

ARTSWORCESTER, INC.

*Financial Statements for the Year Ended June
30, 2020 (with comparative totals for 2019) and
Independent Accountants' Review Report*

ARTSWORCESTER, INC.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
ArtsWorcester, Inc.
Worcester, Massachusetts

We have reviewed the accompanying financial statements of ArtsWorcester, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2020 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2019 Financial Statements

The 2019 financial statements were audited by us and we expressed an unmodified audit opinion on them in our report dated November 22, 2019. We have not performed any auditing procedures since that date.

Stowe & Degon LLC
November 24, 2020

ARTSWORCESTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020 (Reviewed)	2019 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash	\$ 694,528	\$ 565,274
Pledges receivable, current	69,467	117,040
Prepaid expenses	2,122	3,425
Total Current Assets	<u>766,117</u>	<u>685,739</u>
PROPERTY AND EQUIPMENT, net	<u>221,226</u>	<u>230,487</u>
OTHER ASSETS:		
Investments held by GWCF	293,965	153,060
Certificates of deposit	10,499	10,425
Pledges receivable, non-current	50,965	99,114
Total Other Assets	<u>355,429</u>	<u>262,599</u>
TOTAL ASSETS	<u>\$ 1,342,772</u>	<u>\$ 1,178,825</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ -	855
Accrued expenses	6,986	6,914
Current portion of long-term debt	17,020	-
Total Current Liabilities	24,006	7,769
LONG-TERM DEBT, net of current portion	<u>21,680</u>	<u>-</u>
TOTAL LIABILITIES	<u>45,686</u>	<u>7,769</u>
NET ASSETS:		
Without donor restrictions:		
Board designated	293,965	153,060
Other unrestricted	871,581	801,427
Total without donor restrictions	1,165,546	954,487
With donor restrictions	<u>131,540</u>	<u>216,569</u>
Total Net Assets	<u>1,297,086</u>	<u>1,171,056</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,342,772</u>	<u>\$ 1,178,825</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 (Reviewed)</u>	<u>2019 (Audited)</u>
PUBLIC SUPPORT AND REVENUE:				
Grants and contributions	\$ 310,646	\$ 91,728	\$ 402,374	\$ 598,991
Member dues	22,285	-	22,285	21,147
Program service revenue	41,318	-	41,318	51,807
Donated goods and services	-	-	-	7,066
Special events revenue	12,091	-	12,091	-
Net assets released from restrictions	<u>176,757</u>	<u>(176,757)</u>	<u>-</u>	<u>-</u>
 Total public support and revenue	 <u>563,097</u>	 <u>(85,029)</u>	 <u>478,068</u>	 <u>679,011</u>
EXPENSES:				
Program services	119,034	-	119,034	130,386
Management and general	133,530	-	133,530	93,212
Fundraising	<u>95,321</u>	<u>-</u>	<u>95,321</u>	<u>113,585</u>
 Total Expenses	 <u>347,885</u>	 <u>-</u>	 <u>347,885</u>	 <u>337,183</u>
 Changes in net assets from operations	 <u>215,212</u>	 <u>(85,029)</u>	 <u>130,183</u>	 <u>341,828</u>
NON-OPERATING ACTIVITIES:				
Investment income, net of investment fees	5,965	-	5,965	4,810
Net unrealized (loss) gain on investments	<u>(10,118)</u>	<u>-</u>	<u>(10,118)</u>	<u>3,422</u>
 Total non-operating activities	 <u>(4,153)</u>	 <u>-</u>	 <u>(4,153)</u>	 <u>8,232</u>
 CHANGE IN NET ASSETS	 211,059	 (85,029)	 126,030	 350,060
 NET ASSETS, BEGINNING OF YEAR	 <u>954,487</u>	 <u>216,569</u>	 <u>1,171,056</u>	 <u>820,996</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,165,546</u>	 <u>\$ 131,540</u>	 <u>\$ 1,297,086</u>	 <u>\$ 1,171,056</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Capital Campaign</u>	<u>2020 (Reviewed)</u>	<u>2019 (Audited)</u>
Salaries	\$ 59,097	\$ 41,907	\$ 57,137	\$ 158,141	\$ 141,191
Payroll taxes	5,003	3,483	4,837	13,323	12,741
Professional services	8,861	29,277	3,675	41,813	50,586
Program expenses	29,501	1,041	2,120	32,662	48,499
Depreciation	-	28,309	-	28,309	11,390
Printing	4,535	3,800	9,760	18,095	22,836
Office expense	659	15,148	1,735	17,542	10,432
Rent	3,847	2,728	3,719	10,294	10,470
Miscellaneous	1,570	1,361	7,012	9,943	6,987
Insurance	2,250	1,750	2,386	6,386	4,651
Investment fees	-	3,502	-	3,502	1,029
Postage	2,004	320	400	2,724	1,983
Telephone	896	635	866	2,397	1,538
Bank fees	811	44	1,274	2,129	1,609
Repairs and maintenance	-	-	400	400	4,833
Donated services	-	225	-	225	658
Advertising	-	-	-	-	5,750
	<u>\$ 119,034</u>	<u>\$ 133,530</u>	<u>\$ 95,321</u>	<u>\$ 347,885</u>	<u>\$ 337,183</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	<u>2020</u> <u>(Reviewed)</u>	<u>2019</u> <u>(Audited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 126,030	\$ 350,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,309	11,390
Pledges restricted for capital campaign, net of discount	(1,000)	(110,800)
Net unrealized loss (gain) on investments held by GWCF	10,118	(3,422)
Net investment fees charged by GWCF	1,377	362
Interest income included in certificates of deposit	(74)	(73)
(Increase) decrease in assets:		
Prepaid expenses	1,303	(2,464)
Increase (decrease) in liabilities:		
Accounts payable	(855)	(3,272)
Accrued expenses	72	1,602
Net cash provided by operating activities	<u>165,280</u>	<u>243,383</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer of funds to investments held by GWCF	(152,400)	(150,000)
Purchase of property and equipment	<u>(19,048)</u>	<u>(238,135)</u>
Net cash used for investing activities	<u>(171,448)</u>	<u>(388,135)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	38,700	-
Pledges restricted for capital campaign, net of discount	1,000	110,800
Change in pledges receivable	<u>95,722</u>	<u>(9,011)</u>
Net cash provided by investing activities	<u>135,422</u>	<u>101,789</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	129,254	(42,963)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	<u>565,274</u>	<u>608,237</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u>\$ 694,528</u>	<u>\$ 565,274</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020 (REVIEWED) (WITH COMPARATIVE TOTALS FOR 2019 (AUDITED))

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. Their exhibition programs directly benefit their members, residents, and local businesses. In their collaborative efforts, they engage with the educational, business, and municipal communities in Worcester. All of ArtsWorcester's 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 – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective July 1, 2019, the first day of the Organization's fiscal year, using the full retrospective method.

Effective July 1, 2019, the Organization adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230). The ASU requires presentation of the total change in cash, cash equivalents, and restricted cash and cash equivalents for the period in the statement of cash flows.

Measure of operations – The statement of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing programs of promoting the visual arts. Non-operating activities are limited to investment income and other activities considered to be of a more unusual or nonrecurring nature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, cash equivalents and restricted cash – 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. Total restricted cash consists of the following at June 30:

	2020 (Reviewed)	2019 (Audited)
Temporary donor restrictions	<u>\$ 11,108</u>	<u>\$ 415</u>

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, 2020 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 \$293,965 and \$153,060 as of June 30, 2020 and 2019, respectively. 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 (loss) or gain on investments in the statement of activities and amounted to (\$10,118) and \$3,422 for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 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 adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) did not have a significant impact on the Organization's financial statements. The majority of the Organization's revenue consist of a single performance obligation to transfer promised services. Based on the Organization's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenue as a result of the adoption.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued) – 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 2020 and 2019, the Organization received \$0 and \$7,066, respectively, in donated goods and services.

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.

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.

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 2016.

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, 2019 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 subsequent events through November 24, 2020, the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2020 (Reviewed)	2019 (Audited)
Leasehold improvements	\$ 158,481	\$ 148,116
Office equipment	106,639	97,956
Website	9,668	9,668
Paintings	<u>8,246</u>	<u>8,246</u>
	283,034	263,986
Less accumulated depreciation	<u>61,808</u>	<u>33,499</u>
Property and equipment, net	<u>\$ 221,226</u>	<u>\$ 230,487</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:

	2020 (Reviewed)	2019 (Audited)
Capital campaign (see Note 5)	\$ 69,467	\$ 117,040
Restricted to future periods	<u>61,100</u>	<u>119,319</u>
Pledges receivable before unamortized discount	130,567	236,359
Less: unamortized discount	<u>10,135</u>	<u>20,205</u>
Net pledges receivable	<u>\$ 120,432</u>	<u>\$ 216,154</u>
Amounts due in:		
Less than one year	\$ 69,467	\$ 117,040
One to four years	<u>61,100</u>	<u>119,319</u>
	<u>\$ 130,567</u>	<u>\$ 236,359</u>

Amounts presented above have been discounted to present value using a discount rate of 5.00% in 2020 and 2019. 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. CAPITAL CAMPAIGN

During 2018, the Organization embarked on a \$1,250,000 capital campaign to expand its operations. A total of \$1,119,615 and \$1,052,597 has been contributed through June 30, 2020 and 2019, respectively. 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 \$148,340 and \$824,777 was released from net assets with donor restrictions in 2020 and 2019, respectively.

6. LONG-TERM DEBT

On April 14, 2020, the Organization entered into a 2-year Paycheck Protection Program (PPP) loan in the amount of \$38,700 with a financial institution. The note bears interest at 1% and matures on April 14, 2022. For the first six months, interest and principal payments are deferred. On November 14, 2020, the outstanding principal balance will be amortized for the remaining 18 months and the first monthly payment will be due. The loan is secured by the Small Business Administration (SBA) under The Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to the loan forgiveness provisions of the CARES Act and SBA interim final rule dated April 2, 2020. Management expects the entire loan principal and any accrued interest to be forgiven. Aggregate maturities of long-term debt over the next two years are \$17,020 in 2021 and \$21,680 in 2022. The Organization started the forgiveness application and no payment has been made on this loan as of November 16, 2020 the date of the auditors' report.

7. NET ASSETS

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

	2020 (Reviewed)	2019 (Audited)
Capital campaign	\$ 113,232	\$ 194,554
Program expenses	<u>18,308</u>	<u>22,015</u>
	<u>\$ 131,540</u>	<u>\$ 216,569</u>

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

Capital campaign	\$ 148,340	\$ 824,777
Endowment	-	20,000
Program expenses	<u>28,417</u>	<u>24,985</u>
	<u>\$ 176,757</u>	<u>\$ 869,762</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.

8. LEASE COMMITMENTS

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:	2021	\$ 14,789
	2022	14,789
	2023	15,265
	2024	16,084
	2024	<u>16,789</u>
		<u>\$ 77,715</u>

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. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at June 30, 2020:

Financial assets at year end:	
Cash, cash equivalents and restricted cash	\$ 705,027
Pledges receivable	120,432
Investments held by GWCF	<u>293,965</u>
Total financial assets	<u>1,119,424</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	131,540
Less net assets with purpose restrictions to be met in less than a year	<u>7,200</u>
	<u>124,340</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 995,084</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$86,000).

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.

11. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact net income. Other financial impact could occur though such potential impact is unknown at this time.

The Organization applied for \$38,700 under the PPP loan program (see Note 6) and expects the entire balance to be fully forgiven under the CARES Act.
