



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

Financial Statements
For the Year Ended May 31, 2021

(With Independent Auditor's Report Thereon)

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of New England Foundation for the Arts, Inc., which comprise the statement of financial position as of May 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 auditor considers 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.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

800.282.2440 | melansoncpas.com



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New England Foundation for the Arts, Inc. as of May 31, 2021, 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.

Report on Summarized Comparative Information

We have previously audited New England Foundation for the Arts, Inc.'s fiscal year 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2020 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 July 11, 2022 on our consideration of 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 New England Foundation for the Arts, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Melanson". The signature is written in a cursive, flowing style.

Andover, Massachusetts
July 11, 2022

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.

Statement of Financial Position
 May 31, 2021
 (with comparative totals as of May 31, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,641,431	\$ 8,682,723
Restricted cash - fiscal agent	47,244	47,234
Contributions receivable, in less than one year	4,177,372	4,033,441
Grants receivable	4,587,217	2,427,471
Other assets	<u>56,223</u>	<u>49,806</u>
Total Current Assets	14,509,487	15,240,675
Noncurrent Assets:		
Investments	8,376,450	5,776,560
Investments - endowment	5,928,342	4,735,309
Contributions receivable, in more than one year	92,416	2,065,950
Property and equipment, net	714,408	140,826
Security deposit	<u>47,231</u>	<u>12,727</u>
Total Noncurrent Assets	<u>15,158,847</u>	<u>12,731,372</u>
TOTAL ASSETS	\$ <u>29,668,334</u>	\$ <u>27,972,047</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 254,348	\$ 65,165
Accrued liabilities	189,874	242,730
Grants payable	2,295,939	1,941,316
Refundable advances	-	346,923
Other liabilities	<u>51,904</u>	<u>59,809</u>
Total Current Liabilities	2,792,065	2,655,943
Noncurrent Liabilities:		
Grants payable, net of current portion	<u>3,047,354</u>	<u>1,942,550</u>
Total Noncurrent Liabilities	<u>3,047,354</u>	<u>1,942,550</u>
Total Liabilities	5,839,419	4,598,493
Net Assets:		
Without donor restrictions:		
Undesignated	2,251,541	1,274,447
Board-designated	6,119,908	5,175,332
With donor restrictions:		
Time or purpose restricted	<u>15,457,466</u>	<u>16,923,775</u>
Total Net Assets	<u>23,828,915</u>	<u>23,373,554</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>29,668,334</u>	\$ <u>27,972,047</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, 2021
(with summarized comparative totals for the year ended May 31, 2020)

	2021			
	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
SUPPORT, REVENUE, AND OTHER				
Support:				
Contributions	\$ 137,106	\$ 5,479,430	\$ 5,616,536	\$ 8,618,843
Government grants	2,152,326	-	2,152,326	1,336,504
SBA grant (Paycheck Protection Program)	346,923	-	346,923	100,000
Revenue:				
Program service fees	13,438	-	13,438	22,481
Other:				
Interest income	5,555	-	5,555	72,631
Endowment transfer to support operations	216,741	-	216,741	458,306
Net assets released from restrictions	<u>7,875,897</u>	<u>(7,875,897)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Other	10,747,986	(2,396,467)	8,351,519	10,608,765
EXPENSES				
Program Services:				
National dance project	2,754,518	-	2,754,518	2,851,476
National theater project	1,854,114	-	1,854,114	1,646,543
Center stage	444,277	-	444,277	266,577
New England programs	3,200,486	-	3,200,486	1,404,373
Public art	<u>663,034</u>	<u>-</u>	<u>663,034</u>	<u>764,362</u>
Total Program Services	8,916,429	-	8,916,429	6,933,331
Supporting Services:				
General and administrative	1,490,771	-	1,490,771	1,268,292
Fundraising	<u>315,140</u>	<u>-</u>	<u>315,140</u>	<u>299,502</u>
Total Supporting Services	<u>1,805,911</u>	<u>-</u>	<u>1,805,911</u>	<u>1,567,794</u>
Total Expenses	<u>10,722,340</u>	<u>-</u>	<u>10,722,340</u>	<u>8,501,125</u>
Change in Net Assets From Operations	25,646	(2,396,467)	(2,370,821)	2,107,640
NON-OPERATING ACTIVITIES				
Investment return, net	2,112,765	930,158	3,042,923	1,003,238
Endowment transfer to support operations	<u>(216,741)</u>	<u>-</u>	<u>(216,741)</u>	<u>(458,306)</u>
Total Non-operating Activities	<u>1,896,024</u>	<u>930,158</u>	<u>2,826,182</u>	<u>544,932</u>
Change in Net Assets	1,921,670	(1,466,309)	455,361	2,652,572
Net Assets, Beginning of Year	<u>6,449,779</u>	<u>16,923,775</u>	<u>23,373,554</u>	<u>20,720,982</u>
Net Assets, End of Year	\$ <u>8,371,449</u>	\$ <u>15,457,466</u>	\$ <u>23,828,915</u>	\$ <u>23,373,554</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, 2021
(with summarized comparative totals for the year ended May 31, 2020)

	2021									2021 Total	2020 Total
	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		
Grants and other assistance	\$ 2,229,000	\$ 1,406,401	\$ -	\$ 2,527,460	\$ 308,800	\$ 6,471,661	\$ -	\$ -	\$ -	\$ 6,471,661	\$ 4,445,013
Personnel expense:											
Salaries and wages	248,137	233,299	95,016	386,673	163,495	1,126,620	827,344	188,392	1,015,736	2,142,356	1,887,749
Employee benefits	42,992	40,430	16,513	67,703	28,838	196,476	205,672	33,118	238,790	435,266	427,659
Payroll taxes	21,794	20,465	8,391	33,715	14,342	98,707	72,817	16,550	89,367	188,074	157,312
Contracted services	26,396	2,367	261,445	46,277	69,570	406,055	71,500	32,520	104,020	510,075	349,286
Marketing and communications	318	170	17,438	6,198	215	24,339	20,029	-	20,029	44,368	68,968
Office expenses	5,116	5,201	1,358	4,963	2,001	18,639	31,376	3,157	34,533	53,172	80,289
Information technology	15,253	15,539	17,054	28,006	10,147	85,999	23,557	11,071	34,628	120,627	72,526
Occupancy	33,611	33,303	13,433	51,639	23,112	155,098	151,912	24,177	176,089	331,187	297,106
Travel	-	-	-	-	-	-	1,453	-	1,453	1,453	219,231
Conferences and meetings	12,326	14,051	-	83	505	26,965	369	-	369	27,334	211,927
Depreciation	6,346	6,295	2,411	10,032	4,367	29,451	18,948	4,523	23,471	52,922	55,818
Insurance	1,230	1,223	460	2,237	842	5,992	4,512	-	4,512	10,504	8,873
Honoraria	111,650	75,250	10,500	35,500	35,600	268,500	6,500	-	6,500	275,000	145,225
Miscellaneous	-	-	258	-	-	258	32,620	1,388	34,008	34,266	49,673
Professional development	349	120	-	-	1,200	1,669	22,162	244	22,406	24,075	24,470
Total	\$ 2,754,518	\$ 1,854,114	\$ 444,277	\$ 3,200,486	\$ 663,034	\$ 8,916,429	\$ 1,490,771	\$ 315,140	\$ 1,805,911	\$ 10,722,340	\$ 8,501,125

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, 2021

(with comparative totals for the year ended May 31, 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 455,361	\$ 2,652,572
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	52,922	55,818
Net unrealized gain on investments	(2,666,073)	(319,954)
Net realized gain on investments	(254,750)	(540,224)
Changes in operating assets and liabilities:		
Contributions receivable	1,829,603	(3,003,514)
Grants receivable	(2,159,746)	(316,374)
Other receivables	-	3,216
Other assets	(6,417)	(25,172)
Accounts payable	189,183	(45,045)
Accrued liabilities	(52,856)	44,864
Grants payable	1,459,427	352,166
Refundable advances	<u>(346,923)</u>	<u>346,923</u>
Net Cash Provided (Used) By Operating Activities	(1,508,174)	(794,724)
Cash Flows From Investing Activities:		
Payment of security deposit	(34,504)	-
Purchase of investments	(3,010,355)	(2,622,625)
Proceeds from sales of investments	2,138,255	3,229,564
Purchases of property and equipment	<u>(626,504)</u>	<u>(124,950)</u>
Net Cash Provided (Used) By Investing Activities	<u>(1,533,108)</u>	<u>481,989</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	(3,041,282)	(312,735)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>8,729,957</u>	<u>9,042,692</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ <u><u>5,688,675</u></u>	\$ <u><u>8,729,957</u></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, 2021

1. Organization

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). NEFA's financial statements follow the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended May 31, 2020, 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 values 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 years 2021 or 2020.

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 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.

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. NEFA recognizes revenue from contributions that were initially conditional, which became unconditional with restrictions during the reporting period, and for which those restrictions were met during the reporting period, is reported as net assets without donor restrictions.

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. Grant revenue from contributions that were initially conditional, which became unconditional with restrictions during the reporting period, and for which those restrictions were met during the reporting period, is reported as net assets without donor restrictions.

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 values 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. No significant contributions of such goods or services were received during the years ended May 31, 2021 and 2020, respectively.

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. In fiscal years 2021 and 2020, NEFA was not subject to unrelated business income tax and did not file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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 values 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 in 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

Contributed Nonfinancial Assets

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the Statement of Activities, apart from contributions of cash or other financial assets. It also requires certain disclosures for each category of contributed nonfinancial assets recognized. The amendments in this ASU should be applied on a retrospective basis and will be effective for NEFA for the year ending May 31, 2022. Early adoption is permitted. NEFA is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Leases

In February 2016, the 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, are comprised of the following at May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 5,641,431	\$ 8,682,723
Restricted cash - fiscal agent	47,244	47,234
Contributions receivable	4,269,788	6,099,391
Grants receivable	4,587,217	2,427,471
Investments	8,376,450	5,776,560
Investments - endowment	<u>5,928,342</u>	<u>4,735,309</u>
Total financial assets	28,850,472	27,768,688
Less amounts not available to be used within one year:		
Restricted cash - fiscal agent	(47,244)	(47,234)
Contributions receivable to be collected in more than one year	(92,416)	(2,065,950)
Board designated net assets - endowment	(5,928,342)	(4,735,309)
Board designated net assets - strategic opportunity and risk reserve	(191,566)	(440,023)
Net assets with donor restrictions not expected to be met in less than one year	<u>(9,533,782)</u>	<u>(10,009,142)</u>
Total financial assets available within one year	13,057,122	10,471,030
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>\$ 14,057,122</u>	<u>\$ 11,471,030</u>

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, 2021 and 2020, restricted cash totaled \$47,244 and \$47,234, 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 are estimated to be collected as follows at May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 4,177,372	\$ 4,033,441
Receivable in one to five years	<u>92,416</u>	<u>2,065,950</u>
Total	<u>\$ 4,269,788</u>	<u>\$ 6,099,391</u>

No discount was applied to contributions receivable at May 31, 2021 and 2020 since it was determined to be immaterial.

6. Investments

Investment Composition

Investments, measured at fair value on a recurring basis, consist of the following at May 31, 2021 and 2020:

Investment Type	2021			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</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>

Investment Type	2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 646,070	\$ -	\$ -	\$ 646,070
U.S. Treasuries	-	379,027	-	379,027
U.S. Government bonds	-	629,161	-	629,161
Corporate debt securities	-	1,418,859	-	1,418,859
Mutual funds	378,350	-	-	378,350
Common stock	6,732,610	-	-	6,732,610
Exchange traded funds	245,524	-	-	245,524
Certificates of deposit	82,268	-	-	82,268
Total	\$ 8,084,822	\$ 2,427,047	\$ -	\$ 10,511,869

Unrealized gains recognized during fiscal years 2021 and 2020 on equity securities totaled \$2,666,073 and \$319,954, 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 values of NEFA's investments to interest rate fluctuations as of May 31, 2021 is 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	\$ 14,304,792	\$ 168,053	\$ 1,936,924	\$ 715,093	\$ 4,420	\$ 11,480,302

Information about the sensitivity of the fair values of NEFA's investments to interest rate fluctuations as of May 31, 2020 is as follows:

<u>Investment Type</u>	<u>Fair 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	\$ 646,070	\$ -	\$ -	\$ -	\$ -	\$ 646,070
U.S. Treasuries	379,027	-	106,688	272,339	-	-
U.S. Government bonds	629,161	-	537,470	85,300	6,391	-
Corporate debt securities	1,418,859	226,022	813,554	379,283	-	-
Mutual funds	378,350	-	-	-	-	378,350
Common stock	6,732,610	-	-	-	-	6,732,610
Exchange traded funds	245,524	-	-	-	-	245,524
Certificates of deposit	82,268	-	-	-	-	82,268
Total	\$ <u>10,511,869</u>	\$ <u>226,022</u>	\$ <u>1,457,712</u>	\$ <u>736,922</u>	\$ <u>6,391</u>	\$ <u>8,084,822</u>

7. Property and Equipment

Property and equipment is comprised of the following at May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 324,759	\$ 176,599
Computer software	-	210,653
Furniture and equipment	150,695	42,237
Construction in progress	<u>276,000</u>	<u>108,000</u>
Subtotal	751,454	537,489
Less accumulated depreciation	<u>(37,046)</u>	<u>(396,663)</u>
Total	\$ <u>714,408</u>	\$ <u>140,826</u>

Depreciation expense totaled \$52,922 and \$55,818 for the years ended May 31, 2021 and May 31, 2020, respectively.

8. Accrued Liabilities

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

9. Grants Payable

Grants payable are estimated to be paid as follows at May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Payable in less than one year	\$ 2,295,939	\$ 1,941,316
Payable in one to five years	<u>3,047,354</u>	<u>1,942,550</u>
Total	<u>\$ 5,343,293</u>	<u>\$ 3,883,866</u>

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

10. Refundable Advances

In April 2020, NEFA received loan proceeds in the amount of \$446,923 under the Small Business Administration (SBA) Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted March 27, 2020, provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses. The loan and accrued interest may be forgiven after twenty-four weeks providing NEFA uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains certain payroll levels. The amount of loan forgiveness will be reduced if NEFA terminates employees or reduces salaries during the twenty-four week period.

Any unforgiven portion of the PPP loan is payable over five years at an interest rate of 1% with deferral of payments for the first ten months. NEFA used the proceeds for purposes consistent with the PPP requirements. In accordance with GAAP, NEFA recognized in fiscal years 2021 and 2020, \$346,923 and \$100,000, respectively, of the PPP loan as revenue as a result of qualifying expenses incurred. Subsequent to fiscal year end, 100% of the PPP loan was forgiven by the SBA.

11. 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, 2021 and 2020, NEFA had no outstanding balance on the line of credit and did not draw on the line during fiscal years 2021 and 2020.

12. Endowment Funds

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, 2021 and 2020, the Board of Directors had designated \$5,928,342 and \$4,735,309, 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 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 62% stocks and 38% fixed income at May 31, 2021, and 64% stocks and 36% fixed income at May 31, 2020.

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 2021 and 2020, the Board voted to appropriate for distribution \$216,741 and \$223,306, respectively, which is 5% of the three-year average of the board-designated endowment fund. Additionally, in fiscal year 2020, the Board voted to appropriate \$235,000 for emergency relief to artists due to the COVID-19 pandemic.

Changes in board-designated endowment net assets for the years ended May 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Board-designated endowment net assets, beginning of year	\$ 4,735,309	\$ 4,644,109
Contributions	-	45,000
Investment return, net	1,409,774	504,506
Amounts appropriated for expenditure	<u>(216,741)</u>	<u>(458,306)</u>
Board-designated endowment net assets, end of year	<u>\$ 5,928,342</u>	<u>\$ 4,735,309</u>

13. 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 are comprised of the following at May 31, 2021 and 2020:

<u>Purpose</u>	<u>2021</u>	<u>2020</u>
Endowment	\$ 5,928,342	\$ 4,735,309
Strategic opportunity and risk reserve	<u>191,566</u>	<u>440,023</u>
Total	<u>\$ 6,119,908</u>	<u>\$ 5,175,332</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are comprised of the following at May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
National dance project	\$ 6,228,666	\$ 5,173,622
National theater project	4,093,583	6,137,750
New England programs	480,381	1,861,691
Public art	126,549	3,448
Fund for the arts	4,376,498	3,596,340
Other	<u>151,789</u>	<u>150,924</u>
Total	<u>\$ 15,457,466</u>	<u>\$ 16,923,775</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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
National dance project	\$ 3,066,956	\$ 3,175,267
National theater project	2,045,667	1,776,082
New England programs	1,586,240	272,852
Public art	817,860	916,725
Fund for the arts	110,039	47,000
Other	<u>249,135</u>	<u>80,000</u>
Total	<u>\$ 7,875,897</u>	<u>\$ 6,267,926</u>

14. Grants

NEFA has been awarded cost-reimbursable grants of \$2,632,862 and \$1,162,129 that have not been recognized at May 31, 2021 and 2020, 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.

15. Operating Leases

NEFA leased office space under the terms of a non-cancellable lease agreement that expired on July 31, 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 under this agreement, which is included in occupancy in the Statement of Functional Expenses, totaled \$36,654 and \$218,906 for the years ended May 31, 2021 and 2020, respectively.

In May 2020, NEFA entered into a 10 year non-cancellable lease agreement, effective August 1, 2020, for a new office location with an option to extend for an additional 5 years. The agreement requires 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 \$157,435 for the year ended May 31, 2021.

As of May 31, 2021 future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 192,858
2023	197,680
2024	202,622
2025	207,687
2026	212,880
Thereafter	<u>945,408</u>
Total future minimum lease payments	\$ <u><u>1,959,135</u></u>

In January 2022, at the request of the landlord, the lease was terminated for the original space 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 has 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.

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 \$25,080 and \$23,808 for the years ended May 31, 2021 and May 31, 2020, 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 contributed \$0 and \$39,460 for the years ended May 31, 2021 and 2020, respectively.

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 a non-elective contribution to the plan at the discretion of the Board of Directors. NEFA's contributions to the plan for the years ended May 31, 2021 and 2020 totaled \$12,353 and \$4,800, respectively.

17. Supplemental Disclosures of Cash Flow Information

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Statement of Financial Position that sum to the total of the same such amounts shown in the Statement of Cash Flows.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,641,431	\$ 8,682,723
Restricted cash - fiscal agent	<u>47,244</u>	<u>47,234</u>
Total cash, cash equivalents, and restricted cash shown in the Statement of Cash Flows	<u>\$ 5,688,675</u>	<u>\$ 8,729,957</u>

18. 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, 2021 and 2020, NEFA received approximately \$142,416 and \$105,000, respectively, in grants and support from these agencies.

During fiscal years 2021 and 2020, NEFA paid \$12,769 and \$51,562, respectively, for various grants and miscellaneous event expenses to an organization in which a NEFA Board member is a director.

19. Commitments and Contingencies

COVID-19

The COVID-19 outbreak in the United States has resulted in economic uncertainties. The disruption is expected to be temporary, but there is considerable uncertainty around the duration and scope. The extent of the impact of COVID-19 on NEFA's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on those served, funders, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact NEFA's financial condition or results of operations remains uncertain.

20. 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, 2021 and 2020, funding from the National Endowment for the Arts accounted for 20% and 10%, respectively, of total operating revenues and 83% and 90%, 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, 2021 and 2020, funding from the U.S. Department of State accounted for 7% and 2%, respectively, of total operating revenues and 17% and 10%, respectively, of total grants receivable. During the years ended May 31, 2021 and 2020, funding from three foundations accounted for 61% and 81%, respectively, of total operating revenues and 95% and 91%, respectively, of total contributions receivable.

21. Subsequent Events

Subsequent events have been evaluated through July 11, 2022, the date the financial statements were available to be issued.