

MONTERRAT COLLEGE OF ART, INC.
(a Massachusetts not-for-profit organization)
Financial Statements
June 30, 2025 and 2024
With Independent Auditor's Reports

Montserrat College of Art, Inc.
Table of Contents
June 30, 2025 and 2024

Independent Auditor's Report	1-3
Financial Statements	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	5-6
Statements of Functional Expenses	7-8
Statements of Cash Flows	9
Notes to Financial Statements	9-24
Supplementary Information	
Financial Responsibility Supplemental Schedule	25
Financial Responsibility Supplemental Disclosures	26
Financial Responsibility Supplemental DOE Related Party Disclosures	27
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Reports Required Under Government Auditing Standards	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30-31
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, <i>Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards</i> .	32-34
Schedule of Findings and Questioned Costs	35-37
Management's Summary of Prior Year Findings and Questioned Costs	38

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Montserrat College of Art, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Montserrat College of Art, Inc. (the "College"), which comprise the statements of financial position as of June 30, 2025 and 2024, 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.

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, 2025 and 2024, 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 audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("GAS"). Our responsibilities under those standards are further described in the Auditor's 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.

Auditor's 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 auditor's 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 GAAS and GAS 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 GAAS and GAS, 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 the 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The financial responsibility supplemental schedule, disclosures and related party schedule on pages 25-27 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule and supplemental notes of expenditures of federal awards on pages 28-29 are presented for additional analysis as required by the Uniform Guidance and is 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 March 23, 2026, on our consideration of Montserrat College of Art, Inc.'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 Montserrat College of Art Inc.'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 Montserrat College of Art, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC".

March 23, 2026

Montserrat College of Art, Inc.
Statements of Financial Position
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and equivalents	\$ 1,157,688	\$ 684,964
Marketable securities	2,280,061	2,930,044
Student accounts receivable, net of reserve for credit losses of \$431,106 and \$747,724, respectively	93,310	157,725
Contributions receivable, net	35,732	48,792
Prepaid expenses and other assets	177,229	274,174
Property, plant and equipment, net	9,770,655	10,554,093
Debt service reserve	250,000	450,000
Right-of-use assets - operating, net	<u>4,937,257</u>	<u>4,752,832</u>
 Total assets	 <u>\$ 18,701,932</u>	 <u>\$ 19,852,624</u>
Liabilities and Net Assets		
Liabilities		
Unearned revenue	\$ 549,406	\$ 621,934
Accounts payable	105,070	303,413
Accrued expenses	438,894	345,068
Student housing deposits	50,530	92,700
Bonds, net of issuance costs	3,419,343	4,499,704
Line of credit	250,000	-
Notes payable	1,360,275	1,435,324
Lease liabilities - operating	<u>5,140,907</u>	<u>4,882,721</u>
Total liabilities	<u>11,314,425</u>	<u>12,180,864</u>
Net assets		
Without donor restrictions	3,757,444	4,590,779
With donor restrictions	<u>3,630,063</u>	<u>3,080,981</u>
Total net assets	<u>7,387,507</u>	<u>7,671,760</u>
 Total liabilities and net assets	 <u>\$ 18,701,932</u>	 <u>\$ 19,852,624</u>

The Notes to Financial Statements are an integral part of these statements.

Montserrat College of Art, Inc.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Operating revenues			
Tuition and fees	\$ 9,448,253	\$ -	\$ 9,448,253
Housing	2,187,648	-	2,187,648
Less: Scholarship and awards	<u>(4,459,670)</u>	<u>-</u>	<u>(4,459,670)</u>
Undergraduate tuition, fees and housing, net	7,176,231	-	7,176,231
Federal and state grants	420,678	-	420,678
Private contributions and grants of cash and financial assets	1,357,021	896,567	2,253,588
Other income	167,495	-	167,495
Net assets released from restrictions	<u>634,655</u>	<u>(634,655)</u>	<u>-</u>
Total operating revenues	<u>9,756,080</u>	<u>261,912</u>	<u>10,017,992</u>
Operating expenses			
Program			
College and Continuing Education Instruction	2,877,652	-	2,877,652
Student and Academic Services and Housing	<u>4,126,633</u>	<u>-</u>	<u>4,126,633</u>
Total program	7,004,285	-	7,004,285
Management and general	4,183,245	-	4,183,245
Fundraising	<u>355,746</u>	<u>-</u>	<u>355,746</u>
Total operating expenses	<u>11,543,276</u>	<u>-</u>	<u>11,543,276</u>
Changes in net assets from operating activities	<u>(1,787,196)</u>	<u>261,912</u>	<u>(1,525,284)</u>
Non-operating activities			
Lease income, net	297,358	-	297,358
Gain on sale of fixed assets	587,724	-	587,724
Investment income, net	<u>68,779</u>	<u>287,170</u>	<u>355,949</u>
Total non-operating income	<u>953,861</u>	<u>287,170</u>	<u>1,241,031</u>
Net change in net assets	(833,335)	549,082	(284,253)
Net asset			
Beginning of year	<u>4,590,779</u>	<u>3,080,981</u>	<u>7,671,760</u>
End of year	<u>\$ 3,757,444</u>	<u>\$ 3,630,063</u>	<u>\$ 7,387,507</u>

The Notes to Financial Statements are an integral part of this statement.

Montserrat College of Art, Inc.
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Operating revenues			
Tuition and fees	\$ 10,282,216	\$ -	\$ 10,282,216
Housing	2,418,917	-	2,418,917
Less: Scholarship and awards	<u>(4,787,872)</u>	<u>-</u>	<u>(4,787,872)</u>
Undergraduate tuition, fees and housing, net	7,913,261	-	7,913,261
Federal and state grants	72,221		72,221
Private contributions and grants of cash and financial assets	349,546	359,537	709,083
Other income	121,320	-	121,320
Net assets released from restrictions	<u>538,380</u>	<u>(538,380)</u>	<u>-</u>
Total operating revenues	<u>8,994,728</u>	<u>(178,843)</u>	<u>8,815,885</u>
Operating expenses			
Program			
College and Continuing Education Instruction	2,989,298	-	2,989,298
Student and Academic Services and Housing	<u>4,392,625</u>	<u>-</u>	<u>4,392,625</u>
Total program	7,381,923	-	7,381,923
Management and general	3,836,096	-	3,836,096
Fundraising	<u>256,915</u>	<u>-</u>	<u>256,915</u>
Total operating expenses	<u>11,474,934</u>	<u>-</u>	<u>11,474,934</u>
Changes in net assets from operating activities	<u>(2,480,206)</u>	<u>(178,843)</u>	<u>(2,659,049)</u>
Non-operating activities			
Lease income, net	290,477	-	290,477
Investment return, net	<u>244,132</u>	<u>258,551</u>	<u>502,683</u>
Total non-operating income	<u>534,609</u>	<u>258,551</u>	<u>793,160</u>
Net change in net assets	(1,945,597)	79,708	(1,865,889)
Net assets			
Beginning of year	<u>6,536,376</u>	<u>3,001,273</u>	<u>9,537,649</u>
End of year	<u>\$ 4,590,779</u>	<u>\$ 3,080,981</u>	<u>\$ 7,671,760</u>

The Notes to Financial Statements are an integral part of this statement.

Montserrat College of Art, Inc.
Statement of Functional Expenses
Year Ended June 30, 2025

	<u>Program Services</u>		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>College and Continuing Education Instruction</u>	<u>Student and Academic Services and Housing</u>			
Salaries and benefits	\$ 2,248,561	\$ 2,168,179	\$ 1,882,864	\$ 124,937	\$ 6,424,541
Lease expense	-	515,894	266,044	-	781,938
Utilities	-	173,379	571,282	-	744,661
Professional services and outside help	11,447	113,380	490,903	101,911	717,641
Depreciation	179,057	293,128	128,530	-	600,715
Travel and events	205,651	207,802	54,386	97,661	565,500
Educational and office supplies	121,804	101,861	162,981	765	387,411
Insurance	-	111,359	128,800	-	240,159
Security	-	-	225,193	-	225,193
Interest	61,855	101,261	57,437	-	220,553
Maintenance	4,746	169,149	-	-	173,895
Advertising, printing and mailing	12,109	107,866	27,445	24,093	171,513
Other	32,422	52,889	5,295	6,379	96,985
Bad debts	-	-	74,973	-	74,973
Bank and credit card fees	-	-	62,387	-	62,387
Dues, subscriptions and memberships	-	10,486	26,995	-	37,481
Computer, telephone and network	-	-	17,730	-	17,730
	<u>\$ 2,877,652</u>	<u>\$ 4,126,633</u>	<u>\$ 4,183,245</u>	<u>\$ 355,746</u>	<u>\$ 11,543,276</u>

The Notes to Financial Statements are an integral part of this statement.

Montserrat College of Art, Inc.
Statement of Functional Expenses
Years Ended June 30, 2024

	<u>Program Services</u>				<u>Total</u>
	<u>College and Continuing Education</u>	<u>Student and Academic Services and Housing</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 2,391,316	\$ 2,152,799	\$ 1,624,568	\$ 98,799	\$ 6,267,482
Professional services and outside help	26,375	305,040	644,810	19,229	995,454
Lease expense	-	553,781	260,109	-	813,890
Utilities	-	181,422	442,341	-	623,763
Depreciation	194,808	315,370	69,565	-	579,743
Travel and events	137,321	233,646	38,755	107,733	517,455
Educational and office supplies	130,833	112,757	200,252	559	444,401
Insurance	-	101,122	107,485	-	208,607
Interest	68,387	110,834	24,525	-	203,746
Security	-	-	196,227	-	196,227
Maintenance	7,097	170,284	1,214	-	178,595
Advertising, printing and mailing	7,611	94,805	39,595	17,390	159,401
Other	25,550	49,982	32,215	13,205	120,952
Bank and credit card fees	-	-	58,098	-	58,098
Dues, subscriptions and memberships	-	10,783	39,929	-	50,712
Computer, telephone and network	-	-	29,101	-	29,101
Bad debts	-	-	27,307	-	27,307
	<u>\$ 2,989,298</u>	<u>\$ 4,392,625</u>	<u>\$ 3,836,096</u>	<u>\$ 256,915</u>	<u>\$ 11,474,934</u>

The Notes to Financial Statements are an integral part of this statement.

Montserrat College of Art, Inc.
Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating activities		
Decrease in net assets	\$ (284,253)	\$ (1,865,889)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities		
Depreciation	600,715	579,743
Amortization of debt issuance costs	13,036	13,036
Bad debts	74,973	27,307
Realized and unrealized gains on investments	(237,959)	(398,760)
Gain on sale of property and equipment	(587,724)	-
Stock donations	(12,593)	(12,491)
Permanently restricted contributions	(19,168)	(122,400)
Changes in assets and liabilities		
Student accounts receivable	(10,558)	(89,688)
Contributions receivable	13,060	31,486
Prepaid expenses other assets	96,945	(94,320)
Accounts payable and accrued expenses	(104,517)	191,945
Student deposits and unearned revenue	(114,698)	140,137
Lease liability - operating	73,761	126,524
Net adjustments	(214,727)	392,519
Net cash used in operating activities	<u>(498,980)</u>	<u>(1,473,370)</u>
Investing activities		
Purchase of property and equipment	(157,706)	(538,393)
Sale of property and equipment	928,153	-
Proceeds from sales of marketable securities	2,631,694	5,185,875
Purchases of marketable securities	<u>(1,731,159)</u>	<u>(3,368,879)</u>
Net cash provided by investing activities	<u>1,670,982</u>	<u>1,278,603</u>
Financing activities		
Proceeds from line of credit	250,000	-
Release of debt service reserve	200,000	-
Receipt of permanently restricted contributions	19,168	122,400
Payments on long-term debt, net	<u>(1,168,446)</u>	<u>(235,819)</u>
Net cash used in financing activities	<u>(699,278)</u>	<u>(113,419)</u>
Net change in cash and equivalents and restricted cash	472,724	(308,186)
Cash and equivalents		
Beginning of year	<u>684,964</u>	<u>993,150</u>
End of year	<u>\$ 1,157,688</u>	<u>\$ 684,964</u>

The Notes to Financial Statements are an integral part of this statement.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

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 the 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.

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 and changes in net assets.

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 allowance for student accounts receivable, determining the discounting on promises to give, estimating depreciation and useful lives of long-lived assets.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

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.

Student Accounts Receivable and Allowance for Credit Losses

Student accounts receivable are non-interest bearing, unsecured, and are reported at the balance outstanding less an allowance for credit losses. The allowance for credit losses is a valuation allowance for probable credit losses, increased by the provision for credit losses and decreased by write-offs less recoveries. Management estimates the allowance based on past experience and reasonable and supportable forecasts, information about specific student situations, economic conditions, and other factors. Credit losses are charged to the allowance in the period when they are determined to be uncollectible and receipts of accounts previously written off are credited to the allowance in the period received. The College periodically assesses its methodologies for estimating credit losses in consideration actual experience, trends, and general economic conditions affecting the College's student base. At June 30, 2025 and 2024, the College had a reserve for credit losses of \$431,106 and \$747,424, respectively.

The following is an analysis of the allowance for credit losses for accounts receivable for the years ended June 30,:

	<u>2025</u>	<u>2024</u>
Balance at the beginning of the year	\$ 747,424	\$ 731,868
Provisions for expected credit losses	-	15,556
Bad debt recovery	-	-
Receivables written off	<u>(316,318)</u>	<u>-</u>
Balance at the end of the year	<u>\$ 431,106</u>	<u>\$ 747,424</u>

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. The College periodically assesses its methodology for estimating doubtful accounts from donors based upon past experiences and reasonable and supportable forecasts. At June 30, 2025 and 2024, the College had an allowance for doubtful accounts of \$13,000 and \$7,500, respectively.

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 and changes in net asset.

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.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

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:

- 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 recorded at cost, and depreciation is provided using the straight-line method over the following periods:

<u>Description</u>	<u>Estimated Life (Years)</u>
Buildings	40
Leasehold improvements	6-12
Equipment, furniture, and fixtures	7-10
Library books	5-10
Computers	3-5
Computer software	3
Motor vehicles	7

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.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

Leases

The College categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the College to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. Leases with contractual terms of 12 months or less are not recorded on the statement of financial position. The College had no finance leases during 2025.

Lease liabilities are recognized at the present value of the fixed lease payments using a discounted risk-free rate available to the College. Right of use assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

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 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 Financial Statements
June 30, 2025 and 2024

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, 2025 and 2024, there were no investments with aggregate fair value 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 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.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

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 or purpose restriction has been satisfied. The College had no conditional contributions at June 30, 2025 and 2024.

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.

Lease revenue is not in the scope of revenue from contracts with customers and is addressed under leases. The College generates lease revenues from leasing commercial property. Commercial property is leased under long-term leases of various lengths. Significant payment terms, including lease fees, are stated in the respective leases between the College and its tenants. Such leasing revenues are recorded when due, usually monthly, from tenants and are recognized monthly over the term of the lease as they are earned. The terms of the lease require basic lease payments at the beginning of each month. Credit risk associated with the lease agreement is limited to the amount of lease receivable from the tenant.

Advertising

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

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 Financial Statements
June 30, 2025 and 2024

2. MARKETABLE SECURITIES

The College invests in equity and fixed income securities, and U.S. Government obligations 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, non-endowed funds to be invested in fixed income investments.

Description	2025	2024
	Market Value	Market Value
Equity investments	\$ 1,382,331	\$ 2,344,648
Fixed income investments	897,730	585,396
Total investments	\$ 2,280,061	\$ 2,930,044

3. STUDENT ACCOUNTS RECEIVABLE AND CONTRACT LIABILITIES

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 credit losses 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, 2025, 2024 and 2023:

	2025	2024	2023
Student accounts receivable	\$ 524,416	\$ 905,149	\$ 827,212
Less: Allowance for credit losses	(431,106)	(747,424)	(731,868)
	\$ 93,310	\$ 157,725	\$ 95,344

Contract liabilities represent the College's obligation to transfer good or services to a customer for which consideration has already been received by the College. Contract liabilities consist of the following at June 30, 2025, 2024 and 2023:

	2025	2024	2023
Unearned revenue	\$ 549,406	\$ 621,934	\$ 476,397
Student housing deposits	50,530	92,700	98,100
	\$ 599,936	\$ 714,634	\$ 574,497

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, 2025 and 2024, discounts of 5% have been used to reflect the present value of the non-current portion of the unconditional promises to give.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

Contributions receivable are as follows at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Individual contributions	\$ 52,000	\$ 62,000
Less: Allowance for doubtful accounts	(13,000)	(7,500)
Less: Unamortized discount	<u>(3,268)</u>	<u>(5,708)</u>
	<u>\$ 35,732</u>	<u>\$ 48,792</u>

A schedule of the anticipated future minimum receipts of individual contributions is as follows at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Amounts due		
Less than one year	\$ 28,500	\$ 23,000
One to five years	<u>23,500</u>	<u>39,000</u>
	<u>\$ 52,000</u>	<u>\$ 62,000</u>

5. FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2025.

Mutual funds: Valued at quoted market prices of the shares held at fiscal year-end.

Equity Securities: Consist primarily of stocks traded on U.S. and non-U.S. security exchanges valued by the pricing method determined by investment managers at closing market prices on the valuation date.

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, 2025 and 2024.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

6. PROPERTY, PLANT, AND EQUIPMENT

A summary of the major components of property and equipment is as follows at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Land and buildings	\$ 15,811,444	\$ 16,393,318
Construction in process	493,910	492,277
Library materials	588,299	588,299
Educational equipment	1,580,326	1,529,316
Office equipment	350,629	341,999
Motor vehicles	48,605	54,208
Furniture and fixtures - student housing	<u>300,311</u>	<u>300,311</u>
	19,173,524	19,699,728
Less: Accumulated depreciation	<u>(9,402,869)</u>	<u>(9,145,635)</u>
Property and equipment	<u>\$ 9,770,655</u>	<u>\$ 10,554,093</u>

Depreciation expense for the years ended June 30, 2025 and 2024 was \$600,715 and \$579,743, respectively.

7. DEBT OBLIGATIONS

Line of Credit

The College has a revolving line of credit, allowing for maximum drawings of \$500,000, bearing interest at Prime as of June 30, 2025 and 2024, respectively (Prime was 7.50% and 8.50% as of June 30, 2025 and 2024, respectively). The note is secured by all business assets and is due on demand and subject to annual renewal in December 2025. The note requires the College to meet certain operating and financial covenants. As of June 30, 2025 and 2024, \$250,000 and \$0, respectively, was outstanding under this line of credit.

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 Financial Statements
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</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.	\$ 2,108,660	\$ 3,152,698
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 covenants.	<u>1,371,519</u>	<u>1,420,878</u>
Bond issuance costs	(130,362)	(130,362)
Amortization of bond issuance costs	<u>69,526</u>	<u>56,490</u>
Total bonds payable	<u>\$ 3,419,343</u>	<u>\$ 4,499,704</u>

Notes Payable

On July 29, 2021, the College entered into a note payable agreement with M&T 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, 2025 and 2024, \$988,863 and \$1,018,873, respectively, 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 2025, only monthly interest payments ranging from \$1,331 to \$1,492 are due. As of June 30, 2025 and 2024, \$371,412 and \$416,451, respectively, 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, 2025:

2026	\$ 279,142
2027	283,766
2028	293,214
2029	303,572
2030	314,009
Thereafter	<u>3,366,751</u>
Less: Unamortized issuance costs	4,840,454
	<u>(60,836)</u>
	<u>\$ 4,779,618</u>

Total interest expense on all indebtedness for the years ended June 30, 2025 and 2024 was \$220,553 and \$203,746, respectively.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

Debt Service Reserve

In December 2023, the College and its lender modified their agreement which required a debt service reserve of \$450,000 to be held in an account maintained at the lending bank, or an external account controlled via control agreement. The lender subsequently reduced the amount required to be held in the debt service reserve, debt service reserve as of June 30, 2025 and 2024 were \$250,000 and \$450,000, respectively.

Debt Covenant and Waiver

At June 30, 2025, the College was in technical default of a loan covenant based on a debt service coverage ratio, which is required for both the line of credit and long-term debt agreements. The bank waived the College's stated technical defaults on February 17, 2026. The terms of the waiver are further explained in Note 15.

8. 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. As of June 30, 2025 and 2024 the College reclassified \$600,000 and \$992,462 of board designated funds to undesignated, see (Note 9).

Net assets without restrictions consist of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Undesignated	\$ 3,747,705	\$ 4,016,537
Board designated	<u>9,739</u>	<u>574,242</u>
	<u>\$ 3,757,444</u>	<u>\$ 4,590,779</u>

Net Assets With Restrictions

Net assets with restrictions consist of the following at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Scholarships and grants	\$ 857,282	\$ 540,499
Endowed	<u>2,772,781</u>	<u>2,540,482</u>
	<u>\$ 3,630,063</u>	<u>\$ 3,080,981</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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Scholarships	\$ 380,653	\$ 318,948
Other purposes	<u>254,002</u>	<u>219,432</u>
	<u>\$ 634,655</u>	<u>\$ 538,380</u>

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

9. 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, 2025 and 2024 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, at June 30, 2023	\$ 1,391,358	\$ 2,119,016	\$ 3,510,374
Investment return	175,346	299,066	474,412
Release from restriction	(992,462)	-	(992,462)
Contributions	<u>-</u>	<u>122,400</u>	<u>122,400</u>
Endowment net assets, at June 30, 2024	574,242	2,540,482	3,114,724
Investment return	35,497	287,170	322,667
Release from restriction	(600,000)	(135,832)	(735,832)
Contributions	<u>-</u>	<u>80,961</u>	<u>80,961</u>
Endowment net assets, at June 30, 2025	<u>\$ 9,739</u>	<u>\$ 2,772,781</u>	<u>\$ 2,782,520</u>

10. 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, 2025 and 2024, the College contributed a 2% elective match totaling \$58,547 and \$56,120, respectively.

11. LEASES

The College leases many of its dormitories and housing for students, under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2041. There are no renewal options included in these leases.

The leases provide for increases in future minimum annual lease payments based on defined terms in the leases. The agreements generally require the College to pay real estate taxes, insurance, and repairs. Monthly lease payments range from \$8,000 to \$26,644.

Because the rates implicit in the leases are generally not available, the College utilizes the risk-free rate as the discount rate.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2024:

2026	\$ 734,545
2027	711,222
2028	636,622
2029	512,009
2030	348,227
Thereafter	<u>3,377,650</u>
	6,320,274
Less: Imputed interest	<u>(1,179,368)</u>
Lease liability at June 30, 2025	<u>\$ 5,140,907</u>

As of June 30, 2025 and 2024 lease expense of \$1,059,173 and \$1,065,051 is comprised of operating lease expense of \$811,168 and \$682,591 and variable lease expense of \$248,005 and \$382,460, respectively.

Cash paid for operating lease liabilities was \$737,407 and 615,170 as of June 30, 2025 and 2024, respectively.

The weighted average discount rate associated with operating leases as of June 30, 2025 and 2024 is 3.46 and 3.40, respectively. The weighted average remaining lease term of leases as of June 30, 2025 and 2024 is 11.60 years and 13.01 years, respectively.

12. LESSOR ARRANGEMENTS

During fiscal year 2023, the College entered into a 10-month lease agreement with Endicott College, to lease a portion of their dorms to be used as overflow housing for Endicott College. The lease payments were made in two installments of \$180,000 each, for the fall and spring semesters. The College and Endicott College agreed to renew the agreement in fiscal year 2025 and 2024, and expanded the amount of space being leased to Endicott College. During the years ended June 30, 2025 and 2024, lease income is \$598,000 and \$562,500, respectively. For the year ended June 30, 2025 and 2024, the operating expenses associated with the buildings being leased has been net against lease income on the statement of activities and changes in net assets.

13. RELATED PARTY TRANSACTIONS

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, 2025 and 2024, the College purchased goods and services totaling \$0 and \$3,821, respectively.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was \$220,553 and \$203,746 during the years ended June 30, 2025 and 2024, respectively. Right of use assets capitalized in exchange for lease liabilities totaled \$810,012 and \$844,529 for the years ended June 30, 2025 and 2024.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

15. CONCENTRATIONS, RISKS AND UNCERTAINTIES

Going Concern

Management has assessed the ability of Montserrat College of Art (the “College”) to continue as a going concern for the fiscal year ending June 30, 2025, and for the foreseeable future.

The College continues to experience financial pressures consistent with those affecting many small, independent art and design institutions, including enrollment pressures, rising operational costs, and constraints on net tuition revenue growth. These factors have placed strain on liquidity and operating margins, requiring ongoing attention to budget management, strategic enrollment initiatives, and fundraising efforts.

In response, the College has taken significant steps during the fiscal years ending June 30, 2025 and subsequent to year end to strengthen its financial sustainability and academic relevance.

During the year ended June 30, 2025, Montserrat implemented several programmatic and operational changes designed to increase student value and long-term institutional resilience. Central to these efforts is the integration of required creative employment opportunities for all students, ensuring that every Montserrat student engages in meaningful, career-aligned experiential learning prior to graduation. This initiative not only enhances student outcomes and post-graduation employability but also strengthens the College’s position within the regionally creative economy.

Subsequent to year end, the College sold several buildings (see Note 17 for additional information) and management has had another property parcel appraised and is actively marketing it for sale. Management believes that the sales of these buildings would not affect operations.

The financial institution has provided a waiver of covenants until September 2026. At that time, the College is required to repay the remaining debt. Management’s plan to pay the remaining debt is with the proceeds from the sale of property being actively marketed, or refinance the debt with another financial institution. The College also has a commitment from a private donor to provide \$500,000 to support operations.

Future enrollment is trending to be above previous years based on student deposits for the following semester as of the issuance date of the financial statements. In addition, the estimated cost savings (excluding depreciation) related to the sale of properties subsequent to year end is approximately \$75,000, and changes in health care benefits for employees is expected to reduce costs by approximately \$75,000.

These changes are aligned with the College’s Montserrat 2035 strategic plan, which outlines a ten-year vision for academic innovation, financial stewardship, and community partnership. The plan emphasizes adaptive program design, expanded revenue diversification, and strategic investment in facilities and technology that support creative practice and professional readiness.

Management believes that these actions, together with ongoing fundraising, enrollment, and expense management efforts, will mitigate financial risks and support the College’s ability to continue operations for the foreseeable future. While uncertainties remain regarding enrollment trends and external economic conditions, management has concluded that its plans are probable to be effectively implemented and that the College will have sufficient resources to meet its obligations as they become due.

Based on current operating plans, completed asset sales, elimination of related debt service, and implemented expense reductions, management believes the College will have sufficient liquidity to meet its obligations for at least 12 months from the issuance of these financial statements.

Montserrat College of Art, Inc.
Notes to Financial Statements
June 30, 2025 and 2024

Cash

The College has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the College's financial condition, results of operations, and cash flows. Uninsured cash totaled approximately \$680,000 and \$291,000 as of June 30, 2025 and 2024, respectively.

Contributions

For the years ended June 30, 2025 and 2024, three donors represented approximately 81% and 68% of the gross outstanding contributions receivable balance, respectively. For the years ended June 30, 2025 and 2024, 82% and 39%, respectively, of contributions are from contributors, including certain related parties, donating \$30,000 or more.

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 51% and 55% of tuition and fee revenue, net of scholarships and awards, for the years ended June 30, 2025 and 2024, 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 Financial Statements
June 30, 2025 and 2024

16. AVAILABILITY AND LIQUIDITY

The following represents the College's financial assets available to meet general expenditures within one year at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Financial assets at year-end		
Cash and equivalents	\$ 1,407,688	\$ 1,134,964
Investments, short-term	2,280,061	2,930,044
Student accounts receivable, net	93,310	157,725
Current portion of unconditional promises to give	<u>28,500</u>	<u>23,000</u>
	<u>3,809,559</u>	<u>4,245,733</u>
Less: Amounts not available to be used within one year		
Board designated net assets	9,739	574,242
Net assets with restrictions	<u>3,630,063</u>	<u>3,080,981</u>
	<u>3,639,802</u>	<u>3,655,223</u>
Addback		
Endowment drawdown for operations	75,514	31,527
Non-current portion of unconditional promises to give	<u>23,500</u>	<u>39,000</u>
	<u>99,014</u>	<u>70,527</u>
Financial assets available to meet general expenditures within one year	<u>\$ 268,771</u>	<u>\$ 661,037</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, 2025 and 2024, management believes the College has no liquidity issues.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 23, 2026, the date for which the financial statements were available for issuance. No events, other than noted below, have occurred subsequent to year end that would require recognition in the financial statements or disclosure in the related notes to the financial statements.

In October 2025, the College sold land and building for approximately \$1 million. The proceeds from this sale was used to pay down long term debt.

In December 2025, the College sold multiple parcels of land and buildings for approximately \$2.1 million. The proceeds from this sale was used to pay down long term debt.

In January 2026, through the proceeds from sale of land and building, and the utilization of the balance held in debt service reserve, the College has paid off Series 2020A and 2020B bonds in full.

Management received a debt waiver subsequent to year end, which is discussed in Note 7.

SUPPLEMENTARY INFORMATION

Montserrat College of Art, Inc.
Financial Responsibility Supplemental Schedule
Year Ended June 30, 2025

Primary Reserve Ratio:

		Expendable Net Assets:	
1	Statement of Financial Position (SFP)	Net assets without donor restrictions	\$ 3,757,444
2	SFP	Net assets with donor restrictions	3,630,063
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	9,770,655
6	SD Line 1d	Property, plant and equipment pre-implementation	9,612,949
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	157,706
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	5,935,028
16	SD Line 6d	Long-term debt- for long-term purpose pre-implementation	4,499,704
17	SD Lines 7a-c	Long-term debt- for long-term purposes post-implementation	5,935,028
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	11,543,276
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	3,757,444
32	SFP	Net assets with donor restrictions	3,630,063
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	18,701,932
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	(833,335)
		Total Revenue without Donor Restrictions & Gains without Donor Restrictions	
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	Total Revenues and Gains	10,641,162
45	SOA	Investments, net (operating and non-operating)	68,779

See Independent Auditor's Report.

Montserrat College of Art, Inc.
Financial Responsibility Supplemental Disclosures
Year Ended June 30, 2025

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, 2024 financial statement)	\$ 10,554,093
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>(941,144)</u>
d. Balance Pre-implementation property, plant and equipment, net	<u>9,612,949</u>
2 Debt Financed Post-Implementation property, plant and equipment, net	
Long-lived assets acquired with debt subsequent to June 30, 2025:	
a. Equipment	-
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, 2025	-
4 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2025	<u>157,706</u>
5 Total Property, Plant and Equipment, net- June 30, 2025	<u>\$ 9,770,655</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, 2024)	\$ 4,643,133
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>(143,429)</u>
d. Balance pre-implementation debt	<u>4,499,704</u>
7 Allowable post-implementation debt used for capitalized long-lived assets:	
a. Equipment- all capitalized	416,451
b. Land Improvements	-
c. Buildings	1,018,873
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>\$ 5,935,028</u>

See Independent Auditor's Report.

Montserrat College of Art, Inc.
Financial Responsibility Supplemental Disclosures
Year Ended June 30, 2025

<u>Related Party</u>	<u>Relationship</u>	<u>Location</u>	<u>Nature of Transaction</u>	<u>Revenue (Expense)</u>	<u>Asset (Liability)</u>
Barbara Schaye	Trustee	Marblehead, MA	Contribution	\$ 5,700	\$ 5,700
Barbara Parker	Trustee	Ipswich, MA	Contribution	6,940	6,940
Michael Belliveau	Trustee	Boston, MA	Contribution	7,605	7,605
Brian Pellinen	President	Beverly, MA	Contribution	<u>37,140</u>	<u>37,140</u>
				<u>\$ 57,385</u>	<u>\$ 57,385</u>

See Independent Auditor's Report.

Montserrat College of Art, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

<u>Cluster Title/Federal Grantor/Program</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Entity Award Number</u>	<u>Federal Expenditures</u>	<u>Passed through to Subrecipients</u>
<u>Student Financial Aid Cluster</u>					
U.S. Department of Education					
Direct Awards					
Federal Supplemental Educational Opportunity Grant	84.007	\$ -	\$ -	\$ 24,714	\$ -
Federal Work-Study Program	84.033	-	-	39,347	-
Federal Pell Grant Program	84.063	-	-	520,854	-
William D. Ford Federal Direct Loan Program	84.268	-	-	<u>1,968,285</u>	-
Total student financial assistance cluster		<u>-</u>	<u>-</u>	<u>2,553,200</u>	<u>-</u>
Total expenditures of federal awards		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553,200</u>	<u>\$ -</u>

See Independent Auditor's Report.

Montserrat College of Art, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") 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, 2025. 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.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

The College has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

4. FEDERAL STUDENT LOAN PROGRAMS

There was no federal capital contribution or match by the College during the current year.

Direct Student Loan Program

The College disbursed \$1,968,285 of loans under the Federal Direct Student Loans Program, which include Stafford Subsidized and Unsubsidized Loans and Parent Plus Loans. It is not practical to determine the balances of the loans outstanding to students of the College under the program as of June 30, 2025. The College is only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the College's financial statements.

REPORTS REQUIRED UNDER *GOVERNMENT AUDITING STANDARDS*

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 AUDITOR'S REPORT

To the Board of Trustees of
Montserrat College of Art, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 statement of financial position as of June 30, 2025, the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated March 23, 2026.

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 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. 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 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.

Withum Smith + Brown, PC

March 23, 2026

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Montserrat College of Art, Inc. (the "College") compliance with the types of compliance requirements identified as subject to audit 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, 2025. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2025.

Basis for Opinion on Each Major Federal Program

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* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the College's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Montserrat College of Art, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the College's compliance based on our audit. 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 auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the College's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 College's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the College's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies.

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 a 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the College, as of and for the year ended June 30, 2025 and have issued our report thereon dated March 23, 2026, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC". The signature is written in a cursive, flowing style.

March 23, 2026

**Montserrat College of Art, Inc.
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2025**

Section I – Summary of Auditor’s Results:

Financial Statements

Type of auditor’s report issued on whether the financial statements were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ___ yes __x__ no
- Significant deficiencies identified? ___ yes __x__ none reported

Noncompliance material to the financial statements noted? ___ yes __x__ no

Federal Awards

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weaknesses identified? ___ yes __x__ no
- Significant deficiencies identified? ___ yes __x__ no

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ___ yes __x__ no

Identification of Major Programs

Name of Federal Program or Cluster	Assistance Listing Number
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268

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
Year Ended June 30, 2025

Section II – Financial Statement Findings:

None.

Montserrat College of Art, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2025

Section III – Federal Award Findings and Questioned Costs:

None.

**Montserrat College of Art, Inc.
Management's Summary of Prior Year Findings and Questions Costs
Year Ended June 30, 2025**

Section IV – Management's Summary Schedule of Prior Audit Findings:

None.