

**MONTERRAT COLLEGE OF ART, INC.**  
**(a Massachusetts not-for-profit organization)**  
**Financial Statements**  
**June 30, 2023 and 2022**  
**With Independent Auditor's Reports**

**Montserrat College of Art, Inc.**  
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**June 30, 2023 and 2022**

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## 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 statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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, 2023, and the changes in its net assets and its cash flows for the year 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"). 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.

#### Change in Accounting Principle

As discussed in Note 1 to the financial statements, the College adopted new accounting guidance, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") amending the accounting for leases. Prior period amounts have not been adjusted and continue to be reported in accordance with the College's historic accounting under Topic 840. Our opinions are not modified with respect to this matter.

#### Other Matter

The financial statements and related notes of the College as of and for the year ended June 30, 2022 were audited by O'Connor & Drew, P.C., who joined with WithumSmith+Brown, PC on January 1, 2023 and expressed an unmodified opinion on those statements dated November 7, 2022.

#### 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 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, 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 an opinion on the financial statements as a whole. The financial responsibility supplemental schedule and disclosures on pages 25-26 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 February 26, 2024, 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.

*Withum Smith + Brown, PC*

February 26, 2024

**Montserrat College of Art, Inc.**  
**Statements of Financial Position**  
**June 30, 2023 and 2022**

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**Assets**

|                                      | <u>2023</u>                 | <u>2022</u>                 |
|--------------------------------------|-----------------------------|-----------------------------|
| <b>Assets:</b>                       |                             |                             |
| Cash and equivalents                 | \$ 121,028                  | \$ 1,786,633                |
| Restricted cash                      | 872,122                     | 1,052,405                   |
| Marketable securities                | 4,335,789                   | 3,390,438                   |
| Student accounts receivable, net     | 95,344                      | 70,587                      |
| Contributions receivable, net        | 80,278                      | 55,685                      |
| Prepaid expenses and other assets    | 179,854                     | 197,001                     |
| Property, plant and equipment, net   | 10,595,443                  | 10,559,490                  |
| Debt service reserve                 | 450,000                     | -                           |
| Right-of-use assets - operating, net | <u>4,581,380</u>            | <u>-</u>                    |
| <b>Total Assets</b>                  | <b><u>\$ 21,311,238</u></b> | <b><u>\$ 17,112,239</u></b> |

**Liabilities and Net Assets**

|   |                             |                             |
|---|-----------------------------|-----------------------------|
| <b>Liabilities:</b>                     |                             |                             |
| Unearned revenue                        | \$ 476,397                  | \$ 599,467                  |
| Accounts payable                        | 100,873                     | 109,958                     |
| Accrued expenses                        | 355,663                     | 383,736                     |
| Student housing deposits                | 98,100                      | 124,500                     |
| Bonds, net of issuance costs            | 4,643,133                   | 4,782,130                   |
| Notes payable                           | 1,514,678                   | 1,568,470                   |
| Lease liabilities - operating           | <u>4,584,745</u>            | <u>-</u>                    |
| <b>Total Liabilities</b>                | <b><u>11,773,589</u></b>    | <b><u>7,568,261</u></b>     |
| <b>Net Assets:</b>                      |                             |                             |
| Without donor restrictions              | 6,536,376                   | 7,041,972                   |
| With donor restrictions                 | <u>3,001,273</u>            | <u>2,502,006</u>            |
| <b>Total Net Assets</b>                 | <b><u>9,537,649</u></b>     | <b><u>9,543,978</u></b>     |
| <b>Total Liabilities and Net Assets</b> | <b><u>\$ 21,311,238</u></b> | <b><u>\$ 17,112,239</u></b> |

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, 2023**

|   | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total<br/>Net Assets</u> |
|---|---------------------------------------|------------------------------------|-----------------------------|
| <b>Operating Revenues:</b>                                    |                                       |                                    |                             |
| Tuition and fees  | \$ 11,145,101                         | \$ -                               | \$ 11,145,101               |
| Housing   | 2,605,296                             | -                                  | 2,605,296                   |
| Less: Scholarship and awards                                  | <u>(4,948,450)</u>                    | <u>-</u>                           | <u>(4,948,450)</u>          |
| Undergraduate tuition, fees and housing, net                  | 8,801,947                             | -                                  | 8,801,947                   |
| Private contributions and grants of cash and financial assets | 701,297                               | 849,121                            | 1,550,418                   |
| Other income  | 155,065                               | -                                  | 155,065                     |
| Net assets released from restrictions                         | <u>558,517</u>                        | <u>(558,517)</u>                   | <u>-</u>                    |
| <b>Total Operating Revenues</b>                               | <b><u>10,216,826</u></b>              | <b><u>290,604</u></b>              | <b><u>10,507,430</u></b>    |
| <b>Operating Expenses:</b>                                    |                                       |                                    |                             |
| Program:  |                                       |                                    |                             |
| College and Continuing Education Instruction                  | 3,078,313                             | -                                  | 3,078,313                   |
| Student Academic Services and Housing                         | <u>4,229,494</u>                      | <u>-</u>                           | <u>4,229,494</u>            |
| Total Program   | 7,307,807                             | -                                  | 7,307,807                   |
| Management and general  | 3,715,713                             | -                                  | 3,715,713                   |
| Fundraising   | <u>285,573</u>                        | <u>-</u>                           | <u>285,573</u>              |
| <b>Total Operating Expenses</b>                               | <b><u>11,309,093</u></b>              | <b><u>-</u></b>                    | <b><u>11,309,093</u></b>    |
| <b>Changes in Net Assets from Operating Activities</b>        | <b><u>(1,092,267)</u></b>             | <b><u>290,604</u></b>              | <b><u>(801,663)</u></b>     |
| <b>Non-Operating Activity:</b>                                |                                       |                                    |                             |
| Lease income  | 360,000                               | -                                  | 360,000                     |
| Investment income, net  | <u>226,671</u>                        | <u>208,663</u>                     | <u>435,334</u>              |
| <b>Total Non-Operating Income</b>                             | <b><u>586,671</u></b>                 | <b><u>208,663</u></b>              | <b><u>795,334</u></b>       |
| <b>Total (Decrease) Increase in Net Assets</b>                | <b>(505,596)</b>                      | <b>499,267</b>                     | <b>(6,329)</b>              |
| Net Assets, Beginning of Year                                 | <u>7,041,972</u>                      | <u>2,502,006</u>                   | <u>9,543,978</u>            |
| <b>Net Assets, End of Year</b>                                | <b><u>\$ 6,536,376</u></b>            | <b><u>\$ 3,001,273</u></b>         | <b><u>\$ 9,537,649</u></b>  |

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, 2022**

|   | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total<br/>Net Assets</u> |
|---|---------------------------------------|------------------------------------|-----------------------------|
| <b>Operating Revenues:</b>                                    |                                       |                                    |                             |
| 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>                    |
| <b>Total Operating Revenues</b>                               | <u>11,085,859</u>                     | <u>195,271</u>                     | <u>11,281,130</u>           |
| <b>Operating Expenses:</b>                                    |                                       |                                    |                             |
| 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>           |
| <b>Changes in Net Assets from Operating Activities</b>        | <u>(180,721)</u>                      | <u>195,271</u>                     | <u>14,550</u>               |
| <b>Non-Operating Activity:</b>                                |                                       |                                    |                             |
| Investment return   | <u>(264,271)</u>                      | <u>(302,338)</u>                   | <u>(566,609)</u>            |
| <b>Total Increase in Net Assets</b>                           | (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>           |
| <b>Net Assets, End of Year</b>                                | <u>\$ 7,041,972</u>                   | <u>\$ 2,502,006</u>                | <u>\$ 9,543,978</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, 2023**

|  | <u>Program Services</u>                                 |  |                               |                    |                      |
|--|---|--|-------------------------------|--------------------|----------------------|
|  | <u>College and Continuing<br/>Education Instruction</u> | <u>Student Academic<br/>Services and Housing</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u>         |
| Salaries and benefits                  | \$ 2,441,059  | \$ 2,001,092                                     | \$ 1,578,291                  | \$ 104,136         | \$ 6,124,578         |
| Lease expense                          | -   | 642,079  | 252,717                       | -                  | 894,796              |
| Professional services and outside help | 19,800  | 329,460  | 496,230                       | 32,578             | 878,068              |
| Utilities                              | -   | 176,004  | 435,879                       | -                  | 611,883              |
| Travel and events                      | 218,290   | 192,869  | 49,080                        | 120,473            | 580,712              |
| Depreciation                           | 162,149   | 316,926  | 73,137                        | -                  | 552,212              |
| Educational and office supplies        | 134,173   | 98,569   | 279,712                       | 312                | 512,766              |
| Insurance                              | -   | 143,973  | 100,714                       | -                  | 244,687              |
| Interest                               | 63,560  | 120,765  | 27,543                        | -                  | 211,868              |
| Security                               | -   | -  | 191,124                       | -                  | 191,124              |
| Advertising, printing and mailing      | 9,804   | 83,301   | 48,716                        | 19,526             | 161,347              |
| Other                                  | 24,277  | 42,074   | 39,416                        | 8,548              | 114,315              |
| Maintenance                            | 5,201   | 71,379   | 5,241                         | -                  | 81,821               |
| Bank and credit card fees              | -   | -  | 62,015                        | -                  | 62,015               |
| Dues, subscriptions and memberships    | -   | 11,003   | 40,592                        | -                  | 51,595               |
| Computer, telephone and network        | -   | -  | 19,441                        | -                  | 19,441               |
| Bad debts                              | -   | -  | 15,865                        | -                  | 15,865               |
|  | <u>\$ 3,078,313</u>                                     | <u>\$ 4,229,494</u>                              | <u>\$ 3,715,713</u>           | <u>\$ 285,573</u>  | <u>\$ 11,309,093</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, 2022**

|  | Program Services                 |                                       |                        |                   |                      |
|--|----------------------------------|---------------------------------------|------------------------|-------------------|----------------------|
|  | College and Continuing Education | 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 Notes to Financial Statements are an integral part of this statement.

**Montserrat College of Art, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

|   | <u>2023</u>              | <u>2022</u>                |
|---|--------------------------|----------------------------|
| <b>Operating Activities:</b>  |                          |                            |
| Decrease in net assets  | \$ (6,329)               | \$ (552,059)               |
| Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities: |                          |                            |
| Depreciation  | 552,212                  | 535,556                    |
| Amortization of debt issuance costs   | 13,036                   | 13,036                     |
| Bad debts   | 15,865                   | 49,553                     |
| Realized and unrealized (gains) losses on investments   | (386,068)                | 606,586                    |
| Stock donations   | (8,803)                  | (18,098)                   |
| Permanently restricted contributions  | (265,111)                | (326,497)                  |
| Changes in assets and liabilities:  |                          |                            |
| Student accounts receivable   | (40,622)                 | (61,791)                   |
| Contributions receivable  | (24,593)                 | 36,395                     |
| Prepaid expenses other assets   | 17,147                   | 5,874                      |
| Accounts payable and accrued expenses   | (37,158)                 | (32,237)                   |
| Student deposits and unearned revenue   | (149,470)                | (191,142)                  |
| Lease liability - operating   | 3,365                    | -                          |
|   | <u>(310,200)</u>         | <u>617,235</u>             |
| Net Adjustments   |                          |                            |
| Net Cash Provided By (Used In) Operating Activities   | <u>(316,529)</u>         | <u>65,176</u>              |
| <b>Investing Activities:</b>  |                          |                            |
| Purchase of property and equipment  | (588,165)                | (560,235)                  |
| Proceeds from sales of marketable securities  | 803,627                  | 562,207                    |
| Purchases of marketable securities  | (1,354,107)              | (533,349)                  |
| Receipt of permanently restricted contributions   | 265,111                  | 326,497                    |
|   | <u>(873,534)</u>         | <u>(204,880)</u>           |
| Net Cash Used In Investing Activities   |                          |                            |
| <b>Cash Flows from Financing Activities:</b>  |                          |                            |
| Debt service reserve funding  | (450,000)                | -                          |
| Payments on long term debt, net   | (205,825)                | (194,382)                  |
|   | <u>(655,825)</u>         | <u>(194,382)</u>           |
| Net Cash Applied to Financing Activities  |                          |                            |
| <b>Net Decrease in Cash and Equivalents and Restricted Cash</b>   | <b>(1,845,888)</b>       | <b>(334,086)</b>           |
| Cash and Equivalents and Restricted Cash, Beginning of Year   | <u>2,839,038</u>         | <u>3,173,124</u>           |
| <b>Cash and Equivalents and Restricted Cash, End of Year</b>  | <b>\$ <u>993,150</u></b> | <b>\$ <u>2,839,038</u></b> |
| <b>Cash and equivalents and restricted cash consist of the following at June 30,:</b>                   |                          |                            |
| Cash and equivalents  | \$ 121,028               | \$ 1,786,633               |
| Restricted cash   | <u>872,122</u>           | <u>1,052,405</u>           |
| <b>Total</b>  | <b>\$ <u>993,150</u></b> | <b>\$ <u>2,839,038</u></b> |

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

**Montserrat College of Art, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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**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.

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 the 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.

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

**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.

**Montserrat College of Art, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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

**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 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.

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**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<br/>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.

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**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 2023.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings 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. Finance lease assets are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term.

**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.

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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.

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, 2023 and 2022, the aggregate fair value of certain investments was \$308 and \$55,153, less than their original cost, respectively.

**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.

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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 or purpose restriction has been satisfied. The College had no conditional contributions at June 30, 2023 and 2022.

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.

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**Functional Expenses**

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

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

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

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

**Adoption of New Accounting Pronouncement**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) amending the accounting for leases. The College adopted the new standard effective July 1, 2022, using the modified retrospective approach. Comparative prior periods were not adjusted upon adoption, as the College utilized the practical expedient available under the guidance. Further, the College elected to implement the package of practical expedients, whereby the College did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs.

Upon adoption, the College recognized \$5,166,588 in right-of-use (“ROU”) assets related to its lease property. Corresponding lease liabilities of \$5,166,588 were also recognized. There was no cumulative effective of apply the new standard and accordingly there was no adjustment to net assets upon adoption.

**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.

| <u>Description</u>          | <u>2023</u><br><u>Market Value</u> | <u>2022</u><br><u>Market Value</u> |
|-----------------------------|------------------------------------|------------------------------------|
| Equity Investments          | \$ 3,383,565                       | \$ 2,606,633                       |
| Fixed Income Investments    | 799,112                            | 783,805                            |
| U.S. Government Obligations | <u>153,112</u>                     | <u>-</u>                           |
| Total Investments           | <u>\$ 4,335,789</u>                | <u>\$ 3,390,438</u>                |

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**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 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>2023</u>      | <u>2022</u>      | <u>2021</u>      |
|---------------------------------------|------------------|------------------|------------------|
| Student accounts receivable           | \$ 827,212       | \$ 793,903       | \$ 734,329       |
| Less: Allowance for doubtful accounts | <u>(731,868)</u> | <u>(723,316)</u> | <u>(675,980)</u> |
|                                       | <u>\$ 95,344</u> | <u>\$ 70,587</u> | <u>\$ 58,349</u> |

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:

|                          | <u>2023</u>       | <u>2022</u>       | <u>2021</u>       |
|--------------------------|-------------------|-------------------|-------------------|
| Unearned revenue         | \$ 476,397        | \$ 599,467        | \$ 805,609        |
| Student housing deposits | <u>98,100</u>     | <u>124,500</u>    | <u>109,500</u>    |
|                          | <u>\$ 574,497</u> | <u>\$ 723,967</u> | <u>\$ 915,109</u> |

**4. CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of unconditional promises to give from individuals. Management has recorded these contributions at their estimated fair value. For the years ended June 30, 2023 and 2022, 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>2023</u>      | <u>2022</u>      |
|---|------------------|------------------|
| Individual Contributions                | \$ 90,000        | \$ 61,000        |
| Less: Unamortized discount              | (9,722)          | (3,812)          |
| Less: Reserve for uncollectible pledges | <u>-</u>         | <u>(1,503)</u>   |
| Total                                   | <u>\$ 80,278</u> | <u>\$ 55,685</u> |

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

|                    | <u>2023</u>      | <u>2022</u>      |
|--------------------|------------------|------------------|
| Amounts due in:    |                  |                  |
| Less than one year | \$ 35,500        | \$ 41,000        |
| One to five years  | <u>54,500</u>    | <u>20,000</u>    |
| Total              | <u>\$ 90,000</u> | <u>\$ 61,000</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, 2023.

*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.

*U.S. Government Obligations:* Valued at the closing price reported in the active market in which the individual securities are traded.

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, 2023 and 2022.

**6. PROPERTY, PLANT, AND EQUIPMENT**

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

|  | <u>2023</u>             | <u>2022</u>             |
|--|-------------------------|-------------------------|
| Land and buildings                       | \$ 15,096,789           | \$ 15,074,165           |
| Construction in process                  | 1,519,633               | 1,085,942               |
| Library materials                        | 588,299                 | 588,299                 |
| Educational equipment                    | 1,455,215               | 2,185,335               |
| Office equipment                         | 363,806                 | 849,267                 |
| Motor vehicles                           | 54,208                  | 17,709                  |
| Furniture and fixtures - student housing | <u>314,402</u>          | <u>314,402</u>          |
|  | 19,392,352              | 20,115,119              |
| Less: Accumulated depreciation           | <u>(8,796,909)</u>      | <u>(9,555,629)</u>      |
| Property and Equipment                   | <u>\$ 10,595,443.00</u> | <u>\$ 10,559,490.00</u> |

Depreciation expense for the years ended June 30, 2023 and 2022 was \$552,212 and \$535,556, respectively.

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**7. 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, 2023 and 2022 (Prime was 8.25% and 4.75% as of June 30, 2023 and 2022, respectively). The note is secured by all business assets and is due on demand and subject to annual renewal in December 2022. The note requires the College to meet certain operating and financial covenants. As of June 30, 2023 and 2022, 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>2023</u>         | <u>2022</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. | \$ 3,261,720        | \$ 3,367,877        |
| 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.   | 1,468,321           | 1,514,197           |
| Bond issuance costs  | (130,362)           | (130,362)           |
| Amortization of bond issuance costs  | <u>43,454</u>       | <u>30,418</u>       |
| Total bonds payable  | <u>\$ 4,643,133</u> | <u>\$ 4,782,130</u> |

**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, 2023, and 2022, \$7,500 and \$30,000, respectively, was outstanding under this note. No interest has been calculated due to lack of materiality.

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, 2023 and 2022, \$1,047,656 and \$1,075,470, respectively, was outstanding under this note.

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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 2024, only monthly interest payments ranging from \$1,714 to \$1,555 are due. As of June 30, 2023 and 2022, \$459,522 and \$463,000, 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, 2023:

|                                    |    |                              |
|------------------------------------|----|------------------------------|
| 2024                               | \$ | 236,718                      |
| 2025                               |    | 237,697                      |
| 2026                               |    | 246,026                      |
| 2027                               |    | 254,657                      |
| 2028                               |    | 263,226                      |
| Thereafter                         |    | <u>5,006,395</u>             |
| Less unamortized<br>issuance costs |    | 6,244,719<br><u>(86,908)</u> |
|                                    | \$ | <u>6,157,811</u>             |

Total interest expense on all indebtedness for the years ended June 30, 2023 and 2022 was \$211,868 and \$182,613, respectively.

**Debt Service Reserve**

In December 2022, 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 account was formally funded in August 2023.

**Debt Covenant**

At June 30, 2023, 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 8, 2024. As part of this waiver, the College’s line of credit, bonds payable and notes payable were amended and are cross collateralized by the appropriate collateral. The line of credit maximum drawings was reduced from \$1,000,000 to \$500,000.

**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.

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

|                  | <u>2023</u>         | <u>2022</u>         |
|------------------|---------------------|---------------------|
| Undesignated     | \$ 5,145,018        | \$ 5,829,038        |
| Board Designated | <u>1,391,358</u>    | <u>1,212,934</u>    |
|                  | <u>\$ 6,536,376</u> | <u>\$ 7,041,972</u> |

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**Net Assets With Restrictions**

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

|                         | <u>2023</u>         | <u>2022</u>         |
|-------------------------|---------------------|---------------------|
| Scholarships and Grants | \$ 882,257          | \$ 856,763          |
| Endowed                 | <u>2,119,016</u>    | <u>1,645,243</u>    |
|                         | <u>\$ 3,001,273</u> | <u>\$ 2,502,006</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:

|                | <u>2023</u>       | <u>2022</u>       |
|----------------|-------------------|-------------------|
| Scholarships   | \$ 390,953        | \$ 171,166        |
| Other Purposes | <u>167,564</u>    | <u>173,500</u>    |
|                | <u>\$ 558,517</u> | <u>\$ 344,666</u> |

**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, 2023 and 2022 are as follows:

|                              | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>        |
|------------------------------|---------------------------------------|------------------------------------|---------------------|
| <b>Endowment net assets,</b> |                                       |                                    |                     |
| <b>at June 30, 2021</b>      | \$ 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>      |
| <b>Endowment net assets,</b> |                                       |                                    |                     |
| <b>at June 30, 2022</b>      | 1,212,934                             | 1,645,242                          | 2,858,176           |
| Investment return            | 178,424                               | 208,663                            | 387,087             |
| Contributions                | <u>-</u>                              | <u>265,111</u>                     | <u>265,111</u>      |
| <b>Endowment net assets,</b> |                                       |                                    |                     |
| <b>at June 30, 2023</b>      | <u>\$ 1,391,358</u>                   | <u>\$ 2,119,016</u>                | <u>\$ 3,510,374</u> |

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**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, 2023 and 2022, the College contributed a 2% elective match totaling \$51,692 and \$48,105, 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 \$5,247 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.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of June 30, 2023:

|                                  |                     |
|----------------------------------|---------------------|
| 2024                             | \$ 578,210          |
| 2025                             | 477,197             |
| 2026                             | 477,085             |
| 2027                             | 389,811             |
| 2028                             | 384,584             |
| Thereafter                       | <u>3,599,445</u>    |
|                                  | 5,906,332           |
| Less: Imputed interest           | <u>(1,321,587)</u>  |
| Lease liability at June 30, 2023 | <u>\$ 4,584,745</u> |

Lease expense of \$894,796 is comprised of operating lease expense of \$742,816 and variable lease expense of \$151,980.

Cash paid for operating lease liabilities was \$739,451.

The weighted average discount rate associated with operating leases as of June 30, 2023 is 3.25%. The weighted average remaining lease term of leases as of June 30, 2023 is 14.55 years.

**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 2024 and expanded the amount of space being leased to Endicott College. Future estimated payments for fiscal year 2024 are \$562,500.

**Montserrat College of Art, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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**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, 2023 and 2022, the College purchased goods and services totaling \$5,957 and \$7,093, respectively.

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest was \$211,868 and \$182,613 during the years ended June 30, 2023 and 2022, respectively.

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

**15. COMPOSITE SCORE STANDARDS**

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, 2023 and 2022, the College has calculated its composite score as 1.9 and 2.2, respectively.

**16. CONCENTRATIONS, RISKS AND UNCERTAINTIES**

**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 \$902,000 and \$2,467,000 as of June 30, 2023 and 2022, respectively.

**Contributions**

For the years ended June 30, 2023 and 2022, two donors represented approximately 53% of the gross outstanding contributions receivable balance, respectively. For the years ended June 30, 2023 and 2022, 58% and 66%, 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 40% and 41% of tuition and fee revenue, net of scholarships and awards, for the years ended June 30, 2023 and 2022, respectively.

**Montserrat College of Art, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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**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.

**17. AVAILABILITY AND LIQUIDITY**

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

|   | <u>2023</u>         | <u>2022</u>         |
|---|---------------------|---------------------|
| Financial assets at year-end:   |                     |                     |
| Cash and equivalents  | \$ 1,443,150        | \$ 2,839,038        |
| Investments, short-term   | 4,335,789           | 3,390,438           |
| Accounts receivable   | 95,344              | 70,587              |
| Current portion of unconditional promises to give                       | <u>35,500</u>       | <u>41,000</u>       |
|   | <u>5,909,783</u>    | <u>6,341,063</u>    |
| Less: Amounts not available to be used within one year:                 |                     |                     |
| Board designated net assets   | 1,391,358           | 1,212,934           |
| Net assets with restrictions  | <u>3,001,273</u>    | <u>2,502,006</u>    |
|   | <u>4,392,631</u>    | <u>3,714,940</u>    |
| Addback:  |                     |                     |
| Endowment drawdown for operations                                       | 8,989               | 26,118              |
| Non-current portion of unconditional promises to give                   | <u>54,500</u>       | <u>20,000</u>       |
|   | <u>63,489</u>       | <u>46,118</u>       |
| Financial assets available to meet general expenditures within one year | <u>\$ 1,580,641</u> | <u>\$ 2,672,241</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, 2023 and 2022, management believes the College has no liquidity issues.

**18. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 26, 2024, the date for which the financial statements were available for issuance. 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, 2023**

| <b>Primary Reserve Ratio:</b> |   |  |              |
|-------------------------------|---|--|--------------|
|                               |   | <b>Expendable Net Assets:</b>  |              |
| 1                             | Statement of Financial Position (SFP)                                   | Net assets without donor restrictions  | \$ 6,536,377 |
| 2                             | SFP   | Net assets with donor restrictions   | 3,001,273    |
| 3                             | Not applicable  | <b>Secured and Unsecured related party receivable - Total</b>                                    | -            |
| 4                             | Not applicable  | Unsecured related party receivables  | -            |
| 5                             | SD Line 5   | <b>Property, Plant and Equipment, net (includes Construction in progress) - Total</b>            | 10,595,443   |
| 6                             | SD Line 1d  | Property, plant and equipment pre-implementation   | 10,007,278   |
| 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 | 588,165      |
| 9                             | SD Line 3   | Construction in progress without outstanding debt for original purchase                          | -            |
| 10                            | Not applicable  | <b>Lease right-of-use asset, net - Total</b>   | -            |
| 11                            | Not applicable  | Lease right-of-use, pre-implementation (grandfather of leases option not chosen)                 | -            |
| 12                            | Not applicable  | Lease right-of-use asset, post-implementation  | -            |
| 13                            | SD Line 11  | Intangible assets  | -            |
| 14                            | Not applicable  | Post-employment and pension liabilities  | -            |
| 15                            | SD Lines 6d, 7a-c, 8  | <b>Long-term debt- for long-term purposes - Total</b>  | 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  | <b>Lease right-of-use asset liability - Total</b>  | -            |
| 20                            | Not applicable  | Pre-implementation right-of-use asset liability (grandfather of leases option not chosen)        | -            |
| 21                            | Not applicable  | Post-implementation right-of-use asset liability   | -            |
| 22                            | Not applicable  | <b>Annuities, term endowment and life income with donor restrictions - Total</b>                 | -            |
| 23                            | Not applicable  | Annuities with donor restrictions  | -            |
| 24                            | Not applicable  | Term Endowments with donor restrictions  | -            |
| 25                            | Not applicable  | Life income funds with donor restrictions  | -            |
| 26                            | Note 9  | Net Assets with donor restrictions - restricted in perpetuity                                    | -            |
|                               |   | <b>Total Expenses without Donor Restrictions &amp; Losses without Donor Restrictions:</b>        |              |
| 27                            | Statement of Activities (SOA)   | Total expenses without donor restrictions- taken directly from Statement of Activities           | 11,309,092   |
| 28                            | Not applicable  | Non-operating and Net Investment (loss)  | -            |
| 29                            | Not applicable  | Net Investment losses  | -            |
| 30                            | Not applicable  | Pension-related changes other than net periodic costs  | -            |
| <b>Equity Ratio:</b>          |   | <b>Modified Net Assets:</b>  |              |
| 31                            | SFP   | Net assets without donor restrictions  | 6,536,377    |
| 32                            | SFP   | Net assets with donor restrictions   | 3,001,273    |
| 33                            | SD Line 11  | Intangible Assets  | -            |
| 34                            | Not applicable  | Intangible Assets- Goodwill  | -            |
| 35                            | Not applicable  | <b>Secured and unsecured related party receivables- Total</b>                                    | -            |
| 36                            | Not applicable  | Unsecured related party receivables  | -            |
|                               |   | <b>Modified Assets:</b>  |              |
| 37                            | SFP   | Total Assets   | 21,311,238   |
| 38                            | Not applicable  | Lease right-of-use asset pre-implementation  | -            |
| 39                            | Not applicable  | Pre-implementation right-of-use asset liability  | -            |
| 40                            | SD Line 11  | Intangible Assets  | -            |
| 41                            | Not applicable  | Secured and unsecured related part receivables   | -            |
| 42                            | Not applicable  | Unsecured related party receivables  | -            |
| <b>Net Income Ratio:</b>      |   | <b>Change in Net Assets Without Donor Restrictions:</b>  |              |
| 43                            | SOA   | Change in net assets without donor restrictions  | (6,328)      |
|                               |   | <b>Total Revenue without Donor Restrictions &amp; Gains without Donor Restrictions</b>           |              |
| 44                            | SOA: Total Revenue, Gains and Other Support (Not including Investments) | Total Revenues and Gains   | 10,576,826   |
| 45                            | SOA   | Investments, net (operating and non-operating)   | 226,671      |

See Independent Auditor's Report.

**Montserrat College of Art, Inc.**  
**Financial Responsibility Supplemental Disclosures**  
**Year Ended June 30, 2023**

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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, 2022 financial statement)    | \$ 10,559,490        |
| 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>(552,212)</u>     |
| d. Balance Pre-implementation property, plant and equipment, net   | <u>10,007,278</u>    |
| 2 Debt Financed Post-Implementation property, plant and equipment, net   |                      |
| Long-lived assets acquired with debt subsequent to June 30, 2022:  |                      |
| a. Equipment   | -                    |
| b. Land Improvements   | -                    |
| c. Building  | -                    |
| d. Total Property, plant and equipment, net acquired with debt exceeding 12 months   | <u>-</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>588,165</u>       |
| 5 Total Property, Plant and Equipment, net- June 30, 2021  | <u>\$ 10,595,443</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, 2022)                         | \$ 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> |

See Independent Auditor's Report.

**Montserrat College of Art, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2023**

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| <u>Cluster Title/Federal Grantor/Program</u>       | <u>Federal CFDA Number</u> | <u>Pass-Through Entity</u> | <u>Pass-Through Entity Award Number</u> | <u>Federal Expenditures</u> | <u>Through to Subrecipients</u> |
|--|----------------------------|----------------------------|---|-----------------------------|---------------------------------|
| <b>STUDENT FINANCIAL AID CLUSTER</b>               |                            |                            |   |                             |                                 |
| <b>U.S. Department of Education:</b>               |                            |                            |   |                             |                                 |
| <b>Direct Awards:</b>                              |                            |                            |   |                             |                                 |
| Federal Supplemental Educational Opportunity Grant | 84.007                     | \$ -                       | \$ -                                    | \$ 31,709                   | \$ -                            |
| Federal Work-Study Program                         | 84.003                     | -                          | -                                       | 49,052                      | -                               |
| Federal Pell Grant Program                         | 84.063                     | -                          | -                                       | 531,776                     | -                               |
| William D. Ford Federal Direct Loan Program        | 84.268                     | -                          | -                                       | <u>2,924,255</u>            | -                               |
| Total Student Financial Assistance Cluster         |                            | -                          | -                                       | 3,536,792                   | -                               |
| <b>Total Expenditures of Federal Awards</b>        |                            | <u>\$ -</u>                | <u>\$ -</u>                             | <u>\$ 3,536,792</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, 2023**

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**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, 2023. 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 \$2,924,255 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, 2023. 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, 2023, 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 February 26, 2024.

#### **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. However, material weaknesses 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*

February 26, 2024

## **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.:

#### **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, 2023. 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, 2023.

##### **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.

### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-01. Our opinion on each major federal program is not modified with respect to this matter.

*Government Auditing Standards* requires the auditor to perform limited procedures on the College's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The College is also responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The College's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response and corrective action plan.

### 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. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-01 to be a significant deficiency.

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the College's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2023 and have issued our report thereon dated DATE, 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".

February 26, 2024

**Montserrat College of Art, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

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**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) \_\_\_x\_\_\_ yes \_\_\_\_\_ no

**Montserrat College of Art, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

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*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?

yes       no

**Montserrat College of Art, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

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**Section II – Financial Statement Findings:**

None.

**Montserrat College of Art, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

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

**Finding number:** 2023-001  
**Federal agency:** U.S. Department of Education (“ED”)  
**Programs:** Student Financial Assistance Cluster  
**Assistance Listing #'s:** 84.268  
**Award year:** 2023

**Criteria**

According to 34 CFR Section 685.309(b)(2):

A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next sixty days, notify the Secretary within thirty days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:

- 1) Enrolled at that school but has ceased to be enrolled on at least a half-time basis;
- 2) Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or
- 3) Has changed his or her permanent address.

The Dear Colleague Letter GEN-12-6 (the “Letter”) issued by the U.S. Department of Education (“ED”) on March 30, 2012 states that in addition to student loan borrowers, Enrollment Reporting files will include two additional groups of students: Pell Grant and Perkins Loan recipients.

According to 2 CFR Part 200, Appendix XI Compliance Supplement updated April 2018:

Under the Pell Grant and loan programs, institutions must complete and return within 15 days the Enrollment Reporting roster file placed in their Student Aid Internet Gateway mailboxes sent by ED via the National Student Loan Data System (“NSLDS”). The institution determines how often it receives the Enrollment Reporting roster file with the default set at a minimum of every 60 days. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

**Condition**

The Federal Government requires the College to report student enrollment changes to the National Student Loan Data System (“NSLDS”) within sixty days with an accurate effective date. During our testing of forty students with enrollment status changes, we noted the following:

- Ten students enrollment status were reported incorrectly to NSLDS.

**Cause**

The College reports student enrollment status changes to the NSLDS through the National Student Clearinghouse (“NSC”), a third-party contractor, and is responsible for ensuring that student enrollment status changes are reported to the NSLDS in a timely and accurate manner. It is the responsibility of the Registrar to submit the enrollment status changes to NSC and to ensure that controls are in place to timely submit updates once the Registrar’s office receives a student withdrawal form. Although the College has policies and procedures for transmitting information to the NSC on a bimonthly basis to ensure reporting of all students is done in a timely manner, the Registrar’s office did not accurately and timely report the student enrollment status changes. The schedule for reporting to NSC is fluid and should be updated each year.

**Montserrat College of Art, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

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The reason for the delay in reporting was due to a problem with the College's recently upgraded Student Information System (Campus Café) properly exporting information in required reports. After the Campus Café upgrade from a client-based to cloud system, the registrar ran the report to pull new graduates on June 6th and determined the report was not pulling the data appropriately. The College's IT department and the vendor were both immediately consulted to resolve the issue. The problem was identified as the original pre-upgrade report could not pull any information post-upgrade, and the new cloud system did not have a similar base report that replicated the pre-upgrade report. Once the issue was identified, the report was fixed and the correct data was pulled in July, but not until after the sixty day period had passed.

***Effect***

Student enrollment status changes were not accurately reported, which may result in the students entering repayment status later than the required timeframe.

***Questioned Costs***

Not applicable

***Perspective***

The audit sample was not, and was not intended to be, statistically valid. Of thirteen students selected for testing, we noted the following ten instances of noncompliance:

|                           | <b>Number of Instances</b> | <b>Percentage of Sample</b> |
|---------------------------|----------------------------|-----------------------------|
| Incorrect status reported | 10                         | 77%                         |

***Identification as a Repeat Finding, if applicable***

Not applicable.

***Recommendation***

Management should continue to strengthen their oversight of the NSLDS reporting to ensure that timely and accurate reporting of enrollment information is made to the NSLDS in order for the College to be in compliance with the requirements. Furthermore, additional emphasis should be made on late reporting.

***Views of Responsible Officials***

Montserrat College of Art, Inc. agrees with the finding and has implemented the corrective action plan listed below.

**Montserrat College of Art, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

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**Finding number:** 2023-001  
**Federal agency:** U.S. Department of Education (“ED”)  
**Programs:** Student Financial Assistance Cluster  
**Assistance Listing #'s:** 84.063, 84.268  
**Award year:** 2023

***Corrective Action Plan***

The College agrees with the finding. The primary factor for the delay was due to a one-time reporting issue extracting data from the student information system following an upgrade. The reporting issue has been resolved and data extraction has been returned to normal.

Once that issue was resolved and the report successfully sent to NCS, NCS replied that they were not able to automatically push the student data to NSLDS requiring a manual solution, by requesting an ad-hoc roster from NSLDS to complete the reporting. The College completed the manual feed within the same day it was requested from NCS on 7/19/2023.

The College is aware of the timeline needed to report to NCS and NSLDS. With both one-time issues now resolved, the College does not expect to have delayed reporting in the future.

***Timeline for Implementation of Corrective Action Plan***

Implemented Fall 2023

***Contact Person***

Lisa Shawney, Dean of Finance and Administration, Montserrat College of Art, Inc.

**Montserrat College of Art, Inc.  
Management's Summary of Prior Year Findings and Questions Costs  
Year Ended June 30, 2023**

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

None.