

ARTSWORCESTER, INC.

*Financial Statements for the Year Ended June
30, 2021 (with comparative totals for 2020) 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, 2021, 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 2021 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Summarized Comparative Information

We previously reviewed the Art's Worcester, Inc.'s 2020 financial statements and in our conclusion dated November 24, 2020, stated that based on our review, we were not aware of any material modifications that should be made to the 2020 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, 2020, for it to be consistent with the reviewed financial statements from which it has been derived.


October 18, 2021

ARTSWORCESTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash	\$ 749,908	\$ 694,528
Accounts receivable	25,600	-
Pledges receivable, current	52,141	69,467
Prepaid expenses	<u>877</u>	<u>2,122</u>
Total Current Assets	<u>828,526</u>	<u>766,117</u>
PROPERTY AND EQUIPMENT, net	<u>192,707</u>	<u>221,226</u>
OTHER ASSETS:		
Investments held by GWCF	468,100	293,965
Certificates of deposit	10,572	10,499
Pledges receivable, non-current	<u>14,840</u>	<u>50,965</u>
Total Other Assets	<u>493,512</u>	<u>355,429</u>
TOTAL ASSETS	<u>\$ 1,514,745</u>	<u>\$ 1,342,772</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 431	\$ -
Accrued expenses	<u>13,198</u>	<u>6,986</u>
Total Current Liabilities	13,629	6,986
LONG-TERM DEBT - PPP LOAN	<u>33,190</u>	<u>38,700</u>
TOTAL LIABILITIES	<u>46,819</u>	<u>45,686</u>
NET ASSETS:		
Without donor restrictions:		
Board designated	468,100	293,965
Other unrestricted	<u>932,845</u>	<u>871,581</u>
Total without donor restrictions	1,400,945	1,165,546
With donor restrictions	<u>66,981</u>	<u>131,540</u>
Total Net Assets	<u>1,467,926</u>	<u>1,297,086</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,514,745</u>	<u>\$ 1,342,772</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021</u>	<u>2020</u>
PUBLIC SUPPORT AND REVENUE:				
Grants and contributions	\$ 249,705	\$ 33,850	\$ 283,555	\$ 402,374
Member dues	25,371	-	25,371	22,285
Program service revenue	48,463	-	48,463	41,318
Special events revenue	345	-	345	12,091
Net assets released from restrictions	<u>98,409</u>	<u>(98,409)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>422,293</u>	<u>(64,559)</u>	<u>357,734</u>	<u>478,068</u>
EXPENSES:				
Program services	117,081	-	117,081	119,034
Management and general	125,941	-	125,941	133,530
Fundraising and capital campaign	<u>78,882</u>	<u>-</u>	<u>78,882</u>	<u>95,321</u>
Total Expenses	<u>321,904</u>	<u>-</u>	<u>321,904</u>	<u>347,885</u>
Changes in net assets from operations	<u>100,389</u>	<u>(64,559)</u>	<u>35,830</u>	<u>130,183</u>
NON-OPERATING ACTIVITIES:				
Gain on extinguishment of debt - PPP loan	38,700	-	38,700	-
Investment income, net of investment fees	4,426	-	4,426	5,965
Net unrealized gain (loss) on investments	<u>91,884</u>	<u>-</u>	<u>91,884</u>	<u>(10,118)</u>
Total non-operating activities	<u>135,010</u>	<u>-</u>	<u>135,010</u>	<u>(4,153)</u>
CHANGE IN NET ASSETS	235,399	(64,559)	170,840	126,030
NET ASSETS, BEGINNING OF YEAR	<u>1,165,546</u>	<u>131,540</u>	<u>1,297,086</u>	<u>1,171,056</u>
NET ASSETS, END OF YEAR	<u>\$ 1,400,945</u>	<u>\$ 66,981</u>	<u>\$ 1,467,926</u>	<u>\$ 1,297,086</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Capital Campaign</u>	<u>2021</u>	<u>2020</u>
Salaries	\$ 64,718	\$ 41,511	\$ 57,200	\$ 163,429	\$ 158,141
Payroll taxes and benefits	7,115	4,563	6,288	17,966	13,660
Gallery and program expenses	30,423	1,927	517	32,867	32,662
Professional services	2,608	27,863	-	30,471	41,476
Depreciation	-	28,519	-	28,519	28,309
Office expense	2,232	8,137	1,762	12,131	17,542
Rent	4,051	2,598	3,580	10,229	10,294
Printing	1,453	2,109	4,284	7,846	18,095
Insurance	2,146	1,377	1,897	5,420	6,386
Investment fees	-	5,414	-	5,414	3,502
Telephone	879	563	776	2,218	2,397
Postage	1,249	500	308	2,057	2,724
Bank fees	151	175	1,018	1,344	2,129
Miscellaneous	56	685	577	1,318	9,943
Uncollectible pledges	-	-	675	675	-
Repairs and maintenance	-	-	-	-	400
Donated services	-	-	-	-	225
	<u>\$ 117,081</u>	<u>\$ 125,941</u>	<u>\$ 78,882</u>	<u>\$ 321,904</u>	<u>\$ 347,885</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 170,840	\$ 126,030
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,519	28,309
Gain on extinguishment of debt - PPP loan	(38,700)	-
Net unrealized (gain) loss on investments held by GWCF	(91,884)	10,118
Net investment fees charged by GWCF	2,749	1,377
Interest income included in certificates of deposit	(73)	(74)
Pledges restricted for capital campaign, net of discount	-	(1,000)
(Increase) decrease in assets:		
Accounts receivable	(25,600)	-
Prepaid expenses	1,245	1,303
Increase (decrease) in liabilities:		
Accounts payable	431	(855)
Accrued expenses	6,212	72
Net cash provided by operating activities	<u>53,739</u>	<u>165,280</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfer of funds to investments held by GWCF	(85,000)	(152,400)
Purchase of property and equipment	-	(19,048)
Net cash used for investing activities	<u>(85,000)</u>	<u>(171,448)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt - PPP loan	33,190	38,700
Pledges restricted for capital campaign, net of discount	-	1,000
Change in pledges receivable	53,451	95,722
Net cash provided by investing activities	<u>86,641</u>	<u>135,422</u>
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	55,380	129,254
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	<u>694,528</u>	<u>565,274</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u>\$ 749,908</u>	<u>\$ 694,528</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

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 accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation – The net assets of the Organization have been prepared in accordance 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.

The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived

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.

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:

	2021	2020
Temporary donor restrictions	\$ -	\$ 11,108

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, 2021 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 \$468,100 and \$293,965 as of June 30, 2021 and 2020, 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 contributions to the Fund are reflected as an asset (Investments held by GWCF) and is included in net assets without restrictions on the statement of financial position.

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 majority of the Organization's revenue consist of a single performance obligation to transfer promised services. 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.

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.

Retirement plan – During 2021, the Organization set up a savings incentive match plan for employees (SIMPLE) IRA plan covering all eligible employees. Eligible employees may elect to defer a percentage of their pre-tax compensation not to exceed IRS limitations. In lieu of a matching contribution, the Organization makes a contribution of 2% of compensation, not to exceed certain limits, for each eligible employee regardless of whether the employee elects to make deferrals to the plan. The amount of expense for the SIMPLE IRA plan charged to operations for the year ended June 30, 2021 was \$462.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017.

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 amounts in the prior year financial statements were reclassified to conform with the current year presentation. These reclassifications had no impact on change in net assets as previously reported.

Subsequent events – The Organization has evaluated subsequent events through October 18, 2021, the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2021	2020
Leasehold improvements	\$ 158,481	\$ 158,481
Office equipment	106,639	106,639
Website	9,668	9,668
Paintings	<u>8,246</u>	<u>8,246</u>
	283,034	283,034
Less accumulated depreciation	<u>90,327</u>	<u>61,808</u>
Property and equipment, net	<u>\$ 192,707</u>	<u>\$ 221,226</u>

4. CAPITAL CAMPAIGN

During 2018, the Organization embarked on a capital campaign to expand its operations. The goals of the capital campaign were 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 agreed to the funds being unrestricted for general purposes after the completion of the renovations. A total of \$54,701 and \$148,340 was released from net assets with donor restrictions in 2021 and 2020, respectively.

5. PLEDGES RECEIVABLE

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

	2021	2020
Capital campaign (see Note 4)	\$ 52,141	\$ 69,467
Restricted to future periods	<u>19,250</u>	<u>61,100</u>
Pledges receivable before unamortized discount	71,391	130,567
Less: unamortized discount	<u>4,410</u>	<u>10,135</u>
Net pledges receivable	<u>\$ 66,981</u>	<u>\$ 120,432</u>
Amounts due in:		
Less than one year	\$ 52,141	\$ 69,467
One to four years	<u>19,250</u>	<u>61,100</u>
	<u>\$ 71,391</u>	<u>\$ 130,567</u>

Amounts presented above have been discounted to present value using a discount rate of 5.00% in 2021 and 2020. 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.

6. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Input prices quoted in an active market for identical financial assets or liabilities.

Level 2: Inputs other than prices quoted in Level 1, such as prices quoted for similar financial assets and liabilities in active markets, prices for identical assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Input prices quoted that are significant to the fair value of the financial assets or liabilities which are not observable nor supported by an active market.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

Investments held by GWCF – The fair value of investments held by GWCF is based on independent reports obtained from the GWCF. Although investments held and managed by GWCF may be supported by active market prices, the breakdown of such investments is not known. Accordingly, these investments are reported as Level 3.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions could result in a different fair value measurement at the reporting date.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Changes in market value of the Fund are recorded as unrealized gain or (loss) on investments in the statement of activities. As of June 30, 2021 and 2020, 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 table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets as of June 30, 2021:

	2021	2020
Balance, beginning of year	\$ 293,965	\$ 153,060
Transfers	85,000	152,400
Fair value adjustments	91,884	(10,118)
Investment fees	<u>(2,749)</u>	<u>(1,377)</u>
Balance, end of year	<u>\$ 468,100</u>	<u>\$ 293,965</u>

7. 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. This note was forgiven on October 9, 2020. On February 16, 2021, the Organization obtained a second PPP loan in the amount of \$33,190 with the same financial institution. The note bears interest at 1% and matures on February 16, 2023. 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. The second loan and accrued interest was forgiven in August, 2021.

8. NET ASSETS

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

	2021	2020
Capital campaign	\$ 59,781	\$ 113,232
Program expenses	<u>7,200</u>	<u>18,308</u>
	<u>\$ 66,981</u>	<u>\$ 131,540</u>

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

	2021	2020
Capital campaign	\$ 54,701	\$ 148,340
Program expenses	<u>43,708</u>	<u>28,417</u>
	<u>\$ 98,409</u>	<u>\$ 176,757</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.

9. 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 \$12,389 in 2021 and 2020. Minimum lease payments for the next 5 years are as follows:

Years ending June 30:	2022	\$	14,789
	2023		15,265
	2024		16,084
	2024		<u>16,789</u>
		\$	<u>62,927</u>

10. 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.

11. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at June 30, 2021:

Financial assets at year end:

Cash, cash equivalents and restricted cash	\$	760,480
Accounts receivable		25,600
Pledges receivable		66,981
Investments held by GWCF		<u>468,100</u>
Total financial assets		1,321,161

Less amounts not available to be used within one year:

Net assets with donor restrictions		<u>66,981</u>
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Financial assets available to meet general expenditures over the next twelve months

\$ 1,254,180

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$81,000).

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.
