

ARTSWORCESTER, INC.

*Financial Statements as of and for the
Year Ended June 30, 2023
(with comparative totals for 2022) 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, 2023, 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.

We are required to be independent of ArtsWorcester, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 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 ArtsWorcester, Inc.'s 2022 financial statements and in our conclusion dated October 31, 2022, stated that based on our review, we were not aware of any material modifications that should be made to the 2022 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, 2022, for it to be consistent with the reviewed financial statements from which it has been derived.

October 5, 2023

ARTSWORCESTER, INC.

STATEMENT OF FINANCIAL POSITION JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash	\$ 700,056	\$ 675,812
Grants and accounts receivable	27,202	27,418
Pledges receivable, current	1,000	44,217
Prepaid expenses	<u>4,377</u>	<u>2,580</u>
Total Current Assets	<u>732,635</u>	<u>750,027</u>
PROPERTY AND EQUIPMENT, net	<u>163,468</u>	<u>164,950</u>
OTHER ASSETS:		
Beneficial interest in trusts	612,455	552,407
Operating lease right-of-use asset	202,724	-
Pledges receivable, non-current	<u>-</u>	<u>3,308</u>
Total Other Assets	<u>815,179</u>	<u>555,715</u>
TOTAL ASSETS	<u>\$ 1,711,282</u>	<u>\$ 1,470,692</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,608	\$ -
Accrued expenses	9,650	8,439
Current portion of operating lease liability	<u>4,609</u>	<u>-</u>
Total Current Liabilities	24,867	8,439
LONG-TERM LIABILITIES:		
Operating lease liability, long-term	<u>204,903</u>	<u>-</u>
Total Liabilities	<u>229,770</u>	<u>8,439</u>
NET ASSETS:		
Without donor restrictions:		
Board designated	573,777	516,617
Other unrestricted	<u>840,857</u>	<u>836,321</u>
Total without donor restrictions	1,414,634	1,352,938
With donor restrictions	<u>66,878</u>	<u>109,315</u>
Total Net Assets	<u>1,481,512</u>	<u>1,462,253</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,711,282</u>	<u>\$ 1,470,692</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023</u>	<u>2022</u>
PUBLIC SUPPORT AND REVENUE:				
Grants and contributions	\$ 242,436	\$ 18,700	\$ 261,136	\$ 317,659
Member dues	30,433	-	30,433	25,146
Program service revenue	68,369	-	68,369	30,801
In-kind contribution: gallery rent	6,375	-	6,375	6,250
Special events revenue	3,054	20,600	23,654	3,977
Net assets released from restrictions	<u>85,625</u>	<u>(85,625)</u>	<u>-</u>	<u>-</u>
 Total public support and revenue	 <u>436,292</u>	 <u>(46,325)</u>	 <u>389,967</u>	 <u>383,833</u>
EXPENSES:				
Program services	259,448	-	259,448	267,073
Management and general	122,387	-	122,387	77,469
Fundraising and capital campaign expenses	<u>58,258</u>	<u>-</u>	<u>58,258</u>	<u>52,588</u>
 Total expenses	 <u>440,093</u>	 <u>-</u>	 <u>440,093</u>	 <u>397,130</u>
 Changes in net assets from operations	 <u>(3,801)</u>	 <u>(46,325)</u>	 <u>(50,126)</u>	 <u>(13,297)</u>
NON-OPERATING ACTIVITIES:				
Gain on extinguishment of debt - PPP loan (Note 8)	-	-	-	33,190
Employee retention credit (Note 8)	-	-	-	43,535
Government grant - EIDL (Note 8)	-	-	-	15,000
Interest income	9,337	-	9,337	1,759
Change in beneficial interest in trusts	<u>56,160</u>	<u>3,888</u>	<u>60,048</u>	<u>(85,860)</u>
 Total non-operating activities	 <u>65,497</u>	 <u>3,888</u>	 <u>69,385</u>	 <u>7,624</u>
 CHANGE IN NET ASSETS	 61,696	 (42,437)	 19,259	 (5,673)
 NET ASSETS, BEGINNING OF YEAR	 <u>1,352,938</u>	 <u>109,315</u>	 <u>1,462,253</u>	 <u>1,467,926</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,414,634</u>	 <u>\$ 66,878</u>	 <u>\$ 1,481,512</u>	 <u>\$ 1,462,253</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR 2022)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Capital Campaign</u>	<u>2023</u>	<u>2022</u>
Salaries	\$ 128,173	\$ 42,898	\$ 37,476	\$ 208,547	\$ 193,853
Payroll taxes and benefits	15,547	5,203	4,546	25,296	20,603
Gallery and program expenses	53,749	2,840	3,075	59,664	50,251
Professional services	20,020	29,456	1,224	50,700	42,762
Depreciation	-	28,112	-	28,112	27,757
Office expense	9,401	4,621	2,749	16,771	17,920
Rent	6,809	2,141	1,870	10,820	10,329
Printing	6,158	419	1,468	8,045	11,202
Miscellaneous	2,846	1,704	2,151	6,701	3,246
Gallery rent, in-kind	6,375	-	-	6,375	6,250
Postage	6,025	21	115	6,161	4,783
Insurance	2,744	919	803	4,466	3,653
Professional development	-	3,650	-	3,650	-
Bank fees	1,169	26	1,490	2,685	2,059
Telephone	432	377	1,291	2,100	2,300
Advertising	-	-	-	-	162
	<u>\$ 259,448</u>	<u>\$ 122,387</u>	<u>\$ 58,258</u>	<u>\$ 440,093</u>	<u>\$ 397,130</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR 2022)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 19,259	\$ (5,673)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	28,112	27,757
Operating lease right-of-use asset amortization	10,434	-
Gain on extinguishment of debt - PPP loan	-	(33,190)
Change in beneficial interest in trusts	(60,048)	(84,307)
Changes in operating assets and liabilities:		
Grants and accounts receivable	216	(1,818)
Prepaid expenses	(1,797)	(1,703)
Accounts payable	10,608	(431)
Accrued expenses	1,211	(4,759)
Operating lease liability	<u>(3,646)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>4,349</u>	<u>(104,124)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(26,630)</u>	<u>-</u>
Net cash used in investing activities	<u>(26,630)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in pledges receivable	<u>46,525</u>	<u>19,456</u>
Net cash provided by investing activities	<u>46,525</u>	<u>19,456</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	24,244	(84,668)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	<u>675,812</u>	<u>760,480</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u>\$ 700,056</u>	<u>\$ 675,812</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION:		
Operating lease right-of-use asset and operating lease liability	<u>\$ 213,158</u>	<u>\$ -</u>

See accompanying notes and independent accountants' review report.

ARTSWORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR 2022)

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 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, whereby 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, 2022, from which the summarized information was derived.

Accounting principle adoption – As discussed in Note 10 to the financial statements, the Organization has changed its method of accounting for leases as of July 1, 2022 due to the adoption of ASC 842, *Leases*. ASC 842 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statements of activities.

The Organization adopted ASC 842 on July 1, 2022 using the modified retrospective approach and elected the package of practical expedients permitted under the transition guidance. Results and disclosure requirements for reporting periods after July 1, 2022 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Organization's historical accounting under ASC 840.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting principle adoption (continued) – The Organization elected the package of practical expedients permitted under the transition guidance, which allowed it to carryforward its historical lease classification, its assessment on whether a contract was or contains a lease, and initial direct costs for any leases that existed prior to July 1, 2022.

Risk-free rate election – In November 2021, in response to the increased cost and complexities in applying ASC 842 for private companies (including not-for-profit organizations), the FASB issued Accounting Standards Update (ASU) 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*. This new guidance provides not-for-profit organizations the option to apply a risk-free rate by class of underlying asset, rather than to all leases as the discount rate. The Organization adopted this new standard effective July 1, 2022 coinciding with the adoption and implementation of ASC 842 and will apply the treasury rate comparable to the lease term for all leases in which an implicit rate is not readily determinable.

Measure of operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to 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 on June 30:

	2023	2022
Temporary donor restrictions	\$ <u>28,200</u>	\$ <u>27,200</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 were expected to be collected in future years were recorded at the present value of their estimated future cash flows. The discounts on those amounts were computed using risk-adjusted interest rates applicable to the years in which the pledges are scheduled to be received. Discount amortization was 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 on June 30, 2023 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.

Revenue recognition – The majority of the Organization’s revenue consists 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 costs 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 – 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 contributes 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, 2023 and 2022 was \$4,294 and \$5,134, respectively.

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 2019.

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

Subsequent events – The Organization has evaluated subsequent events through October 5, 2023, the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following on June 30:

	2023	2022
Leasehold improvements	\$ 158,481	\$ 158,481
Office equipment	115,589	106,639
Website	9,668	9,668
Paintings	8,246	8,246
Asset in progress	<u>17,680</u>	<u>-</u>
	309,664	283,034
Less accumulated depreciation	<u>146,196</u>	<u>118,084</u>
Property and equipment, net	<u>\$ 163,468</u>	<u>\$ 164,950</u>

4. BENEFICIAL INTEREST IN TRUST

The Organization is the sole beneficiary of two trusts administered by the Greater Worcester Community Foundation ("GWCF"). 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 ("Beneficial Interest in Trusts") in the statement of financial position. Changes in market value are recorded as a change in beneficial interest trusts in the statement of activities.

Beneficial Interest in Trusts consist of the following on June 30:

	2023	2022
Arts Worcester Fund	\$ 572,777	\$ 516,617
Artist Prize Fund	<u>39,678</u>	<u>35,790</u>
	<u>\$ 612,455</u>	<u>\$ 552,407</u>

Arts Worcester Fund

The Organization established the Arts Worcester Fund (the Fund) at the 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 is reported as board designated - without donor restrictions net assets in the statement of financial position. During 2023 and 2022, \$0 and \$137,000 were transferred into the fund, respectively. During 2023 and 2022, \$0 and \$30 were donated to the fund. There were no distributions from the fund to the Organization in 2023 or 2022.

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.

Artist Prize Fund

In July of 2021, a donor established the Artist Prize Fund (the Prize Fund) at the GWCF. The donor made a restricted contribution during 2022 of \$33,137 into the Prize Fund. Income from the Prize Fund shall be distributed, to the extent the funds are available, every other year through Arts Worcester's Biennial Celebration. The purpose of this award is to recognize excellence in two-dimensional abstract artwork, support the career of a living artist, and to attract gifts for similar purposes. The Prize Fund is included with donor restrictions net assets in the statement of financial position. There were no distributions from the Prize Fund to the Organization in 2023.

5. 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.

5. FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used on June 30, 2023 and 2022.

Beneficial interest in trusts consists of the beneficial interest in the GWCF funds (Note 4). The fair value of these funds (and its underlying assets) 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.

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets as of June 30:

	2023	2022
Balance, beginning of year	\$ 552,407	\$ 468,100
Transfers	-	137,000
Donations	-	33,167
Earnings and investment gain (loss)	67,848	(77,699)
Investment and administrative fees	<u>(7,800)</u>	<u>(8,161)</u>
Balance, end of year	<u>\$ 612,455</u>	<u>\$ 552,407</u>

6. 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 \$32,125 and \$26,656 of capital campaign contributions was released from net assets with donor restrictions in 2023 and 2022, respectively. The outstanding balance at June 30, 2023 and 2022 was \$1,000 and \$47,525, respectively.

7. NET ASSETS

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

	2023	2022
Program expenses	\$ 27,200	\$ 40,400
Artist Prize Fund	38,678	35,790
Capital campaign	<u>1,000</u>	<u>33,125</u>
	<u>\$ 66,878</u>	<u>\$ 109,315</u>

7. NET ASSETS (CONTINUED)

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

	2023	2022
Capital campaign	\$ 32,125	\$ 26,656
Program expenses	52,500	44,310
Artist Prize Fund	1,000	-
Strategic plan	<u>-</u>	<u>12,500</u>
	<u>\$ 85,625</u>	<u>\$ 83,466</u>

Board designated net assets that are included in the beneficial interest held in trusts are expected to be used in a manner similar to an endowment fund. The board designated net assets on June 30, 2023 and 2022 were \$573,777 and \$516,617, respectively.

8. THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT

Paycheck Protection Program (“PPP”) Loan

In February 2021, the Organization applied, and was approved, for a \$33,190 loan through the PPP established by the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act in March 2020 and implemented by the Small Business Administration with support from the Department of the Treasury. This program provided small businesses and non-profits with funds to pay up to twenty-four weeks of payroll costs including benefits. Funds may also be used to pay interest on mortgages, rent, and utilities. The Organization was granted forgiveness on this second PPP loan in August 2021.

Employee Retention Credit (“ERC”)

The CARES Act provided businesses and non-profits with an opportunity to apply for an ERC, which is a refundable tax credit designed to benefit employers for retaining employees through the COVID-19 pandemic. The credit allows an employer to claim up to \$7,000 credit (representing 70% of allowable wages up to \$10,000) for each employee, provided certain requirements are met by the Organization.

The Organization qualified for the tax credit beginning June 30, 2020 for qualified wages through June 30, 2021. In 2022 the Organization received \$43,535. The ERC is included in non-operating activities in the statement of activities for the year ended June 30, 2022.

Economic Injury Disaster Loan Grant (“EIDL”)

The CARES Act provided businesses and non-profits with an opportunity to apply for an EIDL grant, up to \$1,000 per employee up to a maximum of \$10,000 per entity, as well as a Supplemental Targeted Advance of \$5,000. In December 2021, the Organization received EIDL grants totaling \$15,000. There are no repayment requirements associated with the EIDL grant.

9. IN-KIND CONTRIBUTION

The Organization has recognized, and recorded gallery rent of \$6,375 and \$6,250 as an in-kind contribution as program services for the year ended June 30, 2022 and 2021, respectively.

10. LEASE COMMITMENTS

As previously disclosed in Note 2, on July 1, 2022, the Organization adopted ASC Topic 842, Leases using the modified retrospective approach. The Organization calculated and recorded an operating lease asset (right-of-use asset) and operating lease liability of \$213,158.

In accordance with ASU 2021-09, the Organization applied a risk-free rate as its discount rate. For its office space operating lease, the Organization determined the equivalent treasury rate over a period comparable to the lease term and used that rate as the risk-free rate for the calculation of the right-of-use operating asset and liability. At July 1, 2022, the Organization determined there were five years left to the office space operating lease and ten years for the option and determined that the twenty-year treasury would be the most comparable term, as such, the discount rate used was 3.35%.

In February 2018, the Organization entered into an operating lease agreement for its office and gallery space. The lease is for 10 years with an option to renew for another 10 years. The Organization fully expects to exercise the option in 2028.

The maturity of the Organization's operating lease liability are as follows:

Years ending June 30, 2024	\$	17,492
2025		17,492
2026		17,492
2027		17,492
2028		17,492
Thereafter		<u>180,754</u>
Total future minimum lease payments		268,214
Less interest		<u>58,702</u>
	\$	<u>209,512</u>

The lease commitments are included in the balance sheet at June 30, 2023 are as follows:

Current portion of operating lease liabilities	\$	4,609
Operating lease liability, long-term		<u>204,903</u>
Total operating lease liabilities	\$	<u>209,512</u>

Total lease cost was \$17,492 for the year ended June 30, 2023.

As previously disclosed in our 2022 financial statements and under the previous lease accounting standard, ASC 840, *Leases*, the total commitment for operating leases was \$107,157 as of June 30, 2022.

Years ending June 30, 2023	\$	15,265
2024		16,084
2025		17,079
2026		18,198
2027		19,514
Thereafter		<u>21,017</u>
Total future minimum lease payments	\$	<u>107,157</u>

11. 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.

12. AVAILABILTY AND LIQUIDITY

The following represents the Organization’s financial assets on June 30, 2023:

Financial assets at year end:	
Cash, cash equivalents and restricted cash	\$ 700,056
Accounts receivable	27,202
Pledges receivable	1,000
Beneficial interest in trusts	<u>612,455</u>
Total financial assets	1,340,713
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>66,878</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,273,835</u>

The Organization’s goal is to maintain financial assets to meet 90 days of operating expenses (approximately \$110,000).

The annual return (interest, dividends and appreciation) from ArtsWorcester Fund at the GWCF, as per donor direction, will also be available (based on the investment spending policy in Note 4) to support the Organization’s programs and operating expenses.
