

# **MONTSERRAT COLLEGE OF ART, INC.**

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## **FINANCIAL STATEMENTS**

**JUNE 30, 2021**

# MONTSERRAT COLLEGE OF ART, INC.

## Financial Statements

June 30, 2021 and 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Montserrat College of Art, Inc.  
Beverly, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Montserrat College of Art, Inc. (a Massachusetts not-for-profit organization) (the "College") which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 financial position of the College as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility supplemental schedule and disclosures, schedule of expenditures of federal awards (“SEFA”) and notes to the SEFA, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 32-35 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021 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, 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.



**Certified Public Accountants  
Winchester, Massachusetts  
November 16, 2021**

# MONTSERRAT COLLEGE OF ART, INC.

## Statements of Financial Position

June 30, 2021

### Assets

	<u>2021</u>	<u>2020</u>
<b>Assets:</b>		
Cash and equivalents	\$ 2,103,200	\$ 2,518,932
Restricted cash	1,069,924	817,253
Marketable securities	4,007,784	2,429,763
Student accounts receivable, net	58,349	47,913
Contributions receivable, net	92,080	27,198
Prepaid expenses and other assets	202,875	115,997
Property, plant and equipment, net	<u>8,971,811</u>	<u>9,059,149</u>
<b>Total Assets</b>	<b><u>\$ 16,506,023</u></b>	<b><u>\$ 15,016,205</u></b>

### Liabilities and Net Assets

<b>Liabilities:</b>		
Line of credit	\$ -	\$ 500,000
Unearned revenue	805,609	515,265
Accounts payable	142,548	159,075
Accrued expenses	383,383	343,730
Student housing deposits	109,500	101,100
Paycheck Protection Program loan	-	1,052,900
Bonds, net of issuance costs	4,916,446	5,046,226
Note payable	<u>52,500</u>	<u>75,000</u>
<b>Total Liabilities</b>	<b><u>6,409,986</u></b>	<b><u>7,793,296</u></b>
<b>Net Assets:</b>		
Without donor restrictions	7,486,964	5,536,348
With donor restrictions	<u>2,609,073</u>	<u>1,686,561</u>
<b>Total Net Assets</b>	<b><u>10,096,037</u></b>	<b><u>7,222,909</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 16,506,023</u></b>	<b><u>\$ 15,016,205</u></b>

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

# MONTSERRAT COLLEGE OF ART, INC.

## Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
<b>Operating Revenues:</b>			
Tuition and fees	\$ 12,211,298	\$ -	\$ 12,211,298
Housing	2,545,140	-	2,545,140
Less: scholarship and awards	<u>(5,792,451)</u>	<u>-</u>	<u>(5,792,451)</u>
Undergraduate tuition, fees and housing, net	8,963,987	-	8,963,987
Federal and state grants	1,131,507	-	1,131,507
Private contributions and grants	577,591	568,675	1,146,266
Other income	109,506	-	109,506
Net assets released from restrictions	<u>75,075</u>	<u>(75,075)</u>	<u>-</u>
<b>Total Operating Revenues</b>	<b><u>10,857,666</u></b>	<b><u>493,600</u></b>	<b><u>11,351,266</u></b>
<b>Operating Expenses:</b>			
Program:			
College and Continuing Education Instruction	2,782,883	-	2,782,883
Student Academic Services and Housing	<u>3,513,754</u>	<u>-</u>	<u>3,513,754</u>
Total Program	<u>6,296,637</u>	<u>-</u>	<u>6,296,637</u>
Management and General	3,585,177	-	3,585,177
Fundraising	<u>328,085</u>	<u>-</u>	<u>328,085</u>
<b>Total Operating Expenses</b>	<b><u>10,209,899</u></b>	<b><u>-</u></b>	<b><u>10,209,899</u></b>
<b>Changes in Net Assets from Operating Activities</b>	<b><u>647,767</u></b>	<b><u>493,600</u></b>	<b><u>1,141,367</u></b>
<b>Non-Operating Activities:</b>			
Investment return	249,949	428,912	678,861
Forgiveness of Paycheck Protection Program loan	<u>1,052,900</u>	<u>-</u>	<u>1,052,900</u>
<b>Total Non-Operating Revenues</b>	<b><u>1,302,849</u></b>	<b><u>428,912</u></b>	<b><u>1,731,761</u></b>
<b>Total Increase in Net Assets</b>	<b>1,950,616</b>	<b>922,512</b>	<b>2,873,128</b>
Net Assets, Beginning of Year	<u>5,536,348</u>	<u>1,686,561</u>	<u>7,222,909</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 7,486,964</u></b>	<b><u>\$ 2,609,073</u></b>	<b><u>\$ 10,096,037</u></b>

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

# MONTSERRAT COLLEGE OF ART, INC.

## Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
<b>Operating Revenues:</b>			
Tuition and fees	\$ 12,549,364	\$ -	\$ 12,549,364
Housing	2,309,357	-	2,309,357
Less: scholarship and awards	<u>(5,318,414)</u>	<u>-</u>	<u>(5,318,414)</u>
Undergraduate tuition, fees and housing, net	9,540,307	-	9,540,307
Private contributions and grants	508,486	159,783	668,269
Other income	207,295	-	207,295
Net assets released from restrictions	<u>207,496</u>	<u>(207,496)</u>	<u>-</u>
<b>Total Operating Revenues</b>	<u>10,463,584</u>	<u>(47,713)</u>	<u>10,415,871</u>
<b>Operating Expenses:</b>			
Program:			
College and Continuing Education Instruction	2,872,829	-	2,872,829
Student Academic Services and Housing	<u>3,332,870</u>	<u>-</u>	<u>3,332,870</u>
Total Program	<u>6,205,699</u>	<u>-</u>	<u>6,205,699</u>
Management and General	3,558,861	-	3,558,861
Fundraising	<u>357,450</u>	<u>-</u>	<u>357,450</u>
Total Operating Expenses	<u>10,122,010</u>	<u>-</u>	<u>10,122,010</u>
<b>Changes in Net Assets from Operating Activities</b>	<u>341,574</u>	<u>(47,713)</u>	<u>293,861</u>
<b>Non-Operating Activity:</b>			
Investment return	<u>(4,942)</u>	<u>(12,418)</u>	<u>(17,360)</u>
<b>Total Increase in Net Assets</b>	336,632	(60,131)	276,501
Net Assets, Beginning of Year	<u>5,199,716</u>	<u>1,746,692</u>	<u>6,946,408</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,536,348</u>	<u>\$ 1,686,561</u>	<u>\$ 7,222,909</u>

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

# MONTSERRAT COLLEGE OF ART, INC.

## Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program Services				
	College and Continuing Education Instruction	Student Academic Services and Housing	Management and General	Fundraising	Total
Salaries and benefits	\$ 2,446,982	\$ 1,497,140	\$ 1,715,330	\$ 173,660	\$ 5,833,112
Professional services and outside help	5,007	279,267	454,424	67,875	806,573
Rentals and maintenance	7,281	677,176	239,041	-	923,498
Depreciation	141,075	291,537	75,361	-	507,973
Utilities	-	159,912	369,478	-	529,390
Educational and office supplies	96,829	121,749	-	-	218,578
Advertising, printing and mailing	14,080	145,775	33,988	15,272	209,115
Security	-	-	200,494	-	200,494
Computer and office supplies	-	-	199,749	648	200,397
Interest	50,534	104,430	26,995	-	181,959
Travel and events	7,773	61,729	23,087	61,893	154,482
Insurance	-	144,531	91,001	-	235,532
Bank and credit card fees	-	-	63,481	-	63,481
Other	13,322	20,089	6,500	8,737	48,648
Dues, subscriptions and memberships	-	10,419	37,803	-	48,222
Bad debts	-	-	29,176	-	29,176
Computer, telephone and network	-	-	19,269	-	19,269
	\$ 2,782,883	\$ 3,513,754	\$ 3,585,177	\$ 328,085	\$ 10,209,899

The accompanying notes are integral part of the financial statements.

# MONTSERRAT COLLEGE OF ART, INC.

## Statement of Functional Expenses

**For the Year Ended June 30, 2020**

	Program Services				
	College and Continuing Education	Student Academic Services and Housing	Management and General	Fundraising	Total
Salaries and benefits	\$ 2,466,430	\$ 1,509,577	\$ 1,751,140	\$ 238,341	\$ 5,965,488
Rentals and maintenance	8,092	583,844	247,631	-	839,567
Professional services and outside help	13,479	118,316	341,133	51,401	524,329
Utilities	-	151,601	355,157	-	506,758
Depreciation	139,402	288,078	63,394	-	490,874
Travel and events	71,934	146,397	51,384	42,487	312,202
Insurance	-	132,621	91,257	-	223,878
Educational and office supplies	94,569	118,650	-	-	213,219
Interest	55,591	114,882	40,770	-	211,243
Security	-	-	201,424	-	201,424
Computer and office supplies	-	-	178,872	-	178,872
Advertising, printing and mailing	11,031	108,458	37,315	15,344	172,148
Other	12,301	48,218	36,883	5,015	102,417
Credit card fees	-	-	52,109	-	52,109
Bad debts	-	-	51,260	-	51,260
Dues, subscriptions and memberships	-	12,228	36,590	-	48,818
Computer, telephone and network	-	-	22,542	4,862	27,404
	<u>\$ 2,872,829</u>	<u>\$ 3,332,870</u>	<u>\$ 3,558,861</u>	<u>\$ 357,450</u>	<u>\$ 10,122,010</u>

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

# MONTSERRAT COLLEGE OF ART, INC.

## Statements of Cash Flows

For the Years Ended June 30,

	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities:</b>		
Increase in net assets	<u>\$ 2,873,128</u>	<u>\$ 276,501</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness	(1,052,900)	-
Depreciation	507,973	490,874
Amortization of debt issuance costs	13,036	11,073
Bad debts	29,176	51,260
Realized and unrealized (gains) losses on investments	(632,713)	85,096
Stock donations	(10,278)	(20,749)
Permanently restricted contributions	(293,801)	(56,000)
Changes in assets and liabilities:		
Student accounts receivable	(39,612)	(2,173)
Contributions receivable	(64,882)	67,752
Prepaid expenses other assets	(86,878)	41,291
Accounts payable and accrued expenses	23,126	(170,790)
Student deposits and unearned revenue	<u>298,744</u>	<u>(93,097)</u>
Net Adjustments	<u>(1,309,009)</u>	<u>404,537</u>
Net Cash Provided by Operating Activities	<u>1,564,119</u>	<u>681,038</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(420,635)	(315,868)
Proceeds from sales of marketable securities	261,396	717,573
Purchases of marketable securities	(1,196,426)	(1,390,581)
Receipt of permanently restricted contributions	<u>293,801</u>	<u>56,000</u>
Net Cash Applied to Investing Activities	<u>(1,061,864)</u>	<u>(932,876)</u>
<b>Cash Flows from Financing Activities:</b>		
(Payments) Proceeds from line of credit	(500,000)	500,000
Proceeds from Payroll Protection Program	-	1,052,900
Payments on long term debt, net	<u>(165,316)</u>	<u>(190,725)</u>
Net Cash Provided by (Applied to) Financing Activities	<u>(665,316)</u>	<u>1,362,175</u>
<b>Net Increase (Decrease) in Cash and Equivalents and Restricted Cash</b>	<b>(163,061)</b>	<b>1,110,337</b>
Cash and Equivalents and Restricted Cash, Beginning of Year	<u>3,336,185</u>	<u>2,225,848</u>
<b>Cash and Equivalents and Restricted Cash, End of Year</b>	<u>\$ 3,173,124</u>	<u>\$ 3,336,185</u>
<b>Cash and equivalents and restricted cash consist of the following at June 30,:</b>		
Cash and equivalents	\$ 2,103,200	\$ 2,518,932
Restricted cash	<u>1,069,924</u>	<u>817,253</u>
<b>Total</b>	<u>\$ 3,173,124</u>	<u>\$ 3,336,185</u>

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

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements

June 30, 2021 and 2020

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

*Organization*

Montserrat College of Art, Inc. (the “College”) is a not-for-profit corporation, formed in 1970, that provides an intensive visual arts education that will enable students to sustain a lifelong involvement in art and design, and to become informed, responsible members of society. The College operates in Beverly, Massachusetts. Its student body comes primarily from northeastern United States; however, the College has a national and international reach.

The College has been approved by the Commonwealth of Massachusetts Board of Higher Education as a degree-granting institution awarding Bachelor of Fine Arts degrees. It is accredited by the New England Commission of Higher Education and the National Association of Schools of Art and Design.

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (“COVID-19”) as a pandemic. During the year ended June 30, 2021, COVID-19 had a significant effect on the College’s operations in response to government requirements and observing safety measures. Management took steps, such as reducing discretionary expenses and receiving a loan offered through the Federal government stimulus program, to mitigate the effects on operations.

In response to the pandemic, the Federal government provided to the College the Higher Education Emergency Relief Funds (HEERF) and funds for the Strengthening Institution Program (SIP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act (ARPA). HEERF consisted of the student aid award and the institutional award. Each Act requires a minimum amount to be spent on student aid. The College also received additional funding from the Department of Education from the Fund for the Improvement of Post-Secondary Education.

The student aid award is required to be distributed to students as emergency grants for their expenses related to the disruption of campus operations due to coronavirus. The institutional award and the SIP can be used to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. Unless an extension is approved by the Department of Education, the student aid award and the institutional award must be spent by January 19, 2022, while the SIP funding must be spent by March 5, 2022.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

*Organization - Continued*

For the year ended June 30, 2021, the College expended \$375,198 for emergency grants to students and \$761,569 for institutional costs from the HEERF funds. For the year ended June 30, 2020, the College did not draw down any HEERF grants.

Additionally, during the year ended June 30, 2021, the College expended \$91,228 under the Strengthening Institutions Program and \$106,277 under the Fund for the Improvement of Postsecondary Education provisions of the CARES Act.

*Basis of Presentation*

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

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expensed for any purpose in performing the objectives of the College. These net assets may be used at the discretion of the College's management and the Board of Trustees.

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

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

*Measure of Operations*

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the College's ongoing purpose. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

*Use of Estimates*

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles 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 accounts receivable, promises to give, and estimating depreciation.

*Cash and Equivalents*

Cash and equivalents include all cash on deposit with banks and short-term investments with original maturities of three months or less.

*Restricted Cash*

The College's restricted cash consists of funds set aside for donor restrictions.

*Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a reserve for bad debt expense, which is based on its assessment of the current status of individual receivables from students, grants and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the reserve and a credit to accounts receivable.

*Contributions Receivable*

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

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

#### Investments

Investments are initially reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Unrealized gains and losses are included in the changes in net assets in the accompanying statements of activities and changes in net assets. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

#### Fair Value Measurements

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

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

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

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies - Continued

Fair Value Measurements - continued

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

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is provided using the straight-line method over the following periods:

Buildings	40 years
Leasehold improvements	6 to 12 years
Equipment, furniture and fixtures	7 to 10 years
Library books	5 to 10 years
Computers	3 to 5 years
Computer software	3 years
Motor vehicles	7 years

Depreciable assets are valued at cost if purchased, or at fair value if contributed. Expenditures for repairs and maintenance are charged to operations as incurred. Renewals and betterments that extend the lives of the assets are capitalized. The cost of property retired or sold, together with the related accumulated depreciation, is removed from the appropriate accounts, and any resulting gain or loss is included in operations.

Unearned Revenue

Unearned revenue consists of amounts received for tuition, housing charges, and fees that are applicable to future summer programs and for the next academic year.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies - Continued

Income Taxes

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

Accounting principles generally accepted in the United States of America require an entity to assess the probability that a tax position has a more likely than not sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances, the statute of limitations may remain open indefinitely. As a not-for-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, the College may, however, be subject to tax on unrelated business income.

Endowment Funds

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

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

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies - Continued

*Endowment Funds - continued*

The College's Board of Trustees classifies donor-restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. The College's investment policy for endowment funds is intended to preserve capital to the extent possible and provide a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

From time to time, the fair values of endowment fund assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained for a perpetual duration. The decline below the required perpetual duration, commonly referred to as "underwater", is reported as losses within net assets with donor restrictions. The Board of Trustees has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2021 and 2020, the aggregate fair value of certain investments was \$324 and \$1,554 less than their original cost.

*Revenue Recognition and Operations*

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. The College derives revenues primarily through tuition, fees, and auxiliary services, all of which are under arrangements that are aligned to an academic semester, which is less than one year in length.

Tuition, fees, and auxiliary enterprises revenue are recorded at established rates, net of institutional awards provided directly to students. Net transaction price is fixed and determinable. Such net amounts are recorded as revenue when performance obligations are satisfied which is generally over time as services are rendered whether relating to educational services or auxiliary services such as room and board. Management believes that recognizing revenue over time is the best measure of services rendered based on its academic calendar and has not made any changes in the timing of satisfaction of its performance obligations or amounts allocated to those obligations. Discounts provided to employees are considered part of fringe benefits within operating expenses and likewise are recorded over time. Management does not consider there to be significant judgment involved in the timing of satisfaction of performance

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

*Revenue Recognition and Operations - continued*

obligations as those are directly linked to the academic calendar of the related academic or auxiliary activity.

Students may withdraw from programs of study within certain time limits under the College's withdrawal policies by semester. These policies vary by program but allow for up to a 100% refund near the start of classes declining to no refund shortly after the start of classes. Given the normal timing of the College's programs, the exposure to such is limited at year end.

Payments made by third parties such as ED relative to loans and grants to students are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the College.

Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as "net assets released from restriction" between the classes of net assets.

The Statements of Activities report the changes in net assets without donor restrictions from operating and nonoperating activities. Operating revenues consist of those items attributable to the College's academic programs and auxiliary enterprises. This includes investment return appropriated for operations under the spending policy adopted by the Board. All other amounts are considered nonoperating.

Contributions, including unconditional promises to give, are initially recorded as revenue at fair value when verifiably committed. Unconditional promises to give, that will be paid by the donor's estate, are recorded when verifiably committed and are discounted using the remaining life expectancy of the donor. Fair value is determined at the original date of record as described in this section using Level 2 fair value inputs.

Conditional contributions and intentions to give are recorded as revenue when the conditions have been met. Pledge intentions are not recorded as revenue or as assets. Contributions are reflected in net assets without donor restrictions or in net assets with

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

*Revenue Recognition and Operations - continued*

donor restrictions based on the existence or absence of donor restrictions. Amounts received with donor-imposed restrictions that are recorded as revenues in net assets with donor restrictions are reclassified to net assets without donor restrictions when the time or purpose restriction has been satisfied. The College had no conditional contributions at June 30, 2021 and 2020.

The College reports gifts of property, plant, and equipment as revenues without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as revenue with donor restrictions. The College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

*Advertising*

The College's policy is to expense advertising costs as incurred.

*Collections*

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in net assets without donor restrictions if purchased with net assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statements of activities and changes in net assets. When the College sells any items in its Collection, its policy is to use those proceeds for the purchase of new collection items. Proceeds from deaccessions or insurance recoveries are reflected on the statements of activities and changes in net assets based on the absence or existence and nature of donor-imposed restrictions.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

*Functional Expenses*

The College allocates expenses on a functional basis among its programs and supporting services. Allocations of functional expenses are based on management's discretion, time, studies, and estimates. These variables may change from year to year. As a result, there may be fluctuation in the comparative presentation of the data from year to year. Supporting services are those related to operating and managing the College and its programs on a day-to-day basis and are composed of the following:

*Management and general* - includes all activities related to the College's internal management and accounting for program services.

*Fundraising* - includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials, and other similar projects related to the procurement of funds for the College's programs.

Other expenses that are common to several functions are allocated in accordance with the College's indirect costs allocation plan.

*Adoption of New Accounting Pronouncement*

FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and additional ASUs containing modifications to ASU 2014-09 (collectively referred to as "the new revenue recognition standard"). The purpose of the new revenue recognition standard is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. It requires the College to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition. The College adopted the provisions of ASU 2014-09 on a retrospective basis as of July 1, 2019 and did not necessitate an adjustment to net assets in the prior period.

*New Accounting Pronouncements*

*Leases* - FASB issued ASU 2016-02, effective for non-public and most not-for-profit entities. The Financial Accounting Standards Board voted to extend the implementation date one year (effective for periods beginning after December 15, 2021 for nonpublic entities.) The purpose of this pronouncement will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

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

*New Accounting Pronouncements*

categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded.

FASB issued ASU 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is effective for periods beginning after June 15, 2021. The pronouncement will require not-for-profit entities to present contributed non-financial assets in the statement of activities as a line that is separate from other contributions. It will also require additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category.

Management is in the process of evaluating these pronouncements and has not yet determined their impact on the financial statements.

Note 2 - **Marketable Securities**

The College invests in equity and fixed income securities through direct investments, mutual funds, and exchange traded funds. The securities are held by a financial services company. The Board of Trustees has adopted an investment policy to guide investment decisions with respect to the College's return objectives and risk parameters. The investment policy calls for 100% of endowed funds to be invested in equities, and invested, non-endowed funds to be invested in fixed income investments.

<u>Description</u>	<u>2021</u> <u>Market Value</u>	<u>2020</u> <u>Market Value</u>
Equity Investments	\$ 2,904,971	\$ 1,327,465
Fixed Income Investments	<u>1,102,813</u>	<u>1,102,298</u>
Total Investments	<u>\$ 4,007,784</u>	<u>\$ 2,429,763</u>

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 3 - **Student Accounts Receivable**

Student accounts receivable represents amounts due for tuition, fees, and housing from currently enrolled and former students. The College extends unsecured credit to students and parents of dependent students in connection with their studies. Some of those students are no longer enrolled or have completed their degrees.

The College establishes a reserve for uncollectible balances after reasonable efforts have been made to collect the outstanding balances, including working with a collection agency.

Student accounts receivable consist of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Student accounts receivable	\$ 734,329	695,309
Less: allowance for doubtful accounts	<u>(675,980)</u>	<u>(647,396)</u>
	<u>\$ 58,349</u>	<u>\$ 47,913</u>

Note 4 - **Contributions Receivable**

Contributions receivable consist of unconditional promises to give from individuals. Management has recorded these contributions at their estimated fair value. For the years ended June 30, 2021 and 2020, discounts of five percent have been used to reflect the present value of the non-current portion of the unconditional promises to give.

Contributions receivable are as follows at June 30,:

	<u>2021</u>	<u>2020</u>
Individual contributions	\$ 102,000	\$ 28,725
Less: unamortized discount	(8,417)	(24)
Less: reserve for uncollectible pledges	<u>(1,503)</u>	<u>(1,503)</u>
	<u>\$ 92,080</u>	<u>\$ 27,198</u>

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 4 - **Contributions Receivable - Continued**

A schedule of the anticipated future minimum receipts of individual contributions is as follows at June 30,:

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 41,500	\$ 28,225
One to five years	<u>60,500</u>	<u>500</u>
Total	<u>\$ 102,000</u>	<u>\$ 28,725</u>

Note 5 - **Fair Value Measurement**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021.

*Marketable Securities:* Marketable securities consist of direct and indirect (mutual funds) investments in equity and debt securities. Mutual funds and direct investments are priced daily on the open market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The College's investments consist entirely of Level 1 assets as of June 30, 2021 and 2020.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 6 - **Property, Plant and Equipment**

A summary of the major components of property and equipment is as follows at June 30,:

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 14,168,796	\$ 13,833,591
Construction in process	19,010	106,067
Library materials	588,299	588,299
Educational equipment	2,068,093	1,954,467
Office equipment	815,575	1,185,365
Motor vehicles	17,709	17,709
Furniture and fixtures - student housing	<u>314,402</u>	<u>303,815</u>
	17,991,884	17,989,313
Less: accumulated depreciation	<u>(9,020,073)</u>	<u>(8,930,164)</u>
Property and Equipment	<u>\$ 8,971,811</u>	<u>\$ 9,059,149</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$507,973 and \$490,874, respectively.

Note 7 - **Paycheck Protection Program Loan**

In April 2020, the College received a Payroll Protection Program (“PPP”) loan under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) in the amount of \$1,052,900. The loan will be forgiven based upon the College using the proceeds on eligible expenses over a twenty-four-week period from the time that the loan is obtained. Eligible expenses include payroll and related benefits, utilities, and rent. The College used the entire funds from the loan in accordance with the provisions of the CARES Act. In April 2021, the Small Business Administration, acting on behalf of the federal government, forgave the entire loan.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 8 - **Debt Obligations**

*Line of Credit*

The College has a revolving line of credit, allowing for maximum drawings of \$1,000,000, bearing interest at Prime as of June 30, 2021 and 2020, respectively (Prime was 3.25% as of June 30, 2021 and 2020). The note is secured by all business assets and is due on demand and subject to annual renewal in December 2021. The note requires the College to meet certain operating and financial covenants. As of June 30, 2021, no amounts were outstanding under this line. As of June 30, 2020, \$500,000 had been drawn upon.

*Bonds Payable*

In February 2020, the College refinanced its existing mortgage debt into two bonds totaling \$3,595,000 and \$1,645,000, bearing interest at 2.86% and 3.62%, respectively. The bonds are secured by receivables and certain real estate of the College. The bonds require monthly payments of principal and interest of \$16,868 and \$8,391, respectively. Both bonds mature in February 2030, with balloon payments due at maturity of \$2,326,345 and \$1,159,773, respectively. The College incurred \$130,362 of bond issuance costs to be amortized over the life of the bonds.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 8 - **Debt Obligations - Continued**

	<u>2021</u>	<u>2020</u>
Massachusetts Development Finance Agency ("MDFFA"), Revenue Bonds, Montserrat College of Art Issue, Series 2020A. Principal and interest are payable monthly at a fixed interest rate of 2.86%. The bond is secured by receivables and real estate of the College and is required to meet financial loan covenants.	<b>\$ 3,471,003</b>	\$ 3,571,186
MDFFA Revenue Bonds, Montserrat College of Art Issue, Series 2020B. Principal and interest are payable monthly at a fixed interest rate of 3.62%. The bond is secured by receivables and real estate of the College and is required to meet financial loan	<b>1,558,423</b>	1,601,057
Bond issuance costs	<b>(130,362)</b>	(130,362)
Amortization of bond issuance costs	<u>17,382</u>	<u>4,345</u>
Total bonds payable	<b><u>\$ 4,916,446</u></b>	<b><u>\$ 5,046,226</u></b>

**Mortgage Payable**

The College had a note payable bearing interest at 4.00% at June 30, 2019, in the original amount of \$7,400,000, dated April 2012, secured by certain real estate of the College. In February 2020, the College refinanced its long-term debt to pay off the balance of the outstanding mortgage.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 8 - **Debt Obligations - Continued**

*Note Payable*

On August 1, 2017, the College entered into a note payable agreement with a landlord for \$135,000 to use for renovating classroom space in a building the College leases from the landlord. The note does not bear interest and requires monthly principal payments of \$1,875 through October 2024. As of June 30, 2021, and 2020, \$52,500 and \$75,000 was outstanding under this note, respectively. No interest has been calculated due to lack of materiality.

The maturity of this debt over the next five years and thereafter is as follows as of June 30, 2021:

Years Ending <u>June 30,</u>	
2022	\$ 170,032
2023	174,720
2024	164,158
2025	162,041
2026	169,843
Thereafter	<u>4,241,132</u>
	<u>\$ 5,081,926</u>

Total interest expense on all indebtedness for the years ended June 30, 2021 and 2020 was \$181,959 and \$211,243, respectively.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 9 - **Net Assets**

*Net Assets Without Restrictions*

Net assets without donor restrictions comprise the receipt of funds relating to activities the College engages in that are not restricted in nature, and gains on endowed net assets. Board-designated net assets are earmarked to be included in the endowment.

Net assets without restrictions consist of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 6,088,668	\$ 5,067,385
Board Designated	<u>1,258,119</u>	<u>468,963</u>
	<u>\$ 7,346,787</u>	<u>\$ 5,536,348</u>

*Net Assets With Restrictions*

Net assets with restrictions consist of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Scholarships and Grants	\$ 987,388	\$ 787,589
Endowed	<u>1,621,685</u>	<u>898,972</u>
	<u>\$ 2,609,073</u>	<u>\$ 1,686,561</u>

*Net Assets Released from Restrictions*

Net assets with donor restrictions were released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donor. The net assets released from restrictions related to the following for the years ended June 30,:

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

**June 30, 2021 and 2020**

Note 9 - **Net Assets - Continued**

*Net Assets Released from Restrictions - continued*

	<u>2021</u>	<u>2020</u>
Scholarships	\$ 41,975	\$ 51,996
Other Purposes	<u>33,100</u>	<u>155,500</u>
	<u>\$ 75,075</u>	<u>\$ 207,496</u>

Note 10 - **Endowment Net Assets**

Endowment funds consist of donor-restricted and board-designated funds. Board-designated endowment funds are earmarked by the Board to be invested to provide income for the College's general operations. Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment net assets, at June 30, 2019</b>	\$ 473,257	\$ 855,390	\$ 1,328,647
Investment return	(4,304)	(12,418)	(16,722)
Contributions	<u>-</u>	<u>56,000</u>	<u>56,000</u>
<b>Endowment net assets, at June 30, 2020</b>	<b>468,953</b>	<b>898,972</b>	<b>1,367,925</b>
Investment return	239,166	428,912	668,078
Contributions	<u>750,000</u>	<u>293,801</u>	<u>1,043,801</u>
<b>Endowment net assets, at June 30, 2021</b>	<b><u>\$ 1,458,119</u></b>	<b><u>\$ 1,621,685</u></b>	<b><u>\$ 3,079,804</u></b>

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 11 - **Retirement Plan**

The College provides a TIAA-CREF retirement plan to full-time faculty and staff members who have completed two years of service. The retirement plan is administered by an outside agency. For the years ended June 30, 2021 and 2020, the College contributed a 2% elective match totaling \$41,539 and \$49,234, respectively.

Note 12 - **Lease Commitments**

The College leases student apartments and academic space under agreements with periods ranging from one to ten years. Rent expense for the years ended June 30, 2021 and 2020 was \$682,033 and \$706,273, respectively.

Future minimum lease payments subsequent to June 30, 2021 are as follows:

Years Ending <u>June 30,</u>	
2022	\$ 738,417
2023	739,452
2024	578,210
2025	477,197
2026	477,085
Thereafter	<u>4,373,840</u>
	<u>\$ 7,384,201</u>

# **MONTSERRAT COLLEGE OF ART, INC.**

## **Notes to the Financial Statements - Continued**

**June 30, 2021 and 2020**

Note 13 - **Related Party Transactions**

A member of the Board of Trustees is a partner in an accounting firm that provided feasibility research with respect to employment credits for the College. During the year ended June 30, 2021, the College was billed \$423.

The Dean of College Relations is married to an individual that owns a company from whom the College purchases printing services. During the years ended June 30, 2021 and 2020, the College purchased goods and services totaling \$5,983 and \$7,637, respectively.

Note 14 - **Supplemental Cash Flow Information**

Cash paid for interest was \$173,989 and \$189,106 during the years ended June 30, 2021 and 2020, respectively.

Note 15 - **Composite Score Standard**

As a condition of eligibility to participate in the various federal assistance programs, the College is required to demonstrate financial responsibility, as defined in the United States Department of Education regulations, by maintaining a “composite score standard” of at least 1.5. The regulations also established a composite score zone between 1.0 and 1.4, demonstrating an institution as financially weak, but viable.

Regulations allow institutions falling within this zone up to three consecutive years to improve their financial condition without requiring surety.

For the years ended June 30, 2021 and 2020, the College has calculated its composite score as 3.0 and 2.9, respectively.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 16 - **Concentrations, Risks and Uncertainties**

Cash

The College maintains cash balances at several financial banking institutions, and, at times during the year, these balances may exceed the federally insured limit. The College had deposits of approximately \$2,681,000 and \$2,607,000 in excess of FDIC insurance at December 31, 2021 and 2020, respectively. Management monitors the financial condition of these banking institutions, along with its balances in cash, to keep this potential risk at a minimum.

Contributions

For the years ended June 30, 2021 and 2020, two donors represented approximately 98% and 87% of the gross outstanding contributions receivable balance, respectively. For the years ended June 30, 2021 and 2020, 59% and 7% of contributions are from contributors, including certain related parties, donating \$30,000 or more, respectively.

Student Financial Aid

Through the U.S. Department of Education, the College participates in the Title IV Higher Education Act programs. These programs include Pell Grants, Federal Work Study, Federal Direct Loan Program, and Federal Supplemental Educational Opportunity Grants. Receipts from these federal programs represent approximately 44% and 49% of tuition and fee revenue for the years ended June 30, 2021 and 2020, respectively.

Uncertainties

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the College's finances and operations cannot be determined.

In addition to revenues from tuition and fees, the College is dependent upon revenues from grants and contributions. Although management believes that it will have sufficient funds to meet its operating expenses between funds already available and promised grants, there is no guarantee that these grants and other sources of funds will continue into future years. As a result, management continues to actively seek new grants and other sources of revenue.

# MONTSERRAT COLLEGE OF ART, INC.

## Notes to the Financial Statements - Continued

June 30, 2021 and 2020

Note 16 - **Concentrations, Risks and Uncertainties - Continued**

*Claims*

From time to time, the College may be involved in various claims and lawsuits, both for and against the College, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlements of such claims and lawsuits would not be material to the College's financial position.

Note 17 - **Availability and Liquidity**

The following represents the College's financial assets available to meet general expenditures within one year at June 30,:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and equivalents	\$ 3,173,124	\$ 3,336,185
Investments, short-term	4,007,784	2,429,763
Accounts receivable	58,349	47,913
Current portion of unconditional promises to give	41,500	28,225
	<u>7,280,757</u>	<u>5,842,086</u>
Less: amounts not available to be used within one year:		
Board designated net assets	1,258,119	468,963
Net assets with restrictions	2,609,073	1,686,561
	<u>3,867,192</u>	<u>2,155,524</u>
Addback:		
Endowment drawdown for operations	30,000	23,000
Non-current portion of unconditional promises to give	60,500	500
	<u>90,500</u>	<u>23,500</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,504,065</u>	<u>\$ 3,710,062</u>

# **MONTSERRAT COLLEGE OF ART, INC.**

## **Notes to the Financial Statements - Continued**

**June 30, 2021 and 2020**

Note 17 - **Availability and Liquidity - Continued**

The College reviews its cash position on a regular basis to ensure that adequate funds are on hand to meet expenses. If funds are needed for expenses, management can liquidate its short-term investments or request that the Board undesignate previously designated assets. As of June 30, 2021 and 2020, management believes the College has no liquidity issues.

Note 18 - **Management's Acceptance of Financial Statements**

Subsequent to year end, the College entered into a agreement to purchase a property located at 9 Dane Street, Beverly, MA in the amount of \$1,285,000. To purchase the property, the College used funds from contributions received for this purpose totaling \$300,000 and a mortgage of \$1,000,000.

# MONTERRAT COLLEGE OF ART, INC.

## Financial Responsibility Supplemental Schedule

Year Ended June 30, 2021

<b>Primary Reserve Ratio:</b>		
	<b>Expendable Net Assets:</b>	
1	Statement of Financial Position (SFP)	\$ 7,346,787
2	SFP	2,609,073
3	Not applicable	
4	Not applicable	
	<b>Secured and Unsecured related party receivable - Total</b>	-
	Unsecured related party receivables	-
5	SD Line 5	8,971,811
6	SD Line 1d	
	<b>Property, Plant and Equipment, net (includes Construction in progress) - Total</b>	8,705,368
	Property, plant and equipment pre-implementation	8,705,368
7	SD Line 2d	
	Property, plant and equipment post- implementation with outstanding debt for original purchase	-
8	SD Line 4a	
	Property, plant and equipment post-implementation without outstanding debt for original purchase	266,443
9	SD Line 3	
	Construction in progress	-
10	Not applicable	
	<b>Lease right-of-use asset, net - Total</b>	-
11	Not applicable	
	Lease right-of-use, pre-implementation (grandfather of leases option not chosen)	-
12	Not applicable	
	Lease right-of-use asset, post-implementation	-
13	SD Line 11	
	Intangible assets	-
14	Not applicable	
	Post-employment and pension liabilities	-
15	SD Lines 6d, 7a-c, 8	
	<b>Long-term debt- for long-term purposes - Total</b>	4,968,946
16	SD Line 6d	
	Long-term debt- for long-term purpose pre-implementation	4,968,946
17	SD Lines 7a-c	
	Long-term debt- for long-term purposes post-implementation	-
18	SD Line 8	
	Line of Credit for Construction in progress	-
19	Not applicable	
	<b>Lease right-of-use asset liability - Total</b>	-
20	Not applicable	
	Pre-implementation right-of-use asset liability (grandfather of leases option not chosen)	-
21	Not applicable	
	Post-implementation right-of-use asset liability	-
22	Not applicable	
	<b>Annuities, term endowment and life income with donor restrictions - Total</b>	-
23	Not applicable	
	Annuities with donor restrictions	-
24	Not applicable	
	Term Endowments with donor restrictions	-
25	Not applicable	
	Life income funds with donor restrictions	-
26	Note 9	
	Net Assets with donor restrictions - restricted in perpetuity	-
	<b>Total Expenses without Donor Restrictions &amp; Losses without Donor Restrictions:</b>	
27	Statement of Activities (SOA)	10,209,899
	Total expenses without donor restrictions- taken directly from Statement of Activities	10,209,899
28	Not applicable	
	Non-operating and Net Investment (loss)	-
29	Not applicable	
	Net Investment losses	-
30	Not applicable	
	Pension-related changes other than net periodic costs	-
<b>Equity Ratio:</b>		
	<b>Modified Net Assets:</b>	
31	SFP	7,346,787
	Net assets without donor restrictions	7,346,787
32	SFP	2,609,073
	Net assets with donor restrictions	2,609,073
33	SD Line 11	
	Intangible Assets	-
34	Not applicable	
	Intangible Assets- Goodwill	-
35	Not applicable	
	<b>Secured and unsecured related party receivables- Total</b>	-
36	Not applicable	
	Unsecured related party receivables	-
	<b>Modified Assets:</b>	
37	SFP	16,506,023
	Total Assets	16,506,023
38	Not applicable	
	Lease right-of-use asset pre-implementation	-
39	Not applicable	
	Pre-implementation right-of-use asset liability	-
40	SD Line 11	
	Intangible Assets	-
41	Not applicable	
	Secured and unsecured related part receivables	-
42	Not applicable	
	Unsecured related party receivables	-
<b>Net Income Ratio:</b>		
	<b>Change in Net Assets Without Donor Restrictions:</b>	
43	SOA	1,810,439
	Change in net assets without donor restrictions	1,810,439
	<b>Total Revenue without Donor Restrictions &amp; Gains without Donor Restrictions</b>	
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	10,717,489
	Total Revenues and Gains	10,717,489
45	SOA	249,949
	Investments, net (operating and non-operating)	249,949

# MONTERRAT COLLEGE OF ART, INC.

## Financial Responsibility Supplemental Disclosures

### Year Ended June 30, 2021

The Department of Education issued regulations on February 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate ratios for determining sufficient financial responsibility under Title IV.

#### Property, Plant and Equipment, net

1 Pre-implementation property, plant and equipment, net (PP&E, net)	
a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2020 financial statement)	\$ 9,059,149
b. Reclassify capital lease assets previously included in PP&E, net prior to the implementation of ASU 2016-02 lease standards	-
c. Less subsequent depreciation and disposals	<u>(507,973)</u>
d. Balance Pre-implementation property, plant and equipment, net	<u>8,551,176</u>
2 Debt Financed Post-Implementation property, plant and equipment, net	
Long-lived assets acquired with debt subsequent to June 30, 2020:	
a. Land	-
b. Land Improvements	-
c. Building	<u>-</u>
d. Total Property, plant and equipment, net acquired with debt exceeding 12 months	-
3 Construction in progress- acquired subsequent to June 30, 2020	-
4 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2020	<u>420,635</u>
5 Total Property, Plant and Equipment, net- June 30, 2020	<u>\$ 8,971,811</u>

#### Debt to be excluded from expendable net assets

6 Pre-implementation debt:	
a. Ending balance of last financial statement submitted to the Department of Education (June 30, 2020)	\$ 5,121,226
b. Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standards	-
c. Less subsequent debt repayments	<u>(152,280)</u>
d. Balance pre-implementation debt	<u>4,968,946</u>
7 Allowable post-implementation debt used for capitalized long-lived assets:	
a. Equipment- all capitalized	-
b. Land Improvements	-
c. Buildings	-
8 Construction in progress (CIP) financed with short term debt	-
9 Long-term debt not for the purchase of property, plant and equipment or liability greater than assets value	<u>-</u>
	<u>\$ 4,968,946</u>

**SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

# MONTSERRAT COLLEGE OF ART, INC.

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

<u>Cluster Title/Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Entity Award Number</u>	<u>Federal Expenditures</u>	<u>Through to Subrecipients</u>
<b>STUDENT FINANCIAL AID CLUSTER</b>					
<b>U.S. Department of Education:</b>					
<b>Direct Awards:</b>					
Federal Supplemental Educational Opportunity Grant	84.007	-	-	\$ 34,056	\$ -
Federal Work-Study Program	84.003	-	-	47,879	-
Federal Pell Grant Program	84.063	-	-	605,228	-
William D. Ford Federal Direct Loan Program	84.268	-	-	<u>3,219,201</u>	<u>-</u>
Total Student Financial Assistance Cluster				3,906,364	-
<b>NON-CLUSTER</b>					
<b>U.S. Department of Education:</b>					
<b>Direct Awards:</b>					
Educational Stabilization Fund					
COVID-19 - Higher Education Emergency Relief Fund -Student	84.425E	-	-	375,198	-
COVID-19 - Higher Education Emergency Relief Fund -Institutional	84.425F	-	-	1,136,767	-
COVID-19 - Higher Education Emergency Relief Fund -Strengthening Institutional Programs	84.425M	-	-	91,228	-
COVID-19 - Higher Education Emergency Relief Fund -Fund for the Improvement of Postsecondary Education	84.425N	-	-	<u>106,277</u>	<u>-</u>
Total Non-Cluster				<u>1,709,470</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 5,615,834</u>	<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

# **MONTSERRAT COLLEGE OF ART, INC.**

## **Notes to the Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2021**

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal award activity of Montserrat College of Art, Inc. (the "College") under programs of the Federal Government for the year ended June 30, 2021. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the College, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the College.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). The College has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - **Federal Direct Student Loans**

During the year ended June 30, 2021, the College processed \$3,219,201 of new loans under the Federal Direct Loan Program (which includes Direct Subsidized and Unsubsidized Stafford Loans and Direct Parent Plus Loan for Undergraduate Students).

With respect to the Federal Direct Loan Program, the College is responsible only for the performance of certain administrative duties and, accordingly, these loan balances are not included in the College's financial statements. It is not practical to determine the balances of loans outstanding from students of the College under this program at June 30, 2021.

Note 4 - **Additional Information**

Per guidance from AICPA, GAAP financial statements do not agree with the SEFA with regards to the HEERF awards. The student portion of the HEERF award is

# **MONTSERRAT COLLEGE OF ART, INC.**

## **Notes to the Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2021**

Note 4 - **Additional Information - Continued**

recognized on the SEFA based on the actual disbursement date to the students. The institutional portion of the HEERF award is recognized on the SEFA based on the application of funds regardless of the date the funds were drawn.



## **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  
Montserrat College of Art, Inc.  
Beverly, Massachusetts

We have audited, 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 of America, the financial statements of Montserrat College of Art, Inc. (the "College"), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and we have issued our report thereon dated November 16, 2021.

### **Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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 financial statements. 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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Certified Public Accountants**  
**Winchester, Massachusetts**  
**November 16, 2021**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH TITLE 2 *U.S. CODE OF FEDERAL REGULATIONS*  
(CFR) PART 200, *UNIFORM ADMINISTRATIVE  
REQUIREMENTS, COST PRINCIPLES AND AUDIT  
REQUIREMENTS FOR FEDERAL AWARDS***



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of  
Montserrat College of Art, Inc.  
Beverly, Massachusetts

### **Report on Compliance for Each Major Federal Program**

We have audited Montserrat College of Art, Inc.'s (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2021. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

### **Report on Internal Control Over Compliance**

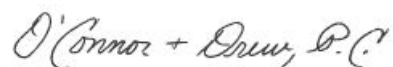
Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**Certified Public Accountants  
Winchester, Massachusetts  
November 16, 2021**

## **SUPPLEMENTAL INFORMATION**

**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***

# MONTSERRAT COLLEGE OF ART, INC.

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

### Summary of Auditors' Results

#### *Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Noncompliance material to the financial statements noted?  yes  no

#### *Federal Awards*

Internal control over major programs:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?  yes  no

# MONTSERRAT COLLEGE OF ART, INC.

## Schedule of Findings and Questioned Costs - Continued

For the Year Ended June 30, 2021

### *Identification of Major Programs*

<b>Name of Federal Program or Cluster</b>	<b>CFDA Number</b>
Non Cluster	
Education Stabilization Fund	
Higher Education Emergency Relief Fund - Students	<b>84.425E</b>
Higher Education Emergency Relief Fund - Institutional	<b>84.425F</b>
Higher Education Emergency Relief Fund - Strengthening Institutional Programs	<b>84.425M</b>
Higher Education Emergency Relief Fund - Fund for the Improvement of Postsecondary Education	<b>84.425N</b>

Dollar threshold used to distinguish between  
type A and type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

x yes     no

# **MONTSERRAT COLLEGE OF ART, INC.**

## **Schedule of Findings and Questioned Costs - Continued**

**For the Year Ended June 30, 2021**

### **Section II – Financial Statement Findings:**

None.

### **Section III – Federal Award Findings and Questioned Costs:**

None.

# montserrat

## COLLEGE OF ART

**Finding number:** 2020-001  
**Federal agency:** U.S. Department of Education  
**Program:** Federal Work-Study Program  
**CFDA #:** 84.033  
**Award year:** 2020

### ***Condition***

Federal regulations require an institution to monitor and ensure that a work-study student is not working during his/her designated class time. Out of a sample of five students, we noted one student who worked during class time.

### ***Award year 2020***

Our sample was not, and was not intended to be, statistically valid. Out of a sample of five students, we noted one student who worked during class time.

### ***Current Year Status***

Corrective action was taken in the current year