

MONTSERRAT COLLEGE OF ART, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020

MONTSERRAT COLLEGE OF ART, INC.

Financial Statements

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Montserrat College of Art, Inc. (a Massachusetts not-for-profit organization) (the "College") which comprise the statements of financial position as of June 30, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2020 and 2019, 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.

Emphasis of Matters

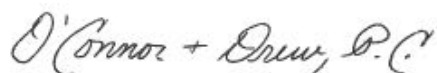
As discussed in Note 1 to the financial statements, Montserrat College of Art, Inc. (the "College") adopted Accounting Standards Update ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting guidance for Contributions Received and Contributions Made (Topic 958)*, and ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*. Our opinion is not modified with respect to these matters.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The financial responsibility supplemental schedule and disclosures, schedule of expenditures of federal awards ("SEFA") and notes to the SEFA, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 32-35 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2020 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



**Certified Public Accountants
Winchester, Massachusetts**

November 17, 2020

MONTSERRAT COLLEGE OF ART, INC.

Statements of Financial Position

June 30, 2020

Assets

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and equivalents	\$ 2,528,825	\$ 1,418,240
Restricted cash	807,360	807,608
Marketable securities	2,429,763	1,821,102
Student accounts receivable, net	47,913	97,000
Contributions receivable, net	27,198	94,950
Prepaid expenses and other assets	115,997	157,288
Property, plant and equipment, net	<u>9,059,149</u>	<u>9,234,155</u>
Total Assets	<u>\$ 15,016,205</u>	<u>\$ 13,630,343</u>

Liabilities and Net Assets

Liabilities:		
Line of credit	\$ 500,000	\$ -
Unearned revenue	515,265	619,762
Accounts payable	159,075	333,771
Accrued expenses	343,730	339,824
Student housing deposits	101,100	89,700
Payroll Protection Program loan	1,052,900	-
Long-term debt, net of issuance costs	<u>5,121,226</u>	<u>5,300,878</u>
Total Liabilities	<u>7,793,296</u>	<u>6,683,935</u>
Net Assets:		
Without donor restrictions	5,536,348	5,199,716
With donor restrictions	<u>1,686,561</u>	<u>1,746,692</u>
Total Net Assets	<u>7,222,909</u>	<u>6,946,408</u>
Total Liabilities and Net Assets	<u>\$ 15,016,205</u>	<u>\$ 13,630,343</u>

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

MONTSERRAT COLLEGE OF ART, INC.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2020

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

The accompanying notes are integral part of the financial statements.

MONTSERRAT COLLEGE OF ART, INC.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Operating Revenues:			
Tuition and fees	\$ 12,259,021	\$ -	\$ 12,259,021
Housing	2,736,955	-	2,736,955
Less: scholarship and awards	<u>(4,989,448)</u>	<u>-</u>	<u>(4,989,448)</u>
Undergraduate tuition, fees and housing, net	10,006,528	-	10,006,528
Private contributions and grants	624,946	261,813	886,759
Other income	125,959	-	125,959
Net assets released from restrictions	<u>199,444</u>	<u>(199,444)</u>	<u>-</u>
 Total Operating Revenues	 <u>10,956,877</u>	 <u>62,369</u>	 <u>11,019,246</u>
Operating Expenses:			
Program:			
College and Continuing Education Instruction	3,125,679	-	3,125,679
Student Academic Services and Housing	<u>3,297,697</u>	<u>-</u>	<u>3,297,697</u>
 Total Program	 <u>6,423,376</u>	 <u>-</u>	 <u>6,423,376</u>
Management and General	3,564,346	-	3,564,346
Fundraising	<u>341,481</u>	<u>-</u>	<u>341,481</u>
 Total Operating Expenses	 <u>10,329,203</u>	 <u>-</u>	 <u>10,329,203</u>
 Changes in Net Assets from Operating Activities	 <u>627,674</u>	 <u>62,369</u>	 <u>690,043</u>
Non-Operating Activity:			
Investment return	<u>38,873</u>	<u>42,763</u>	<u>81,636</u>
 Total Increase in Net Assets	 666,547	 105,132	 771,679
 Net Assets, Beginning of Year	 <u>4,533,169</u>	 <u>1,641,560</u>	 <u>6,174,729</u>
 Net Assets, End of Year	 <u>\$ 5,199,716</u>	 <u>\$ 1,746,692</u>	 <u>\$ 6,946,408</u>

The accompanying notes are integral part of the financial statements.

MONTSERRAT COLLEGE OF ART, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2020

	Program Services				
	College and Continuing Education Instruction	Student Academic Services and Housing	Management and General	Fundraising	Total
Salaries and benefits	\$ 2,466,430	\$ 1,509,577	\$ 1,751,140	\$ 238,341	\$ 5,965,488
Rentals and maintenance	8,092	583,844	247,631	-	839,567
Professional services and outside help	13,479	118,316	341,133	51,401	524,329
Utilities	-	151,601	355,157	-	506,758
Depreciation and amortization	139,402	288,078	63,394	-	490,874
Travel and events	71,934	146,397	51,384	42,487	312,202
Insurance	-	132,621	91,257	-	223,878
Educational and office supplies	94,569	118,650	-	-	213,219
Interest	55,591	114,882	40,770	-	211,243
Security	-	-	201,424	-	201,424
Computer and office supplies	-	-	178,872	-	178,872
Advertising, printing and mailing	11,031	108,458	37,315	15,344	172,148
Other	12,301	48,218	88,992	5,015	154,526
Bad debts	-	-	51,260	-	51,260
Dues, subscriptions and memberships	-	12,228	36,590	-	48,818
Computer, telephone and network	-	-	22,542	4,862	27,404
	\$ 2,872,829	\$ 3,332,870	\$ 3,558,861	\$ 357,450	\$ 10,122,010

The accompanying notes are integral part of the financial statements.

MONTSERRAT COLLEGE OF ART, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services				
	College and Continuing Education	Student Academic Services and Housing	Management and General	Fundraising	Total
Salaries and benefits	\$ 2,599,247	\$ 1,486,658	\$ 1,663,110	\$ 208,263	\$ 5,957,278
Rentals and maintenance	6,564	568,177	250,650	-	825,391
Utilities	-	168,057	390,814	-	558,871
Depreciation and amortization	171,644	210,099	125,038	-	506,781
Travel and events	159,346	185,425	74,278	88,669	507,718
Professional services and outside help	4,683	73,209	286,541	13,741	378,174
Advertising, printing and mailing	15,084	165,638	38,105	17,362	236,189
Educational and office supplies	83,486	148,692	-	-	232,178
Insurance	-	118,986	110,280	-	229,266
Interest	73,502	89,969	64,622	-	228,093
Security	-	-	187,926	-	187,926
Computer and office supplies	-	-	183,592	-	183,592
Other	12,123	70,559	85,686	10,056	178,424
Bad debts	-	-	53,647	-	53,647
Dues, subscriptions and memberships	-	12,228	29,921	-	42,149
Computer, telephone and network	-	-	20,136	3,390	23,526
	\$ 3,125,679	\$ 3,297,697	\$ 3,564,346	\$ 341,481	\$ 10,329,203

The accompanying notes are integral part of the financial statements.

MONTSERRAT COLLEGE OF ART, INC.

Statements of Cash Flows

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ <u>276,501</u>	\$ <u>771,679</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	490,874	506,781
Amortization of debt issuance costs	11,073	10,091
Bad debts	51,260	53,647
Realized and unrealized (gains) losses on investments	85,096	(52,824)
Stock donations	(20,749)	(60,419)
Permanently restricted contributions	(56,000)	(77,905)
Changes in assets and liabilities:		
Student accounts receivable	(2,173)	(91,345)
Contributions receivable	67,752	69,117
Grant receivable	-	5,952
Prepaid expenses other assets	41,291	(18,427)
Accounts payable and accrued expenses	(170,790)	153,146
Student deposits and unearned revenue	<u>(93,097)</u>	<u>(140,953)</u>
Net Adjustments	<u>404,537</u>	<u>356,861</u>
Net Cash Provided by Operating Activities	<u>681,038</u>	<u>1,128,540</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(315,868)	(430,194)
Proceeds from sales of marketable securities	717,573	882,651
Purchases of marketable securities	(1,390,581)	(1,852,383)
Receipt of permanently restricted contributions	<u>56,000</u>	<u>77,905</u>
Net Cash Applied to Investing Activities	<u>(932,876)</u>	<u>(1,322,021)</u>
Cash Flows from Financing Activities:		
Proceeds from line of credit	500,000	-
Proceeds from Payroll Protection Program	1,052,900	-
Payments on long term debt, net	<u>(190,725)</u>	<u>(254,258)</u>
Net Cash provided by (Applied to) Financing Activities	<u>1,362,175</u>	<u>(254,258)</u>
Net Increase (Decrease) in Cash and Equivalents and Restricted Cash	1,110,337	(447,739)
Cash and Equivalents and Restricted Cash, Beginning of Year	<u>2,225,848</u>	<u>2,673,587</u>
Cash and Equivalents and Restricted Cash, End of Year	\$ <u>3,336,185</u>	\$ <u>2,225,848</u>
Cash and equivalents and restricted cash consist of the following at June 30:		
Cash and equivalents	\$ 2,528,825	\$ 1,418,240
Restricted cash	<u>807,360</u>	<u>807,608</u>
Total	\$ <u>3,336,185</u>	\$ <u>2,225,848</u>

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Organization

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

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

On March 11, 2020, the World Health Organization declared the global outbreak of the novel coronavirus (COVID-19) as a pandemic. On March 23, 2020, the College transitioned students to a distance learning environment for the completion of the 2020 spring semester, and the 2020 summer programming was either cancelled or taught online.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) became law. As part of the law, the CARES Act created the Higher Education Emergency Relief Fund (HEERF). The College was awarded \$375,198 of which \$187,599 is required to be distributed to students affected by the COVID-19 crisis as emergency grants and the other \$187,599 is required by the College to cover costs associated with changes in operations due to the COVID-19 crisis. According to the terms of HEERF, an institution can only spend costs associated with changes in operations due to the COVID-19 crisis up to the amount provided to students as emergency grants. Furthermore, the College received an additional \$124,802 under the Strengthening Institutions Program provision of the CARES Act, which will be applied to institutional costs incurred by the COVID-19 crisis

As of June 30, 2020, the College did not draw down any HEERF grants and will utilize the awards for the Fall 2020 semester.

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:

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 1 - Summary of Significant Accounting Policies - Continued

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

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

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

Measure of Operations

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

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivable, promises to give, and estimating depreciation.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Cash and Equivalents

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

Restricted Cash

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

Accounts Receivable

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

Contributions receivable

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

Investments

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

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Fair Value Measurements

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

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

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College can access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• 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.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Property and Equipment

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

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

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

Unearned Revenue

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

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.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Endowment Funds

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

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

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 have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2020, the College had two endowment funds below the amount of the donor required levels. The College has donor-restricted endowment gifts value of \$5,000 and \$25,000, and a current fair value of approximately \$3,400 and \$24,600, respectively. At June 30, 2020 and 2019, the aggregate fair value of certain investments was \$1,954 and \$1,529 less than their original cost.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Contributions

Contributions are recognized as revenue when the conditions contained in the respective agreements have been met. Contributions are conditional if there is a barrier that must be overcome before the recipient is entitled to the asset transferred and the donor has the right to request the asset back if it was not used properly.

Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding the purpose and how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Donated Securities, Materials, Equipment and Services

When significant, donated securities, materials and equipment are reflected as contributions in the accompanying statements at their estimated fair market values as of the date of receipt. Only services that create or enhance nonfinancial assets, require specialized skills and are performed by people with those skills, that would otherwise be purchased by the College, are recognized as contributions.

Tuition, Fees and Housing

Tuition, fees, and housing are recognized as revenue when earned.

Advertising

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Collections

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in net assets without donor restrictions if purchased with net assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statements of activities and changes in net assets. Proceeds from deaccessions or insurance recoveries are reflected on the statements of activities and changes in net assets based on the absence or existence and nature of donor-imposed restrictions.

Functional Expenses

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

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

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

Expenses that can be identified with a specific program or supporting service are allocated directly to those classifications. Other expenses that are common to several functions are allocated in accordance with the College's indirect costs allocation plan.

Adoption of New Accounting Pronouncements

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, an amendment to Topic 958 - *Not-for-Profit Entities*: - FASB issued ASU 2018-08. The purpose of this pronouncement is to provide guidance in determining whether transactions are non-exchange (within the scope of Topic 958) or exchange (within the scope of Topic 606) and determining whether contributions are conditional. The College adopted the provisions of ASU 2018-08 for contributions received on a modified prospective basis as of July 1, 2019.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Adoption of New Accounting Pronouncements - continued

Therefore, it is applied to any remaining portion of existing agreements not yet recognized as of July 1, 2019, in addition to all new agreements entered into after that date. The adoption of this pronouncement did not have a material effect on these financial statements. The College will adopt the provisions for contributions made on July 1, 2020 and does not expect a significant impact on its financial statements.

FASB issued *ASU 2016-18, Restricted Cash (Topic 230)*. The purpose of this pronouncement is to provide guidance on the classification of restricted cash in the statement of cash flows. The College adopted the provisions of ASU 2016-18 on a retrospective basis as of July 1, 2019 and did not necessitate an adjustment to net assets in the prior period.

New Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 *Revenue from Contracts with Customers* and additional ASUs containing modifications to ASU 2014-09 (collectively referred to as “*the new revenue recognition standard*”). In May 2020, the Financial Accounting Standards Board voted to extend the implementation date one year (effective for periods beginning after December 15, 2019 for non-public entities.) The purpose of the new revenue recognition standard is to remove inconsistencies and weaknesses in current revenue recognition requirements; to provide a more robust framework for addressing revenue recognition issues and to improve comparability of recognition across entities, industries, jurisdictions and capital markets. It requires the College to perform certain specific steps to identify performance obligations and determine transaction prices to establish the appropriate revenue recognition.

Leases - FASB issued ASU 2016-02 effective for non-public and most not-for-profit entities. The Financial Accounting Standards board voted to extend the implementation date on year (effective for periods beginning after December 15, 2021 for nonpublic entities.) The purpose of this pronouncement will require lessees to recognize on their statement of financial position the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

New Accounting Pronouncements - continued

FASB issued ASU 2018-13 *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which is effective for periods beginning after December 15, 2019. Implementation of this standard will add, modify, or eliminate certain fair value instrument disclosures.

FASB issued ASU 2019-03, *Updating the Definition of Collections*, which is effective for periods beginning after December 15, 2019. Implementation of this standard will expand the definition of collections to allow the sale of collections to be used for the direct care of existing collections.

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

Reclassification

Certain amounts in the June 30, 2019 financial statements have been reclassified to conform to the June 30, 2020 presentation.

Note 2 - **Marketable Securities**

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

<u>Description</u>	<u>2020</u> <u>Market Value</u>	<u>2019</u> <u>Market Value</u>
Equity Investments	\$ 1,327,465	\$ 1,317,175
Fixed Income Investments	<u>1,102,298</u>	<u>503,927</u>
Total Investments	<u>\$ 2,429,763</u>	<u>\$ 1,821,102</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Student Accounts Receivable**

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

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

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

	<u>2020</u>	<u>2019</u>
Student accounts receivable	\$ 695,309	699,444
Less: allowance for doubtful accounts	<u>(647,396)</u>	<u>(602,444)</u>
	<u>\$ 47,913</u>	<u>\$ 97,000</u>

Note 4 - **Contributions Receivable**

Contributions receivable consist of unconditional promises to give from individuals. Management has recorded these contributions at their estimated fair value. For the years ended June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Individual contributions	\$ 28,725	\$ 97,500
Less: unamortized discount	(24)	(1,047)
Less: reserve for uncollectible pledges	<u>(1,503)</u>	<u>(1,503)</u>
	<u>\$ 27,198</u>	<u>\$ 94,950</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 4 - **Contributions Receivable – Continued**

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

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 28,225	\$ 76,000
One to five years	<u>500</u>	<u>21,500</u>
Total	<u>\$ 28,725</u>	<u>\$ 97,500</u>

Note 5 - **Fair Value Measurement**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

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

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

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

The College's investments consist entirely of Level 1 assets as of June 30, 2020 and 2019.

MONTERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

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

	<u>2020</u>	<u>2019</u>
Land and buildings	\$ 13,833,591	\$ 13,635,103
Construction in process	106,067	37,912
Library materials	588,299	588,299
Educational equipment	1,954,467	1,926,324
Office equipment	1,185,365	1,181,668
Motor vehicles	17,709	17,709
Furniture and fixtures - student housing	<u>303,815</u>	<u>286,430</u>
	<u>17,989,313</u>	<u>17,673,445</u>
Less: accumulated depreciation	<u>(8,930,164)</u>	<u>(8,439,290)</u>
Property and Equipment	<u>\$ 9,059,149</u>	<u>\$ 9,234,155</u>

Depreciation expense for the years ended June 30, 2020 and 2019, was \$490,874 and \$506,781, respectively.

Note 7 - **Paycheck Protection Program Loan**

In April 2020, the College received a Payroll Protection Program (PPP) loan under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in the amount of \$1,052,900. The loan will be forgiven based upon the College using the proceeds on eligible expenses over a twenty-four-week period from the time that the loan is obtained. Eligible expenses include payroll and related benefits, utilities, and rent. It is the intent of management to use the entirety of the funds from the loan in accordance with the provisions of the CARES Act and thus it is anticipated the loan will be forgiven.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 7 - **Paycheck Protection Program Loan – Continued**

Should any portion of the loan not be forgiven it will become a two-year term loan with an interest rate of 1% per year. The principal and interest on any unforgiven portion of the loan will be deferred the earlier of the date in which the amount of loan forgiveness is remitted by the Small Business Administration to the lender or ten months after the covered period concludes. Management intends to reduce the debt in full and reflect that reduction as other non-operating revenue when all or a portion of the loan is forgiven.

Maturities of the PPP loan subsequent to June 30, 2020 if no portion of the debt is forgiven for the years ending June 30:

2022	\$ 479,967
2023	528,641
2024	<u>44,292</u>
	<u>\$ 1,052,900</u>

Note 8 - **Debt Obligations**

Line of Credit

The College has a revolving line of credit, allowing for maximum drawings of \$1,000,000 bearing interest at Prime as of June 30, 2020 and 2019, respectively (Prime was 4.25% and 5.50% as of June 30, 2020 and 2019, respectively). The note is secured by all business assets and is due on demand and subject to annual renewal in December 2020. The note requires the College to meet certain operating and financial covenants. As of June 30, 2020, \$500,000 had been drawn upon. As of June 30, 2019, 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.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Debt Obligations – Continued**

Bonds Payable – Continued

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. **\$ 3,571,186**

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. **1,601,057**

Bond issuance costs **130,362**
Amortization of bond issuance costs **(4,345)**

Total bonds payable **\$ 5,046,226**

Mortgage Payable

The College had a note payable bearing interest at 4.00% at June 30, 2019, in the original amount of \$7,400,000, dated April 2012, secured by certain real estate of the College. In February 2020, the College refinanced its long-term debt to pay off the balance of the outstanding mortgage. As of June 30, 2019, \$5,231,968 was outstanding under this note.

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, 2020, and 2019, \$75,000 and \$97,500 was outstanding under this note, respectively. No interest has been calculated due to lack of materiality.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 8 - **Debt Obligations – Continued**

Mortgage Payable – Continued

The maturity of this debt over the next five years and thereafter is as follows as of June 30, 2020:

Years Ending June 30,	
2021	157,109
2022	156,996
2023	161,684
2024	151,122
2025	149,005
Thereafter	<u>4,345,310</u>
	<u>\$ 5,121,226</u>

Total interest expense on all indebtedness for the years ended June 30, 2020 and 2019, was \$211,243 and \$228,093, respectively.

Note 9 - **Net Assets**

Net Assets Without Restrictions

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

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

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 5,067,385	\$ 4,726,459
Board Designated	<u>468,963</u>	<u>473,257</u>
	<u>\$ 5,536,348</u>	<u>\$ 5,199,716</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 9 - **Net Assets – Continued**

Net Assets With Restrictions

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

	<u>2020</u>	<u>2019</u>
Scholarships and Grants	\$ 787,589	\$ 891,302
Endowed	<u>898,972</u>	<u>855,390</u>
	<u>\$ 1,686,561</u>	<u>\$ 1,746,692</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>2020</u>	<u>2019</u>
Scholarships	\$ 51,996	\$ 63,439
Other Purposes	<u>155,500</u>	<u>136,005</u>
	<u>\$ 207,496</u>	<u>\$ 199,444</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 10 - **Endowment Net Assets**

Endowment funds consist of donor-restricted and board-designated funds. Board-designated endowment funds are earmarked by the Board to be invested to provide income for the College's general operations. Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, at June 30, 2018	\$ -	\$ 756,411	\$ 756,411
Investment return	24,059	42,763	66,822
Board designated	449,198	-	449,198
Contributions	-	77,905	77,905
Amounts appropriated for expenditure	-	(21,689)	(21,689)
Endowment net assets, at June 30, 2019	473,257	855,390	1,328,647
Investment return	(4,304)	(12,418)	(16,722)
Contributions	-	56,000	56,000
Endowment net assets, at June 30, 2020	<u>\$ 468,953</u>	<u>\$ 898,972</u>	<u>\$ 1,367,925</u>

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 11 - **Retirement Plan**

The College provides a TIAA-CREF retirement plan to full-time faculty and staff members who have completed two years of service. The retirement plan is administered by an outside agency. For the years ended June 30, 2020 and 2019, the College contributed a 2% and 3% elective match totaling \$49,234 and \$67,762, respectively.

Note 12 - **Lease Commitments**

The College leases student apartments and academic space under agreements with periods ranging from one to ten years. Rent expense for the years ended June 30, 2020 and 2019, was \$837,632 and \$820,175, respectively. Certain properties are rented under tenant-at-will arrangements with members of the Board and businesses they control. Related party rent expense for the years ended June 30, 2020 and 2019 was \$0 and \$168,384, respectively.

Future minimum lease payments subsequent to June 30, 2020 are as follows:

Years Ending <u>June 30,</u>	
2021	685,085
2022	646,200
2023	646,705
2024	484,285
2025	382,094
Thereafter	<u>4,718,131</u>
	<u>\$ 7,562,500</u>

As of June 30, 2020, there were no future minimum lease payments due to members of the Board of Trustees and businesses they control.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 13 - **Related Party Transactions**

A member of the Board of Trustees is the President of a company from which the College purchases educational supplies. During the years ended June 30, 2020 and 2019, the College purchased goods totaling \$1,164 and \$1,485, respectively.

The Dean of College Relations is married to an individual that owns a company from whom the College purchases printing services. During the years ended June 30, 2020 and 2019, the College purchased goods and services totaling \$7,637 and \$44,471, respectively.

Note 14 - **Supplemental Cash Flow Information**

Cash paid for interest was \$189,106 and \$218,002 during the years ended June 30, 2020 and 2019, respectively.

Note 15 - **Composite Score Standard**

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

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

For the years ended June 30, 2020 and 2019, the College has calculated its composite score as 2.9 and 2.7, respectively.

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

Cash

The College maintains cash balances at several financial banking institutions, and, at times during the year, these balances may exceed the federally insured limit. The College had deposits of approximately \$2,607,000 and \$920,000 in excess of FDIC insurance at December 31, 2020 and 2019, respectively. Management monitors the financial condition of these banking institutions, along with its balances in cash, to keep this potential risk at a minimum.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 16 - Concentrations, Risks and Uncertainties - Continued

Contributions

For the years ended June 30, 2020 and 2019, two donors represented approximately 87% and 92% of the gross outstanding contributions receivable balance, respectively. For the years ended June 30, 2020 and 2019, 7% and 54% of contributions are from contributors, including certain related parties, donating \$30,000 or more, respectively.

Student Financial Aid

Through the U.S. Department of Education, the College participates in the Title IV Higher Education Act programs. These programs include Pell Grants, Federal Work Study, Federal Direct Loan Program, and Federal Supplemental Educational Opportunity Grants. Receipts from these federal programs represent approximately 45% and 38% of tuition and fee revenue for the years ended June 30, 2020 and 2019, respectively.

Uncertainties

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

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

Claims

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

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 17 - Availability and Liquidity

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and equivalents	\$ 3,336,185	\$ 2,225,848
Investments, short-term	2,429,763	1,821,102
Accounts receivable	47,913	97,000
Current portion of unconditional promises to give	<u>28,225</u>	<u>74,497</u>
	<u>5,842,086</u>	<u>4,218,447</u>
Less: amounts not available to be used within one year:		
Board designated net assets	468,963	473,257
Net assets with restrictions	<u>1,686,561</u>	<u>1,746,692</u>
	<u>2,155,524</u>	<u>2,219,949</u>
Addback:		
Endowment drawdown for operations	23,000	23,000
Non-current portion of unconditional promises to give	<u>500</u>	<u>21,500</u>
	<u>23,500</u>	<u>44,500</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,710,062</u>	<u>\$ 2,042,998</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 undesignate previously designated assets. To help manage unanticipated liquidity needs, a committed line of credit of an additional \$500,000 can be drawn upon (see Note 8). As of June 30, 2020 and 2019, management believes the College has no liquidity issues.

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

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

Management has evaluated subsequent events through November 17, 2020, the date for which the financial statements were available for issuance. Management accepted the financial statements and did not identify any events subsequent to June 30, 2020 requiring disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

MONTSERRAT COLLEGE OF ART, INC.

Financial Responsibility Supplemental Schedule

Year Ended June 30, 2020

Primary Reserve Ratio:		
Expendable Net Assets:		
1	Statement of Financial Position (SFP)	5,536,348
2	SFP	1,686,561
3	Not applicable	
4	Not applicable	
Secured and Unsecured related party receivable - Total		
		-
Unsecured related party receivables		
		-
Property, Plant and Equipment, net (includes Construction in progress) - Total		
5	SD Line 5	9,059,149
6	SD Line 1d	8,705,368
Property, plant and equipment pre-implementation		
		-
Property, plant and equipment post-implementation with outstanding debt for original purchase		
7	SD Line 2d	-
Property, plant and equipment post-implementation without outstanding debt for original purchase		
8	SD Line 4a	353,780
9	SD Line 3	-
10	Not applicable	
Lease right-of-use asset, net - Total		
		-
Lease right-of-use, pre-implementation (grandfather of leases option not chosen)		
11	Not applicable	-
Lease right-of-use asset, post-implementation		
12	Not applicable	-
Intangible assets		
13	SD Line 11	-
Post-employment and pension liabilities		
14	Not applicable	-
Long-term debt- for long term purposes - Total		
15	SD Lines 6d, 7a-c, 8	10,242,452
16	SD Line 6d	5,121,226
Long- term debt- for long term purpose pre-implementation		
17	SD Lines 7a-c	5,121,226
Long-term debt- for long term purposes post-implementation		
18	SD Line 8	-
Line of Credit for Construction in progress		
19	Not applicable	-
Lease right-of-use asset liability - Total		
		-
Pre-implementation right-of-use asset liability (grandfather of leases option not chosen)		
20	Not applicable	-
Post-implementation right-of-use asset liability		
21	Not applicable	-
Annuities, term endowment and life income with donor restrictions - Total		
		-
Annuities with donor restrictions		
22	Not applicable	-
Term Endowments with donor restrictions		
23	Not applicable	-
Life income funds with donor restrictions		
24	Not applicable	-
Net Assets with donor restrictions - restricted in perpetuity		
25	Not applicable	-
26	Note 9	-
Total Expenses without Donor Restrictions & Losses without Donor Restrictions:		
Total expenses without donor restrictions- taken directly from		
27	Statement of Activities (SOA)	10,122,010
Statement of Activities		
28	Not applicable	-
Non-operating and Net Investment (loss)		
29	Not applicable	-
Net Investment losses		
30	Not applicable	-
Pension-related changes other than net periodic costs		
		-
Equity Ratio:		
Modified Net Assets:		
31	SFP	5,536,348
32	SFP	1,686,561
33	SD Line 11	-
Intangible Assets		
34	Not applicable	-
Intangible Assets- Goodwill		
35	Not applicable	-
Secured and unsecured related party receivables- Total		
36	Not applicable	-
Unsecured related party receivables		
		-
Modified Assets:		
37	SFP	15,016,205
Total Assets		
38	Not applicable	-
Lease right-of-use asset pre-implementation		
39	Not applicable	-
Pre-implementation right-of-use asset liability		
40	SD Line 11	-
Intangible Assets		
41	Not applicable	-
Secured and unsecured related part receivables		
42	Not applicable	-
Unsecured related party receivables		
		-
Net Income Ratio:		
Change in Net Assets Without Donor Restrictions:		
43	SOA	336,632
Change in net assets without donor restrictions		
Total Revenue without Donor Restrictions & Gains without Donor Restrictions		
44	SOA: Total Revenue, Gains and Other Support (Not including Investments)	10,415,871
Total Revenues and Gains		
45	SOA	(17,360)
Investments, net (operating and non-operating)		

MONTSERRAT COLLEGE OF ART, INC.

Financial Responsibility Supplemental Disclosures

Year Ended June 30, 2020

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, 2019 financial statement)	\$ 9,234,155
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	(528,787)
d. Balance Pre-implementation property, plant and equipment, net	<u>8,705,368</u>
2 Debt Financed Post-Implementation property, plant and equipment, net	
Long-lived assets acquired with debt subsequent to June 30, 2019:	
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, 2019	-
4 Post-implementation property, plant and equipment, net, acquired without debt:	
a. Long-lived assets acquired without use of debt subsequent to June 30, 2019	<u>353,780</u>
5 Total Property, Plant and Equipment, net- June 30, 2020	<u>\$ 9,059,148</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, 2019)	\$ 5,300,878
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	(179,652)
d. Balance pre-implementation debt	<u>5,121,226</u>
7 Allowable post-implementation debt used for capitalized long-lived assets:	
a. Equipment- all capitalized	-
b. Land Improvements	-
c. Buildings	-
8 Construction in progress (CIP) financed with short term debt	-
9 Long-term debt not for the purchase of property, plant and equipment or liability greater than assets value	-
	<u>\$ 5,121,226</u>

MONTSERRAT COLLEGE OF ART, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

<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>
STUDENT FINANCIAL AID CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Federal Supplemental Educational Opportunity Grant	84.007	-	-	\$ 33,560	\$ -
Federal Work-Study Program	84.003	-	-	45,537	-
Federal Pell Grant Program	84.063	-	-	677,014	-
William D. Ford Federal Direct Loan Program	84.268	-	-	<u>3,880,332</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 4,636,443</u>	<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

MONTSERRAT COLLEGE OF ART, INC.

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal award activity of Montserrat College of Art, Inc. (the "College") under programs of the Federal Government for the year ended June 30, 2020. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the College, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the College.

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

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

Note 3 - **Federal Direct Student Loans**

During the year ended June 30, 2020, the College processed \$3,982,366 of new loans under the Federal Direct Loan Program (which includes Direct Subsidized and Unsubsidized Stafford Loans and Direct Parent Plus Loan for Undergraduate Students).

With respect to the Federal Direct Loan Program, the College is responsible only for the performance of certain administrative duties and, accordingly, these loan balances are not included in the College's financial statements. It is not practical to determine the balances of loans outstanding from students of the College under this program at June 30, 2020.

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of Montserrat College of Art, Inc. (the "College"), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, changes in net assets, functions expenses and cash flows for the years then ended, and the related notes to the financial statements, and we have issued our report thereon dated November 17, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Certified Public Accountants
Winchester, Massachusetts**

November 17, 2020

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



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

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

Report on Compliance for Each Major Federal Program

We have audited Montserrat College of Art, Inc.'s (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2020. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

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 is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The College's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-01, that we consider to be significant deficiencies.

Management's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Entity's response was not subjected to the 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.

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

**Certified Public Accountants
Winchester, Massachusetts**

November 17, 2020

MONTSERRAT COLLEGE OF ART, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weaknesses identified?	_____ yes	<u> x </u> no
• Significant deficiencies identified that are not considered to be material weaknesses?	_____ yes	<u> x </u> no
Noncompliance material to the financial statements noted?	_____ yes	<u> x </u> no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	_____ yes	<u> x </u> no
• Significant deficiencies identified that are not considered to be material weaknesses?	<u> x </u> yes	_____ no
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<u> x </u> yes	_____ no

MONTSERRAT COLLEGE OF ART, INC.

Schedule of Findings and Questioned Costs - Continued

For the Year Ended June 30, 2020

Identification of Major Programs

Name of Federal Program or Cluster	CFDA 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 - Continued

For the Year Ended June 30, 2020

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

Criteria

According to 34 CFR 675.19(a):

The institution must establish and maintain program and fiscal records that include a certification by the student's supervisor, an official of the institution, or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for the students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day.

The 2019-2020 Federal Student Aid Handbook (Vol. 6, Pg. 46) states:

In general, students are not permitted to work in Federal Work-Study positions during scheduled class times. Exceptions are permitted if the individual class is cancelled, if the instructor has excused the student from attending for a particular day, and if the student is receiving credit for employment in an internship, externship, or community work-study experience. Any such exemptions must be documented.

Condition

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

Cause

Our procedures disclosed that, although the College has policies and procedures to ensure students were not working during class time, there was an occurrence in which the College failed to identify an instance where a student's work schedule conflicted with their class schedule.

Effect

A student's reported time sheet conflicted with their class schedule. As a result of this scheduling conflict, the student either did not attend class or was not present during the documented time period for which they were paid Federal Work-Study wages.

MONTSERRAT COLLEGE OF ART, INC.

Schedule of Findings and Questioned Costs - Continued

For the Year Ended June 30, 2020

Questioned Costs

Not applicable

Perspective

Our sample was not, and was not intended to be, statistically valid. Of five students selected for testing, one student, or 20% of our sample, was determined to have worked during class time.

Identification as a Repeat Finding, if applicable

See finding 2019-001 included in Management's Summary Schedule of Prior Year Findings.

Recommendation

We recommend that management of the College review, and if necessary, update the policies and procedures to ensure all Federal Work-Study supervisors are monitoring students' work time to ensure that it does not conflict with their class schedules. These policies should also be revisited and reinforced with those in charge of monitoring the students' Federal Work-Study time.

View of Responsible Officials

Management concurs with audit finding 2020-001.

Management's Summary of Prior Year Audit Findings

For the Year Ended June 30, 2020

Finding number: 2019-001
Federal agency: U.S. Department of Education
Program: Federal Work-Study Program
CFDA #: 84.033
Award year: 2019

Condition

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

Award year 2019

Our sample was not, and was not intended to be, statistically valid. Of six students selected for testing, one student, or 17% of our sample, was determined to have worked during class time.

Current Year Status

Corrective action was taken in the current year, however, the auditors' test in this area resulted in one finding in the current year.

Management's Corrective Action Plan

For the Year Ended June 30, 2020

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

Corrective Action Plan:

The College has continued to struggle ensuring that all student managers actively prohibit their student employees from working during scheduled class time. Last year, we explored the idea of electronically blocking students from entering time into their timecards during scheduled class hours. Unfortunately, our current payroll system does not have this functionality. As an alternative, we have identified a report that will display each student's timecard data. After each payroll, we will compare the data in that report to students' class schedules and follow up on any identified overlap. At the same time, we are scheduling mandatory student manager training, which will emphasize the importance of this rule, and clearly state that there are to be no exceptions, under any circumstances. Once this training has taken place, any student manager who fails to prevent a student from working during scheduled class time will face disciplinary action, which will likely include losing the opportunity to employ student workers.

Timeline for Implementation of Corrective Action Plan:

The above outlined corrective action plan was implemented in October of 2020.

Contact Person

Cara Callanan, Chief Financial Officer