

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

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

JUNE 30, 2019

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

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

June 30, 2019 and 2018

C O N T E N T S

Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-14
Financial Statements:	
Statements of Net Position	15
Statements of Revenues and Expenses	16
Statements of Changes in Net Position	17
Statement of Cash Flows	18-19
Notes to the Financial Statements	20-56
Required Supplementary Information:	
Schedules of Proportionate Share of the Net Pension Liability (Unaudited)	57
Schedules of Contributions (Unaudited)	58
Schedule of Proportionate Share of the Net OPEB Liability (Unaudited)	59
Schedule of Contributions – OPEB (Unaudited)	60
Notes to the Required Supplementary Information (Unaudited)	61 -63
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 <i>Government Auditing Standards</i>	64-65
Supplemental Information:	
Schedule of Net Position - Dormitory Trust Fund Report (Unaudited)	66
Schedule of Revenues, Expenses, and Changes in Net Position - Dormitory Trust Fund Report (Unaudited)	67



INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Massachusetts College of Art and Design (an agency of the Commonwealth of Massachusetts the "Commonwealth") (the "College"), and its discretely presented component unit, Massachusetts College of Art and Design Foundation, Inc. (the "Foundation") which comprise the statements of net position as of June 30, 2019 and 2018, the 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, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 and its discretely presented component unit as of June 30, 2019 and 2018, and the respective changes in net position and cash flows thereof 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 and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Supplemental Information

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 Schedule of Net Position – Dormitory Trust Fund Report and the Schedule of Revenues, Expenses, and Changes in Net Position – Dormitory Trust Fund Report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the 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 11, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's 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.

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

**Certified Public Accountants
Braintree, Massachusetts**

October 11, 2019

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2019



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, 2019. 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 2,500 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 400 full-time faculty and staff. Our urban campus is located on the Avenue of the Arts (Huntington Avenue) in Boston, Massachusetts.

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

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

FINANCIAL HIGHLIGHTS

- In FY2019, the College was funded by both operating revenue (local tuition and fees), and non-operating revenue (state appropriations).
- In FY2019, the College experienced an increase in operating revenue to \$54,571,032 of approximately \$3.8 million. Tuition & Fee revenue increased by approximately a net amount of \$857 thousand. Auxiliary enterprises increased by approximately \$284 thousand and the other operating revenues experienced increases of approximately \$2.7 million.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2019

FINANCIAL HIGHLIGHTS - Continued

- In non-operation revenue for FY2019, the College received a special Capital Appropriation of \$7.1 million towards the rehab and renovations necessary with the South Building of the Campus.
- Non-operating revenue in FY2019 increased by approximately \$9.4 million to \$36,033,786. The College had an increase in state funding and higher funding of fringe benefits of approximately \$2.4 million from the Commonwealth, plus the capital repair funding from the Division of Capital Asset Management and Maintenance (DCAMM).
- The College's operating expenses for FY2019 totaled \$77,655,966, an increase from the prior year of approximately \$2.93 million.
- In FY2019, the College experienced a net gain of \$12,948,852 before Capital Improvements. Capital Improvements additions from the Commonwealth were \$555,848 for the fiscal year.
- The College's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources at the close of FY2019, leaving a net position of \$80,795,495, an increase of approximately \$13.5 million from the FY2018 position.
- On the FY2019 financial statements, the College had a net increase in Investment in Plant of approximately \$10.4 million to \$103,640,980. In FY2019, the College had capitalized activity of approximately \$12.7 million along with \$2.3 million in depreciation expense.
- In the prior fiscal year FY2018, the College implemented a new accounting standard, GASB 75, to report OPEB, Post-Employment Benefits Other than Pensions. The valuation of this new liability and costs is an allocation from the Commonwealth. The net overall effect was a reduction of \$4,222,989 to the College's FY2017 Unrestricted Net Position. The assessment of this liability and other related items are listed on the College's Statement of Net Position. The FY2019 Non-Current Liability for the OPEB is valued at \$3,240,670. This valuation was \$4,003,270 for FY2018.
- Beginning with the FY2015 financial statements, the College implemented an accounting standard to report the net pension liability for its non-state supported employees. The valuation of this liability is an allocation from the Commonwealth of Massachusetts. This liability and other related items are listed on the Statement of Net Position. For FY2019, this pension liability portion for the College was valued at \$1,844,997. The FY2018 valuation was \$1,819,832. The FY2017 liability valuation amount was \$2,103,656 and the FY2016 valuation was \$2,430,633.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2019

USING THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

In FY2019, the College recorded an increase of \$11,552,324 in total assets, a decrease of \$1,858,131 in total liabilities, along with accounting changes to deferred inflows and outflows of resources, resulting in an overall increase to the net position of \$13,504,700.

The College's assets total \$125,090,558 of which non-current represents 83%, and 17% 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.

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

Management's Discussion and Analysis - Continued

June 30, 2019

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE – Continued

The College's liabilities total \$43,061,681 of which 76.5% represents long-term (non-current) obligations related to accrued employee compensation, debt service costs and the accounting for the net pension liability and the OPEB liability. Current liabilities consist of accounts payable, deferred revenue and the current portion of long-term obligations.

The College also has deferred outflows of resources of \$966,549 and deferred inflows of resources of \$2,199,931 at year-end. These account for other changes in the net pension and OPEB valuations plus revenue applicable to future years for service concessions.

The College closed FY2019 in a positive financial position and has sufficient current assets to cover current liabilities, a current ratio of (2.09:1). The current assets are \$21,171,663 and the current liabilities are \$10,116,361.

	<u>FY2019</u>	<u>FY2018</u>	<u>FY2017</u>
Current Assets	\$21,171,663	\$20,203,948	\$19,169,162
Non-Current Assets	<u>103,918,895</u>	<u>93,364,286</u>	<u>85,353,343</u>
Total Assets	125,090,558	113,568,234	104,522,505
Total Deferred Outflows of Resources	<u>966,549</u>	<u>816,473</u>	<u>925,192</u>
Total Assets & Deferred Outflows of Resources	<u>126,057,107</u>	<u>114,384,707</u>	<u>105,447,697</u>
Current Liabilities	10,116,361	9,717,713	9,808,628
Non-Current Liabilities	<u>32,945,320</u>	<u>35,202,099</u>	<u>25,118,134</u>
Total Liabilities	43,061,681	44,919,812	34,926,762
Total Deferred Inflows of Resources	<u>2,199,931</u>	<u>2,174,100</u>	<u>1,958,720</u>
Total Liabilities & Deferred Inflows of Resources	<u>45,261,612</u>	<u>47,123,912</u>	<u>36,885,482</u>
Total Net Position =			
(Total Assets + Deferred Outflows of Resources)			
- (Total Liabilities + Deferred Inflows of Resources)	<u>\$ 80,795,495</u>	<u>\$ 67,290,795</u>	68,562,215
Overall Adjustment to the Statement of Net Position			<u>(4,222,989)</u>
Restated FY2017 Net Position			<u>\$64,339,226</u>

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

Management's Discussion and Analysis - Continued

June 30, 2019

NET POSITION

The difference between total assets and deferred outflows of resources, less total liabilities and deferred inflows of resources (net position) is \$80,705,495. The net position is detailed as follows:

	<u>FY2019</u>	<u>FY2018</u>	<u>(Restated)</u> <u>FY2017</u>
Unrestricted	3,580,930	1,614,404	4,112,532
Adjustment to Unrestricted Net Assets Due to GASB 75 - OPEB			<u>(4,222,989)</u>
Unrestricted - Restated			(110,457)
Restricted - Nonexpendable	58,622	58,622	58,622
Restricted - Expendable	1,034,266	1,389,246	1,453,660
Investments in Capital Assets, Net	<u>76,121,677</u>	<u>64,228,523</u>	<u>62,937,401</u>
 Total Net Position	 <u>\$ 80,795,495</u>	 <u>\$ 67,290,795</u>	 <u>\$ 64,339,226</u>

The restatement of FY2017 brought the ending Unrestricted Net Assets into a negative position. The College however has positive balances in all three net position categories at the end of FY2018 and FY2019. Capital assets, representing land, buildings, construction in progress, equipment and educational resource materials, account for 94% 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 \$16,689,722. We also have unfunded liabilities with the Commonwealth of Massachusetts Unrestricted Fund Balance totaling (\$13,108,792). The Commonwealth Unrestricted Fund Balance includes liabilities for employee's accumulated sick and vacation leave, net pension activity and OPEB activity.

College's Unrestricted Fund Balance	\$ 16,689,722
Commonwealth of Massachusetts Unrestricted Fund Balance	<u>(13,108,792)</u>
 Total Unrestricted Funds	 <u>\$ 3,580,930</u>

Note 22 of the Financial Statements (page 54), *Title to Various Assets and Liabilities*, explains the unrestricted fund balance in more detail.

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

Management's Discussion and Analysis - Continued

June 30, 2019

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

The statement of revenues and expenses and statement of changes in net position presents the College's results of operations. A summary of the FY2019 operating and non-operating revenue, expenses and net position is as follows:

I.	NET POSITION, BEGINNING OF YEAR	\$ 67,290,795
II.	OPERATING REVENUE	
	TUITION, FEES, & OTHER REVENUE	54,571,032
III.	OPERATIONAL EXPENSES	<u>77,655,966</u>
IV.	OPERATING LOSS (II-III)	(23,084,934)
V.	NON-OPERATING:	
	COMMONWEALTH APPROPRIATIONS	29,797,353
	CAPITAL APPROPRIATIONS	7,150,804
	INVESTMENT INCOME	348,292
	& INTEREST EXPENSE	<u>(1,262,663)</u>
	TOTAL NON-OPERATING ACTIVITY	<u>36,033,786</u>
VI.	NET INCOME /LOSS BEFORE CAPITAL IMPROVEMENTS (IV+V)	12,948,852
VII.	CAPITAL IMPROVEMENTS TO BUILDINGS	<u>555,848</u>
VIII.	<i>CHANGE IN NET POSITION (VI+VII)</i>	<u>13,504,700</u>
IX.	NET POSITION, END OF YEAR (I+VIII)	<u>\$ 80,795,495</u>

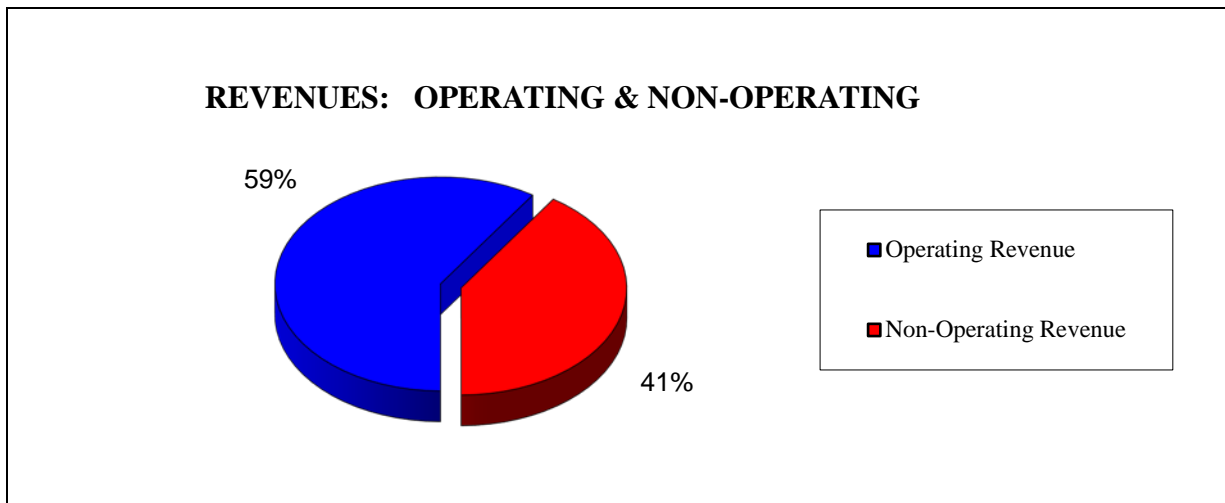
MASSACHUSETTS COLLEGE OF ART AND DESIGN
 (an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2019

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

As of June 30, 2019, the College realized an operating loss of \$23,084,934 (IV) due primarily to the nature of the Massachusetts public higher education funding system. The Commonwealth's FY2019 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. Also in FY2019, included in non-operating revenue, the College was directly appropriated \$7.1 million for Capital repairs. In addition, the Commonwealth's FY2019 funding for Capital Improvements to Buildings increases the net position of the College.



FY2019	Operating	Non- Operating	Total
Revenues	\$54,571,032	\$37,296,449	\$91,867,481
<u>Expenses</u>	<u>\$77,655,966</u>	<u>\$1,262,663</u>	<u>\$78,918,629</u>
Net	(\$23,084,934)	\$36,033,786	\$12,948,852

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 FY2019, non-operating revenue sources were at 41% of the total annual income compared to a FY2018 level of 35%. The FY2017 and FY2016 level was at 36%. In FY2015, non-operating revenue was at 35%.

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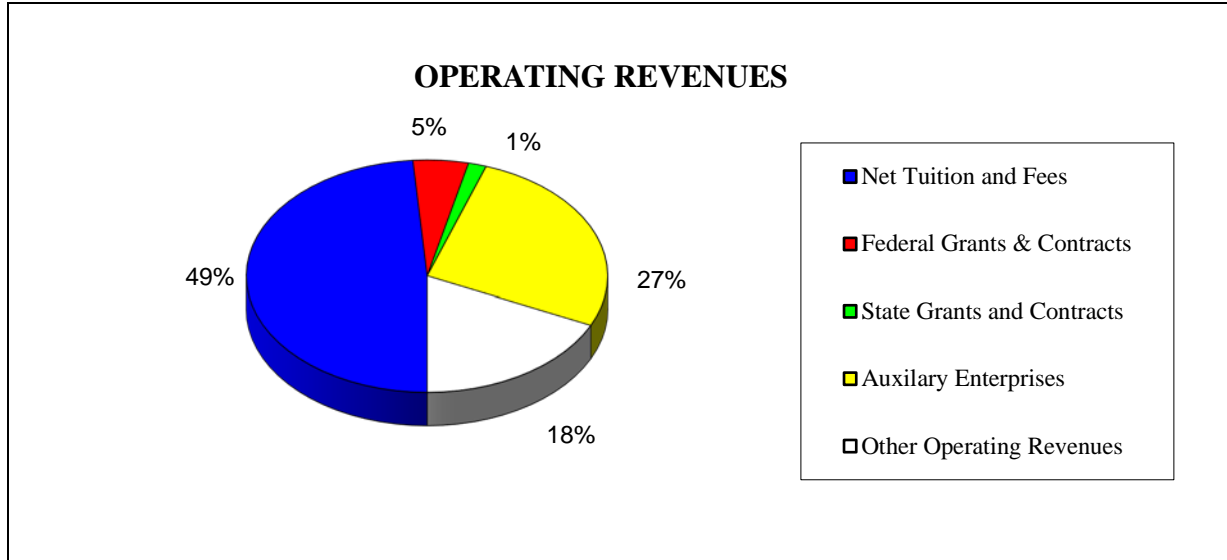
Management's Discussion and Analysis - Continued

June 30, 2019

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

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

	<u>FY2019</u>	<u>FY2018</u>	<u>FY2017</u>
Undergraduate Day Program Student Charges	\$32,288,466	\$31,574,738	\$28,787,660
Graduate and Program of Continuing Education Tuition and Fees	<u>5,217,491</u>	<u>5,381,820</u>	<u>5,307,275</u>
Total Tuition and Fee Revenue	<u>\$37,500,957</u>	<u>\$36,956,558</u>	<u>\$34,094,935</u>
Less: Scholarships	<u>(10,906,294)</u>	<u>(11,219,086)</u>	<u>(10,580,043)</u>
Net Tuition and Fees Revenue	<u>\$26,594,663</u>	<u>\$25,737,472</u>	<u>\$23,514,892</u>



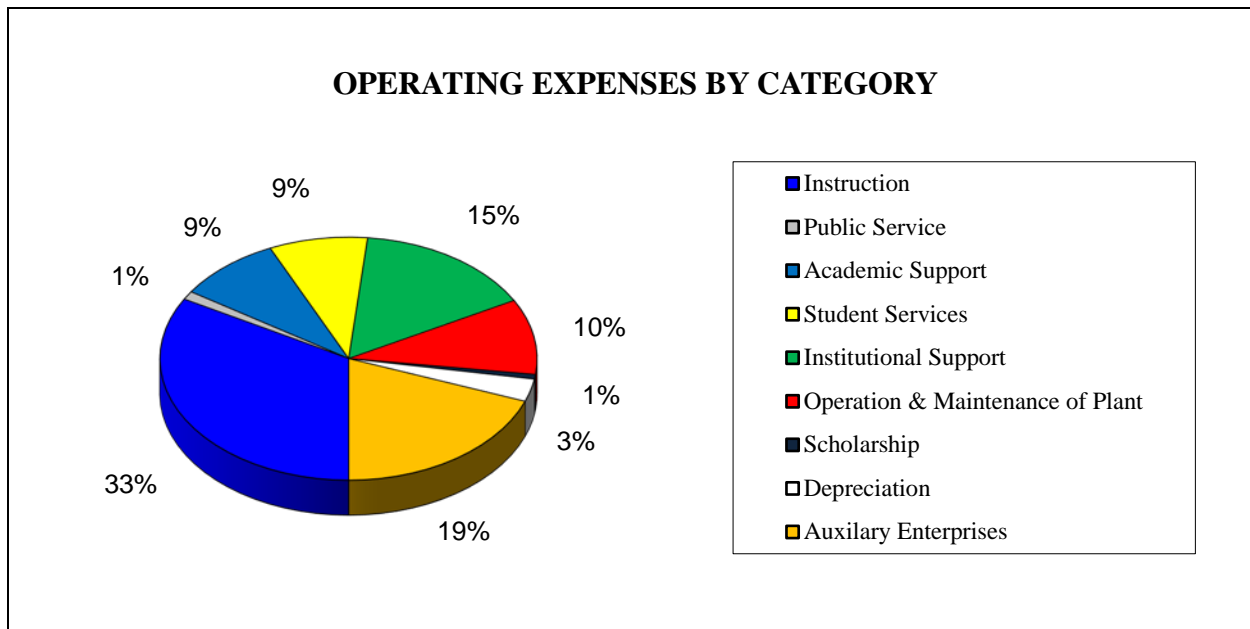
Tuition and fees are the largest source of operating revenue, accounting for 49% of total operating resources. The College's auxiliary enterprises, consisting of the residence halls and dormitory dining, accounts for 27% of operating revenue. Income from federal and state grants total 6% of operating income and another 18% classified as other operating revenues, derived from a variety of miscellaneous sources. Included in this category is \$6,874,212 in support from the Massachusetts College of Art and Design Foundation, Inc.

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

Management’s Discussion and Analysis - Continued

June 30, 2019

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



Operating expenditures totaled \$77,655,966. Consistent with the College’s efforts to maintain competitive advantage, our instructional and academic support expenses account for 42% (33% & 9%) of total operating expenses. Auxiliary enterprises are 19% of total operating expenses, institutional (i.e. administrative expenditures) account for 15% of operational costs, which is below peer institution spending rates. Plant (10%) and depreciation (3%) expenses account for 13% of the operating costs. Student Services are at 9% of operating expenditures.

In FY2019, in addition to the direct Capital Appropriation of \$7.1 million, the Commonwealth of Massachusetts, through Division of Capital Asset Management and Maintenance (DCAMM), had Capital Improvements to Buildings of the College in the amount of \$555,848. In FY2018, Capital Improvements were \$279,547. In FY2017, the College had Capital Improvements from the Commonwealth in the amount of \$4,196,537. \$16,964,430 was the FY2016 Improvement amount. In FY2015, this Capital amount was \$8,767,962.

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

Management's Discussion and Analysis - Continued

June 30, 2019

STATEMENT OF CASH FLOWS

	<u>FY2019</u>	<u>FY2018</u>	<u>FY2017</u>
Cash, Beginning of Year	\$ 18,661,806	\$ 17,816,048	\$ 18,806,422
Cash, End of Year	\$ 19,920,128	\$ 18,661,806	\$ 17,816,048

The College's cash and cash equivalents increased by \$1,258,322 in FY2019.

SUMMARY ANALYSIS AND COMMENT

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

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

The College has entered into FY2020; the final year of our five-year financial plan (approved by the Board of Trustees, Massachusetts Board of Higher Education and the Secretary of Education.) The plan helps guide decisions during the budget process. Management has developed this five-year Financial Plan as part of our Partnership Plan with the Massachusetts Board of Higher Education and the Secretary of Education. In FY2020, the College completed its five-year strategic plan with a ten-year outlook. This new strategic plan will help guide the College in both programmatic and budgeting for the next five years.

Management continues to strive to maintain and increase the quality of our academic programs for our students. In addition, the College will continue its commitment to efficient and transparent operations through continuous improvement and transparency. Administration and Finance will continue to coordinate the college wide risk assessments and incorporate the results into the budget process. We will continue to share with the Board of Trustees on an annual basis the results of these assessments. The FY2020 Budget will be a close coordination between the Academic Departments, Student Development and Administration and Finance.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

June 30, 2019

SUMMARY ANALYSIS AND COMMENT – Continued

The Paine and Bakalar Galleries Project and the South Building upgrades are complete, and the building has been reopened in August 2019. Total cost of the two projects were \$25 million. The New MassArt Art Museum (MAAM) will open in February 2020 and features:

- A new front entrance, elevator, and climate and relative-humidity control system
- Towering 36-foot ceilings that expose the original 1906 terracotta vaulting and steel trusses, allowing us to exhibit large-scale, site-specific installations
- An expansive catwalk encourages you to view art from various perspectives
- The Arne Glimcher Plaza, a new outdoor space that invites you to rest, relax, and reflect

The first exhibition, opening February 2020, will feature renowned Portuguese artist Joana Vasconcelos will premiere a new monumental site-specific installation. Known for her unprecedented multimedia works, Vasconcelos, in her first U.S. solo show, will honor Elizabeth “Mumbet” Freeman, an enslaved woman whose court battle for her freedom in 1781 helped make slavery illegal in Massachusetts. The large-scale installation entitled Valkyrie Mumbet, is the newest in her Valkyries series, named after Norse female war goddesses, which pays homage to inspiring women.

Student scholarships are another critical component to student success and attracting the most qualified students in the region. The activity in the General Scholarship Account over the years has risen from \$800 thousand in FY2008 to \$7.4 million in FY2019. Additional student support was allocated for FY2020. The College adjusted its awarding to make more money available to the need-based aid and Massachusetts resident categories. The Fall semester for the 2019 incoming class will be smaller than last year due to decreasing numbers of available students in Massachusetts and the Northeast as a whole, increasing competition with our peer schools. The Admissions team will continue to evaluate and adjust their approach to achieve its enrollment goals for the coming year.

During FY2019 and continuing in FY2020, the College along with DCAMM, is studying a strategy to refurbish the Tower Building at MassArt. The building has significant deferred maintenance needs that unaddressed will impact the long-term viability of the academic program and the College. Our goal is to determine the most feasible way to address these concerns and the long-term financial implications on any plan to address these issues. In addition, MassArt is in the process of implementing a \$12M Accelerated Energy Program (AEP) that will reduce energy use through replacement of lighting, controls and equipment with energy efficient systems.

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

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	Primary Government		Component Unit	
	2019 College	2018 College	2019 Foundation	2018 Foundation
Current Assets:				
Cash and equivalents	\$ 19,037,445	\$ 17,268,850	\$ 1,660,016	\$ 3,361,662
Deposits held by State Treasurer	604,768	1,223,883	-	-
Accounts receivable, net	651,227	796,748	-	-
Contributions receivable	-	-	525,728	545,669
Loans receivable	641,191	717,836	-	-
Other receivables	111,402	27,094	-	-
Prepaid expenses	-	10,535	-	7,607
Investments	-	-	12,244,483	13,641,369
Inventories	<u>125,630</u>	<u>159,002</u>	<u>-</u>	<u>-</u>
Total Current Assets	<u>21,171,663</u>	<u>20,203,948</u>	<u>14,430,227</u>	<u>17,556,307</u>
Non-Current Assets:				
Restricted cash and equivalents	244,515	135,950	-	-
Restricted deposits held by State Treasurer	33,400	33,123	-	-
Long-term contributions receivable, net	-	-	28,738	190,278
Investment in plant, net	<u>103,640,980</u>	<u>93,195,213</u>	<u>-</u>	<u>-</u>
Total Non-Current Assets	<u>103,918,895</u>	<u>93,364,286</u>	<u>28,738</u>	<u>190,278</u>
Total Assets	<u>125,090,558</u>	<u>113,568,234</u>	<u>14,458,965</u>	<u>17,746,585</u>
Deferred Outflows of Resources:				
Other post-employment benefit ("OPEB") related, net	441,379	186,646	-	-
Pension related, net	<u>525,170</u>	<u>629,827</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>966,549</u>	<u>816,473</u>	<u>-</u>	<u>-</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 126,057,107</u>	 <u>\$ 114,384,707</u>	 <u>\$ 14,458,965</u>	 <u>\$ 17,746,585</u>

See accompanying notes to the financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	Primary Government		Component Unit	
	2019 College	2018 College	2019 Foundation	2018 Foundation
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,302,109	\$ 1,405,103	\$ 13,891	\$ 28,553
Accrued salaries and wages	1,855,055	1,771,124	-	-
Current portion accrued compensated absences and benefits	2,958,437	2,847,467	-	-
Annuity payable	-	-	9,833	12,411
Current portion lease payable	22,913	21,401	-	-
Current portion bonds payable	1,578,036	1,425,983	-	-
Unearned revenues and deposits	<u>2,399,811</u>	<u>2,246,635</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>10,116,361</u>	<u>9,717,713</u>	<u>23,724</u>	<u>40,964</u>
Non-Current Liabilities:				
Accrued compensated absences and benefits, net of current portion	1,941,299	1,859,691	-	-
Lease payable, net of current portion	24,533	47,446	-	-
Bonds payable, net of current portion	25,893,821	27,471,860	-	-
Net other post-employment benefit ("OPEB") liability	3,240,670	4,003,270	-	-
Net pension liability	<u>1,844,997</u>	<u>1,819,832</u>	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>32,945,320</u>	<u>35,202,099</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>43,061,681</u>	<u>44,919,812</u>	<u>23,724</u>	<u>40,964</u>
Deferred Inflows of Resources:				
Service concession revenue applicable to future years	729,632	1,104,779	-	-
Other post-employment benefit related, net	1,010,682	532,845	-	-
Pension related, net	<u>459,617</u>	<u>536,476</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>2,199,931</u>	<u>2,174,100</u>	<u>-</u>	<u>-</u>
Net Position:				
Net investment in capital assets	76,121,677	64,228,523	-	-
Restricted:				
Nonexpendable	58,622	58,622	5,312,968	5,336,400
Expendable	1,034,266	1,389,246	8,616,066	11,790,684
Unrestricted	<u>3,580,930</u>	<u>1,614,404</u>	<u>506,207</u>	<u>578,537</u>
Total Net Position	<u>80,795,495</u>	<u>67,290,795</u>	<u>14,435,241</u>	<u>17,705,621</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 126,057,107</u>	<u>\$ 114,384,707</u>	<u>\$ 14,458,965</u>	<u>\$ 17,746,585</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	
	2019 College	2018 College	2019 Foundation	2018 Foundation
Operating Revenues:				
Tuition and fees	\$ 37,500,957	\$ 36,956,558	\$ -	\$ -
Less: scholarships and fellowships	<u>(10,906,294)</u>	<u>(11,219,086)</u>	-	-
Net tuition and fees	26,594,663	25,737,472	-	-
Gifts and contributions	-	-	2,372,250	4,138,186
Federal grants and contracts	2,702,754	2,698,441	-	-
State grants and contracts	880,852	857,000	-	-
Auxiliary enterprises	14,551,817	14,268,030	-	-
In-kind revenue	-	-	90,970	93,777
Other operating revenues	<u>9,840,946</u>	<u>7,172,580</u>	<u>1,533,357</u>	<u>1,385,809</u>
Total Operating Revenues	<u>54,571,032</u>	<u>50,733,523</u>	<u>3,996,577</u>	<u>5,617,772</u>
Operating Expenses:				
Educational and general:				
Instruction	25,740,171	24,601,327	-	-
Gifts and contributions	-	-	7,004,327	3,646,527
Public service	864,019	933,028	-	-
Academic support	6,918,459	6,416,623	-	-
Student services	6,560,021	6,287,342	-	-
Fundraising	-	-	898,308	695,345
Institutional support	11,995,246	11,405,015	249,395	209,838
Operation and maintenance of plant	7,787,901	7,631,255	-	-
Scholarships and fellowships	481,246	426,354	-	-
Depreciation	2,339,489	2,262,710	-	-
Auxiliary enterprises	<u>14,969,414</u>	<u>14,759,529</u>	-	-
Total Operating Expenses	<u>77,655,966</u>	<u>74,723,183</u>	<u>8,152,030</u>	<u>4,551,710</u>
Net Operating (Loss) Revenue	<u>(23,084,934)</u>	<u>(23,989,660)</u>	<u>(4,155,453)</u>	<u>1,066,062</u>
Non-Operating Revenues (Expenses):				
Commonwealth operating appropriations, net	29,797,353	27,398,873	-	-
Commonwealth capital appropriations	7,150,804	118,600	-	-
Investment income	348,292	182,450	885,073	667,373
Interest expense	<u>(1,262,663)</u>	<u>(1,038,241)</u>	-	-
Total Non-Operating Revenues (Expenses)	<u>36,033,786</u>	<u>26,661,682</u>	<u>885,073</u>	<u>667,373</u>
Changes in Net Position Before Capital Improvements	12,948,852	2,672,022	(3,270,380)	1,733,435
Capital Improvements, DCAM	<u>555,848</u>	<u>279,547</u>	-	-
Changes in Net Position	<u>\$ 13,504,700</u>	<u>\$ 2,951,569</u>	<u>\$ (3,270,380)</u>	<u>\$ 1,733,435</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>				
	Net Investment in Capital <u>Assets</u>	Restricted <u>Nonexpendable</u>	Restricted <u>Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2017	\$ 62,937,401	\$ 58,622	\$ 1,453,660	\$ (110,457)	\$ 64,339,226
Change in net position for 2018	<u>1,291,122</u>	<u>-</u>	<u>(64,414)</u>	<u>1,724,861</u>	<u>2,951,569</u>
Balance, June 30, 2018	64,228,523	58,622	1,389,246	1,614,404	67,290,795
Change in net position for 2019	<u>11,893,154</u>	<u>-</u>	<u>(354,980)</u>	<u>1,966,526</u>	<u>13,504,700</u>
Balance, June 30, 2019	<u>\$ 76,121,677</u>	<u>\$ 58,622</u>	<u>\$ 1,034,266</u>	<u>\$ 3,580,930</u>	<u>\$ 80,795,495</u>

	<u>Foundation</u>				
	Net Investment in Capital <u>Assets</u>	Restricted <u>Nonexpendable</u>	Restricted <u>Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2017	\$ -	\$ 5,060,595	\$ 10,573,229	\$ 338,362	\$ 15,972,186
Change in net position for 2018	<u>-</u>	<u>275,805</u>	<u>1,217,455</u>	<u>240,175</u>	<u>1,733,435</u>
Balance, June 30, 2018	-	5,336,400	11,790,684	578,537	17,705,621
Change in net position for 2019	<u>-</u>	<u>(23,432)</u>	<u>(3,174,618)</u>	<u>(72,330)</u>	<u>(3,270,380)</u>
Balance, June 30, 2019	<u>\$ -</u>	<u>\$ 5,312,968</u>	<u>\$ 8,616,066</u>	<u>\$ 506,207</u>	<u>\$ 14,435,241</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,

	<u>Primary Government</u>	
	<u>2019 College</u>	<u>2018 College</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 26,809,052	\$ 25,690,863
Grants and contracts	3,583,606	3,555,441
Payments to employees	(27,664,557)	(26,230,274)
Payments to suppliers and vendors	(22,592,132)	(22,168,686)
Collections on loans	76,645	31,309
Scholarships and fellowships	(481,246)	(426,354)
Auxiliary enterprises expenses	(14,969,414)	(14,759,529)
Auxiliary enterprises revenues	14,551,817	14,268,030
Other operating revenues	<u>9,465,799</u>	<u>6,797,433</u>
Net Cash Applied to Operating Activities	<u>(11,220,430)</u>	<u>(13,241,767)</u>
Cash Flows from Non-Capital Financing Activity:		
Commonwealth appropriations	<u>19,954,983</u>	<u>18,078,191</u>
Net Cash Provided by Non-Capital Financing Activity	<u>19,954,983</u>	<u>18,078,191</u>
Cash Flows from Capital Financing Activities:		
Purchases of capital assets	(5,078,604)	(2,000,000)
Principal paid on capital lease payable	(21,401)	(19,988)
Principal paid on bonds payable	(1,425,986)	(1,135,697)
Interest paid on bonds payable	<u>(1,298,532)</u>	<u>(1,017,431)</u>
Net Cash Applied to Capital Financing Activities	<u>(7,824,523)</u>	<u>(4,173,116)</u>
Cash Flows from Investing Activity:		
Dividends and interest income	<u>348,292</u>	<u>182,450</u>
Net Increase in Cash and Equivalents	1,258,322	845,758
Cash and Equivalents, Beginning of Year	<u>18,661,806</u>	<u>17,816,048</u>
Cash and Equivalents, End of Year	<u>\$ 19,920,128</u>	<u>\$ 18,661,806</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (23,084,934)	\$ (23,989,660)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	2,339,489	2,262,710
Fringe benefits provided by State appropriations	9,842,370	9,320,682
Deferred inflows and outflows of resources	(375,147)	(375,147)
Bad debts	(64,447)	12,118
Changes in assets and liabilities:		
Accounts and loans receivable	286,616	(211,308)
Other receivable	(84,311)	26,731
Prepaid expenses	10,535	(10,535)
Inventories	33,372	(23,839)
Accounts payable and accrued expenses	(67,125)	(197,567)
Accrued salaries and wages	83,931	(153,205)
Accrued compensated absences and benefits	192,578	(255,609)
Unearned revenues and deposits	153,176	157,159
Net other post-employment benefit liability	(539,496)	126,480
Net pension activity	<u>52,963</u>	<u>69,223</u>
Net Cash Applied to Operating Activities	<u>\$ (11,220,430)</u>	<u>\$ (13,241,767)</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</u>	
	<u>Government</u>	
	2019	2018
	<u>College</u>	<u>College</u>
Summary of Restricted Cash and Equivalents and		
Cash and Equivalents, End of Year:		
Cash and equivalents	\$ 19,037,445	\$ 17,268,850
Deposits held by State Treasurer	604,768	1,223,883
Restricted cash and equivalents	244,515	135,950
Restricted deposits held by State Treasurer	<u>33,400</u>	<u>33,123</u>
Cash and Equivalents, End of Year	<u>\$ 19,920,128</u>	<u>\$ 18,661,806</u>
Non-Cash Transactions:		
Fringe benefits provided by Commonwealth appropriations	<u>\$ 9,842,370</u>	<u>\$ 9,320,682</u>
Capital improvements provided by Commonwealth capital appropriations	<u>\$ 7,150,804</u>	<u>\$ 118,600</u>
Capital improvements provided by DCAM	<u>\$ 555,848</u>	<u>\$ 279,547</u>
Capital assets acquired through bond proceeds and note payable, MSCBA	<u>\$ -</u>	<u>\$ 7,857,701</u>
Deferred inflows of resources - service concession revenue	<u>\$ 375,147</u>	<u>\$ 375,147</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, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies

Organization

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

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”).

The Massachusetts College of Art and Design Foundation, Inc. (the “Foundation”), a component unit of the College, was organized to render financial assistance and support to the educational programs and development of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included within these financial statements because of the nature and significance of its relationship with the College. The complete financial statements can be obtained from the Foundation’s administrative offices in Boston, Massachusetts.

Revenues are recorded when earned and expenses when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The College’s policy for defining operating activities in the statement of revenues and expenses are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the College’s operating and capital appropriations from the Commonwealth of Massachusetts (the “Commonwealth”), net investment income and interest expense.

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Net Position

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

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

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

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

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

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.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair market value at the date of donation. Capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The College's capitalization threshold is \$50,000 with a useful live of greater than one year for capital assets.

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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.

Post-employment Benefits Other Than Pensions ("OPEB")

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

Fringe Benefits

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

Compensated Absences

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

Unearned Revenues and Deposits

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Student Tuition and Fees

Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts paid directly to the students are generally reflected as operating expenses.

Tax Status

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require.

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

New Governmental Accounting Pronouncements

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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.

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, 2019 and 2018, the College has \$12,099,922 and \$11,798,501, respectively, invested with MMDT and is included in cash and equivalents. MMDT is an instrumentality of the Treasurer of the Commonwealth and therefore is not covered by FDIC insurance and its political sub-divisions. It is designed as a legal means to temporarily invest available cash in safe, liquid and high yield investment vehicles by offering participation in a diversified portfolio of high-quality money market instruments.

Of the bank balances of approximately \$7,600,000 and \$5,970,000 at June 30, 2019 and 2018, \$395,094 and \$312,863 was covered by federal depository insurance; collateralization agreements covered \$7,209,289 and \$5,660,458, respectively. The insured balances reflect guarantees from the FDIC in effect during June 30, 2019 and 2018. All bank balances (not including MMDT) were either insured or collateralized at June 30, 2019 and 2018.

Note 3 - **Investments**

Foundation

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

	<u>2019</u>	<u>2018</u>
Equity mutual funds	\$ 9,150,978	\$ 8,749,351
Fixed income mutual funds	3,093,505	4,881,386
Common Stock	<u>-</u>	<u>10,632</u>
	<u>\$ 12,244,483</u>	<u>\$ 13,641,369</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 4 - **Accounts Receivable**

Accounts receivable comprise the following at June 30,:

	<u>2019</u>	<u>2018</u>
Student accounts receivable	\$ 828,029	\$ 909,103
Less: allowance for doubtful accounts	<u>176,802</u>	<u>112,355</u>
	<u>\$ 651,227</u>	<u>\$ 796,748</u>

Note 5 - **Contributions Receivable**

Foundation

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

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

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 525,728	\$ 545,669
Due within one to five years	<u>123,748</u>	<u>231,166</u>
Gross contributions receivable	649,476	776,835
Unamortized discount and allowance	<u>(95,010)</u>	<u>(40,888)</u>
Total Contributions Receivable	<u>\$ 554,466</u>	<u>\$ 735,947</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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, 2019 and 2018 and considers the balance to be fully collectible and, accordingly, no allowance for doubtful accounts is required. Loans receivable are comprised of the following at June 30,:

	<u>2019</u>	<u>2018</u>
Perkins loans receivable	\$ 569,732	\$ 646,377
Joslin loans receivable	<u>71,459</u>	<u>71,459</u>
	<u>\$ 641,191</u>	<u>\$ 717,836</u>

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 can receive a spring semester Perkins loan disbursement. The College is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2019-20 academic year.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 7 - Capital Assets

Capital assets activity for the year ended June 30, 2019 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>16,349,211</u>	<u>12,229,709</u>	-	<u>(2,515,639)</u>	<u>26,063,281</u>
Total non-depreciable		<u>16,354,888</u>	<u>12,229,709</u>	-	<u>(2,515,639)</u>	<u>26,068,958</u>
Depreciable:						
Buildings, including improvements	40	152,007,844	555,547	-	2,515,639	155,079,030
Furnishings and equipment	3 to 10	2,314,682	-	(24,953)	-	2,289,729
Educational resource materials	5	<u>2,057,529</u>	-	-	-	<u>2,057,529</u>
Total depreciable		<u>156,380,055</u>	<u>555,547</u>	<u>(24,953)</u>	<u>2,515,639</u>	<u>159,426,288</u>
Less: accumulated depreciation:						
Buildings, including improvements		75,236,580	2,316,469	-	-	77,553,049
Furnishings and equipment		2,245,621	23,020	(24,953)	-	2,243,688
Educational resource materials		<u>2,057,529</u>	-	-	-	<u>2,057,529</u>
Total accumulated depreciation		<u>79,539,730</u>	<u>2,339,489</u>	<u>(24,953)</u>	-	<u>81,854,266</u>
Capital assets, net		<u>\$ 93,195,213</u>	<u>\$ 10,445,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,640,980</u>

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 8 - Long-Term Liabilities

Activity in long-term liabilities for the year ended June 30, 2019 consists of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 28,897,843	\$ -	\$ 1,425,986	\$ 27,471,857	\$ 1,578,036
Other non-current liabilities:					
Lease payable	68,847	-	21,401	47,446	22,913
Compensated absences	4,221,989	4,333,434	4,221,989	4,333,434	2,835,549
Worker's compensation	485,169	566,302	485,169	566,302	122,888
Other post-employment benefit liability	4,003,270	-	762,600	3,240,670	-
Net pension liability	<u>1,819,832</u>	<u>-</u>	<u>(25,165)</u>	<u>1,844,997</u>	<u>-</u>
Total	<u>\$ 39,496,950</u>	<u>\$ 4,899,736</u>	<u>\$ 6,891,980</u>	<u>\$ 37,504,706</u>	<u>\$ 4,559,386</u>

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Maturities of bond principal and interest subsequent to June 30, 2019 are as follows:

Fiscal Years <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,578,036	\$ 1,179,611
2021	1,627,507	1,115,310
2022	1,697,463	1,048,400
2023	1,767,939	976,708
2024	1,836,125	901,515
2025 - 2029	10,464,787	3,246,569
2030 - 2034	6,540,000	910,424
2035 - 2038	<u>1,960,000</u>	<u>179,909</u>
	<u>\$ 27,471,857</u>	<u>\$ 9,558,446</u>

Note 9 - **Pensions**

Defined Benefit Plan Description

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

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

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - Pensions - Continued

Benefit Provisions

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

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

Contributions

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

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

<u>Hire Date</u>	<u>Percent 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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - **Pensions - Continued**

Contributions - continued

For employees covered by SERS but not paid from State appropriations, the College is required to contribute at an actuarially determined rate. The rate was 12.06%, 11.78% and 9.95% of annual covered payroll for the fiscal years ended June 30, 2019, 2018 and 2017, respectively. The College contributed \$137,212, \$127,527 and \$110,939 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively, equal to 100% of the required contributions for each year. Annual covered payroll was approximately 96% of total related payroll for fiscal years 2019, 2018 and 2017.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and 2018, the College reported a liability of \$1,844,997 and \$1,819,832, respectively, for its proportionate share of the net pension liability related to its participation in SERS. The net pension liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, 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, 2018 rolled forward to June 30, 2018. The net pension liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The College's proportion of the net pension liability was based on its share of the Commonwealth of Massachusetts', collective pension amounts allocated on the basis of actual fringe benefit charges assessed to the College for the fiscal years 2019 and 2018, respectively. The College's proportionate share was based on actual employer contributions to the SERS for fiscal years 2019 and 2018 relative to total contributions of all participating employers for the fiscal years. At June 30, 2019 and 2018, the College's proportion was 0.015% and 0.014%, respectively.

For the years ended June 30, 2019 and 2018, the College recognized pension expense of \$190,175 and \$196,749, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - **Pensions - Continued**

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

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

	<u>2019</u>	<u>2018</u>
<u>Deferred Outflows of Resources Related to Pension</u>		
Contributions subsequent to the measurement date	\$ 137,212	\$ 127,527
Differences between expected and actual experience	58,508	70,362
Changes in proportion from Commonwealth	4,976	6,233
Changes in plan actuarial assumptions	186,979	189,381
Changes in proportion due to internal allocation	<u>137,495</u>	<u>236,324</u>
Total deferred outflows related to pension	<u>\$ 525,170</u>	<u>\$ 629,827</u>
	<u>2019</u>	<u>2018</u>
<u>Deferred Inflows of Resources Related to Pension</u>		
Differences between expected and actual experience	\$ 37,601	\$ 49,513
Differences between projected and actual investment earnings on pension plan investments	64,130	21,683
Changes in proportion from Commonwealth	351	649
Changes in proportion due to internal allocation	<u>357,535</u>	<u>464,631</u>
Total deferred inflows related to pension	<u>\$ 459,617</u>	<u>\$ 536,476</u>

The College's contributions of \$137,212 and \$127,527 made during fiscal years ending June 30, 2019 and 2018, respectively, subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the succeeding years.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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 (decreases) in pension expense as follows:

Years Ending <u>June 30,</u>	
2020	\$ 63,752
2021	993
2022	(78,663)
2023	(48,429)
2024	<u>(9,312)</u>
	<u>\$ (71,659)</u>

Actuarial Assumptions

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

	<u>2019</u>	<u>2018</u>
Measurement date	June 30, 2018	June 30, 2017
Inflation	3.00%	3.00%
Salary Increases	4.00% to 9.00%	4.00% to 9.00%
Investment rate of return	7.35%	7.50%
Interest rate credited to annuity savings fund	3.50%	3.50%

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - **Pensions - Continued**

Actuarial Assumptions - continued

For measurement dates June 30, 2018, mortality rates were based on:

- Pre-retirement - reflects RP-2014 Blue Collar Employees Table projected with Scale MP-2016 and set forward 1 year for females
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant Table projected with Scale MP-2016 and set forward 1 year for females
- Disability - the mortality rate reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016, set forward 1 year.

For measurement dates June 30, 2017, mortality rates were based on:

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

The 2019 pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 2018 and rolled forward to June 30, 2018. The 2018 pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 2017 and rolled forward to June 30, 2017.

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 9 - **Pensions - Continued**

Actuarial Assumptions - continued

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	2019		2018	
	Target Allocation	Long-term expected real rate of return	Target Allocation	Long-term expected real rate of return
Global Equity	39.0%	5.00%	40.0%	5.00%
Portfolio Completion Strategies	13.0%	3.70%	13.0%	3.60%
Core Fixed Income	12.0%	0.90%	12.0%	1.10%
Private Equity	12.0%	6.60%	11.0%	6.60%
Real Estate	10.0%	3.80%	10.0%	3.60%
Value Added Fixed Income	10.0%	3.80%	10.0%	3.80%
Timber/Natural Resources	4.0%	3.40%	4.0%	3.20%
Hedge Funds	0.0%	0.00%	0.0%	3.60%
	<u>100%</u>		<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.35% and 7.5% at June 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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 at June 30,:

2019		
1.00% Decrease (6.35%)	Current Discount Rate (7.35%)	1.00% Increase (8.35%)
\$ 2,486,748	\$ 1,844,997	\$ 1,296,646
2018		
1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
\$ 2,478,535	\$ 1,819,832	\$ 1,289,231

Note 10 - **Other Post-Employment Benefits ("OPEB")**

Plan Description

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Plan Description - continued

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

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

Benefits Provided

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

Contributions

Employer and employee contribution rates are set by MGL. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2019 and 2018, and as of the valuation date (January 1, 2018 and 2017), participants contributed 0% to 20%, respectively, of premium costs, depending on the date of hire and whether the participant's status is active, retired, or survivor. As part of the fiscal year 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs.

Effective beginning in fiscal year 2014, by statute, the Commonwealth is required to allocate, to the SRBT, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in fiscal year 2014 to 100% by fiscal year 2023. In fiscal years 2018 and 2017, 30% and 10%, respectively, of tobacco settlement proceeds or approximately \$73 million and \$25 million was allocated to the SRBT. The percentage of proceeds to be transferred to the SRBT in fiscal years 2018 and 2017 was set at 30% and 10%, respectively, overriding the existing statute.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Contributions - continued

The Massachusetts General Laws governing employer contributions to SRBT determine whether entities are billed for OPEB costs. Consequently, SRBT developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). The College is required to contribute based on Massachusetts General Laws; the rate was 8.79% and 8.92% of annual covered payroll for the fiscal years ended June 30, 2019 and 2018, respectively. The College contributed \$100,067 and \$96,553 for the fiscal years ended June 30, 2019 and 2018, respectively, equal to 100% of the required contribution for both years.

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

At June 30, 2019 and 2018, the College reported a liability of \$3,240,670 and \$4,003,270, respectively, for its proportionate share of the net OPEB liability related to its participation in SRBT. The net OPEB liability was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively.

The College's proportion of the net OPEB liability was based on its share of the Commonwealth's collective OPEB amounts allocated on the basis of an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner based on the College's share of total covered payroll for the fiscal years 2018 and 2017. The College's proportionate share was based on the actual employer contributions to the SRBT for fiscal years 2018 and 2017 relative to total contributions of all participating employers for the fiscal years. At June 30, 2019 and 2018, the College's proportion was 0.022% and 0.020%, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

For the years ended June 30, 2019 and 2018, the College recognized OPEB (income)/expense of (\$439,429) and \$222,909, respectively. The College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources at June 30,:

	<u>2019</u>	<u>2018</u>
<u>Deferred Outflows of Resources Related to OPEB</u>		
Contributions subsequent to the measurement date	\$ 100,067	\$ 96,553
Differences between expected and actual experience	39,361	-
Changes in proportion from Commonwealth	10,415	8,535
Changes in proportion due to internal allocation	<u>291,536</u>	<u>81,558</u>
Total deferred outflows related to OPEB	<u>\$ 441,379</u>	<u>\$ 186,646</u>
	<u>2019</u>	<u>2018</u>
<u>Deferred Inflows of Resources Related to OPEB</u>		
Differences between projected and actual earnings on OPEB plan investments	\$ 8,092	\$ 6,472
Differences between expected and actual experience	6,917	10,483
Changes in OPEB plan actuarial assumptions	<u>995,673</u>	<u>515,890</u>
Total deferred inflows related to OPEB	<u>\$ 1,010,682</u>	<u>\$ 532,845</u>

The College's contributions of \$100,067 and \$96,553 made during fiscal years ending June 30, 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in each of the succeeding years.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as decreases in OPEB expense as follows:

Years Ending <u>June 30,</u>	
2020	\$ (152,470)
2021	(152,470)
2022	(152,470)
2023	(131,477)
2024	<u>(80,483)</u>
	<u>\$ (669,370)</u>

Actuarial Assumptions

The total OPEB liability for 2019 and 2018 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2018	June 30, 2017
Inflation	3.00%	3.00%
Salary increases	4.0% per year	4.5% per year
Investment rate of return	7.35%, net of OPEB plan investment expense, including inflation	7.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	8.0%, decreasing by 0.5% each year to an ultimate rate of 5.5% in 2023, then decreasing 0.25% each year to an ultimate rate of 5.0% in 2025 for Medical; 5.0% for EGWP; 5.0% for administrative costs	8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for Medical; 5.0% for EGWP; 5.0% for administrative costs

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - Other Post-Employment Benefits (“OPEB”) - Continued

Actuarial Assumptions - continued

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

The participation rates are actuarially assumed as below:

- 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over 65 with POS/PPO coverage switch to HMO.
- All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- 80% of current and future contingent eligible participants will elect health care benefits at age 55, or current age if later.
- Actives, upon retirement, take coverage, and are assumed to have the following coverage:

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

The actuarial assumptions used in the January 1, 2018 and 2017 valuations were based on the results of an actuarial experience study for the periods ranging July 1, 2016 and 2015 through December 31, 2017 and 2016, depending upon the criteria being evaluated.

As a result of this actuarial experience study, the mortality assumption was adjusted in the January 1, 2017 and 2016 actuarial valuations to more closely reflect actual experience as a result of the recent experience study completed by the Public Employee Retirement Administration Commission ("PERAC").

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) - Continued**

Actuarial Assumptions - continued

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

The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2019 and 2018, are the same as discussed in the pension footnote.

Discount Rate

The discount rate used to measure the total OPEB liability for 2019 and 2018 was 3.95% and 3.63%, respectively. These rates were based on a blend of the Bond Buyer Index rate (3.87% and 3.58%) as of the measurement date and the expected rate of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2025 and 2023 for the fiscal years 2019 and 2018, respectively. Therefore, the long-term expected rate of return on OPEB plan investments of 7.35% and 7.50%, respectively per annum, was not applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) - Continued**

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

The following presents the College’s proportionate share of the net OPEB liability, as well as what the College’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate at June 30,:

2019		
1.00% Decrease (2.95%)	Current Discount Rate (3.95%)	1.00% Increase (4.95%)
\$ 3,826,675	\$ 3,240,670	\$ 2,772,168
2018		
1.00% Decrease (2.63%)	Current Discount Rate (3.63%)	1.00% Increase (4.63%)
\$ 4,864,573	\$ 4,003,270	\$ 3,341,401

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 10 - **Other Post-Employment Benefits (“OPEB”) – Continued**

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

The following presents the College’s proportionate share of the net OPEB liability, as well as what the College’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates at June 30,:

2019		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
\$ 2,692,437	\$ 3,240,670	\$ 3,956,363
2018		
1.00% Decrease (B)	Current Healthcare Cost Trend Rate (A)	1.00% Increase (C)
\$ 3,293,038	\$ 4,003,270	\$ 4,959,801

(A) - Current healthcare cost trend rate, as disclosed on page 42

(B) - 1-percentage decrease in the current healthcare cost trend rate,
as disclosed on page 42

(C) - 1-percentage increase in the current healthcare cost trend rate,
as disclosed on page 42

Note 11 - **Other Fringe Benefits**

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

MASSACHUSETTS COLLEGE OF ART AND DESIGN

(an agency of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 11 - Other Fringe Benefits - Continued

Group Insurance Commission

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

The GIC is a quasi-independent state agency governed by a seventeen-member body (the "Commission") appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and it is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended June 30, 2019 and 2018, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administers carve-outs for pharmacy, mental health, and substance abuse benefits for certain health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage (for employees not covered by collective bargaining), retiree discount vision and dental plans, and a pretax health care spending account and dependent care assistance program (for active employees only).

Other Retirement Plans

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 12 - **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 \$508,000 and \$436,000 during the years ended June 30, 2019 and 2018, respectively.

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. 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>	
2020	\$ 375,147
2021	<u>354,485</u>
	<u>\$ 729,632</u>

The College reports the carrying value of the capital assets relating to the service concession arrangements of approximately \$7,448,000 and \$7,704,000 at June 30, 2019 and 2018, respectively. The debt related to these capital additions was approximately \$7,917,000 and \$7,999,000 at June 30, 2019 and 2018, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 13 - **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>2019</u>	<u>2018</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	\$ 166,655	\$ 527,465
Loans	<u>867,611</u>	<u>861,781</u>
	<u>\$ 1,034,266</u>	<u>\$ 1,389,246</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 14 - **Contingencies**

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 14 - **Contingencies - Continued**

The College participates in the Massachusetts College Savings Prepaid Tuition Program (the "Program"). This Program allows individuals to pay in advance for future tuition at the cost of tuition at the time of election to participate, increased by changes in the Consumer Price Index plus 2.00%. The College is obligated to accept, as payment of tuition, the amount determined by this Program without regard to standard tuition rate in effect at the time of the individual's enrollment at the College. The effect of the Program cannot be determined as it is contingent on future tuition increases and the number of Program participants who attend the College.

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

Note 15 - **Operating Expenses**

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

	<u>2019</u>	<u>2018</u>
Compensation and benefits	\$ 47,139,273	\$ 44,668,097
Supplies and services	27,695,958	27,366,022
Depreciation	2,339,489	2,262,710
Scholarships and fellowships	<u>481,246</u>	<u>426,354</u>
	<u>\$ 77,655,966</u>	<u>\$ 74,723,183</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 16 - **Related Party Transactions**

Massachusetts College of Art and Design Foundation, Inc. is a separate tax-exempt corporation organized for the purpose of fundraising through private donations for the ultimate benefit of the College. The College received contributions from the Foundation totaling approximately \$6,874,000 and \$3,551,000, included within other operating revenues, for the years ended June 30, 2019 and 2018, respectively.

Note 17 - **Pass-Through Student Federal Loans**

The College distributed \$11,868,698 and \$11,895,969 for student loans through the United States Department of Education federal direct lending program for the years ended June 30, 2019 and 2018, 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 18 - **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, 2019 were \$171,000. Future annual lease payments subsequent to June 30, 2019 totaled \$171,000 for the year ending June 2020.

Capital Lease

The College entered into a lease agreement with Dell Financial Services for the computer server equipment in August 2016. The lease is payable in annual installments of \$26,266. There was approximately \$4,900 of interest related to this lease for the years ended June 30, 2019. The balance of the lease at June 30, 2019 was \$47,446.

The schedule of future lease payments are as follows:

Years Ending <u>June 30,</u>	
2020	\$ 26,266
2021	<u>26,266</u>
	52,532
Interest expense	<u>(5,086)</u>
	<u>\$ 47,446</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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>2019</u>	<u>2018</u>
Direct unrestricted appropriations	\$ 19,964,998	\$ 18,078,191
Fringe benefits for benefited employees on the State payroll	<u>9,832,355</u>	<u>9,320,682</u>
Total unrestricted appropriations	29,797,353	27,398,873
Capital appropriations	<u>7,150,804</u>	<u>118,600</u>
Total appropriations	<u>\$ 36,948,157</u>	<u>\$ 27,517,473</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.

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

	<u>2019</u>	<u>2018</u>
Revenue per MMARS	\$ 64,974,209	\$ 59,619,057
Revenue per College	<u>64,974,209</u>	<u>59,619,057</u>
Difference	<u>\$ -</u>	<u>\$ -</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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

	<u>2019</u>	<u>2018</u>
Expenditures per MMARS	\$ 63,835,025	\$ 61,109,623
Expenditures per College	<u>63,835,025</u>	<u>61,109,623</u>
Difference	<u>\$ -</u>	<u>\$ -</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.

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.

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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, 2019 **\$ 16,689,722**

	<u>Local</u>	<u>State</u>	<u>Total</u>
Reconciling items:			
Inventories	\$ 125,630	\$ -	\$ 125,630
Deferred outflows of resources	-	966,549	966,549
Deferred inflows of resources	(729,632)	(1,470,299)	(2,199,931)
Accrued interest	-	(160,582)	(160,582)
Accrued salaries and wages	-	(1,855,055)	(1,855,055)
Accrued compensated absences and benefits	(202,297)	(4,697,439)	(4,899,736)
Other post-employment benefit liability	-	(3,240,670)	(3,240,670)
Net pension liability	-	(1,844,997)	<u>(1,844,997)</u>
Total			<u>(13,108,792)</u>

Massachusetts College of Art and Design's Audited
 Unrestricted Net Position at June 30, 2019 **\$ 3,580,930**

Distribution of Unrestricted Net Position:	
Local funds	\$ 15,883,423
State funds	<u>(12,302,493)</u>
	<u>\$ 3,580,930</u>

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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 2019 and 2018, the College expended \$431,027 and \$430,309, 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 2019 and 2018, the College expended \$2,177,798 and \$2,179,847, respectively, for the Artist Residence. For the years ended June 30, 2019 and 2018, the College expended \$4,367,086 and \$4,171,565, 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)

Massachusetts State Employees' Retirement System

Year ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015	January 1, 2014
Proportion of the collective net pension liability	0.015%	0.014%	0.015%	0.021%	0.017%
Proportionate share of the collective net pension liability	\$ 1,844,997	\$ 1,819,832	\$ 2,103,656	\$ 2,430,633	\$ 1,181,800
College's covered payroll	\$ 1,082,572	\$ 1,114,968	\$ 1,159,256	\$ 1,286,662	\$ 1,180,782
College's proportionate share of the net pension liability as a percentage of its covered payroll	170.43%	163.22%	181.47%	188.91%	100.09%
Plan fiduciary net position as a percentage of the plan's total pension liability	67.91%	67.21%	63.48%	67.87%	76.32%

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - Pension (Unaudited)

Massachusetts State Employees' Retirement System

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 137,212	\$ 127,527	\$ 110,939	\$ 109,550	\$ 133,684
Contributions in relation to the statutorily required contribution	<u>(137,212)</u>	<u>(127,527)</u>	<u>(110,939)</u>	<u>(109,550)</u>	<u>(133,684)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 1,137,886	\$ 1,082,572	\$ 1,114,968	\$ 1,159,256	\$ 1,286,662
Contribution as a percentage of covered payroll	12.06%	11.78%	9.95%	9.45%	10.39%

Notes:

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

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

See accompanying notes to the required supplementary information.

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

Schedule of Proportionate Share of Net OPEB Liability (Unaudited)

Massachusetts State Retirees' Benefit Trust

Year ended	June 30, 2019	June 30, 2018
Measurement date	June 30, 2018	June 30, 2017
Valuation date	January 1, 2018	January 1, 2017
Proportion of the collective net OPEB liability	0.022%	0.020%
Proportionate share of the collective net OPEB liability	\$ 3,240,670	\$ 4,003,270
College's covered payroll	\$ 1,082,572	\$ 1,114,968
College's proportionate share of the net OPEB liability as a percentage of its covered payroll	299.35%	359.05%
Plan fiduciary net position as a percentage of the total OPEB liability	7.38%	4.80%

Notes:

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

See accompanying notes to the required supplementary information.

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

Schedule of Contributions - OPEB (Unaudited)

Massachusetts State Retirees' Benefit Trust

For the Year Ended June 30,

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 100,067	\$ 96,553
Contributions in relation to the statutorily required contribution	<u>(100,067)</u>	<u>(96,553)</u>
Contribution (excess)/deficit	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 1,137,886	\$ 1,082,572
Contribution as a percentage of covered payroll	8.79%	8.92%

Notes:

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

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

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information (Unaudited)

June 30, 2019 and 2018

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

Measurement Date – June 30, 2018

The investment rate of return changed from 7.50% to 7.35%. In conjunction with the investment rate of return changing, the discount rate was also changed to mirror the new investment rate of return.

The mortality rate assumptions were changed as follows:

- Disabled members – the amount reflects the same assumptions as for superannuation retirees, but with an age set forward of one year.

Measurement date – June 30, 2017

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) to RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Disability – did not change

Measurement date – June 30, 2016

The assumption for salary increases changed from a range of 3.5% to 9.0% depending on group and length of service to a range of 4.0% to 9.0% depending on group and length of service.

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

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

Notes to the Required Supplementary Information (Unaudited) - Continued

June 30, 2019 and 2018

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

Measurement date – June 30, 2015

The discount rate to calculate the pension liability decreased from 8.0% to 7.5%.

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (“ERI”) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability of SERS increased by approximately \$230 million as of June 30, 2015.

The mortality rates were changed as follows:

- Pre-retirement – was changed from RP-2000 Employees table projected 20 years with Scale AA (gender distinct) to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Post-retirement – was changed from RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct) to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
- Disability – was changed from RP-2000 table projected 5 years with Scale AA (gender distinct) set forward three years for males to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

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

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

Notes to the Required Supplementary Information (Unaudited) - Continued

June 30, 2019 and 2018

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

Fiscal year June 30, 2019

Assumptions:

Change in Trend on Future Costs

The healthcare trend rate decreased from 8.5% to 8.0%, which impacts the high cost excise tax.

Change in Mortality Rates

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members – would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year.

Change in Discount Rate

The discount rate was increased to 3.95% (based upon a blend of the Bond Buyer Index rate (3.87%)) as of the measurement date as required by GASB Statement 74.

Fiscal year June 30, 2018

Assumptions:

Change in Discount Rate

The discount rate was increased to 3.63% (based upon a blend of the Bond Buyer Index rate (3.58%)) as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 2.80%.

**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 year ended June 30, 2019, 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 11, 2019.

Internal Control Over Financial Reporting

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

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

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

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.

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

**Certified Public Accountants
Braintree, Massachusetts**

October 11, 2019

SUPPLEMENTAL INFORMATION

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

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

June 30,

Assets

	<u>2019</u>	<u>2018</u>
Asset:		
Cash and equivalents	<u>\$ 3,188,416</u>	<u>\$ 3,344,059</u>
Total Dormitory Trust Fund Assets	<u>\$ 3,188,416</u>	<u>\$ 3,344,059</u>

Liabilities and Net Position

Liabilities:		
Compensated absences	\$ 43,843	\$ 42,220
Workers' compensation	<u>5,730</u>	<u>4,852</u>
Total Dormitory Trust Fund Liabilities	<u>49,573</u>	<u>47,072</u>
Net Position:		
Dormitory Trust Net Position - Smith Hall	12,915	17,065
Dormitory Trust Net Position - Artist Residence	2,151,896	2,236,338
Dormitory Trust Net Position - Treehouse	<u>974,032</u>	<u>1,043,584</u>
Total Net Position	<u>3,138,843</u>	<u>3,296,987</u>
Total Dormitory Trust Fund Liabilities and Net Position	<u>\$ 3,188,416</u>	<u>\$ 3,344,059</u>

* - At June 30, 2019 and 2018, a portion of the College's \$1,844,997 and \$1,819,832, respectively, net pension liability and \$3,240,670 and \$4,003,270, respectively, OPEB liability was not allocated to the Dormitory Trust Fund's net position balance.

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

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

For the Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Revenues:		
Student rents	\$ 7,432,724	\$ 7,097,633
Contract rents	3,923,509	4,153,839
Other	<u>796,104</u>	<u>771,190</u>
Total Revenues	<u>12,152,337</u>	<u>12,022,662</u>
Expenses:		
Loans and special payments	6,975,911	6,781,714
Operational services	5,205,529	5,372,487
Regular employee compensation	296,558	277,058
Information technology	2,964	7,787
Pension and insurance related	112,215	106,485
Administrative	3,270	2,549
Regular employee related	4,432	4,398
Special employee compensation	18,053	7,908
Equipment purchases	-	-
Equipment leases	3,264	2,646
Consultant services	630	-
Facility operational	<u>458</u>	<u>1,095</u>
Total Expenses	<u>12,623,284</u>	<u>12,564,127</u>
Decrease of Revenues Over Expenses	(470,947)	(541,465)
Transfers	<u>312,803</u>	<u>(58,465)</u>
Total Decrease in Net Position	(158,144)	(599,930)
Net Position, Beginning of Year	<u>3,296,987</u>	<u>3,896,917</u>
Net Position, End of Year	<u>\$ 3,138,843</u>	<u>\$ 3,296,987</u>