,807,400, an increase of approximately \$16.1 million from FY2015.
- In the FY2016 financial statements, the College had a net increase in Investment in Plant of approximately \$16.4 million.
- In the prior year, FY2015 financial statements, the College implemented a new 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 Statements of Net Position. For FY2014 there was a net overall adjustment to the College's Unrestricted Net Position of \$1,264,973. For FY2015 this net pension liability portion was valued at \$1,181,800. The FY2016 liability amount is \$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 Statements of Net Position; the Statements of Revenues and Expenses; the Statements of Changes in Net Position and the Statements 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:

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

June 30, 2016 and 2015

USING THE FINANCIAL STATEMENTS - Continued

The *Statements of Net Position* present 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 *Statements of Revenues and Expenses and the Statements 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 *Statements of Cash Flows* present cash inflows and outflows as operating, capital and non-capital financing and investing activity.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

In FY2016, the College recorded an increase of \$15,467,982 in total assets, an increase in deferred outflows of resources of \$817,177 and an increase of \$483,068 in total liabilities, along with a net reduction in deferred inflows of resources of \$288,822 resulting in an overall increase to the net position of \$16,090,913.

The College's assets total \$102,332,461 of which non-current represents 80% and 20% 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.

The College's liabilities total \$35,610,789 of which 74% represents long-term (non-current) obligations related to accrued employee compensation, debt service costs and the new accounting for the net pension 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 \$1,012,513 and deferred inflows of resources of \$1,926,785 at year-end.

The College closed FY2016 in a positive financial position and has sufficient current assets to cover current liabilities, a current ratio of (2.2:1). The current assets are \$20,086,751 and the current liabilities are \$9,275,931.

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

June 30, 2016 and 2015

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE - Continued

	<u>FY2016</u>	<u>FY2015</u>	(Restated) <u>FY2014</u>
Current Assets	\$ 20,086,751	\$ 20,972,429	\$ 20,804,558
Non-Current Assets	<u>82,245,710</u>	<u>65,892,050</u>	<u>50,353,122</u>
Total Assets	<u>102,332,461</u>	<u>86,864,479</u>	<u>71,157,680</u>
Total Deferred Outflows of Resources	<u>1,012,513</u>	<u>195,336</u>	<u>93,636</u>
Total Assets & Deferred Outflows of Resources	<u>103,344,974</u>	<u>87,059,815</u>	<u>71,251,316</u>
Current Liabilities	9,275,931	8,962,109	8,784,270
Non-Current Liabilities	<u>26,334,858</u>	<u>26,165,612</u>	<u>19,908,229</u>
Total Liabilities	<u>35,610,789</u>	<u>35,127,721</u>	<u>28,692,499</u>
Total Deferred Inflows of Resources	<u>1,926,785</u>	<u>2,215,607</u>	<u>2,301,406</u>
Total Liabilities & Deferred Inflows of Resources	<u>37,537,574</u>	<u>37,343,328</u>	<u>30,993,905</u>
Total Net Position =			
(Total Assets + Deferred Outflows of Resources)			
- (Total Liabilities + Deferred Inflows of Resources)	\$ <u>65,807,400</u>	\$ <u>49,716,487</u>	\$ 41,522,384
Overall Adjustment to the Statement of			<u>(1,264,973)</u>
Net Position; Due to Net Pension activity			
FY2014 Adjusted Net Position			\$ <u>40,257,411</u>

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

June 30, 2016 and 2015

NET POSITION

The difference between total assets and deferred outflows of resources, less total liabilities and deferred inflows of resources (net position) is \$65,807,400. The net position is detailed as follows:

	<u>FY2016</u>	<u>FY2015</u>	<u>(Restated)</u> <u>FY2014</u>
Unrestricted	\$ 5,574,497	\$ 6,690,693	\$ 7,696,602
Adjustment to Unrestricted;			
Due to Net Pension	<u>-</u>	<u>-</u>	<u>(1,264,973)</u>
Unrestricted - Restated	<u>5,574,497</u>	6,690,693	6,431,629
Restricted	1,461,153	1,550,518	1,391,127
Investments in Capital Assets, Net	<u>58,771,750</u>	<u>41,475,276</u>	<u>32,434,655</u>
 Total Net Position	 <u>\$ 65,807,400</u>	 <u>\$ 49,716,487</u>	 <u>\$ 40,257,411</u>

The College has positive balances in all three net position categories at the end of FY2016. Capital assets, representing land, buildings, construction in progress, equipment and educational resource materials, account for 89% 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 \$13,641,850. We also have unfunded liabilities with the Commonwealth of Massachusetts Unrestricted Fund Balance totaling (\$8,067,353). The Commonwealth Unrestricted Fund Balance includes liabilities for employee's accumulated sick and vacation leave and net pension activity.

College's Unrestricted Fund Balance	\$ 13,641,850
Commonwealth of Massachusetts Unrestricted Fund Balance	<u>(8,067,353)</u>
 Total Unrestricted Funds	 <u>\$ 5,574,497</u>

Note 20 of the Financial Statements, *Title to Various Assets and Liabilities*, explains the unrestricted fund balance in more detail.

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

June 30, 2016 and 2015

**STATEMENTS OF REVENUES AND EXPENSES AND STATEMENTS OF CHANGES
 IN NET POSITION**

The statements of revenues and expenses and statements of changes in net position presents the College's results of operations. A summary of the FY2016 operating and non-operating revenue, expenses and net position is as follows:

I.	NET POSITION, BEGINNING OF YEAR		\$ 49,719,487
II.	OPERATING REVENUE		
	TUITION, FEES, & OTHER REVENUE	44,018,959	
III.	OPERATIONAL EXPENSES	<u>69,492,158</u>	
IV.	OPERATING LOSS (II-III)	(25,473,199)	
V.	NON-OPERATING:		
	COMMONWEALTH APPROPRIATIONS	25,324,221	
	CAPITAL APPROPRIATIONS	441,701	
	NET INVESTMENT INCOME & INTEREST EXPENSE	<u>(1,166,240)</u>	
	TOTAL NON-OPERATING ACTIVITY	<u>24,599,682</u>	
VI.	NET INCOME /LOSS BEFORE CAPITAL IMPROVEMENTS (IV+V)	(873,517)	
VII.	CAPITAL IMPROVEMENTS TO BUILDINGS	<u>16,964,430</u>	
VIII.	<i>CHANGE IN NET POSITION (VI+VII)</i>		<u>16,090,913</u>
IX.	NET POSITION, END OF YEAR (I+VIII)		\$ <u>65,807,400</u>

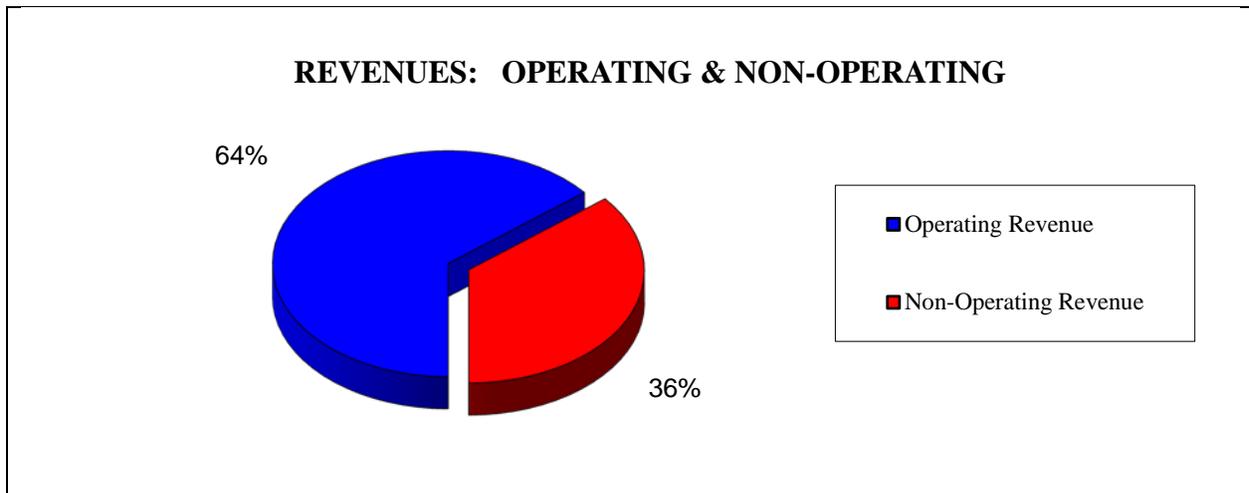
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Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

**STATEMENTS OF REVENUES AND EXPENSES AND STATEMENTS OF CHANGES
 IN NET POSITION - Continued**

As of June 30, 2016 the College realized an operating loss of \$25,473,199 (IV) due primarily to the nature of the Massachusetts public higher education funding system. The Commonwealth's FY2016 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 FY2016 funding for Capital Improvements to Buildings increases the net position of the College.



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 FY2016, non-operating revenue sources represent 36% of total annual income, as compared to 35% in FY2015, 34% in FY2014 and 32% in FY2013.

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

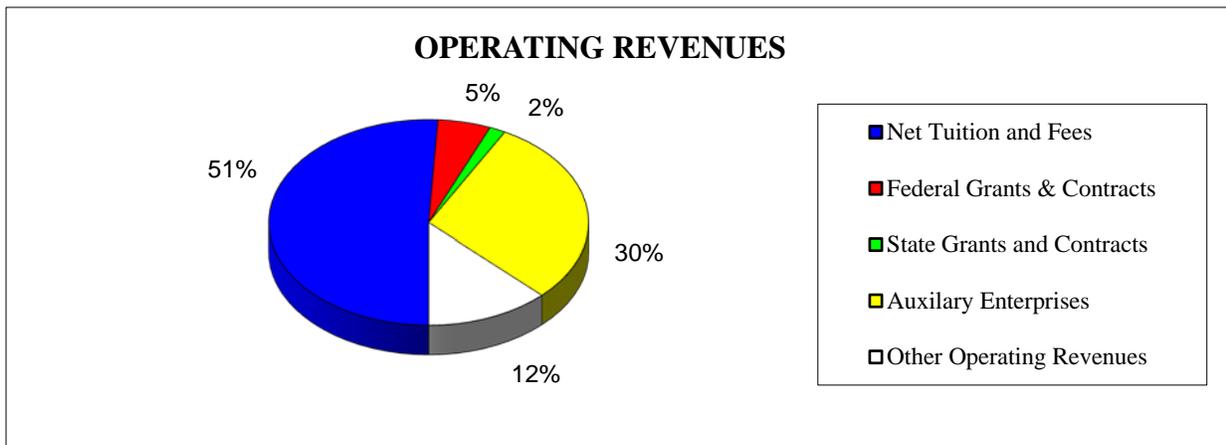
	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>
Undergraduate Day Program Student Charges	\$ 26,629,388	\$ 26,576,207	\$ 25,332,856
Graduate and Program of Continuing Education Tuition and Fees	<u>4,860,749</u>	<u>4,912,216</u>	<u>5,564,802</u>
Total Tuition and Fee Revenue	\$ <u>31,490,137</u>	\$ <u>31,488,423</u>	\$ <u>30,897,658</u>

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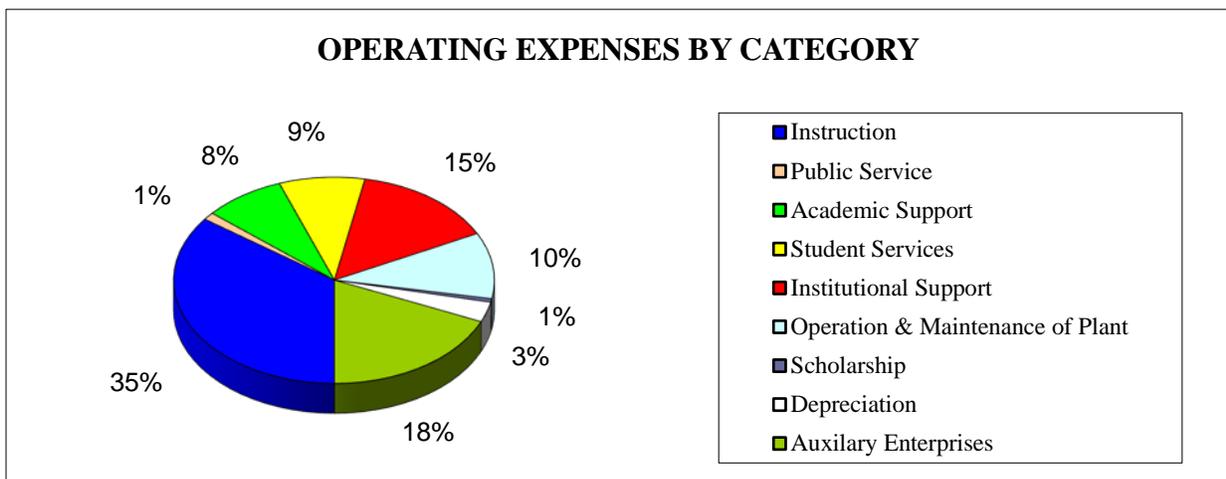
Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

**STATEMENTS OF REVENUES AND EXPENSES AND STATEMENTS OF CHANGES
 IN NET POSITION - Continued**



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 30% of operating revenue. Income from federal and state grants total 7% of operating income and another 12% classified as other operating revenues, derived from a variety of miscellaneous sources. Included in this category is \$2,784,121 in support from the Massachusetts College of Art and Design Foundation, Inc.



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Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

**STATEMENTS OF REVENUES AND EXPENSES AND STATEMENTS OF CHANGES
IN NET POSITION - Continued**

Operating expenditures totaled \$69,492,158. Consistent with the College's efforts to maintain competitive advantage, our instructional and academic support expenses account for 43% of total operating expenses. Auxiliary enterprises are 18% of total operating expenses, institutional (i.e. administrative expenditures) account for 15% of operational costs, which is significantly below peer institution spending rates. Plant (10%) and depreciation (3%) expenses account for 13% of the operating costs.

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

STATEMENTS OF CASH FLOWS

	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>
Cash, Beginning of Year	\$ 19,805,975	\$ 19,596,629	\$ 17,354,472
Cash, End of Year	\$ 18,806,422	\$ 19,805,975	\$ 19,596,629

The College's cash and cash equivalents decreased by \$999,553 in FY2016.

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.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

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Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

SUMMARY ANALYSIS AND COMMENT - Continued

The College has entered into FY2017, the second year of our five-year financial plan (approved by the Board of Trustees, Massachusetts Board of Higher Education and the Secretary of Education) which 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.

Management strives to maintain and increase the quality of our academic programs for our students. In addition, the College continues its commitment to efficient and transparent operations through continuous improvement and transparency. Administration and Finance will continue to coordinate the college wide risk assessments. The College began the implementation of BudgetPak (new budget management and business intelligence software) during FY2016. During FY 2017 training and final implementation of BudgetPak will be completed. The FY2018 Budget will be developed and managed by BudgetPak. The implementation of new budgeting software will promote efficiency and evaluation tools to better assist managers in their budgeting and forecasting. The total cost of a department will be available as well as 3+ years of historic budget data to employees tasked with department level budget development and management.

The College will continue its investment in facilities begun in FY2007 under the 2007 Campus Master Plan. The current rate of expenditure on renewal will slow down as the 2007 Campus Master Plan is completed during FY 2017 and 2018. FY2016 saw the completion of the Design and Media Center which has added approximately 40,000 gross square feet in new academic space. Projects started during FY2016 are a study for the replacement of the MassArt Tower Building, new electrical switch gear and infrastructure on the Evans Way side of campus, and a major upgrade in the Fire alarm system inside the Tower Building. Starting in FY2017, we will start phase 1 of the Paine and Bakalar Galleries Project. Phase 2 of the project will start during FY2018 and finish between 18 to 24 months of the start date. This will upgrade those facilities within the South Building to meet industry standards for gallery space and allow the facility to be used for academic purposes 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. This project will allow us to start to plan the renovation and renewal of the South Building as a part of a new Campus Master Plan.

The College continues to provide institutional financial aid at increased levels. Student scholarships are another critical component to student success. The activity in the General Scholarship Account over the years has risen from \$800,000 in FY2008 to \$5.4 million in FY2016. For FY2017, the institutional financial aid increased to \$7.3 million. The College adjusted its awarding to make more money available to the need based aid and Massachusetts resident categories. The fall 2016 incoming class is approximately 27% larger than the fall 2015 incoming class. This increase is mainly attributed to a change in recruitment tactics as well as

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Management's Discussion and Analysis - Continued

June 30, 2016 and 2015

SUMMARY ANALYSIS AND COMMENT - Continued

increased funding of the admissions operation in FY2016. This added scholarship support has allowed students to borrow less in the past several years. Loans processed by the Office of Student Financial Assistance have decreased significantly since FY2012 while scholarships and grant aid as well as student employment have seen significant increases.

The College will be assessing its institutional financial aid levels and growth as part of an overall assessment of our recruitment strategies during FY2017. Academic Affairs and Administration and Finance Divisions will be staffing and working together on this effort. The goal is to have this two-tiered assessment completed in time to inform the FY2018 budget process. The goal is to develop a more sustainable financial aid awarding matrix that aligns with our five-year financial plan that calls for 4% yearly caps on increases in student charges (non-housing). The assessment will also be looking at the new reality of needing to self-fund the second and third year of our collective bargaining contracts. All three unions are due to negotiate new collective bargaining agreements effective FY2018.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2016 College</u>	2015 <u>College</u>	<u>2016 Foundation</u>	2015 <u>Foundation</u>
Current Assets:				
Cash and equivalents	\$ 17,604,747	\$ 18,717,207	\$ 2,745,038	\$ 3,562,145
Deposits held by State Treasurer	996,616	864,516	-	-
Accounts receivable, net	607,926	526,421	-	-
Contributions receivable	-	-	432,478	342,765
Loans receivable	732,945	733,151	-	-
Prepaid expenses	-	-	1,447	-
Investments	-	-	11,833,382	11,507,214
Inventories	<u>144,517</u>	<u>131,134</u>	<u>-</u>	<u>-</u>
Total Current Assets	<u>20,086,751</u>	<u>20,972,429</u>	<u>15,012,345</u>	<u>15,412,124</u>
Non-Current Assets:				
Restricted cash and equivalents	172,194	191,420	-	-
Restricted deposits held by State Treasurer	32,865	32,832	-	-
Long-term contributions receivable, net	-	-	344,017	290,640
Investment in plant, net	<u>82,040,651</u>	<u>65,667,798</u>	<u>-</u>	<u>-</u>
Total Non-Current Assets	<u>82,245,710</u>	<u>65,892,050</u>	<u>344,017</u>	<u>290,640</u>
Total Assets	<u>102,332,461</u>	<u>86,864,479</u>	<u>15,356,362</u>	<u>15,702,764</u>
Deferred Outflows of Resources:				
Change in plan actuarial assumptions	420,936	13,285	-	-
Change in proportion due to internal allocation	433,982	48,367	-	-
Difference between expected and actual experience	48,045	-	-	-
Contributions made after the measurement date	<u>109,550</u>	<u>133,684</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>1,012,513</u>	<u>195,336</u>	<u>-</u>	<u>-</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 103,344,974</u>	 <u>\$ 87,059,815</u>	 <u>\$ 15,356,362</u>	 <u>\$ 15,702,764</u>

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2016 College</u>	2015 <u>College</u>	<u>2016 Foundation</u>	2015 <u>Foundation</u>
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,133,822	\$ 1,503,473	\$ 39,377	\$ 13,491
Accrued salaries and wages	2,020,253	1,745,104	-	-
Accrued compensated absences and benefits	3,051,179	2,908,663	-	-
Annuity payable	-	-	44,152	43,725
Bonds payable	1,093,062	923,621	-	-
Unearned revenues and deposits	<u>1,977,615</u>	<u>1,881,248</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>9,275,931</u>	<u>8,962,109</u>	<u>83,529</u>	<u>57,216</u>
Non-Current Liabilities:				
Accrued compensated absences and benefits	1,728,386	1,714,911	-	-
Bonds payable	22,175,839	23,268,901	-	-
Net pension liability	<u>2,430,633</u>	<u>1,181,800</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>26,334,858</u>	<u>26,165,612</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>35,610,789</u>	<u>35,127,721</u>	<u>83,529</u>	<u>57,216</u>
Deferred Inflows of Resources:				
Service concession revenue applicable to future years	1,855,073	1,972,634	-	-
Differences between projected and actual earnings on plan investments	69,846	242,564	-	-
Changes in proportion from Commonwealth	<u>1,866</u>	<u>409</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>1,926,785</u>	<u>2,215,607</u>	<u>-</u>	<u>-</u>
Net Position:				
Investment in capital assets, net	58,771,750	41,475,276	-	-
Restricted:				
Nonexpendable	58,622	58,622	4,882,603	4,504,004
Expendable	1,402,531	1,491,896	10,145,209	11,112,918
Unrestricted	<u>5,574,497</u>	<u>6,690,693</u>	<u>245,021</u>	<u>28,626</u>
Total Net Position	<u>65,807,400</u>	<u>49,716,487</u>	<u>15,272,833</u>	<u>15,645,548</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 103,344,974</u>	<u>\$ 87,059,815</u>	<u>\$ 15,356,362</u>	<u>\$ 15,702,764</u>

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Statements of Revenues and Expenses

For the Years Ended June 30,

	Primary Government		Component Unit	
	2016 College	2015 College	2016 Foundation	2015 Foundation
Operating Revenues:				
Tuition and fees	\$ 31,490,137	\$ 31,488,423	\$ -	\$ -
Less: scholarships and fellowships	<u>(9,072,041)</u>	<u>(8,789,026)</u>	-	-
Net tuition and fees	22,418,096	22,699,397	-	-
Gifts and contributions	-	-	1,783,175	1,984,859
Federal grants and contracts	2,357,515	2,598,555	-	-
State grants and contracts	714,978	694,552	-	-
In-kind revenue	-	-	408,942	274,243
Auxiliary enterprises	13,019,180	12,799,017	-	-
Other operating revenues	<u>5,509,190</u>	<u>5,221,725</u>	<u>1,520,074</u>	<u>1,223,515</u>
Total Operating Revenues	<u>44,018,959</u>	<u>44,013,246</u>	<u>3,712,191</u>	<u>3,482,617</u>
Operating Expenses:				
Educational and general:				
Instruction	24,374,109	22,996,852	-	-
Gifts and contributions	-	-	3,032,133	3,056,073
Public service	811,245	777,809	-	-
Academic support	5,690,590	6,083,229	-	-
Student services	5,990,875	5,218,078	-	-
Fundraising	-	-	791,021	714,503
Institutional support	10,060,799	9,812,998	240,325	231,141
Operation and maintenance of plant	7,201,256	7,035,358	-	-
Scholarships and fellowships	388,877	306,965	-	-
Depreciation	2,183,278	1,558,333	-	-
Auxiliary enterprises	<u>12,791,129</u>	<u>12,755,876</u>	-	-
Total Operating Expenses	<u>69,492,158</u>	<u>66,545,498</u>	<u>4,063,479</u>	<u>4,001,717</u>
Net Operating Loss	<u>(25,473,199)</u>	<u>(22,532,252)</u>	<u>(351,288)</u>	<u>(519,100)</u>
Non-Operating Revenues (Expenses):				
State appropriations, net	25,324,221	24,022,435	-	-
State capital appropriations	441,701	133,571	-	-
Investment income (loss)	55,005	25,231	(21,427)	144,625
Interest expense	<u>(1,221,245)</u>	<u>(957,871)</u>	-	-
Total Non-Operating Revenues (Expenses)	<u>24,599,682</u>	<u>23,223,366</u>	<u>(21,427)</u>	<u>144,625</u>
Net Income (Loss) Before Capital Improvements	(873,517)	691,114	(372,715)	(374,475)
Capital Improvements, DCAM	<u>16,964,430</u>	<u>8,767,962</u>	-	-
Changes in Net Position	<u>\$ 16,090,913</u>	<u>\$ 9,459,076</u>	<u>\$ (372,715)</u>	<u>\$ (374,475)</u>

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 Years Ended June 30,

		<u>College</u>			
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2014 as restated	\$ 32,434,655	\$ 58,622	\$ 1,332,505	\$ 6,431,629	\$ 40,257,411
Change in net position for 2015	<u>9,040,621</u>	<u>-</u>	<u>159,391</u>	<u>259,064</u>	<u>9,459,076</u>
Balance, June 30, 2015	41,475,276	58,622	1,491,896	6,690,693	49,716,487
Change in net position for 2016	<u>17,296,474</u>	<u>-</u>	<u>(89,365)</u>	<u>(1,116,196)</u>	<u>16,090,913</u>
Balance, June 30, 2016	<u>\$ 58,771,750</u>	<u>\$ 58,622</u>	<u>\$ 1,402,531</u>	<u>\$ 5,574,497</u>	<u>\$ 65,807,400</u>

		<u>Foundation</u>			
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Nonexpendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ -	\$ 4,330,168	\$ 11,615,557	\$ 74,298	\$ 16,020,023
Change in net position for 2015	<u>-</u>	<u>173,836</u>	<u>(502,639)</u>	<u>(45,672)</u>	<u>(374,475)</u>
Balance, June 30, 2015	-	4,504,004	11,112,918	28,626	15,645,548
Change in net position for 2016	<u>-</u>	<u>378,599</u>	<u>(967,709)</u>	<u>216,395</u>	<u>(372,715)</u>
Balance, June 30, 2016	<u>\$ -</u>	<u>\$ 4,882,603</u>	<u>\$ 10,145,209</u>	<u>\$ 245,021</u>	<u>\$ 15,272,833</u>

See accompanying notes to the financial statements.

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

Statements of Cash Flows

For the Years Ended June 30,

	2016 <u>College</u>	Primary Government 2015 <u>College</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 22,432,958	\$ 22,904,882
Grants and contracts	3,072,493	3,293,107
Payments to employees	(25,822,508)	(25,237,988)
Payments to suppliers and vendors	(20,523,141)	(19,958,872)
Loans issued	(39,500)	(99,000)
Collections on loans	39,706	33,677
Scholarships and fellowships	(388,877)	(306,965)
Auxiliary enterprises expenses	(12,791,129)	(12,755,876)
Auxiliary enterprises revenues	13,019,180	12,799,017
Other operating revenues	<u>5,241,629</u>	<u>4,892,953</u>
Net Cash Applied to Operating Activities	<u>(15,759,189)</u>	<u>(14,435,065)</u>
Cash Flows from Non-Capital Financing Activities:		
State Appropriations	17,898,905	17,446,652
9C reduction payment	<u>-</u>	<u>(245,302)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>17,898,905</u>	<u>17,201,350</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(1,000,000)	(1,000,000)
Principal paid on bonds payable	(923,621)	(697,421)
Interest paid on bonds payable	<u>(1,270,653)</u>	<u>(884,749)</u>
Net Cash Applied to Capital Financing Activities	<u>(3,194,274)</u>	<u>(2,582,170)</u>
Cash Flows from Investing Activity:		
Dividends and interest income	<u>55,005</u>	<u>25,231</u>
Net Increase (Decrease) in Cash and Equivalents	(999,553)	209,346
Cash and Equivalents, Beginning of Year	<u>19,805,975</u>	<u>19,596,629</u>
Cash and Equivalents, End of Year	<u>\$ 18,806,422</u>	<u>\$ 19,805,975</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (25,473,199)	\$ (22,532,252)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	2,183,278	1,558,333
Fringe benefits provided by State appropriations	7,425,316	6,821,085
Deferred inflows of resources	(267,561)	(328,772)
Bad debts	58,706	95,781
Changes in assets and liabilities:		
Accounts and loans receivable	(140,005)	6,982
Inventories	(13,383)	(7,016)
Accounts payable and accrued expenses	(320,243)	(392,796)
Accrued salaries and wages	275,149	76,057
Accrued compensated absences and benefits	155,991	265,669
Unearned revenues and deposits	96,367	37,400
Net pension liability	<u>260,395</u>	<u>(35,536)</u>
Net Cash Applied to Operating Activities	<u>\$ (15,759,189)</u>	<u>\$ (14,435,065)</u>

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>Primary Government</u>	
	<u>2016 College</u>	<u>2015 College</u>
Summary of Restricted Cash and Equivalents and Cash and Equivalents, End of Year:		
Cash and equivalents	\$ 17,604,747	\$ 18,717,207
Deposits held by State Treasurer	996,616	864,516
Restricted cash and equivalents	172,194	191,420
Restricted deposits held by State Treasurer	<u>32,865</u>	<u>32,832</u>
Cash and Equivalents, End of Year	<u>\$ 18,806,422</u>	<u>\$ 19,805,975</u>
Non-Cash Transactions:		
Fringe benefits provided by State appropriations	<u>\$ 7,425,316</u>	<u>\$ 6,821,085</u>
Capital improvements provided by state capital appropriations	<u>\$ 441,701</u>	<u>\$ 133,571</u>
Capital improvements, DCAM	<u>\$ 16,964,430</u>	<u>\$ 8,767,962</u>
Construction in progress	<u>\$ -</u>	<u>\$ 7,250,000</u>
Bonds payable	<u>\$ -</u>	<u>\$ 7,250,000</u>
Deferred inflows of resources - service concession revenue	<u>\$ 370,861</u>	<u>\$ 328,772</u>
Deferred inflows of resources - service concession agreement - building improvements	<u>\$ 150,000</u>	<u>\$ -</u>

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, 2016 and 2015

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 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. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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 supplemental information. The College presents statements of net position, revenues and expenses, changes in net position and cash flows on a combined College-wide basis.

The College's policies for defining operating activities in the statements of revenues and expenses are those that generally result from exchange transactions such as the payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the College's operating and capital appropriations from the State, investment income, and interest expense.

Net Position

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

Investment in capital assets, net: 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.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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 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.

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.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

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

New Governmental Accounting Pronouncements

GASB Statement 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

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

New Governmental Accounting Pronouncements - Continued

benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

Note 2 - **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, 2016 and 2015 were approximately \$11,515,000 and \$11,461,000.

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, 2016 and 2015, the College has \$11,515,064 and \$11,460,682, respectively, invested with MMDT and is included in cash and equivalents.

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 3 - **Investments**

Foundation

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

	<u>2016</u>	<u>2015</u>
Equity mutual funds	\$ 6,278,552	\$ 7,443,285
Fixed income mutual funds	4,998,796	3,462,782
Hedge funds	<u>556,034</u>	<u>601,147</u>
Total investments	\$ <u>11,833,382</u>	\$ <u>11,507,214</u>

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

	<u>2016</u>	<u>2015</u>
Dividend and interest income	\$ 316,508	\$ 376,079
Net realized gains on investments	511,451	2,712
Net unrealized losses on investments	<u>(849,386)</u>	<u>(234,166)</u>
Total return (loss) on investments	\$ <u>(21,427)</u>	\$ <u>144,625</u>

Note 4 - **Accounts Receivable**

Accounts receivable comprise the following at June 30:

	<u>2016</u>	<u>2015</u>
Student accounts receivable	\$ 694,558	\$ 671,759
Less: allowance for doubtful accounts	<u>86,632</u>	<u>145,338</u>
	\$ <u>607,926</u>	\$ <u>526,421</u>

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 5 - **Contributions Receivable**

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using varying discount rates of 5.00% to 7.00%.

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

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 432,478	\$ 342,765
Due within one to five years	<u>367,767</u>	<u>309,833</u>
Gross contributions receivable	800,245	652,598
Unamortized discount	<u>(23,750)</u>	<u>(19,193)</u>
Total Contributions Receivable	\$ <u>776,495</u>	\$ <u>633,405</u>

Note 6 - **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, 2016 and 2015 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:

	<u>2016</u>	<u>2015</u>
Perkins loans receivable	\$ 661,486	\$ 661,692
Joslin loans receivable	<u>71,459</u>	<u>71,459</u>
	\$ <u>732,945</u>	\$ <u>733,151</u>

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 7 - **Capital Assets**

Capital assets activity for the year ended June 30, 2016 is as follows:

	Lives (In Years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Non-depreciable:						
Land		\$ 5,677	\$ -	\$ -	\$ -	\$ 5,677
Construction in progress		<u>35,459,282</u>	<u>3,228,033</u>	-	<u>(33,901,970)</u>	<u>4,785,345</u>
Total non-depreciable		<u>35,464,959</u>	<u>3,228,033</u>	-	<u>(33,901,970)</u>	<u>4,791,022</u>
Depreciable:						
Buildings, including improvements	40	98,121,701	15,328,098	-	33,901,970	147,351,769
Furnishings and equipment	3 to 10	2,435,779	-	(105,478)	-	2,330,301
Educational resource materials	5	<u>2,057,529</u>	-	-	-	<u>2,057,529</u>
Total depreciable		<u>102,615,009</u>	<u>15,328,098</u>	<u>(105,478)</u>	<u>33,901,970</u>	<u>151,739,599</u>
Less: accumulated depreciation:						
Buildings, including improvements		67,918,862	2,183,278	-	-	70,102,140
Furnishings and equipment		2,435,779	-	(105,478)	-	2,330,301
Educational resource materials		<u>2,057,529</u>	-	-	-	<u>2,057,529</u>
Total accumulated depreciation		<u>72,412,170</u>	<u>2,183,278</u>	<u>(105,478)</u>	-	<u>74,489,970</u>
Capital assets, net		<u>\$ 65,667,798</u>	<u>\$ 16,372,853</u>	\$ -	\$ -	<u>\$ 82,040,651</u>

Capital assets activity for the year ended June 30, 2015 is as follows:

	Estimated Lives (In Years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Non-depreciable:						
Land		\$ 5,677	\$ -	\$ -	\$ -	\$ 5,677
Construction in progress		<u>18,307,749</u>	<u>17,151,533</u>	-	-	<u>35,459,282</u>
Total non-depreciable		<u>18,313,426</u>	<u>17,151,533</u>	-	-	<u>35,464,959</u>
Depreciable:						
Buildings, including improvements	40	98,121,701	-	-	-	98,121,701
Furnishings and equipment	3 to 10	2,501,490	-	(65,711)	-	2,435,779
Educational resource materials	5	<u>2,057,529</u>	-	-	-	<u>2,057,529</u>
Total depreciable		<u>102,680,720</u>	-	<u>(65,711)</u>	-	<u>102,615,009</u>
Less: accumulated depreciation:						
Buildings, including improvements		66,360,529	1,558,333	-	-	67,918,862
Furnishings and equipment		2,501,490	-	(65,711)	-	2,435,779
Educational resource materials		<u>2,057,529</u>	-	-	-	<u>2,057,529</u>
Total accumulated depreciation		<u>70,919,548</u>	<u>1,558,333</u>	<u>(65,711)</u>	-	<u>72,412,170</u>
Capital assets, net		<u>\$ 50,074,598</u>	<u>\$ 15,593,200</u>	\$ -	\$ -	<u>\$ 65,667,798</u>

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Long-Term Liabilities**

Activity in long-term liabilities for the year ended June 30, 2016 consists of the following:

	<u>Beginning Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending Balance</u>		<u>Current Portion</u>
Bonds payable	\$ 24,192,522	\$	-	\$	923,621	\$	23,268,901	\$	1,093,062
Other non-current liabilities:									
Compensated absences	4,269,572		4,465,286		4,269,572		4,465,286		2,984,866
Worker's compensation	354,002		314,279		354,002		314,279		66,313
Net pension liability	<u>1,181,800</u>		<u>1,248,833</u>		<u>-</u>		<u>2,430,633</u>		<u>-</u>
Total	<u>\$ 29,997,896</u>	\$	<u>6,028,398</u>	\$	<u>5,547,195</u>	\$	<u>30,479,099</u>	\$	<u>4,144,241</u>

Activity in long-term liabilities for the year ended June 30, 2015 consists of the following:

	<u>Beginning Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending Balance</u>		<u>Current Portion</u>
Bonds payable	\$ 17,639,943	\$	7,250,000	\$	697,421	\$	24,192,522	\$	923,621
Other non-current liabilities:									
Compensated absences	4,026,222		4,269,572		4,026,222		4,269,572		2,831,491
Worker's compensation	331,683		354,002		331,683		354,002		77,172
Net pension liability	<u>1,358,609</u>		<u>159,800</u>		<u>336,609</u>		<u>1,181,800</u>		<u>-</u>
Total	<u>\$ 23,356,457</u>	\$	<u>12,033,374</u>	\$	<u>5,391,935</u>	\$	<u>29,997,896</u>	\$	<u>3,832,284</u>

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%.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 8 - **Long-Term Liabilities - Continued**

Maturities of bond principal and interest subsequent to June 30, 2016 are as follows:

Fiscal Years <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,093,062	\$ 1,096,364
2018	1,134,263	1,054,186
2019	1,181,944	1,003,799
2020	1,236,385	952,223
2021	1,284,066	894,716
2022-2026	7,449,511	1,874,449
2027-2031	7,494,670	1,454,234
2032-2034	<u>2,395,000</u>	<u>710,965</u>
	<u>\$ 23,268,901</u>	<u>\$ 9,040,936</u>

Note 9 - **Pensions**

Defined Benefit Plan Description

The College makes contributions for employees paid by state appropriations through a benefit charge assessed by the Commonwealth. Such pension expense amounted to \$2,425,000 and \$2,599,000 for the years ended June 30, 2016 and 2015, respectively. Employees, who contribute a percentage of their regular compensation, fund the annuity portion of the retirement system. Annual covered payroll was approximately 96% and 95% of total related payroll for the years ended June 30, 2016 and 2015, respectively.

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

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

Defined Benefit Plan Description - Continued

The Massachusetts State Employees' Retirement System does not issue a stand-alone financial statement.

Benefit Provisions

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

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

Contributions - Continued

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

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

The College is required to contribute at an actuarially determined rate; the rate was 9.45% and 10.39% of annual covered payroll for the years ended June 30, 2016 and 2015, respectively. The College contributed \$109,550 and \$133,684 for the years ended June 30, 2016 and 2015, respectively, equal to 100% of the required contributions for each year.

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

At June 30, 2016 and 2015, the College reported a liability of \$2,430,633 and \$1,181,800, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability was measured as of June 30, 2015, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015 for reporting at June 30, 2016, the reporting date. The net pension liability was measured as of June 30, 2014, 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, 2014 rolled forward to June 30, 2014. The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts', collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2015 and 2014. The Commonwealth's proportionate share was based on actual employer contributions to the SERS for fiscal years 2015 and 2014 relative to total contributions of all participating employers for the fiscal years. At June 30, 2015 and 2014, the College's proportion was 0.021% and 0.017%, respectively.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

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

For the years ended June 30, 2016 and 2015, the College recognized pension expense of \$372,808 and \$98,148, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

	<u>2016</u>	<u>2015</u>
<u>Deferred Outflows of Resources</u>		
Change in plan actuarial assumptions	\$ 420,936	\$ 13,285
Change in proportion due to internal allocation	433,982	48,367
Difference between expected and actual experience	48,045	-
Contributions made after the measurement date	<u>109,550</u>	<u>133,684</u>
Total	<u>\$ 1,012,513</u>	<u>\$ 195,336</u>
<u>Deferred Inflows of Resources</u>		
Differences between projected and actual earnings on plan investments	\$ 69,846	\$ 242,564
Changes in proportion from Commonwealth	<u>1,866</u>	<u>409</u>
Total	<u>\$ 71,712</u>	<u>\$ 242,973</u>

The College's contributions of \$109,550 and \$133,684 made during fiscal years ending 2016 and 2015, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in each of the succeeding years.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

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

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

Years Ending <u>June 30,</u>	
2017	\$ 174,681
2018	174,681
2019	174,681
2020	252,733
2021	<u>54,475</u>
	<u>\$ 831,251</u>

Actuarial Assumptions

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

Measurement date	June 30, 2015	June 30, 2014
Inflation	3.00%	3.00%
Salary Increases	3.50% to 9.00%	3.50% to 9.00%
Investment rate of return	7.50%	8.00%
Interest rate credited to annuity savings fund	3.50%	3.50%

For measurement dates June 30, 2015 and 2014, mortality rates were based on pre-retirement of the RP-2000 Employees table projected 20 years with Scale BB and Scale AA, (gender distinct), respectively, and post-retirement of Healthy Annuitant table projected 15 years with Scale BB and AA (gender distinct), respectively.

The actuarial assumptions used in the January 1, 2015 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 were consistent with the results of the actuarial experience study performed as of January 1, 2015.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

Actuarial Assumptions - Continued

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

Asset Class	2015		2014	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	40%	6.90%	43%	7.20%
Core Fixed Income	13%	2.40%	13%	2.50%
Hedge Funds	9%	5.80%	10%	5.50%
Private Equity	10%	8.50%	10%	8.80%
Real Estate	10%	6.50%	10%	6.30%
Portfolio Completion Strategies	4%	5.50%	0%	0.00%
Value Added Fixed Income	10%	5.80%	10%	6.30%
Timber/Natural Resources	4%	6.60%	4%	5.00%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% and 8.0%, respectively, at June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 9 - **Pensions - Continued**

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.

June 30, 2016		
Current		
1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 3,304,022	\$ 2,430,633	\$ 1,677,315
June 30, 2015		
Current		
1.00% Decrease (7.00%)	Discount Rate (8.00%)	1.00% Increase (9.00%)
\$ 1,710,893	\$ 1,181,800	\$ 727,635

Note 10 - **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 \$505,000 and \$444,000 during the years ended June 30, 2016 and 2015, respectively. In accordance to the agreement, the College received \$150,000 in building improvements during the year ended June 30, 2016.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 10 - **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 is required to provide certain leasehold improvements to the bookstore with an estimated value of \$87,000 during the fiscal year ending 2017.

Recognition of deferred inflows in annual revenue related to the Campus Dining Facilities and Campus Bookstore agreements is as follows:

Years Ending <u>June 30,</u>	
2017	\$ 375,147
2018	375,147
2019	375,147
2020	375,147
2021	354,485
	<u>\$ 1,855,073</u>

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 11 - **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:

	<u>2016</u>	<u>2015</u>
Restricted - non-expendable, categorized by allowable income usage:		
Scholarships	\$ 53,714	\$ 53,714
Loans	<u>4,908</u>	<u>4,908</u>
	<u>\$ 58,622</u>	<u>\$ 58,622</u>
Restricted - expendable:		
Program activities	\$ 492,703	\$ 591,228
Loans	<u>909,828</u>	<u>900,668</u>
	<u>\$ 1,402,531</u>	<u>\$ 1,491,896</u>

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 12 - **Contingencies**

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

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 12 - **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.

Note 13 - **Operating Expenses**

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

	<u>2016</u>	<u>2015</u>
Compensation and benefits	\$ 33,241,039	\$ 32,365,263
Supplies and services	33,678,964	32,314,937
Depreciation	2,183,278	1,558,333
Scholarships and fellowships	<u>388,877</u>	<u>306,965</u>
	<u>\$ 69,492,158</u>	<u>\$ 66,545,498</u>

Note 14 - **Fringe Benefits**

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

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 14 - **Fringe Benefits - Continued**

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

Group Insurance Commission

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

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

The GIC is a quasi-independent state agency governed by an eleven member body (the "Commission") appointed by the Governor. The GIC is administratively located within the Executive Office of Administration and Finance and is responsible for providing health insurance and other benefits to the State's employees and retirees, and their survivors and dependents. During the years ended June 30, 2016 and 2015, 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 pre-tax health care spending account and dependent care assistance program (for active employees only).

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 15 - **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 \$2,784,000 and \$2,872,000, included within other operating revenues, for the years ended June 30, 2016 and 2015, respectively.

Note 16 - **Pass-Through Student Federal Loans**

The College distributed \$10,989,890 and \$12,657,414 for student loans through the United States Department of Education federal direct lending program for the years ended June 30, 2016 and 2015, respectively. 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 17 - **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, 2016 were \$171,000.

Future annual lease payments subsequent to June 30, 2016 are as follows:

Years Ending <u>June 30,</u>	
2017	\$ 171,000
2018	171,000
2019	171,000
2020	<u>171,000</u>
	<u>\$ 684,000</u>

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 18 - **Litigation**

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 19 - **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*.

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

	<u>2016</u>	<u>2015</u>
Direct unrestricted appropriations	\$ 17,898,905	\$ 17,446,652
Less: 9C reduction	<u>-</u>	<u>(245,302)</u>
Total direct unrestricted appropriations	17,898,905	17,201,350
Fringe benefits for benefited employees on the State payroll	<u>7,425,316</u>	<u>6,821,085</u>
Total unrestricted appropriations	25,324,221	24,022,435
Capital appropriations	<u>441,701</u>	<u>133,571</u>
Total appropriations	<u>\$ 25,765,922</u>	<u>\$ 24,156,006</u>

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.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 19 - **Massachusetts Management Accounting and Reporting System - Continued**

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

	<u>2016</u>	<u>2015</u>
Revenue per MMARS	\$ 53,256,572	\$ 51,744,964
Revenue per College	<u>53,256,572</u>	<u>51,744,964</u>
Difference	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2016</u>	<u>2015</u>
Expenditures per MMARS	\$ 53,960,038	\$ 51,268,286
Expenditures per College	<u>53,960,116</u>	<u>51,289,805</u>
Difference	<u>\$ (78)</u>	<u>\$ (21,519)</u>

Note 20 - **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.

MASSACHUSETTS COLLEGE OF ART AND DESIGN
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Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 20 - **Title to Various Assets and Liabilities - Continued**

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.

Massachusetts College of Art and Design's Preliminary Unrestricted Net Position at June 30, 2016		\$	15,554,703
	<u>Local</u>	<u>State</u>	<u>Total</u>
Reconciling items:			
Inventories	\$ 144,517	\$ -	\$ 144,517
Deferred outflows of resources	-	1,012,513	1,012,513
Deferred inflows of resources	(1,855,073)	(71,712)	(1,926,785)
Accrued salaries and wages	-	(2,020,253)	(2,020,253)
Accrued compensated absences and benefits	(202,297)	(4,557,268)	(4,759,565)
Net pension liability	-	(2,430,633)	<u>(2,430,633)</u>
Total			<u>(9,980,206)</u>
Massachusetts College of Art and Design's Audited Unrestricted Net Position at June 30, 2016		\$	<u>5,574,497</u>
Distribution of Unrestricted Net Position:			
Local funds		\$	13,641,850
State funds			<u>(8,067,353)</u>
		\$	<u>5,574,497</u>

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 20 - **Title to Various Assets and Liabilities - Continued**

Massachusetts College of Art and Design's Preliminary Unrestricted Net Position at June 30, 2015		\$ 16,130,308
	<u>Local</u>	<u>State</u>
	<u>Total</u>	
Reconciling items:		
Inventories	\$ 131,134	\$ -
Deferred outflows of resources	-	195,336
Deferred inflows of resources	(1,972,634)	(242,973)
Accrued salaries and wages	-	(1,745,104)
Accrued compensated absences and benefits	(231,089)	(4,392,485)
Net pension liability	-	(1,181,800)
Total		<u>(9,439,615)</u>
Massachusetts College of Art and Design's Audited Unrestricted Net Position at June 30, 2015		<u>\$ 6,690,693</u>
Distribution of Unrestricted Net Position:		
Local funds		\$ 14,057,719
State funds		<u>(7,367,026)</u>
		<u>\$ 6,690,693</u>

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

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 21 - **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 years 2016 and 2015, the College expended \$361,579 and \$414,199, respectively, 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 years 2016 and 2015, the College expended \$2,158,274 and \$1,974,110, respectively, for the Artist Residence. For the years ended June 30, 2016 and 2015, the College expended \$3,930,075 and \$3,788,389, respectively, 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	January 1, 2015	January 1, 2014
Measurement Date	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.021%	0.017%
Proportionate share of the collective net pension liability	\$ 2,430,633	\$ 1,181,800
College's covered-employee payroll	\$ 1,286,659	\$ 1,180,782
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188.91%	100.09%
Plan fiduciary net position as a percentage of the plan's total pension liability	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,

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 109,550	\$ 133,684
Contributions in relation to the contractually required contribution	<u>109,550</u>	<u>133,684</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,158,859	\$ 1,286,662
Contribution as a percentage of covered-employee payroll	9.45%	10.39%

Notes:

Employers participating in the Massachusetts State Employees' Retirement System are required by MA General Laws, Section 32, to contribute an 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)

Notes to the Required Supplementary Information (Unaudited)

For the Years Ended June 30, 2016 and 2015

Note 1 - **Changes in Assumptions**

Changes in assumptions about the discount rate from 8.00% to 7.50%, using different scales within mortality tables, and other inputs resulted in additional plan wide pension expense of \$2.33 billion dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2016. Previously, changes in assumptions about future economic or demographic factors and inputs resulted in additional plan wide pension expense of \$102 million dollars to be charged to income over an amortization period of 5.5 years beginning with the fiscal year ended June 30, 2015. The unamortized portion of the change is reported as a deferred outflow of resources in the statements of net position. The College's proportionate share of the net pension liability and the results of changes in assumptions is 0.021% and 0.017%, respectively, as shown on the Schedules of Proportionate Share of Net Pension Liability, and represents the relationship of contributions made by the College to total contributions by all participating State Agencies.

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

	<u>2016</u>	<u>2015</u>
Changes in assumptions	\$ 510,822	\$ 16,237
Recognized in current year pension expense	<u>(89,886)</u>	<u>(2,952)</u>
Changes in assumptions, net	<u>\$ 420,936</u>	<u>\$ 13,285</u>

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



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

To the Board of Trustees of
Massachusetts College of 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 years ended June 30, 2016 and 2015, 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 13, 2016.

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 audits 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 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 13, 2016

SUPPLEMENTAL INFORMATION

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

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

June 30,

Assets

	<u>2016</u>	<u>2015</u>
Asset:		
Cash and equivalents	\$ <u>4,121,630</u>	\$ <u>3,921,800</u>
Total Dormitory Trust Fund Assets	\$ <u>4,121,630</u>	\$ <u>3,921,800</u>

Liabilities and Net Position

Liabilities:		
Compensated absences	\$ 45,375	\$ 42,692
Workers' compensation	<u>3,194</u>	<u>3,540</u>
Total Dormitory Trust Fund Liabilities	<u>48,569</u>	<u>46,232</u>
Net Position:		
Dormitory Trust Net Position - Smith Hall	363,758	361,664
Dormitory Trust Net Position - Artist Residence	2,503,476	2,547,158
Dormitory Trust Net Position - Treehouse	<u>1,205,827</u>	<u>966,746</u>
Total Net Position	<u>4,073,061</u>	<u>3,875,568</u>
Total Dormitory Trust Fund Liabilities and Net Position	\$ <u>4,121,630</u>	\$ <u>3,921,800</u>

* - At June 30, 2016 and 2015, a portion of the College's \$2,430,633 and \$1,181,800, respectively, net pension liability would be allocated to the Dormitory Trust Fund's net position balance.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

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

For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Revenues:		
Student rents	\$ 6,310,050	\$ 6,623,333
Contract rents	3,847,406	3,279,433
Other	<u>823,082</u>	<u>760,550</u>
Total Revenues	<u>10,980,538</u>	<u>10,663,316</u>
Expenses:		
Loans and special payments	6,449,928	6,176,698
Operational services	3,948,871	3,970,125
Regular employee compensation	260,453	254,263
Pension and insurance related	81,865	77,048
Information technology	11,456	149,111
Regular employee related	8,679	8,434
Administrative	7,931	8,957
Special employee compensation	4,547	5,504
Equipment leases	3,783	2,814
Facility operational	3,572	1,270
Consultant services	-	11,810
Equipment purchases	<u>-</u>	<u>7,873</u>
Total Expenses	<u>10,781,085</u>	<u>10,673,907</u>
Increase (Decrease) of Revenues Over Expenses	199,453	(10,591)
Transfers	<u>(1,960)</u>	<u>(27,449)</u>
Total Increase (Decrease) in Net Position	197,493	(38,040)
Net Position, Beginning of Year	<u>3,875,568</u>	<u>3,913,608</u>
Net Position, End of Year	<u>\$ 4,073,061</u>	<u>\$ 3,875,568</u>