

MONTSERRAT COLLEGE OF ART, INC.

FINANCIAL STATEMENTS

JUNE 30, 2022

MONTSERRAT COLLEGE OF ART, INC.

Financial Statements

June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Montserrat College of Art, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in the United State of America and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards in the United States of America and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, on pages 31-32 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 17, 2022, 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 17, 2022

MONTSERRAT COLLEGE OF ART, INC.

Statements of Financial Position

June 30, 2022

Assets

	<u>2022</u>	<u>2021</u>
Assets:		
Cash and equivalents	\$ 1,786,633	\$ 2,103,200
Restricted cash	1,052,405	1,069,924
Marketable securities	3,390,438	4,007,784
Student accounts receivable, net	70,587	58,349
Contributions receivable, net	55,685	92,080
Prepaid expenses and other assets	197,001	202,875
Property, plant and equipment, net	<u>10,559,490</u>	<u>8,971,811</u>
Total Assets	<u>\$ 17,112,239</u>	<u>\$ 16,506,023</u>

Liabilities and Net Assets

Liabilities:		
Unearned revenue	\$ 599,467	\$ 805,609
Accounts payable	109,958	142,548
Accrued expenses	383,736	383,383
Student housing deposits	124,500	109,500
Bonds, net of insurance costs	4,782,130	4,916,446
Notes payable	<u>1,568,470</u>	<u>52,500</u>
Total Liabilities	<u>7,568,261</u>	<u>6,409,986</u>
Net Assets:		
Without donor restrictions	7,041,972	7,486,964
With donor restrictions	<u>2,502,006</u>	<u>2,609,073</u>
Total Net Assets	<u>9,543,978</u>	<u>10,096,037</u>
Total Liabilities and Net Assets	<u>\$ 17,112,239</u>	<u>\$ 16,506,023</u>

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, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Operating Revenues:			
Tuition and fees	\$ 12,099,996	\$ -	\$ 12,099,996
Housing	2,648,820	-	2,648,820
Less: scholarship and awards	<u>(5,870,125)</u>	<u>-</u>	<u>(5,870,125)</u>
Undergraduate tuition, fees and housing, net	8,878,691	-	8,878,691
Federal and state grants	1,153,471	-	1,153,471
Private contributions and grants of cash and financial assets	594,636	539,937	1,134,573
Other income	114,395	-	114,395
Net assets released from restrictions	<u>344,666</u>	<u>(344,666)</u>	<u>-</u>
Total Operating Revenues	<u>11,085,859</u>	<u>195,271</u>	<u>11,281,130</u>
Operating Expenses:			
Program:			
College and Continuing Education Instruction	3,040,229	-	3,040,229
Student Academic Services and Housing	<u>4,028,641</u>	<u>-</u>	<u>4,028,641</u>
Total Program	<u>7,068,870</u>	<u>-</u>	<u>7,068,870</u>
Management and General	3,879,007	-	3,879,007
Fundraising	<u>318,703</u>	<u>-</u>	<u>318,703</u>
Total Operating Expenses	<u>11,266,580</u>	<u>-</u>	<u>11,266,580</u>
Changes in Net Assets from Operating Activities	<u>(180,721)</u>	<u>195,271</u>	<u>14,550</u>
Non-Operating Activity:			
Investment loss	<u>(264,271)</u>	<u>(302,338)</u>	<u>(566,609)</u>
Total Decrease in Net Assets	(444,992)	(107,067)	(552,059)
Net Assets, Beginning of Year	<u>7,486,964</u>	<u>2,609,073</u>	<u>10,096,037</u>
Net Assets, End of Year	<u>\$ 7,041,972</u>	<u>\$ 2,502,006</u>	<u>\$ 9,543,978</u>

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, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Operating Revenues:			
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 of cash and financial assets	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>
Total Operating Revenues	<u>10,857,666</u>	<u>493,600</u>	<u>11,351,266</u>
Operating Expenses:			
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>
Total Operating Expenses	<u>10,209,899</u>	<u>-</u>	<u>10,209,899</u>
Changes in Net Assets from Operating Activities	<u>647,767</u>	<u>493,600</u>	<u>1,141,367</u>
Non-Operating Activities:			
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>
Total Non-Operating Revenues	<u>1,302,849</u>	<u>428,912</u>	<u>1,731,761</u>
Total Increase in Net Assets	1,950,616	922,512	2,873,128
Net Assets, Beginning of Year	<u>5,536,348</u>	<u>1,686,561</u>	<u>7,222,909</u>
Net Assets, End of Year	<u>\$ 7,486,964</u>	<u>\$ 2,609,073</u>	<u>\$ 10,096,037</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, 2022

	Program Services				
	College and Continuing Education Instruction	Student Academic Services and Housing	Management and General	Fundraising	Total
Salaries and benefits	\$ 2,625,809	\$ 1,884,898	\$ 1,638,166	\$ 129,481	\$ 6,278,354
Rentals and maintenance	10,035	750,984	256,601	-	1,017,620
Professional services and outside help	38,701	295,977	548,679	57,278	940,635
Utilities	-	166,290	464,004	-	630,294
Depreciation	148,735	307,368	79,453	-	535,556
Educational and office supplies	121,334	103,011	249,943	671	474,959
Travel and events	20,098	147,504	67,313	103,493	338,408
Insurance	-	153,943	94,335	-	248,278
Interest	50,716	104,805	27,092	-	182,613
Security	-	-	174,240	-	174,240
Advertising, printing and mailing	10,804	70,275	42,077	17,242	140,398
Other	13,997	33,477	64,356	10,538	122,368
Bank and credit card fees	-	-	63,366	-	63,366
Dues, subscriptions and memberships	-	10,109	40,431	-	50,540
Bad debts	-	-	49,553	-	49,553
Computer, telephone and network	-	-	19,398	-	19,398
	<u>\$ 3,040,229</u>	<u>\$ 4,028,641</u>	<u>\$ 3,879,007</u>	<u>\$ 318,703</u>	<u>\$ 11,266,580</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	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
Rentals and maintenance	7,281	677,176	239,041	-	923,498
Professional services and outside help	5,007	279,267	454,424	67,875	806,573
Utilities	-	159,912	369,478	-	529,390
Depreciation	141,075	291,537	75,361	-	507,973
Insurance	-	144,531	91,001	-	235,532
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
Bank and credit card fees	-	-	63,481	-	63,481
Other	13,322	20,089	6,500	8,737	48,648
Bad debts	-	-	29,176	-	29,176
Dues, subscriptions and memberships	-	10,419	37,803	-	48,222
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.

Statements of Cash Flows

For the Years Ended June 30,

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in net assets	\$ <u>(552,059)</u>	\$ <u>2,873,128</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness	-	(1,052,900)
Depreciation	535,556	507,973
Amortization of debt issuance costs	13,036	13,036
Bad debts	49,553	29,176
Realized and unrealized (gains) losses on investments	606,586	(632,713)
Stock donations	(18,098)	(10,278)
Permanently restricted contributions	(326,497)	(293,801)
Changes in assets and liabilities:		
Student accounts receivable	(61,791)	(39,612)
Contributions receivable	36,395	(64,882)
Prepaid expenses other assets	5,874	(86,878)
Accounts payable and accrued expenses	(32,237)	23,126
Student deposits and unearned revenue	<u>(191,142)</u>	<u>298,744</u>
Net Adjustments	<u>617,235</u>	<u>(1,309,009)</u>
Net Cash Provided by Operating Activities	<u>65,176</u>	<u>1,564,119</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(560,235)	(420,635)
Proceeds from sales of marketable securities	562,207	261,396
Purchases of marketable securities	(533,349)	(1,196,426)
Receipt of permanently restricted contributions	<u>326,497</u>	<u>293,801</u>
Net Cash Applied to Investing Activities	<u>(204,880)</u>	<u>(1,061,864)</u>
Cash Flows from Financing Activities:		
Payments of line of credit	-	(500,000)
Payments on long term debt, net	<u>(194,382)</u>	<u>(165,316)</u>
Net Cash Applied to Financing Activities	<u>(194,382)</u>	<u>(665,316)</u>
Net Decrease in Cash and Equivalents and Restricted Cash	(334,086)	(163,061)
Cash and Equivalents and Restricted Cash, Beginning of Year	<u>3,173,124</u>	<u>3,336,185</u>
Cash and Equivalents and Restricted Cash, End of Year	\$ <u>2,839,038</u>	\$ <u>3,173,124</u>
Cash and equivalents and restricted cash consist of the following at June 30,:		
Cash and equivalents	\$ 1,786,633	\$ 2,103,200
Restricted cash	<u>1,052,405</u>	<u>1,069,924</u>
Total	\$ <u>2,839,038</u>	\$ <u>3,173,124</u>

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements

June 30, 2022 and 2021

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.

In response to the COVID-19 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"). The HEERF consisted of the student aid award and the institutional award. Each Act requires a minimum amount to be spent on student aid.

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.

For the year ended June 30, 2022, the College recognized \$531,458 for emergency grants to students and \$577,963 for institutional costs from the HEERF funds. The College received approximately \$44,000 of non-HEERF federal grants.

For the year ended June 30, 2021, the College recognized \$375,198 for emergency grants to students and \$558,804 for institutional costs from the HEERF funds. Additionally, during the year ended June 30, 2021, the College recognized \$91,228 under SIP and \$106,277 under the Fund for the Improvement of Postsecondary Education ("FIPSE") provisions of the CARES Act.

As of June 30, 2022, the College has spent and recognized all of the HEERF, SIP and FISPE funds that it was awarded.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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.

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.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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 receivables 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.

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability; and• Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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.

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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.

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, 2022 and 2021, the aggregate fair value of certain investments was \$55,153 and \$324 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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

judgment involved in the timing of satisfaction of performance 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 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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

or purpose restriction has been satisfied. The College had no conditional contributions at June 30, 2022 and 2021.

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.

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.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

Adoption of New Accounting Pronouncement

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This pronouncement requires not-for-profit entities to present contributed non-financial assets in the statement of activities as a line that is separate from other contributions and provide additional disclosure information related to these items. The College adopted the provisions of ASU 2020-07 on a retrospective basis as of July 1, 2020. Certain amounts in the prior year statement of activities have been restated to conform to this presentation, but, net assets were not impacted.

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 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.

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>2022</u> <u>Market Value</u>	<u>2021</u> <u>Market Value</u>
Equity Investments	\$ 2,606,633	\$ 2,904,971
Fixed Income Investments	<u>783,805</u>	<u>1,102,813</u>
Total Investments	<u>\$ 3,390,438</u>	<u>\$ 4,007,784</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Student accounts receivable	793,903	734,329
Less: allowance for doubtful accounts	<u>(723,316)</u>	<u>(675,980)</u>
	<u>\$ 70,587</u>	<u>\$ 58,349</u>

Note 4 - **Contributions Receivable**

Contributions receivables consist of unconditional promises to give from individuals. Management has recorded these contributions at their estimated fair value. For the years ended June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>
Individual Contributions	\$ 61,000	\$ 102,000
Less: unamortized discount	(3,812)	(8,417)
less: reserve for uncollectible pledges	<u>(1,503)</u>	<u>(1,503)</u>
Total	<u>\$ 55,685</u>	<u>\$ 92,080</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Less than one year	\$ 41,000	\$ 41,500
One to five years	<u>20,000</u>	<u>60,500</u>
Total	<u>\$ 61,000</u>	<u>\$ 102,000</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, 2022.

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, 2022 and 2021.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Land and buildings	\$ 15,074,165	\$ 14,168,796
Construction in process	1,085,942	19,010
Library materials	588,299	588,299
Educational equipment	2,185,335	2,068,093
Office equipment	849,267	815,575
Motor vehicles	17,709	17,709
Furniture and fixtures - student housing	314,402	314,402
	<u>20,115,119</u>	<u>17,991,884</u>
Less: accumulated depreciation	<u>(9,555,629)</u>	<u>(9,020,073)</u>
Property and Equipment	<u>\$10,559,490</u>	<u>\$8,971,811</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$535,556 and \$507,973, respectively.

Note 7 - **Paycheck Protection Program Loan**

In April 2020, the College received a Paycheck 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.

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, 2022 and 2021 (Prime was 4.75% and 3.25% as of June 30, 2022 and 2021, respectively). The note is secured by all business assets and is due on demand and subject to annual renewal in December 2022.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

The note requires the College to meet certain operating and financial covenants. As of June 30, 2022 and 2021, no amounts were outstanding under this line.

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.

	<u>2022</u>	<u>2021</u>
Massachusetts Development Finance Agency ("MDFA"), 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.	\$ 3,367,877	\$3,471,003
MDFA 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	1,514,197	1,558,423
Bond issuance costs	(130,362)	(130,362)
Amortization of bond issuance costs	<u>30,418</u>	<u>17,382</u>
Total bonds payable	<u>\$ 4,782,130</u>	<u>\$4,916,446</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

Notes 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, 2022, and 2021, \$30,000 and \$52,500 was outstanding under this note, respectively. No interest has been calculated due to lack of materiality.

On July 29, 2021, the College entered into a note payable agreement with People's United Bank for \$1,100,000 to use for the purchase of property in 2021. The note bears interest of 3.76% and requires monthly payments of principal and interest of \$5,694 through June 2031 with a final balloon payment of \$778,881 in July 2031. As of June 30, 2022 \$1,075,470 was outstanding under this note.

On May 5, 2022, the College entered into a note payable agreement with M&T Bank for \$463,000 to use for a solar program on nine properties. The note bears interest of 4.30% and requires monthly principal and interest payments of \$5,192 beginning June 2023 through May 2032. For the period until June 2023, only monthly interest payments ranging from \$1,548 to \$1,714 are due. As of June 30, 2022, \$463,000 was outstanding under this note. As of June 30, 2022 the College was approved for the Solar Massachusetts Renewable Target ("SMART") grant, which will assist in covering debt services costs related to the note payable.

The future maturities of all debt over the next five years and thereafter is as follows as of June 30, 2022:

Years Ending <u>June 30,</u>	
2023	\$ 206,600
2024	236,718
2025	237,697
2026	246,026
2027	254,656
Thereafter	<u>5,268,847</u>
	<u>\$ 6,450,544</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

Total interest expense on all indebtedness for the years ended June 30, 2022 and 2021 was \$182,613 and \$181,959, respectively.

Debt Covenant

The College is in technical default of a loan covenant, which is required for both the line of credit and long-term debt agreements, based on a debt service coverage ratio for the year ended June 30, 2022. Subsequent to year-end, the lending institution granted the College a waiver for the debt covenant breach which requires a \$450,000 debt service fund.

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>2022</u>	<u>2021</u>
Undesignated	\$ 5,829,038	\$ 6,028,845
Board Designated	<u>1,212,934</u>	<u>1,458,119</u>
	<u>\$ 7,041,972</u>	<u>\$ 7,486,964</u>

Net Assets With Restrictions

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

	<u>2022</u>	<u>2021</u>
Scholarships and Grants	\$ 856,763	\$ 987,388
Endowed	<u>1,645,243</u>	<u>1,621,685</u>
	<u>\$ 2,502,006</u>	<u>\$ 2,609,073</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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,:

	<u>2022</u>	<u>2021</u>
Scholarships	\$ 171,166	\$ 41,975
Other Purposes	<u>173,500</u>	<u>33,100</u>
	<u>\$ 344,666</u>	<u>\$ 75,075</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, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, at June 30, 2020	\$ 468,953	\$ 898,972	\$ 1,367,925
Investment return	239,166	428,912	668,078
Contributions	<u>750,000</u>	<u>293,801</u>	<u>1,043,801</u>
Endowment net assets, at June 30, 2021	1,458,119	1,621,685	3,079,804
Investment return	(245,185)	(302,940)	(548,125)
Contributions	<u>-</u>	<u>326,497</u>	<u>326,497</u>
Endowment net assets, at June 30, 2022	<u>\$ 1,212,934</u>	<u>\$ 1,645,242</u>	<u>\$ 2,858,176</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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, 2022 and 2021, the College contributed a 2% elective match totaling \$48,105 and \$41,539, 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, 2022 and 2021 was \$602,769 and \$682,033, respectively.

Future minimum lease payments subsequent to June 30, 2022 are as follows:

Years Ending <u>June 30,</u>	
2023	\$ 739,452
2024	578,210
2025	477,197
2026	477,085
2027	389,811
Thereafter	<u>3,984,029</u>
	<u>\$ 6,645,784</u>

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 years ended June 30, 2022 and 2021, the College was billed \$0 and \$724, respectively.

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, 2022 and 2021, the College purchased goods and services totaling \$7,093 and \$5,983, respectively.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

Note 14 - **Supplemental Cash Flow Information**

Cash paid for interest was \$193,873 and \$173,989 during the years ended June 30, 2022 and 2021, respectively.

For the year ended June 30, 2022, the College acquired \$1,563,000 of property and equipment through notes payable.

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, 2022 and 2021, the College has calculated its composite score as 2.2 and 3.0, respectively.

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 \$2,467,000 and \$2,681,000 in excess of FDIC insurance at June 30, 2022 and 2021, 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, 2022 and 2021, two donors represented approximately 98% of the gross outstanding contributions receivable balance, respectively. For the years ended June 30, 2022 and 2021, 66% and 59% of contributions are from contributors, including certain related parties, donating \$30,000 or more, respectively.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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 41% and 44% of tuition and fee revenue, net of scholarships and awards, for the years ended June 30, 2022 and 2021, respectively.

Uncertainties

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.

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.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and equivalents	\$ 2,839,038	\$ 3,137,124
Investments, short-term	3,390,438	4,007,784
Accounts receivable	70,587	58,349
Current portion of unconditional promises to give	<u>41,000</u>	<u>41,500</u>
	<u>6,341,063</u>	<u>7,244,757</u>
Less: amounts not available to be used within one year:		
Board designated net assets	1,212,934	1,458,119
Net assets with restrictions	<u>2,502,006</u>	<u>2,609,073</u>
	<u>3,714,940</u>	<u>4,067,192</u>
Addback:		
Endowment drawdown for operations	26,118	30,000
Non-current portion of unconditional promises to give	<u>20,000</u>	<u>60,500</u>
	<u>46,118</u>	<u>90,500</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,672,241</u>	<u>\$ 3,268,065</u>

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 undesignated previously designated assets. As of June 30, 2022 and 2021, management believes the College has no liquidity issues.

Note 18 - Management's Acceptance of Financial Statements

Management has evaluated subsequent events through November 17, 2022, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any events, other than the event noted below, subsequent to June 30, 2022 requiring disclosure in these financial statements.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2022 and 2021

As discussed in Note 8, as of June 30, 2022, the College was in technical default of its debt covenants and was required to segregate a \$450,000 debt service fund subsequent to the year ended June 30, 2022.

SUPPLEMENTAL INFORMATION

MONTSERRAT COLLEGE OF ART, INC.

Financial Responsibility Supplemental Schedule

Year Ended June 30, 2022

Primary Reserve Ratio:		
	Expendable Net Assets:	
1	Statement of Financial Position (SFP) Net assets without donor restrictions	\$ 7,041,972
2	SFP Net assets with donor restrictions	2,502,006
3	Not applicable Secured and Unsecured related party receivable - Total	-
4	Not applicable Unsecured related party receivables	-
5	SD Line 5 Property, Plant and Equipment, net (includes Construction in progress) - Total	10,559,490
6	SD Line 1d Property, plant and equipment pre-implementation	8,436,255
7	SD Line 2d Property, plant and equipment post-implementation with outstanding debt for original purchase	1,563,000
8	SD Line 4a Property, plant and equipment post-implementation without outstanding debt for original purchase	560,235
9	SD Line 3 Construction in progress without outstanding debt for original purchase	-
10	Not applicable Lease right-of-use asset, net - Total	-
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 Long-term debt- for long-term purposes - Total	6,350,600
16	SD Line 6d Long-term debt- for long-term purpose pre-implementation	4,787,600
17	SD Lines 7a-c Long-term debt- for long-term purposes post-implementation	6,350,600
18	SD Line 8 Line of Credit for Construction in progress	-
19	Not applicable Lease right-of-use asset liability - Total	-
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 Annuities, term endowment and life income with donor restrictions - Total	-
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	-
	Total Expenses without Donor Restrictions & Losses without Donor Restrictions:	
27	Statement of Activities (SOA) Total expenses without donor restrictions- taken directly from Statement of Activities	11,266,580
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	-
Equity Ratio:		
	Modified Net Assets:	
31	SFP Net assets without donor restrictions	7,041,972
32	SFP Net assets with donor restrictions	2,502,006
33	SD Line 11 Intangible Assets	-
34	Not applicable Intangible Assets- Goodwill	-
35	Not applicable Secured and unsecured related party receivables- Total	-
36	Not applicable Unsecured related party receivables	-
	Modified Assets:	
37	SFP Total Assets	17,112,239
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	-
Net Income Ratio:		
	Change in Net Assets Without Donor Restrictions:	
43	SOA Change in net assets without donor restrictions	(444,992)
	Total Revenue without Donor Restrictions & Gains without Donor Restrictions	
44	SOA: Total Revenue, Gains and Other Support (Not including Investments) Total Revenues and Gains	11,085,859
45	SOA Investments, net (operating and non-operating)	(264,271)

MONTSERRAT COLLEGE OF ART, INC.

Financial Responsibility Supplemental Disclosures

Year Ended June 30, 2022

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, 2021 financial statement)	\$ 8,971,811
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>(535,556)</u>
d. Balance Pre-implementation property, plant and equipment, net	<u>8,436,255</u>
2 Debt Financed Post-Implementation property, plant and equipment, net	
Long-lived assets acquired with debt subsequent to June 30, 2021:	
a. Equipment	463,000
b. Land Improvements	-
c. Building	<u>1,100,000</u>
d. Total Property, plant and equipment, net acquired with debt exceeding 12 months	<u>1,563,000</u>
3 Construction in progress- acquired subsequent to June 30, 2021	-
4 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2021	<u>560,235</u>
5 Total Property, Plant and Equipment, net- June 30, 2021	<u>\$ 10,559,490</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, 2021)	\$ 4,968,946
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>(181,346)</u>
d. Balance pre-implementation debt	<u>4,787,600</u>
7 Allowable post-implementation debt used for capitalized long-lived assets:	
a. Equipment- all capitalized	463,000
b. Land Improvements	-
c. Buildings	1,100,000
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>\$ 6,350,600</u>

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



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

To the Board of Trustees of
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, 2022 and 2021, 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, and we have issued our report thereon dated November 17, 2022.

Report on 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") as a basis for designing 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.

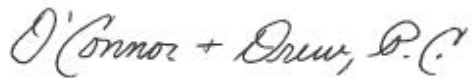
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on 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 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.

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

**Certified Public Accountants
Winchester, Massachusetts**

November 17, 2022