

ARTSWORCESTER, INC.

*Financial Statements for the Year Ended June
30, 2019 (with comparative totals for 2018) and
Independent Auditors' Report*

ARTSWORCESTER, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Arts Worcester, Inc.
Worcester, Massachusetts

We have audited the accompanying financial statements of Arts Worcester, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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.

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. 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 Arts Worcester, Inc. as of June 30, 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

We have previously audited the ArtsWorcester, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stowe & Degon LLC

November 22, 2019

ARTSWORCESTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 565,274	\$ 608,237
Pledges receivable, current	117,040	99,700
Prepaid expenses	<u>3,425</u>	<u>961</u>
Total Current Assets	<u>685,739</u>	<u>708,898</u>
PROPERTY AND EQUIPMENT, net	<u>230,487</u>	<u>3,742</u>
OTHER ASSETS:		
Investments held by GWCF	153,060	-
Certificates of deposit	10,425	10,352
Pledges receivable, non-current	<u>99,114</u>	<u>107,443</u>
Total Other Assets	<u>262,599</u>	<u>117,795</u>
TOTAL ASSETS	<u>\$ 1,178,825</u>	<u>\$ 830,435</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 855	4,127
Accrued expenses	<u>6,914</u>	<u>5,312</u>
Total Current Liabilities	<u>7,769</u>	<u>9,439</u>
NET ASSETS:		
Without donor restrictions:		
Board designated	153,060	-
Other unrestricted	<u>801,427</u>	<u>89,022</u>
Total without donor restrictions	954,487	89,022
With donor restrictions	<u>216,569</u>	<u>731,974</u>
Total Net Assets	<u>1,171,056</u>	<u>820,996</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,178,825</u>	<u>\$ 830,435</u>

See notes to financial statements.

ARTSWORCESTER, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
PUBLIC SUPPORT AND REVENUE:				
Grants and contributions	\$ 244,634	\$ 354,357	\$ 598,991	\$ 819,873
Member dues	21,147	-	21,147	19,415
Program service revenue	51,807	-	51,807	51,963
Donated goods and services	7,066	-	7,066	8,350
Special events revenue	-	-	-	8,218
Investment income	4,143	-	4,143	1,692
Net assets released from restrictions	<u>869,762</u>	<u>(869,762)</u>	<u>-</u>	<u>-</u>
 Total public support and revenue	 <u>1,198,559</u>	 <u>(515,405)</u>	 <u>683,154</u>	 <u>909,510</u>
EXPENSES:				
Program services	130,386	-	130,386	134,948
Management and general	92,183	-	92,183	46,392
Fundraising	<u>113,585</u>	<u>-</u>	<u>113,585</u>	<u>65,960</u>
 Total Expenses	 <u>336,154</u>	 <u>-</u>	 <u>336,154</u>	 <u>247,300</u>
 Changes in net assets from operations	 862,405	 (515,405)	 347,000	 662,210
NON-OPERATING ACTIVITIES:				
Net unrealized gain on investments	<u>3,060</u>	<u>-</u>	<u>3,060</u>	<u>-</u>
 CHANGE IN NET ASSETS	 865,465	 (515,405)	 350,060	 662,210
 NET ASSETS, BEGINNING OF YEAR	 <u>89,022</u>	 <u>731,974</u>	 <u>820,996</u>	 <u>158,786</u>
 NET ASSETS, END OF YEAR	 <u>\$ 954,487</u>	 <u>\$ 216,569</u>	 <u>\$ 1,171,056</u>	 <u>\$ 820,996</u>

See notes to financial statements.

ARTSWORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Capital Campaign</u>	<u>2019</u>	<u>2018</u>
Salaries	\$ 49,417	\$ 25,414	\$ 66,360	\$ 141,191	\$ 98,668
Payroll taxes	4,460	2,293	5,988	12,741	9,284
Professional services	17,163	25,031	8,392	50,586	43,243
Program expenses	39,316	1,171	8,012	48,499	34,872
Printing	9,332	1,130	12,374	22,836	20,216
Depreciation	-	11,390	-	11,390	1,915
Rent	3,664	1,885	4,921	10,470	11,050
Office expense	514	7,631	2,287	10,432	4,256
Miscellaneous	2,098	3,407	1,482	6,987	4,391
Advertising	-	5,750	-	5,750	6,000
Repairs and maintenance	-	4,833	-	4,833	-
Insurance	1,628	837	2,186	4,651	4,111
Postage	1,220	401	362	1,983	3,105
Bank fees	1,036	75	498	1,609	2,184
Telephone	538	277	723	1,538	1,355
Donated services	-	658	-	658	2,350
Bad debt expense	-	-	-	-	300
	<u>\$ 130,386</u>	<u>\$ 92,183</u>	<u>\$ 113,585</u>	<u>\$ 336,154</u>	<u>\$ 247,300</u>

See notes to financial statements.

ARTSWORCESTER, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 350,060	\$ 662,210
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,390	1,915
Pledges restricted for capital campaign, net of discount	(110,800)	(247,500)
Net unrealized gain on investments held by GWCF	(3,060)	-
Interest income included in certificates of deposit	(73)	(71)
Bad debt expense	-	300
(Increase) decrease in assets:		
Prepaid expenses	(2,464)	2,037
Increase (decrease) in liabilities:		
Accounts payable	(3,272)	(3,793)
Accrued expenses	1,602	4,743
Net cash provided by operating activities	<u>243,383</u>	<u>419,841</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer of funds to investments held by GWCF	(150,000)	-
Purchase of property and equipment	<u>(238,135)</u>	<u>-</u>
Net cash used for investing activities	<u>(388,135)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Pledges restricted for capital campaign, net of discount	110,800	247,500
Change in pledges receivable	<u>(9,011)</u>	<u>(184,213)</u>
Net cash provided by investing activities	<u>101,789</u>	<u>63,287</u>
NET (DECREASE) INCREASE	(42,963)	483,128
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>608,237</u>	<u>125,109</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 565,274</u>	<u>\$ 608,237</u>

See notes to financial statements.

ARTSWORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 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 presentation – The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

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

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

Accounting principle adoption – On August 18, 2016, FASB issued 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 assets 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. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The Organization was required to implement ASU 2016-14 as of July 1, 2018. Changes resulting from the implementation have been applied retroactively to all periods presented.

Cash and cash equivalents – The Organization considers certificates of deposits with original maturities of twelve months or less to be cash and cash equivalents. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced, nor does it anticipate, any losses in such accounts.

Functional expense allocation – The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain cost have been allocated among the program services, management and general and fundraising. Such allocations are determined by management on the basis of estimates of time and effort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges receivable, net – Pledges receivable consist of contributions committed to the capital campaign, event sponsorships and the creation of an endowment fund. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the pledges are received. Discount amortization is included in capital campaign contributions. Pledges receivables are written off as bad debt after significant measures have failed to result in the collection of such pledges. Management believes all outstanding pledges receivable at June 30, 2019 will be collected.

Property and equipment, net – Property and equipment are recorded at cost. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments in excess of \$500 with a useful life over one year are capitalized as additions. Depreciation is provided over the estimated useful lives of the assets, which range from 3 to 20 years, of each class of depreciable asset and is computed using the straight-line method.

Investments held by GWCF – In July of 2018, the Organization established the ArtsWorcester Fund (the Fund) at the Greater Worcester Community Foundation (GWCF). The purpose of the Fund is to establish a crucial baseline of financial sustainability to allow the Organization to focus on the future. The Fund consists of amounts contributed by the Organization, having a market value of \$153,060 as of June 30, 2019. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others, the Organization's initial contribution to the Fund is reflected as an asset (Investments held by GWCF) and is included in net assets without restrictions on the statement of financial position. Changes in market value of the Fund are recorded as unrealized gain on investments in the statement of activities and amounted to \$3,060 for the year ended June 30, 2019. As of June 30, 2019, the investment is classified as a Level 3 financial instrument within the fair value hierarchy and has been measured at the fair value reported by GWCF.

The Organization has adopted a spending policy of 4% of the market value of the corpus that is based on a three year rolling average, with measures taken at the end of each of the preceding (12 or 20) quarters.

Revenue recognition – The Organization recognizes program sales and fees when the related services are performed. Grants and contributions are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions when cash is received or acknowledgment of intent is received. Campaign contributions are recorded as revenue when the pledge is verified or received. Contributions of assets other than cash are recorded at their fair value at the date of the gift. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met.

In-kind contributions – A number of volunteers have donated many hours to the Organization's program services and fundraising activities during the year; 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 statement of activities based upon the value assigned to these goods by the donating individuals and management. During 2019 and 2018, the Organization received \$7,066 and \$8,350, respectively, in donated goods and services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-kind contributions (continued) – Also during 2019 the owner of the property leased by the Organization made renovations in excess of \$400,000 to the leased property to facilitate the ArtsWorcester programs and services. Such expenditures are not considered capital assets under ASC 842 and thus are not recorded as property and in-kind donations.

Income tax status – The Organization is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

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 years prior to 2015.

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, 2018 from which the summarized information was derived.

Use of estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent events – The Organization has evaluated all subsequent events through November 22, 2019, the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2019	2018
Leasehold Improvements	\$ 148,116	\$ -
Office equipment	97,956	35,591
Website	9,668	9,668
Paintings	<u>8,246</u>	<u>8,246</u>
	263,986	53,505
Less accumulated depreciation	<u>33,499</u>	<u>49,763</u>
Property and equipment, net	<u>\$ 230,487</u>	<u>\$ 3,742</u>

During 2019 the Organization disposed of \$27,654 of fully depreciated office equipment.

4. **PLEDGES RECEIVABLE**

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

	2019	2018
Capital campaign (see Note 8)	\$ 117,040	\$ 99,700
Restricted to future periods	<u>119,319</u>	<u>129,390</u>
Pledges receivable before unamortized discount	236,359	229,090
Less: unamortized discount	<u>20,205</u>	<u>21,947</u>
Net pledges receivable	<u>\$ 216,154</u>	<u>\$ 207,143</u>
Amounts due in:		
Less than one year	\$ 117,040	\$ 99,700
One to four years	<u>119,319</u>	<u>129,390</u>
	<u>\$ 236,359</u>	<u>\$ 229,090</u>

Amounts presented above have been discounted to present value using a discount rate of 5.00% in 2019 and 2018. The discount will be recognized as capital campaign contribution income in fiscal years 2020 through 2024 as the pledges are received and using the same effective rate for each year.

5. **NET ASSETS**

Net assets with donor restrictions are as follows at June 30:

	2019	2018
Capital campaign	\$ 194,554	\$ 704,579
Endowment	-	20,000
Program expenses	<u>22,015</u>	<u>7,395</u>
	<u>\$ 216,569</u>	<u>\$ 731,974</u>

Net assets released from net assets with donor restrictions are as follows:

	2019	2018
Capital campaign	\$ 824,777	\$ 33,266
Endowment	20,000	-
Program expenses	<u>24,985</u>	<u>30,655</u>
	<u>\$ 869,762</u>	<u>\$ 63,921</u>

Board designated net assets are included in the investments held by GWCF and are expected to be used in a manner similar to an endowment fund.

6. LEASE COMMITMENTS

In November 2018, the Organization entered into a lease agreement for gallery and office space in Worcester, MA which expires in October 2028. Total rent paid was \$14,789 and \$10,470 in 2019 and 2018, respectively. Minimum lease payments for the next 5 years are as follows:

Years ending June 30,	
2020	\$ 14,789
2021	14,789
2022	14,789
2023	15,265
2024	<u>16,084</u>
	<u>\$ 75,715</u>

7. 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.

8. CAPITAL CAMPAIGN

During 2018, the Organization embarked on a \$1,250,000 capital campaign to expand its operations. A total of \$1,052,597 and \$737,845 has been contributed through June 30, 2019 and 2018, respectively. The Organization reached the capital campaign goal during August 2019 and expects to raise additional funds through March 2020. The goals of the capital campaign are to make renovations to the leased facility on Portland Street in Worcester; to expand programming provided by the Organization; and to create an endowment fund. The donors agree to the funds being unrestricted for general purposes after the completion of the renovations. A total of \$824,777 and \$33,266 was released from net assets with donor restrictions in 2019 and 2018, respectively.

9. AVAILABILTY AND LIQUIDITY

The following represents the Organization’s financial assets at June 30, 2019:

Financial assets at year end:

Cash, cash equivalents and certificates of deposit	\$ 575,699
Pledges receivable	216,154
Investments held by GWCF	<u>153,060</u>
Total financial assets	<u>944,913</u>

Less amounts not available to be used within one year:

Net assets with donor restrictions	216,569
Less net assets with purpose restrictions to be met in less than a year	<u>7,200</u>
	<u>209,369</u>

Financial assets available to meet general expenditures
over the next twelve months

\$ 735,544

9. AVAILABILITY AND LIQUIDITY (CONTINUED)

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$84,000).

The annual return (interest, dividends and appreciation) from the investments, as per donor direction, will also be available (based on the investment spending policy in Note 2) to support the Organization's programs and operating expenses.
