

ARTSWORCESTER, INC.

*Financial Statements for the Year Ended June
30, 2018 (with comparative totals for 2017) and
Independent Auditors' Report*

ARTSWORCESTER, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
ArtsWorcester, Inc.
Worcester, Massachusetts

We have audited the accompanying financial statements of ArtsWorcester, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Accountants' 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. 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ArtsWorcester, Inc. as of June 30, 2018, 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 previously reviewed ArtsWorcester, Inc.'s 2017 financial statements and in our conclusion dated November 15, 2017, stated that based on our review, we were not aware of any material modifications that should be made to the 2017 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended June 30, 2017, for it to be consistent with the reviewed financial statements from which it has been derived.

Stowe & Degon LLC

November 26, 2018

ARTSWORCESTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

WITH COMPARATIVE TOTALS FOR 2017

	2018	2017
	(Audited)	(Reviewed)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 608,237	\$ 125,109
Contributions receivable, current	99,700	23,230
Prepaid expenses	961	2,998
	<u>708,898</u>	<u>151,337</u>
Total Current Assets		
Certificates of deposit	10,352	10,281
Property and equipment, net	3,742	5,657
Contributions receivable, non-current	107,443	-
	<u>107,443</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 830,435</u>	<u>\$ 167,275</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,127	\$ 7,920
Accrued expenses	5,312	569
	<u>9,439</u>	<u>8,489</u>
Total Current Liabilities		
NET ASSETS:		
Unrestricted	89,022	144,281
Temporarily restricted	731,974	14,505
	<u>820,996</u>	<u>158,786</u>
Total Net Assets		
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 830,435</u>	<u>\$ 167,275</u>

See notes to financial statements.

ARTSWORCESTER, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total (Audited)</u>	<u>2017 Total (Reviewed)</u>
PUBLIC SUPPORT AND REVENUE:				
Grants and contributions	\$ 38,477	\$ 781,390	\$ 819,867	\$ 138,311
Member dues	19,415	-	19,415	18,270
Program service revenue	51,963	-	51,963	40,494
Special events revenue	8,218	-	8,218	11,066
Donated goods and services	8,350	-	8,350	5,500
Miscellaneous revenue	5	-	5	10
Investment income	1,692	-	1,692	217
Net assets released from restriction	<u>63,921</u>	<u>(63,921)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>192,041</u>	<u>717,469</u>	<u>909,510</u>	<u>213,868</u>
EXPENSES:				
Program services	134,948	-	134,948	149,320
Management and general	46,392	-	46,392	21,972
Fundraising	<u>65,960</u>	<u>-</u>	<u>65,960</u>	<u>20,514</u>
Total Expenses	<u>247,300</u>	<u>-</u>	<u>247,300</u>	<u>191,806</u>
Changes in net assets	(55,259)	717,469	662,210	22,062
Net assets, beginning of year	<u>144,281</u>	<u>14,505</u>	<u>158,786</u>	<u>136,724</u>
Net assets, end of year	<u>\$ 89,022</u>	<u>\$ 731,974</u>	<u>\$ 820,996</u>	<u>\$ 158,786</u>

See notes to financial statements.

ARTSWORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2018 Total (Audited)</u>	<u>2017 Total (Reviewed)</u>
Salaries	\$ 45,719	\$ 12,320	\$ 40,629	\$ 98,668	\$ 76,335
Payroll taxes	4,295	4,034	955	9,284	6,836
Professional services	20,585	14,685	7,973	43,243	28,911
Program expenses	34,872	-	-	34,872	35,302
Printing	8,110	3,698	8,408	20,216	9,677
Rent	5,116	4,575	1,359	11,050	9,750
Advertising	6,000	-	-	6,000	4,000
Miscellaneous	50	1,838	2,503	4,391	3,685
Office expense	305	3,688	263	4,256	2,859
Insurance	1,903	506	1,702	4,111	3,308
Postage	1,978	40	1,087	3,105	2,838
Donated services	2,350	-	-	2,350	1,500
Bank fees	1,283	217	684	2,184	1,725
Depreciation	1,455	230	230	1,915	3,933
Telephone	627	561	167	1,355	1,147
Bad debt expense	300	-	-	300	-
	<u>\$ 134,948</u>	<u>\$ 46,392</u>	<u>\$ 65,960</u>	<u>\$ 247,300</u>	<u>\$ 191,806</u>

See notes to financial statements.

ARTSWORCESTER, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	2018 (Audited)	2017 (Reviewed)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 662,210	\$ 22,062
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,915	3,933
Interest income included in certificates of deposit	(71)	(90)
Bad debt expense	300	-
(Increase) decrease in assets:		
Contributions receivable	(184,213)	(17,634)
Prepaid expenses	2,037	942
Increase (decrease) in liabilities:		
Accounts payable	(3,793)	91
Accrued expenses	4,743	(2,884)
Deferred revenue	-	(3,000)
Net cash provided by operating activities	<u>483,128</u>	<u>3,420</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>-</u>	<u>(1,614)</u>
Net cash used for investing activities	<u>-</u>	<u>(1,614)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	483,128	1,806
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>125,109</u>	<u>123,303</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 608,237</u>	<u>\$ 125,109</u>

See notes to financial statements.

ARTSWORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

1. ORGANIZATION

ArtsWorcester, Inc. (the Organization) is a nonprofit membership organization exhibiting over three hundred visual artists annually, the majority of whom live and work in Central Massachusetts. The Organization provides exhibition and sales opportunities to member artists, offers professional development training, and cultivates audiences and collectors. Our exhibition programs directly benefit our members, residents, and local businesses. In our collaborative efforts, we engage with the educational, business, and municipal communities in Worcester. All of our galleries are open and free to the public, providing unfettered access to the visual arts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation – The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Net assets that are not subject to any donor-imposed stipulations. The Board of Directors has discretionary control over all of these assets. The Board may elect to designate such resources for specific purposes. The designations may be removed at the Board's discretion.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

Cash Equivalents and Short Term Investments – Cash equivalents consist of certificates of deposits with original maturities of twelve months or less. The Company places its cash and cash equivalents in financial institutions which are continually reviewed by senior management for financial stability.

Contributions Receivable – Contributions receivable consist of donor pledges committed to the capital campaign and event sponsorships. Contributions are recorded at their net present value when unconditionally committed.

Property and Equipment – Property and equipment are recorded at cost. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions. Depreciation is provided over the estimated useful lives of the assets, which range from 3 to 5 years, of each class of depreciable asset and is computed using the straight-line method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions – Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Grants and contributions recorded as temporarily restricted support are transferred to unrestricted net assets upon satisfaction of the donor restriction.

Income Tax Status – The Organization is exempt from federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within the Internal Revenue Code requirements.

The Organization is subject to audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for year prior to 2014.

Functional Allocation of Expenses – The costs of providing the various programs and supporting services has been summarized on a functional basis on the statements of activities and functional expenses. Accordingly, certain cost have been allocated among the programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by various methods.

Donated Facilities, Goods, Services and Non-Cash Contributions – A number of volunteers have donated many hours to the Organization's program services and fundraising activities during the years; however, these donated services are not reflected in the financial statements since it is impractical to calculate the fair value of these services. However, the Organization may receive donated goods in support of its programs. These goods are reflected in the accompanying statements of activities based upon the value assigned to these goods by the donating individuals and management. During 2018 and 2017, the Organization received \$8,350 and \$5,500, respectively, in donated goods and services, and these contributions are reported as in-kind income and expenses in the accompanying financial statements.

Comparative Totals – The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Subsequent Events – The Organization has evaluated all subsequent events through November 26, 2018, the date the financial statements were available to be issued.

3. CONTRIBUTIONS RECEIVABLE

The Organization anticipates collection of outstanding pledges receivable as follows at June 30:

	2018	2017
Capital campaign (Note 10)	\$ 99,700	\$ 23,230
Restricted to future periods	<u>129,390</u>	<u>-</u>
Pledges receivable before unamortized discount	229,090	23,230
Less: unamortized discount	<u>21,947</u>	<u>-</u>
Net pledges receivable	<u>\$ 207,143</u>	<u>\$ 23,230</u>
Amounts due in:		
Less than one year	\$ 99,700	\$ 23,230
One to four years	<u>129,390</u>	<u>-</u>
	<u>\$ 229,090</u>	<u>\$ 23,230</u>

Amounts presented above have been discounted to present value using a discount rate of 5.00% in 2018. The discount will be recognized as capital campaign contribution income in fiscal years 2019-2023 as the pledges are received.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2018	2017
Office equipment	\$ 35,591	\$ 35,591
Website	9,668	9,668
Paintings	<u>8,246</u>	<u>8,246</u>
	53,505	53,505
Less accumulated depreciation	<u>49,763</u>	<u>47,848</u>
Property and equipment, net	<u>\$ 3,742</u>	<u>\$ 5,657</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at June 30:

	2018	2017
Capital campaign	\$ 704,579	\$ 14,505
Endowment	20,000	-
Program expenses	<u>7,395</u>	<u>-</u>
	<u>\$ 731,974</u>	<u>\$ 14,505</u>

6. NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released for the following purposes:

	2018	2017
Capital campaign	\$ 33,266	\$ -
Program expenses	<u>30,655</u>	<u>31,200</u>
	<u>\$ 63,921</u>	<u>\$ 31,200</u>

7. COMMITMENTS

The Organization leases space in Worcester, Massachusetts as a tenant at will. The lease requires monthly rent payments in the amount of \$850. Total rent paid was \$11,050 and \$9,750 in 2018 and 2017, respectively.

8. CONCENTRATIONS OF CREDIT AND MARKET RISK

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents. Cash and cash equivalents are held in financial institution bank accounts and balances may exceed federally insured limits. The Organization has not experienced, nor does it anticipate, any losses in such accounts.

9. CONTINGENCIES

In the normal course of operating programs and providing services, the Organization may become involved in litigation or other claims. Management is not aware of any claims that will have a material adverse effect on the financial condition of the Organization.

10. CAPITAL CAMPAIGN

During 2018, the Organization embarked on a \$1,250,000 capital campaign to expand its operations. The Organization reached the capital campaign goal during August 2018 and expects to raise additional capital campaign funds through March 2019. The goals of the capital campaign are to construct a new facility at the Printer's Building on Portland Street in Worcester; to expand programming provided by the Organization; and to create an endowment fund.
