



**NEW ENGLAND FOUNDATION
FOR THE ARTS, INC.**

Financial Statements
For the Year Ended May 31, 2022

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New England Foundation for the Arts, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the New England Foundation for the Arts, Inc., which comprise the statement of financial position as of May 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the New England Foundation for the Arts, Inc. as of May 31, 2022, 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) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the New England Foundation for the Arts, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the New England Foundation for the Arts, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New England Foundation for the Arts, Inc.'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 New England Foundation for the Arts, Inc.'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.

Report on Summarized Comparative Information

The financial statements of New England Foundation for the Arts, Inc. as of and for the year ended May 31, 2021, were audited by Melanson whose practice was combined with Marcum LLP as of January 1, 2023, and whose report dated July 11, 2022, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2023 on our consideration of the New England Foundation for the Arts, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 New England Foundation for the Arts, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

Andover, MA
August 28, 2023

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.

Statement of Financial Position
 May 31, 2022
 (with comparative totals as of May 31, 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 11,331,466	\$ 5,641,431
Restricted cash - fiscal agent	47,248	47,244
Contributions receivable, in less than one year	5,456,714	4,177,372
Grants receivable	3,161,881	4,587,217
Other assets	<u>303,632</u>	<u>56,223</u>
Total Current Assets	20,300,941	14,509,487
Noncurrent Assets:		
Investments	5,962,830	8,376,450
Investments - Board-designated endowment	9,943,350	5,928,342
Contributions receivable, in more than one year	142,800	92,416
Property and equipment, net	734,992	714,408
Security deposit	<u>47,231</u>	<u>47,231</u>
Total Noncurrent Assets	<u>16,831,203</u>	<u>15,158,847</u>
Total Assets	\$ <u><u>37,132,144</u></u>	\$ <u><u>29,668,334</u></u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 228,990	\$ 254,348
Accrued liabilities	231,099	189,874
Grants payable	3,970,155	2,295,939
Other liabilities	<u>59,809</u>	<u>51,904</u>
Total Current Liabilities	4,490,053	2,792,065
Noncurrent Liabilities:		
Grants payable, net of current portion	<u>2,258,250</u>	<u>3,047,354</u>
Total Noncurrent Liabilities	<u>2,258,250</u>	<u>3,047,354</u>
Total Liabilities	6,748,303	5,839,419
Net Assets:		
Without donor restrictions:		
Undesignated	419,598	2,251,541
Board-designated	15,197,697	6,119,908
With donor restrictions:		
Time or purpose restricted	<u>14,766,546</u>	<u>15,457,466</u>
Total Net Assets	<u>30,383,841</u>	<u>23,828,915</u>
Total Liabilities and Net Assets	\$ <u><u>37,132,144</u></u>	\$ <u><u>29,668,334</u></u>

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

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.

Statement of Activities
For the Year Ended May 31, 2022
(with summarized comparative totals for the year ended May 31, 2021)

	2022			
	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support, Revenue, and Other				
Support:				
Contributions	\$ 8,210,778	\$ 6,734,125	\$ 14,944,903	\$ 5,608,728
In-kind contributions	7,323	-	7,323	7,808
Government grants	3,086,838	-	3,086,838	2,152,326
SBA grant (Paycheck Protection Program)	-	-	-	346,923
Revenue:				
Program service fees	106,422	-	106,422	13,438
Other:				
Interest income	8,085	-	8,085	5,555
Endowment transfer to support operations	473,882	-	473,882	216,741
Net assets released from restrictions	<u>7,265,544</u>	<u>(7,265,544)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Other	19,158,872	(531,419)	18,627,453	8,351,519
Expenses				
Program Services:				
National dance project	3,000,941	-	3,000,941	2,754,518
National theater project	1,845,026	-	1,845,026	1,854,114
Center stage	1,047,838	-	1,047,838	444,277
New England programs	2,329,204	-	2,329,204	3,200,486
Public art	<u>891,384</u>	<u>-</u>	<u>891,384</u>	<u>663,034</u>
Total Program Services	9,114,393	-	9,114,393	8,916,429
Supporting Services:				
General and administrative	1,473,236	-	1,473,236	1,490,771
Fundraising	<u>312,405</u>	<u>-</u>	<u>312,405</u>	<u>315,140</u>
Total Supporting Services	<u>1,785,641</u>	<u>-</u>	<u>1,785,641</u>	<u>1,805,911</u>
Total Expenses	<u>10,900,034</u>	<u>-</u>	<u>10,900,034</u>	<u>10,722,340</u>
Change in Net Assets From Operations	8,258,838	(531,419)	7,727,419	(2,370,821)
Non-operating Activities				
Investment return, net	(539,110)	(159,501)	(698,611)	3,042,923
Endowment transfer to support operations	<u>(473,882)</u>	<u>-</u>	<u>(473,882)</u>	<u>(216,741)</u>
Total Non-operating Activities	<u>(1,012,992)</u>	<u>(159,501)</u>	<u>(1,172,493)</u>	<u>2,826,182</u>
Change in Net Assets	7,245,846	(690,920)	6,554,926	455,361
Net Assets, Beginning of Year	<u>8,371,449</u>	<u>15,457,466</u>	<u>23,828,915</u>	<u>23,373,554</u>
Net Assets, End of Year	\$ <u>15,617,295</u>	\$ <u>14,766,546</u>	\$ <u>30,383,841</u>	\$ <u>23,828,915</u>

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

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.
Statement of Functional Expenses
For the Year Ended May 31, 2022
(with summarized comparative totals for the year ended May 31, 2021)

	2022										
	Program Services						Supporting Services				
	National Dance Project	National Theater Project	Center Stage	New England Programs	Public Art	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	2022 Total	2021 Total
Grants and other assistance	\$ 2,268,307	\$ 1,364,603	\$ -	\$ 1,446,488	\$ 479,000	\$ 5,558,398	\$ -	\$ -	\$ -	\$ 5,558,398	\$ 6,471,661
Personnel expense:											
Salaries and wages	270,632	246,770	120,421	471,922	213,009	1,322,754	929,434	196,992	1,126,426	2,449,180	2,142,356
Employee benefits	66,704	57,611	29,949	122,099	56,529	332,892	187,662	41,869	229,531	562,423	435,266
Payroll taxes	22,280	19,243	10,003	40,782	18,881	111,189	69,642	13,985	83,627	194,816	188,074
Contracted services	41,593	58,250	262,107	135,791	61,303	559,044	138,366	12,590	150,956	710,000	510,075
Marketing and communications	6,549	1,803	7,025	2,032	2,210	19,619	17,843	-	17,843	37,462	44,368
Office expenses	8,564	5,380	9,522	4,486	2,542	30,494	34,479	3,839	38,318	68,812	53,172
Information technology	18,412	16,543	11,659	39,205	13,610	99,429	7,956	10,642	18,598	118,027	120,627
Occupancy	9,089	7,850	4,081	16,446	7,703	45,169	16,687	15,065	31,752	76,921	331,187
Travel	45,704	2,733	319,576	1,904	88	370,005	8,926	1,153	10,079	380,084	1,453
Conferences and meetings	71,996	16,254	252	2,503	5,508	96,513	13,550	5,372	18,922	115,435	27,334
Depreciation	6,859	5,924	3,080	12,468	5,813	34,144	16,684	8,613	25,297	59,441	52,922
Insurance	1,284	1,134	54,942	2,350	1,088	60,798	4,693	-	4,693	65,491	10,504
Honoraria	159,700	40,850	194,466	25,413	19,950	440,379	1,025	-	1,025	441,404	275,000
Miscellaneous	320	-	20,755	4,309	8	25,392	11,727	1,629	13,356	38,748	34,266
Professional development	2,948	78	-	1,006	4,142	8,174	14,562	656	15,218	23,392	24,075
Total	\$ 3,000,941	\$ 1,845,026	\$ 1,047,838	\$ 2,329,204	\$ 891,384	\$ 9,114,393	\$ 1,473,236	\$ 312,405	\$ 1,785,641	\$ 10,900,034	\$ 10,722,340

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

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.

Statement of Cash Flows
For the Year Ended May 31, 2022
(with comparative totals for the year ended May 31, 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 6,554,926	\$ 455,361
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	59,441	52,922
Net unrealized (gain) loss on investments	1,405,768	(2,666,073)
Net realized gain on investments	(588,951)	(254,750)
Changes in operating assets and liabilities:		
Contributions receivable	(1,329,726)	1,829,603
Grants receivable	1,425,336	(2,159,746)
Other assets	(247,409)	(6,417)
Accounts payable	(25,358)	189,183
Accrued liabilities	41,225	(52,856)
Grants payable	885,112	1,459,427
Refundable advances	-	(346,923)
Other liabilities	7,905	(7,905)
Net Cash Provided (Used) By Operating Activities	<u>8,188,269</u>	<u>(1,508,174)</u>
Cash Flows From Investing Activities		
Payment of security deposit	-	(34,504)
Purchase of investments	(4,333,269)	(3,010,355)
Proceeds from sales of investments	1,915,064	2,138,255
Purchases of property and equipment	<u>(80,025)</u>	<u>(626,504)</u>
Net Cash Used By Investing Activities	<u>(2,498,230)</u>	<u>(1,533,108)</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	5,690,039	(3,041,282)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>5,688,675</u>	<u>8,729,957</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 11,378,714</u>	<u>\$ 5,688,675</u>
As reported in the Statement of Financial Position, cash balance consists of:		
Cash and cash equivalents	\$ 11,331,466	\$ 5,641,431
Restricted cash	<u>47,248</u>	<u>47,244</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 11,378,714</u>	<u>\$ 5,688,675</u>

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

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.

Notes to Financial Statements
For the Year Ended May 31, 2022

1. Organization

The New England Foundation for the Arts, Inc. (NEFA) invests in artists and communities and fosters equitable access to the arts, enriching the cultural landscape in New England and the nation. NEFA supports artists and communities through grants, convenings, online tools, research, and network-building opportunities in the performing arts, public art, and interdisciplinary art. NEFA's values include artists and the creative process; equity, diversity, inclusion, and accessibility (EDIA); knowledge building and sharing; leadership; partnership; and public funding for the arts.

NEFA was founded in 1976 as one of six Regional Arts Organizations (RAOs) in partnership with the National Endowment for the Arts (NEA) and New England's state arts agencies to strengthen regional and national arts opportunities. Today, NEFA's programs are local, regional, national, and international in scope, and include:

- National Dance Project – Provides support for the creation and touring of dance work through grants to dance artists and presenters; fosters community engagement and international exchange; and through special initiatives, creates opportunities for dance artists at various stages in their careers.
- National Theater Project – Explores creating a system of support for professional artist-led collaborative, devised theater. Modeled after NEFA's National Dance Project, the program supports ensemble theater development and touring in the United States.
- Center Stage – An international exchange program that will bring performing artists from around the globe to tour throughout the United States. The program is an effort to demonstrate respect and understanding of cultures by bringing international performing artists to the United States so that Americans can grow in appreciation and understanding of other nations, while providing opportunities to international performers.
- New England Programs – Connects New England artists and communities through expeditions and New England state's touring grants for public presentations and touring, provides focused opportunities including those related to curatorial research, individual artists and native artists and communities; hosts convenings such as the annual Idea Swap.

- Public Art – Provides support for public art through programs including Fund for the Arts and Creative City by grant-making that pairs artists with community organizations and integrates public participation into artistic process; provides professional development training to artists working in the public realm.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used in preparing and presenting the accompanying financial statements.

Basis of Financial Statement Presentation

The financial statements of NEFA have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

Change in Accounting Principle

ASU 2020-07, Contributed Nonfinancial Assets

In fiscal year 2022, NEFA retrospectively adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the Statement of Activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended May 31, 2021, from which the summarized information was derived.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for long-term purposes are excluded from this definition.

Contributions Receivable

Unconditional contributions that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions that are expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in

contribution revenue in the Statement of Activities. The allowance for uncollectible contributions is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions are written off when deemed uncollectable. Management has determined that no allowance is necessary.

Grants Receivable

Grants receivable, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. Amounts recorded as grants receivable represent cost-reimbursable contracts and grants, which the incurrence of allowable qualifying expenses and/or the performance of certain requirements have been met or performed. The allowance for uncollectible grants receivable is based on historical experience and a review of subsequent collections. Management has determined that no allowance is necessary.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair value in the Statement of Financial Position. Net investment return/(loss) is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses. Investments include equity securities of public companies which are carried at fair value based on quoted market prices.

NEFA maintains pooled investment accounts for its donor-restricted funds and board-designated endowment. Realized and unrealized gains and losses from the pooled investment accounts are allocated monthly to the individual funds based on the relationship of the market value of each fund to the total market value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Property and equipment additions over \$2,500 are recorded at cost, if purchased, and at fair value at the date of donation, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 years), or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed, and any resulting gain or loss is included in the Statement of Activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed. Assets not in service are not depreciated.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment in fiscal year 2022 or 2021.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions.

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) imposed restrictions. The Board has designated, from net assets without donor restrictions, net assets for a board-designated endowment, strategic vision, and for a strategic opportunity and risk reserve.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. NEFA recognizes revenue from contributions and grants that were initially conditional, which became unconditional with restrictions during the reporting period, and for which those restrictions were met during the reporting period, as net assets without donor restrictions.

Revenue and Revenue Recognition

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

A portion of NEFA's revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when NEFA has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statement of Financial Position.

Program service fees are due at time of registration and revenue is recognized when the performance obligations of providing the services are met. The performance obligation of delivering program services is simultaneously received and consumed by individuals and organizations; therefore, the revenue is recognized when the service or program occurs.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria

prescribed by GAAP. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets, or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated professional services are recorded at the respective fair value of the services received. Contributed goods are recorded at fair value at the date of donation and as expenses when placed in service or distributed. Donated use of facilities is reported as a contribution and as an expense at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the amount is reported as a contribution and an unconditional promise to give at the date of the gift, and the expense is reported over the term of use.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. Expenses that relate solely to the functional categories are directly charged, however, there are certain expenses that are allocated. Personnel expenses, including salaries and wages, employee benefits, and payroll taxes, occupancy, information technology, insurance, certain office expenses, and depreciation are allocated based on time and effort estimates.

Measure of Operations

The Statement of Activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to NEFA's ongoing programs and services. Non-operating activities are limited to resources outside of those programs and services and are comprised of non-recurring gains and losses on sales and dispositions, investment return, and NEFA's annual transfer to support operations.

Income Taxes

NEFA has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for charitable contribution deductions, and has been determined not to be a private foundation. NEFA is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, NEFA is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with grants and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, individuals, and organizations supportive of NEFA's mission. Investments are made by diversified investment managers whose performance is monitored by the Investment Committee of the Board of Directors. Although the fair value of investments are subject to fluctuation on a year-to-year basis, the Investment Committee believes that its investment policies and guidelines are prudent for the long-term welfare of NEFA.

Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety at the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset or liability within the hierarchy is based upon the pricing transparency of the asset or liability and does not necessarily correspond to the assessment of the quality, risk, or liquidity profile of the asset or liability.

New Accounting Standards to be Adopted in the Future

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*. The ASU requires all leases with lease terms more than 12 months to be capitalized as a right of use asset and lease liability on the Statement of Financial Position at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the Statement of Activities. This ASU will be effective for NEFA for the year ending May 31, 2023. NEFA is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The ASU requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the Statement of Activities will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This ASU will be effective for NEFA for the year ending May 31, 2024. NEFA is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the Statement of Financial Position, were comprised of the following at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 11,331,466	\$ 5,641,431
Restricted cash - fiscal agent	47,248	47,244
Contributions receivable	5,599,514	4,269,788
Grants receivable	3,161,881	4,587,217
Investments	5,962,830	8,376,450
Investments - endowment	<u>9,943,350</u>	<u>5,928,342</u>
Total financial assets	36,046,289	28,850,472
Less amounts not available to be used within one year:		
Restricted cash - fiscal agent	(47,248)	(47,244)
Contributions receivable to be collected in more than one year	(142,800)	(92,416)
Board designated net assets - endowment	(9,943,350)	(5,928,342)
Board designated net assets - strategic vision	(4,900,000)	-
Board designated net assets - strategic opportunity and risk reserve	(354,347)	(191,566)
Net assets with donor restrictions not expected to be met in less than one year	<u>(7,726,631)</u>	<u>(9,533,782)</u>
Total financial assets available within one year	12,931,913	13,057,122
Additional liquidity resources:		
Bank line of credit	<u>1,000,000</u>	<u>1,000,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 13,931,913</u>	<u>\$ 14,057,122</u>

The Board-designated endowment is subject to an annual spending rate as determined by the Board of Directors. Although there is no intention to spend from the Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

NEFA regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. In addition to financial assets available to meet general expenditures over the next year, NEFA operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

4. Restricted Cash – Fiscal Agent

NEFA is the fiscal agent for the Massachusetts and New Hampshire state art agencies. NEFA receives and disburses funds on behalf of these agencies. Each of these agencies also funds NEFA. As of May 31, 2022 and 2021, restricted cash totaled \$47,248 and \$47,244, respectively. Since NEFA is a fiscal agent, these activities are appropriately not included in the accompanying Statement of Activities and change in net assets.

5. Contributions Receivable

Unconditional contributions receivable were estimated to be collected as follows at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 5,456,714	\$ 4,177,372
Receivable in one to five years	<u>142,800</u>	<u>92,416</u>
Total	<u>\$ 5,599,514</u>	<u>\$ 4,269,788</u>

No discount was applied to contributions receivable at May 31, 2022 and 2021 since it was determined to be immaterial.

6. Investments

Investment Composition

Investments, measured at fair value on a recurring basis, consisted of the following at May 31, 2022 and 2021:

<u>Investment Type</u>	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 895,970	\$ -	\$ -	\$ 895,970
U.S. Treasuries	-	549,958	-	549,958
U.S. Government bonds	-	588,726	-	588,726
Corporate debt securities	-	1,972,413	-	1,972,413
Mutual funds	2,022,798	-	-	2,022,798
Common stock	9,340,531	-	-	9,340,531
Exchange traded funds	398,869	-	-	398,869
Real estate investment trust funds	<u>136,915</u>	<u>-</u>	<u>-</u>	<u>136,915</u>
Total	<u>\$ 12,795,083</u>	<u>\$ 3,111,097</u>	<u>\$ -</u>	<u>\$ 15,906,180</u>

<u>Investment Type</u>	2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 794,266	\$ -	\$ -	\$ 794,266
U.S. Treasuries	-	459,135	-	459,135
U.S. Government bonds	-	650,414	-	650,414
Corporate debt securities	-	1,714,941	-	1,714,941
Mutual funds	1,883,244	-	-	1,883,244
Common stock	8,624,919	-	-	8,624,919
Exchange traded funds	91,455	-	-	91,455
Real estate investment trust funds	<u>86,418</u>	<u>-</u>	<u>-</u>	<u>86,418</u>
Total	\$ <u>11,480,302</u>	\$ <u>2,824,490</u>	\$ <u>-</u>	\$ <u>14,304,792</u>

Unrealized gains (losses) on equity securities recognized during fiscal years 2022 and 2021 totaled \$(1,405,768) and \$2,666,073, respectively.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair value of NEFA's investments to interest rate fluctuations as of May 31, 2022 was as follows:

<u>Investment Type</u>	Fair <u>Value</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Money market funds	\$ 895,970	\$ -	\$ -	\$ -	\$ -	\$ 895,970
U.S. Treasuries	549,958	100,512	55,728	393,718	-	-
U.S. Government bonds	588,726	49,998	535,943	-	2,785	-
Corporate debt securities	1,972,413	290,576	1,100,917	580,920	-	-
Mutual funds	2,022,798	-	-	-	-	2,022,798
Common stock	9,340,531	-	-	-	-	9,340,531
Exchange traded funds	398,869	-	-	-	-	398,869
Real estate investment trust funds	<u>136,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,915</u>
Total	\$ <u>15,906,180</u>	\$ <u>441,086</u>	\$ <u>1,692,588</u>	\$ <u>974,638</u>	\$ <u>2,785</u>	\$ <u>12,795,083</u>

Information about the sensitivity of the fair values of NEFA's investments to interest rate fluctuations as of May 31, 2021 was as follows:

Investment Type	Fair Value	Investment Maturities (in Years)				N/A
		Less Than 1	1-5	6-10	More Than 10	
Money market funds	\$ 794,266	\$ -	\$ -	\$ -	\$ -	\$ 794,266
U.S. Treasuries	459,135	-	104,340	354,795	-	-
U.S. Government bonds	650,414	100,952	545,042	-	4,420	-
Corporate debt securities	1,714,941	67,101	1,287,542	360,298	-	-
Mutual funds	1,883,244	-	-	-	-	1,883,244
Common stock	8,624,919	-	-	-	-	8,624,919
Exchange traded funds	91,455	-	-	-	-	91,455
Real estate investment trust funds	86,418	-	-	-	-	86,418
Total	\$ <u>14,304,792</u>	\$ <u>168,053</u>	\$ <u>1,936,924</u>	\$ <u>715,093</u>	\$ <u>4,420</u>	\$ <u>11,480,302</u>

7. Property and Equipment

Property and equipment was comprised of the following at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 324,759	\$ 324,759
Furniture and equipment	150,695	150,695
Construction in progress	<u>356,025</u>	<u>276,000</u>
Subtotal	831,479	751,454
Less accumulated depreciation	<u>(96,487)</u>	<u>(37,046)</u>
Total	<u>\$ 734,992</u>	<u>\$ 714,408</u>

Depreciation expense totaled \$59,441 and \$52,922 for the years ended May 31, 2022 and May 31, 2021, respectively.

8. Accrued Liabilities

Accrued liabilities consist primarily of accrued vacation time and related payroll liabilities.

9. Grants Payable

Grants payable were estimated to be paid as follows at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Payable in less than one year	\$ 3,970,155	\$ 2,295,939
Payable in one to five years	<u>2,258,250</u>	<u>3,047,354</u>
Total	<u>\$ 6,228,405</u>	<u>\$ 5,343,293</u>

Discount to net present value has not been recorded, as it has been determined to be immaterial.

10. Line of Credit

NEFA has a \$1,000,000 line of credit available, secured by all business assets and pledge of certain investment accounts. This line is payable upon demand and requires monthly interest payments on the outstanding balance at the Wall Street Journal prime rate plus 0.5%. There is a requirement that the line must be a zero balance for one 30 consecutive day period annually. At May 31, 2022 and 2021, NEFA had no outstanding balance on the line of credit and did not draw on the line during fiscal years 2022 and 2021.

11. Endowment

Types of Funds

NEFA's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing NEFA to appropriate for expenditure or accumulate so much of an endowment fund as NEFA determines is prudent for the uses, benefit, purposes, and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, NEFA classifies as perpetual (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Board-Designated Endowment

As of May 31, 2022 and 2021, the Board of Directors had designated \$9,943,350 and \$5,928,342, respectively, of net assets without donor restrictions as a general endowment fund to support the mission of NEFA. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

Investment Return Objectives, Risk Parameters, and Strategies

NEFA's Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution not exceeding 5%, while growing the funds if possible.

To satisfy its long-term rate-of-return objectives, NEFA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Investment Committee is responsible for selecting the investment managers of NEFA's portfolio. NEFA's Investment Committee believes broad diversification and a moderate to moderate-high level of risk approach to portfolio management is necessary to reduce volatility and prudently maximize total return. The portfolio objectives include the following:

- Obtain the highest level of return for the Investment Committee's desired level of risk;
- Limit risk exposure through prudent diversification;
- Maintain purchasing power of the portfolio by maintaining the level of services in relation to average cost increases;
- Withdrawals and annual spending policy based on needs of NEFA as voted by the Investment Committee; and
- Control the costs of administering and managing the portfolio.

NEFA uses the total return method for allocating the investment return to investment balances, which include the board-designated endowment and investments with and without donor restrictions. The investment objective includes a multi-asset investment portfolio designed for monies with long-term investment horizons. The asset allocation of the underlying funds in the portfolio is diversified in approximately 58% stocks and 42% fixed income at May 31, 2022, and 62% stocks and 38% fixed income at May 31, 2021.

Spending Policy

NEFA's Board of Directors has approved a spending policy of appropriating for distribution each year 3-5% of a three-year average of the board-designated endowment fund. The exact percentage will be determined by vote of the Board of Directors each year. In establishing this policy, NEFA considered the long-term expected return on its endowment, which is consistent with NEFA's objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through investment return. During fiscal years 2022 and 2021, the Board voted to appropriate for distribution \$223,882

and \$216,741, respectively, which is 5% of the three-year average of the Board-designated endowment fund.

Changes in Board-designated endowment net assets for the years ended May 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Board-designated endowment net assets, beginning of year	\$ 5,928,342	\$ 4,735,309
Contributions	5,028,000	-
Investment return, net	(539,110)	1,409,774
Annual appropriation for operations	(223,882)	(216,741)
Additional appropriation for operations	<u>(250,000)</u>	<u>-</u>
Board-designated endowment net assets, end of year	<u>\$ 9,943,350</u>	<u>\$ 5,928,342</u>

12. Net Assets

Net Assets Without Donor Restrictions

Board-designated net assets are net assets without donor restrictions which the Board of Directors has placed self-imposed limits on, and were comprised of the following at May 31, 2022 and 2021:

<u>Purpose</u>	<u>2022</u>	<u>2021</u>
Endowment	\$ 9,943,350	\$ 5,928,342
Strategic vision	4,900,000	-
Strategic opportunity and risk reserve	<u>354,347</u>	<u>191,566</u>
Total	<u>\$ 15,197,697</u>	<u>\$ 6,119,908</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions were comprised of the following at May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
National dance project	\$ 6,668,667	\$ 6,228,666
National theater project	2,012,879	4,093,583
New England programs	324,667	480,381
Public art	1,467,727	126,549
Fund for the arts	4,006,300	4,376,498
Other	<u>286,306</u>	<u>151,789</u>
Total	<u>\$ 14,766,546</u>	<u>\$ 15,457,466</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or the occurrence of the passage of time as follows for the years ended May 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
National dance project	\$ 3,442,399	\$ 3,066,956
National theater project	2,080,704	2,045,667
New England programs	299,089	1,586,240
Public art	1,058,822	817,860
Fund for the arts	210,697	110,039
Other	<u>173,833</u>	<u>249,135</u>
Total	<u>\$ 7,265,544</u>	<u>\$ 7,875,897</u>

13. Grants

NEFA has been awarded cost-reimbursable grants of \$3,596,419 and \$2,632,862 that have not been recognized at May 31, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred.

Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget's Uniform Guidance, and review by grantor agencies. This review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, NEFA's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of NEFA.

14. Operating Leases

NEFA leased office space under the terms of a 10-year non-cancellable lease agreement, effective August 1, 2020. The agreement required NEFA to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. Rent expense, which is included in occupancy in the Statement of Functional Expenses, totaled \$70,533, and \$157,435 for the years ended May 31, 2022 and 2021.

In January 2022, at the request of the landlord, the original lease was terminated and a new lease was agreed to for new space at the same location. The agreement has an option to extend the lease for two additional five-year periods. NEFA had no obligation to pay rent through July 31, 2022, with monthly rent payments of \$14,596 starting August 1, 2022. The agreement requires NEFA to pay for its proportionate share of real estate taxes and operating expenses.

As of May 31, 2022 future minimum lease payments were as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2023	\$ 154,446
2024	214,934
2025	220,307
2026	225,815
2027	231,460
Thereafter	<u>792,379</u>
Total future minimum lease payments	<u>\$ 1,839,341</u>

15. Contributed Nonfinancial Assets

NEFA received the following contributions of nonfinancial assets for the years ended May 31, 2022 and 2021:

	<u>Revenue Recognized</u>		<u>Utilization in Programs/Activities</u>	<u>Valuation Techniques and Inputs</u>
	<u>2022</u>	<u>2021</u>		
Supplies	\$ -	\$ 2,278	General and Administrative	U.S. retail prices of identical products using pricing data under a 'like-kind' methodology considering the goods' conditions and utility for use at the time of contribution.
Software licensing	5,760	-	General and Administrative	U.S. retail prices of identical products using pricing data under a 'like-kind' methodology considering the good's conditions and utility for use at the time of contribution.
Services	1,563	5,530	New England P&T; National Theatre Project; Center Stage; Public Art; General and Administrative	Contributed services are valued at the estimated fair value based on current rates for similar services.
Total	<u>\$ 7,323</u>	<u>\$ 7,808</u>		

There were no donor restrictions associated with contributed nonfinancial assets in either fiscal year.

16. Retirement Plans

NEFA maintains an IRC Section 403(b) defined contribution retirement plan and tax-deferred annuity plan. The defined contribution retirement plan covers all eligible

employees as defined in the plan. NEFA matches participant contributions up to 3% of an employee's annual compensation up to \$80 per month. The tax-deferred annuity plan covers all eligible employees as defined in the plan and is funded by employee elective contributions. NEFA contributed \$25,700 and \$25,080 for the years ended May 31, 2022 and May 31, 2021, respectively.

NEFA'S 403(b) defined contribution retirement plan includes a discretionary employer contribution component (DEC). This enables NEFA to contribute a specified amount to the retirement account for each staff member without requiring their participation and adding to the amount an employee can currently elect to contribute each year and have matched by NEFA in the existing plan. NEFA did not contribute to this plan in fiscal year 2022 or 2021.

NEFA maintains a 457(b) deferred compensation plan. Eligible employees are limited to the officers of NEFA. Eligible employees may make contributions to the plan up to the maximum amount permitted by law and are immediately fully vested in the plan. NEFA matches contributions on a discretionary basis as determined by the Board of Directors. NEFA may also decide to make non-elective contributions to the plan at the discretion of the Board of Directors. NEFA's contributions to the plan for the years ended May 31, 2022 and 2021 totaled \$22,648 and \$12,353, respectively.

17. Related Party Transactions

Senior leaders of the state art agencies of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont serve on NEFA's Board of Directors. For the years ended May 31, 2022 and 2021, NEFA received \$97,500 and \$142,416, respectively, in grants and support from these agencies.

During fiscal years 2022 and 2021, NEFA paid \$19,846 and \$12,769, respectively, for various grants and miscellaneous event expenses to an organization in which a NEFA Board member is a director.

18. Concentrations of Risk

A material part of NEFA's revenue is dependent upon government sources, the loss of which would have a materially adverse effect on NEFA. During the years ended May 31, 2022 and 2021, funding from the National Endowment for the Arts accounted for 9% and 20%, respectively, of total operating revenues and 52% and 83%, respectively, of total grants receivable. NEFA relies on the funding from the National Endowment for the Arts to cover a significant portion of its administrative expenses. During the years ended May 31, 2022 and 2021, funding from the U.S. Department of State accounted for 5% and 7%, respectively, of total operating revenues and 48% and 17%, respectively, of total grants receivable. During the years ended May 31, 2022 and 2021, funding from three foundations and one private donor accounted for 81% and 61%, respectively, of total operating revenues and 98% and 95%, respectively, of total contributions receivable.

19. Subsequent Events

Subsequent events have been evaluated through August 28, 2023, the date the financial statements were available to be issued.