



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

Financial Statements

For the Year Ended May 31, 2019

(With Independent Auditors' Report Thereon)

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

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

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, 2019, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the financial statements of New England Foundation for the Arts, Inc., Inc.'s for the year ended May 31, 2018, which were audited by another auditor who expressed an unmodified opinion on those financial statements in their report dated July 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018 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 issued our report dated April 2, 2020 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 New England Foundation for the Arts, Inc.'s internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New England Foundation for the Arts, Inc.'s internal control over financial reporting and compliance.

Melanson Heath

April 2, 2020

NEW ENGLAND FOUNDATION FOR THE ARTS, INC.

Statement of Financial Position

May 31, 2019

(with comparative totals as of May 31, 2018)

	2019			
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2019 <u>Total</u>	2018 <u>Total</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 900,465	\$ 8,080,380	\$ 8,980,845	\$ 8,192,054
Restricted cash - fiscal agent	61,847	-	61,847	61,835
Contributions receivable, in less than one year	2,107,874	130,000	2,237,874	3,065,220
Other receivables	3,216	-	3,216	634
Other assets	<u>24,634</u>	<u>-</u>	<u>24,634</u>	<u>102,391</u>
Total Current Assets	3,098,036	8,210,380	11,308,416	11,422,134
Investments	2,296,031	3,318,491	5,614,522	5,167,395
Investments - Endowment	4,644,109	-	4,644,109	4,539,674
Contributions Receivable, In More Than One Year	-	2,969,100	2,969,100	1,351,175
Property and Equipment, Net	71,693	-	71,693	146,896
Security Deposit	<u>12,727</u>	<u>-</u>	<u>12,727</u>	<u>12,727</u>
Total Assets	\$ <u>10,122,596</u>	\$ <u>14,497,971</u>	\$ <u>24,620,567</u>	\$ <u>22,640,001</u>
 LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 110,210	\$ -	\$ 110,210	\$ 49,254
Accrued liabilities	197,866	-	197,866	196,064
Grants payable	1,502,812	-	1,502,812	1,606,987
Other liabilities	<u>59,809</u>	<u>-</u>	<u>59,809</u>	<u>94,645</u>
Total Current Liabilities	1,870,697	-	1,870,697	1,946,950
Grants Payable, Net of Current Portion	<u>2,028,888</u>	<u>-</u>	<u>2,028,888</u>	<u>709,862</u>
Total Liabilities	3,899,585	-	3,899,585	2,656,812
 Net Assets:				
Without donor restrictions:				
Undesignated	1,096,695	-	1,096,695	957,846
Board designated	5,126,316	-	5,126,316	5,006,493
With donor restrictions:				
Time or purpose restricted	<u>-</u>	<u>14,497,971</u>	<u>14,497,971</u>	<u>14,018,850</u>
Total Net Assets	<u>6,223,011</u>	<u>14,497,971</u>	<u>20,720,982</u>	<u>19,983,189</u>
Total Liabilities and Net Assets	\$ <u>10,122,596</u>	\$ <u>14,497,971</u>	\$ <u>24,620,567</u>	\$ <u>22,640,001</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, 2019

(with comparative totals for the year ended May 31, 2018)

	2019			
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2019 <u>Total</u>	2018 <u>Total</u>
SUPPORT AND REVENUE				
Grants and Contributions	\$ 2,192,934	\$ 7,295,835	\$ 9,488,769	\$ 6,940,048
Program Service Fees	147,563	-	147,563	35,254
Endowment Transfer to Support Operations	206,898	-	206,898	187,822
Net Assets Released From Restriction	<u>6,990,286</u>	<u>(6,990,286)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	9,537,681	305,549	9,843,230	7,163,124
EXPENSES				
Program Services:				
National dance project	3,202,103	-	3,202,103	2,542,360
National theatre project	2,108,085	-	2,108,085	1,273,636
Center stage	1,129,893	-	1,129,893	364,511
New England programs	1,099,808	-	1,099,808	1,244,490
Public art	<u>458,300</u>	<u>-</u>	<u>458,300</u>	<u>783,754</u>
Total Program Services	7,998,189	-	7,998,189	6,208,751
Supporting Services:				
General and administrative	1,213,618	-	1,213,618	1,042,089
Fundraising	<u>260,924</u>	<u>-</u>	<u>260,924</u>	<u>252,105</u>
Total Supporting Services	<u>1,474,542</u>	<u>-</u>	<u>1,474,542</u>	<u>1,294,194</u>
Total Expenses	<u>9,472,731</u>	<u>-</u>	<u>9,472,731</u>	<u>7,502,945</u>
Change in Net Assets From Operations	64,950	305,549	370,499	(339,821)
Non-operating Revenues and Expenses:				
Interest income	38,146	-	38,146	97,867
Investment return, net	362,474	173,572	536,046	793,095
Endowment transfer to support operations	<u>(206,898)</u>	<u>-</u>	<u>(206,898)</u>	<u>(187,822)</u>
Total Non-operating Revenues and Expenses	<u>193,722</u>	<u>173,572</u>	<u>367,294</u>	<u>703,140</u>
Change in Net Assets	258,672	479,121	737,793	363,319
Net Assets, Beginning of Year, as restated	<u>5,964,339</u>	<u>14,018,850</u>	<u>19,983,189</u>	<u>19,619,870</u>
Net Assets, End of Year	\$ <u>6,223,011</u>	\$ <u>14,497,971</u>	\$ <u>20,720,982</u>	\$ <u>19,983,189</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, 2019

(with comparative totals for the year ended May 31, 2018)

	2019											
	Program Services						Supporting Services				2019 Total	2018 Total
	National Dance Project	National Theater Project	Center Stage	New England Programs	Public Art	Total Program Services	General and Administrative	Fundraising	Total Supporting Services			
Personnel expense:												
Salaries and wages	\$ 217,868	\$ 201,591	\$ 77,737	\$ 303,212	\$ 147,371	\$ 947,779	\$ 589,396	\$ 150,154	\$ 739,550	\$ 1,687,329	\$ 1,487,081	
Payroll taxes	16,986	15,925	6,094	24,310	11,703	75,018	46,684	11,902	58,586	133,604	116,941	
Employee benefits	46,649	38,109	14,584	58,175	28,006	185,523	111,388	28,482	139,870	325,393	272,902	
Depreciation	9,787	8,911	3,964	14,543	6,263	43,468	24,399	7,337	31,736	75,204	106,803	
Grants	2,663,559	1,568,796	-	390,946	8,000	4,631,301	-	-	-	4,631,301	3,644,091	
Honoraria	41,500	59,400	225,117	3,625	10,500	340,142	2,250	-	2,250	342,392	65,600	
Information technology	6,696	6,738	2,604	11,636	4,258	31,932	17,843	5,193	23,036	54,968	82,546	
Insurance	1,367	1,369	2,799	2,176	964	8,675	3,736	1,120	4,856	13,531	8,615	
Conferences and meetings	55,449	43,363	6,777	23,625	13,275	142,489	21,860	10,423	32,283	174,772	253,094	
Marketing and communications	6,764	65	67,874	7,098	153,328	235,129	30,749	-	30,749	265,878	73,145	
Miscellaneous	6,550	3,689	7,303	4,764	2,053	24,359	20,065	763	20,828	45,187	81,706	
Occupancy	41,287	36,879	16,022	61,514	26,771	182,473	100,594	30,186	130,780	313,253	212,319	
Office expenses	14,644	16,475	3,036	14,160	5,281	53,596	14,034	8,503	22,537	76,133	44,992	
Contracted services	13,819	32,879	231,988	150,159	16,255	445,100	176,390	1,000	177,390	622,490	728,547	
Professional development	-	265	-	135	20,151	20,551	12,633	81	12,714	33,265	8,562	
Travel	59,178	73,631	463,994	29,730	4,121	630,654	41,597	5,780	47,377	678,031	316,001	
Total Functional Expenses	\$ 3,202,103	\$ 2,108,085	\$ 1,129,893	\$ 1,099,808	\$ 458,300	\$ 7,998,189	\$ 1,213,618	\$ 260,924	\$ 1,474,542	\$ 9,472,731	\$ 7,502,945	

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, 2019

(with comparative totals for the year ended May 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 737,793	\$ 363,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	75,204	106,803
Net unrealized (gain) loss on investments	(251,292)	(337,955)
Net realized (gain) loss on investments	(317,424)	(419,078)
Changes in operating assets and liabilities:		
Contributions receivable	(790,579)	735,217
Other receivables	(2,582)	-
Other assets	77,757	144,683
Accounts payable	60,956	52,552
Accrued liabilities	1,802	-
Grants payable	1,214,851	223,666
Other liabilities	<u>(34,836)</u>	<u>2,026</u>
Net Cash Provided By Operating Activities	771,650	871,233
Cash Flows From Investing Activities:		
Purchase of investments	(1,845,455)	(785,085)
Proceeds from sales of investments	<u>1,862,608</u>	<u>3,502,201</u>
Net Cash Provided By Investing Activities	<u>17,153</u>	<u>2,717,116</u>
Net Change in Cash and Cash Equivalents	788,803	3,588,349
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>8,253,889</u>	<u>4,665,540</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ <u><u>9,042,692</u></u>	\$ <u><u>8,253,889</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, 2019

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 States 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. Significant Accounting Policies

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been implemented in fiscal year 2019 and the presentation in these financial statements has been adjusted accordingly.

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, 2018, 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

Contributions receivable are unconditional contributions that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. Fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of indi-

vidual promises. No allowance has been recorded, as management believes all contributions receivable to be fully collectible.

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.

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 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) 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

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Accounting for Contributions

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year payment is due and, therefore, are reported as net assets with donor restrictions until payment is due unless the contribution is clearly intended to support activities of the current year. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Gifts-in-Kind Contributions

NEFA periodically receives contributions in a form other than cash or investments. Contributed property and equipment is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets NEFA's capitalization policy. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

NEFA benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in NEFA's program operations and in its fundraising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. Generally Accepted Accounting Principles allow 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.

Grant Revenue

Grant revenue is recognized when qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. 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. The 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.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 and investment income.

Income Taxes

New England Foundation for the Arts, Inc. 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 2019, 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 Generally Accepted Accounting Principles requires 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 and those differences could be material.

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 receivables is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from 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 within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the assessment of the quality, risk, or liquidity profile of the asset or liability.

When available, NEFA measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs are not available for certain assets and liabilities that NEFA is required to measure at fair value (for example, unconditional contributions receivable and in-kind contributions).

The primary uses of fair value measures in NEFA's financial statements are:

- Initial measurement of noncash gifts, including gifts of investment assets and unconditional contributions receivable.
- Recurring measurement of investments (Note 6).
- Recurring measurement of line of credit (Note 9).

The carrying amounts of cash and cash equivalents, restricted cash, contributions and other receivables, other assets, accounts payable, accrued liabilities, grants payable, and other liabilities approximate fair value due to their short-term nature. The carrying value amount of receivables and payables due in more than one year is based on the value of expected future cash receipts and disbursements, and approximates fair value.

New Accounting Standards to be Adopted in the Future

Revenue from Contracts with Customers

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The ASU's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This ASU also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This ASU will be effective for NEFA for the year ending May 31, 2020. NEFA is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Contributions Received and Contributions Made

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of this amendment, due to diversity in practice, is to clarify the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. This standard will be effective for NEFA for the year ending May 31, 2020. NEFA is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Leases

In February 2016, 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, 2022. 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, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 8,980,845
Restricted cash - fiscal agent	61,847
Contributions receivable	5,206,974
Other receivables	3,216
Investments	5,614,522
Investments - endowment	<u>4,644,109</u>
Total financial assets	24,511,513
Less amounts not available to be used within one year:	
Restricted cash - fiscal agent	(61,847)
Contributions receivable to be collected in more than one year	(2,969,100)
Board designated net assets - endowment	(4,644,109)
Board designated net assets - strategic opportunity and risk reserve	(482,207)
Net assets with donor restrictions not expected to be met in less than one year	<u>(8,445,111)</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 7,909,139</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.

As part of liquidity management plan, NEFA also has a \$1,000,000 revolving line of credit available to meet cash flow needs.

4. Restricted Cash

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, 2019 and 2018, restricted cash totaled \$61,847 and \$61,835, 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:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 2,237,874	\$ 3,065,220
Receivable in one to five years	<u>2,969,100</u>	<u>1,351,175</u>
Total	<u>\$ 5,206,974</u>	<u>\$ 4,416,395</u>

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

6. Investments

Investments consist of the following at May 31, 2019:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 310,491	\$ -	\$ -	\$ 310,491
U.S. Treasuries	-	230,600	-	230,600
U.S. Government bonds	-	956,862	-	956,862
Corporate debt securities	-	1,509,916	-	1,509,916
Mutual funds	102,856	-	-	102,856
Common stock	7,005,964	-	-	7,005,964
Exchange traded funds	41,120	-	-	41,120
Certificates of deposit	-	100,822	-	100,822
Total	\$ <u>7,460,431</u>	\$ <u>2,798,200</u>	\$ <u>-</u>	\$ <u>10,258,631</u>

Investments consist of the following at May 31, 2018:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 599,654	\$ -	\$ -	\$ 599,654
U.S. Treasuries	-	99,875	-	99,875
U.S. Government bonds	-	810,143	-	810,143
Corporate debt securities	-	1,318,093	-	1,318,093
Mutual funds	665,665	-	-	665,665
Common stock	6,213,639	-	-	6,213,639
Total	\$ <u>7,478,958</u>	\$ <u>2,228,111</u>	\$ <u>-</u>	\$ <u>9,707,069</u>

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 is 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	\$ 310,491	\$ -	\$ -	\$ -	\$ -	\$ 310,491
U.S. Treasuries	230,600	-	177,958	52,642	-	-
U.S. Government bonds	956,862	49,773	545,974	352,036	9,079	-
Corporate debt securities	1,509,916	370,022	885,291	254,603	-	-
Mutual funds	102,856	-	-	-	-	102,856
Common stock	7,005,964	-	-	-	-	7,005,964
Exchange traded funds	41,120	-	-	-	-	41,120
Certificates of deposit	100,822	-	100,822	-	-	-
Total	\$ <u>10,258,631</u>	\$ <u>419,795</u>	\$ <u>1,710,045</u>	\$ <u>659,281</u>	\$ <u>9,079</u>	\$ <u>7,460,431</u>

7. Property, Equipment, and Depreciation

A summary of the major components of property and equipment is presented below:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 159,649	\$ 379,352
Computer software	210,653	434,078
Furniture and equipment	<u>42,237</u>	<u>129,429</u>
Subtotal	412,539	942,859
Less accumulated depreciation	<u>(340,846)</u>	<u>(795,963)</u>
Total	<u>\$ 71,693</u>	<u>\$ 146,896</u>

Depreciation expense totaled \$75,204 and \$106,803 for the years ended May 31, 2019 and May 31, 2018, respectively.

8. Grants Payable

Grants payable are estimated to be paid as follows at May 31:

	<u>2019</u>	<u>2018</u>
Payable in less than one year	\$ 1,502,812	\$ 1,606,987
Payable in one to five years	<u>2,028,888</u>	<u>709,862</u>
Total	<u>\$ 3,531,700</u>	<u>\$ 2,316,849</u>

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

9. Line of Credit

NEFA has a \$1,000,000 line of credit available, secured by a portion of NEFA's investments. 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, 2019 and 2018, NEFA had no outstanding balance on the line of credit and did not draw on the line during fiscal years 2019 and 2018.

The line of credit is categorized in the fair value hierarchy as Level 2.

10. 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, 2019, the Board of Directors had designated \$4,390,552 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 70% stocks and 30% fixed income.

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 2019 and 2018, the Board voted to appropriate for distribution \$206,898 and \$187,822, respectively, which is 5% of the three-year's average of the board-designated endowment fund.

Changes in board-designated endowment net assets for the years ended May 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Board-designated endowment net assets, beginning of year	\$ 4,539,674	\$ 4,306,868
Contributions	32,813	-
Investment return, net	278,520	420,628
Amounts appropriated for expenditure	<u>(206,898)</u>	<u>(187,822)</u>
Board-designated endowment net assets, end of year	<u>\$ 4,644,109</u>	<u>\$ 4,539,674</u>

11. 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:

<u>Purpose</u>	<u>2019</u>	<u>2018</u>
Endowment	\$ 4,644,109	\$ 4,539,674
Strategic opportunity and risk reserve	<u>482,207</u>	<u>466,819</u>
Total	<u>\$ 5,126,316</u>	<u>\$ 5,006,493</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are comprised of the following at May 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
National dance project	\$ 8,333,889	\$ 6,283,776
National theater project	1,775,982	3,865,975
Center stage	-	166,349
New England programs	144,212	49,213
Public art	920,173	320,029
Fund for the arts	3,318,491	3,144,919
Other programs	<u>5,224</u>	<u>188,589</u>
Total	<u>\$ 14,497,971</u>	<u>\$ 14,018,850</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 year ended May 31, 2019:

Satisfaction of purpose restrictions:	
National dance project	\$ 3,708,987
National theater project	2,089,993
Center stage	166,349
New England programs	306,736
Public art	474,856
Other programs	<u>243,365</u>
Total	<u>\$ 6,990,286</u>

12. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation 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, payroll taxes, and employee benefits, occupancy, information technology, insurance, certain office expenses, and depreciation are allocated based on time and effort estimates.

13. Operating Leases

NEFA leases office space under the terms of a non-cancellable lease agreement that is scheduled to expire on July 31, 2020. 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 \$212,797 and \$206,688 for the years ended May 31, 2019 and 2018, respectively.

Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 218,906
2021	<u>36,654</u>
Total future minimum lease payments	<u>\$ 255,560</u>

In January 2020, NEFA signed a letter of intent to lease office space at a new location for a term of 10 years to commence on August 1, 2020.

14. 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 solely by employee elective contributions. NEFA contributed \$20,030 and \$16,760 for the years ended May 31, 2019 and May 31, 2018, 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 \$23,636 and \$32,400 for the years ended May 31, 2019 and 2018, 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, 2019 and 2018 totaled \$4,800 and \$4,866, respectively.

15. Supplemental Disclosures of Cash Flow Information

NEFA has adopted Accounting Standard Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a Statement of Cash Flows explain the change during the fiscal year to include restricted cash as part of the total of cash and cash equivalents.

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 8,980,845	\$ 8,192,054
Restricted cash - fiscal agent	<u>61,847</u>	<u>61,835</u>
Total cash, cash equivalents, and restricted cash shown in the Statement of Cash Flows	<u>\$ 9,042,692</u>	<u>\$ 8,253,889</u>

16. 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, 2019 and 2018, NEFA received approximately \$106,500 and \$98,000, respectively, in grants and support from these agencies.

During fiscal years 2019 and 2018, NEFA paid \$37,249 and \$56,794, respectively, for various grants and miscellaneous event expenses to an organization in which a NEFA board member is a director.

17. 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, 2019 and 2018, funding from the National Endowment for the Arts accounted for 11% and 15%, respectively, of total operating revenues and 21% and 27%, respectively, of total contributions 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, 2019 and 2018, funding from the U.S. Department of State accounted for 9% and 4%, respectively, of total operating revenues and 19% and 7%, respectively, of total contributions receivable. During the years ended May 31, 2019 and 2018, funding from two foundations accounted for 68% and 69%, respectively, of total operating revenues and 54% and 47%, respectively, of total contributions receivable.

18. Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

19. Beginning Net Assets Restatement

Beginning net assets and contributions receivable were decreased by \$2,025,800 in order to properly record report contributions receivable relating to reimbursement-based grants as of May 31, 2018.

20. Subsequent Events

The COVID-19 outbreak in the United States (and across the globe) 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 our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

Subsequent events have been evaluated through April 2, 2020, the date the financial statements were available to be issued.