Culture Works

Financial Statements
June 30, 2015
with Independent Auditors' Report

Clark Schaefer Hackett
Strength in Numbers

TABLE OF CONTENTS

Independent Auditors' Report 1-2

Financial Statements:

Statement of Financial Position 3

Statement of Activities 4

Statement of Cash Flows 5

Notes to Financial Statements 6-12

Supplementary Information:

Schedule of Functional Expenses 13

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Culture Works

Report on the Financial Statements

We have audited the accompanying financial statements of Culture Works (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities 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 auditors' 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 Culture Works as of June 30, 2015, 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.

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Correction of an Error

As described in Note 5 to the financial statements, the Organization restated its net assets as of July 1, 2014 because the Organization determined that it did not have variance power over certain assets held by the Dayton Foundation. These assets had originally been recognized as a beneficial interest in perpetual trusts. Management determined that these assets should not have been recognized as assets of the Organization. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark, Schaefer, Hackett, & Co.

Dayton, Ohio
October 5, 2015

Culture Works
Statement of Financial Position
June 30, 2015

Assets		
Current assets:		
Cash and cash equivalents	$	208,378
Promises to give, net		279,678
Other receivables		500
Prepaid expenses		10,137
		498,693
Office furniture and equipment, net		37,930
Other assets:		
Investments		296,599
Beneficial interests in endowment funds held by The Dayton Foundation		2,082,642
		2,379,241
	$	2,915,864
Current liabilities:		
Accounts payable	$	33,049
Grants payable		416,026
Accrued expenses		9,411
		458,486
Endowment payable to Dayton Performing Arts Alliance		131,963
		590,449
Net assets:		
Unrestricted		2,033,566
Temporarily restricted		41,849
Permanently restricted		250,000
		2,325,415
	$	2,915,864

See accompanying notes to financial statements.

Revenues and other support	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions:				
Campaign for the Arts	$ 458,633	21,849	-	480,482
Power2Give	44,872	-	-	44,872
Arts awareness and advocacy	6,000	20,000	-	26,000
Operating support	172,193	-	-	172,193
Grants	120,466	-	-	120,466
Special events	33,408	-	-	33,408
Donated materials and services	50,170	-	-	50,170
Distributions from trusts	100,724	-	-	100,724
Earned revenue from programs	5,255	-	-	5,255
Release of net assets from restriction	55,319	(55,319)	-	-
	1,047,040	(13,470)	-	1,033,570
Grants and expenses:				
Grants:				
Campaign for the Arts	416,026	-	-	416,026
Power2Give	60,032	-	-	60,032
Endowment distribution to the Dayton Contemporary Dance Company	15,287	-	-	15,287
Scholarships	10,000	-	-	10,000
Other payments to organizations and artists	510	-	-	510
	501,855	-	-	501,855
Program expenses:				
Campaign for the Arts	114,277	-	-	114,277
Power2Give	56,129	-	-	56,129
Arts awareness and advocacy	198,861	-	-	198,861
	369,267	-	-	369,267
Management, general, and fundraising	152,987	-	-	152,987
	522,254	-	-	522,254
Other income (expense):				
Change in value of endowment funds held by The Dayton Foundation	30,134	-	-	30,134
Investment income	4,749	-	-	4,749
Net realized and unrealized loss on investments	(84)	-	-	(84)
	34,799	-	-	34,799
Change in net assets	57,730	(13,470)	-	44,260
Net assets				
Beginning of year, restated (Note 5)	1,975,836	55,319	250,000	2,281,155
End of year	$ 2,033,566	41,849	250,000	2,325,415

See accompanying notes to financial statements.

Cash flows from operating activities:		
Changes in net assets	$	44,260
Adjustments to reconcile change in to net cash used by operating activities:		
Depreciation		20,866
Amortization of Power2Give franchise fees		11,250
Change in value of beneficial interest in endowment fund		(4,846)
Net realized and unrealized loss on investments		84
Change in allowance for doubtful accounts		(3,946)
Effects of changes in assets and liabilities:		
Promises to give, net		(23,633)
Grants receivable		12,141
Prepaid expenses		2,716
Other receivables		(495)
Accounts payable and accrued expenses		(88,241)
Grants payable		12,099
Endowment payable		(2,842)
Net cash used by operating activities		(20,587)
Cash flows from investing activities:		
Purchases of office furniture and equipment		(6,466)
Purchases of investments		(7,340)
Net cash used by investing activities		(13,806)
Change in cash and cash equivalents		(34,393)
Cash and cash equivalents, beginning of year		242,771
Cash and cash equivalents, end of year	$	208,378

See accompanying notes to financial statements.

1. NATURE OF OPERATIONS:

Culture Works (the "Organization") is a regional arts agency that provides a unified voice for arts and culture and promotes the cultural vibrancy of the Dayton Region nationally as a tool for economic development. The Organization galvanizes widespread support for arts and culture by providing grants, unified marketing efforts, and cultural planning to help the entire cultural community to thrive. The Organization also hosts a cultural marketplace, Power2Give that allows all not-for-profits in an 8-county area to post and promote arts and cultural projects in need of funding. Through this combination of programs, the Organization strives to successfully achieve its mission to act as the funding, advocacy, and service organization that passionately inspires, supports, and sustains arts and culture in the Dayton Region.

The Organization operates in the greater Dayton, Ohio area. A majority of its revenue and support is derived from donors within this geographical area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of the Organization are set forth to facilitate the understanding of data presented in the financial statements:

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are those net assets subject to donor-imposed restrictions that likely will be met by specific expenditures being made and/or the passage of time. Permanently restricted net assets are subject to donor-imposed restrictions that the principal of the gifts remain in perpetuity with the resulting investment income utilized for general, or in some cases, specific purposes.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are received. All other donor-restricted contributions are reported as increases in restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as release of net assets from restriction.

Financial Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Materials and Services

Significant services and materials are donated to the Organization by various individuals and companies for the benefit of the Organization and its constituents. Donated materials are recorded at fair market value at the date of donation. Donated services are recognized as contributions in accordance with accounting standards, if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Cash and Cash Equivalents

Interest-bearing deposits and short-term investments with original maturities of three months or less are classified as cash equivalents. Periodically during the year, the Organization has cash deposits in excess of federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with its cash on deposit with financial institutions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Allowances are provided for amounts estimated to be uncollectible, based on historical experience of the relationship between actual bad debts and amounts pledged. Allowances for uncollectible pledges of $15,847 were recorded at June 30, 2015. All promises to give are expected to be collected within one year.

Investments

The Organization's investments and beneficial interest in endowment funds are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 13 for discussion of fair value measurements.

Investment return includes dividends, interest and other investment income and realized and unrealized gains and losses on investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Unrealized gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Office Furniture and Equipment

Office furniture and equipment are recorded at actual cost or the fair value of donated assets and are depreciated over useful lives of 5 - 10 years using the straight-line method. The Organization capitalizes office furniture and equipment when the cost is $1,000 or more and its estimated useful life exceeds one year.

Franchise Fees

In 2014, the Organization paid a one-time fee of $15,000 for the hosting of the Power2Give Program. The contract was for an initial 12-month period, after which the agreement will continue indefinitely unless terminated by either party. The franchise fee was amortized over the initial 12-month period. Amortization expense for the year ended June 30, 2015 was $11,250.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no provision for income taxes is presented in these financial statements.

Accounting for Uncertainty in Income Taxes

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would fail to be sustained upon examination by the Internal Revenue Service. As discussed above, the Organization is exempt from federal income taxes and management believes the Organization has not engaged in any activities that would disqualify it from tax-exempt status or incur a tax obligation for the year ended June 30, 2015. The Organization is subject to routine 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 ended prior to June 30, 2012. The Organization’s policy with regard to interest and penalties, if incurred, is to recognize interest through interest expenses and penalties through other expenses.

Advertising Expense

The Organization incurs advertising costs in connection with its annual campaign, Power2Give and other arts advocacy programs. These costs are expensed as incurred and amounted to $33,958 for the year ended June 30, 2015. These expenses include $27,000 of in-kind support.

Subsequent Events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 5, 2015, the date on which the financial statements were available to be issued.

3. BENEFICIAL INTEREST IN ENDOWMENT FUNDS:

The Organization had previously established charitable endowment funds with the Dayton Foundation, of which the Organization is the named beneficiary. The beneficial interest in endowment funds totaling $2,082,642 at June 30, 2015, represents amounts contributed by the Organization, plus any net subsequent earnings retained in this fund. Net investment earnings of the endowment fund are included in the statement of activities as change in value of endowment funds.

4. ENDOWMENT PAYABLE TO DAYTON PERFORMING ARTS ALLIANCE:

The Organization received a $250,000 permanently restricted contribution which the donor stipulated that the contribution be held as part of the Organization's endowment, as a separate fund for the benefit of the Dayton Performing Arts Alliance, the successor of the Dayton Ballet Association. The fund is to be administered by the Organization, with all investment income awarded to the Dayton Performing Arts Alliance following guidelines established by the donor. At June 30, 2015, the fund balance includes accumulated investment income of $131,963. As this accumulated investment income is held for the benefit of the Dayton Performing Arts Alliance, a corresponding liability is recorded on the statement of financial position.

5. COMMUNITY FOUNDATION FUNDS & PRIOR PERIOD ADJUSTMENT:

The Organization is the beneficial recipient of funds held at The Dayton Foundation, a community foundation. The Dayton Foundation has variance power over these funds by agreement with donors. The Dayton Foundation distributes income annually to the Organization as a beneficiary of the funds. In accordance with generally accepted accounting principles*,* the Organization is prohibited from recording their beneficial interest in the principal amounts because the funds are held by the Dayton Foundation and subject to the variance powers embedded in their bylaws. The balance of these funds allocable to the Organization was $1,675,237 as of June 30, 2015.

Historically, the Organization recognized these funds as beneficial interests in perpetual trusts in the statement of financial position. As discussed previously, the Organization does not have variance power over these funds and should not have recognized a related asset. Accordingly, the Organization restated its financial statements as of June 30, 2014. The effect of the restatement was to decrease net assets at July 1, 2014 by $1,664,297 representing the Organization's interest in these community foundation funds at July 1, 2014.

6. ENDOWMENT FUNDS:

Generally accepted accounting principles ("GAAP") require that the net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization's endowment includes donor-restricted endowment funds.

The Organization has adopted the investment and spending policies of The Dayton Foundation, the community foundation which holds and administers the donor-restricted endowment funds.

The endowment net assets consist of permanently restricted endowments of $250,000 as of June 30, 2015. As required by the donor, these funds are to be held in the Organization's endowment in perpetuity. As discussed in Note 4, all investment earnings and net appreciation in these funds are to be awarded to the Dayton Performing Arts Alliance following guidelines established by the donor. At June 30, 2015, the Organization's endowment included accumulated investment income of $131, 963, which is held for the benefit of the Dayton Performing Arts Alliance.

7. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following as of June 30, 2015:

Office furntiure and equipment	$	95,887
Less accumulated depreciation		57,957
	$	37,930

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following as of June 30, 2015:

Cultural Plan implementation	$	20,000
Campaign for the Arts		21,849
	$	41,849

9. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consisted of the following as of June 30, 2015:

Donor restricted contribution that is to be held indefinitely, the income from which is expendable	$	250,000

10. GRANTS, CAMPAIGN FOR THE ARTS

Grants to organizations for the year ended and payable as of June 30, 2015, are summarized as follows:

Dayton Performing Arts Alliance	$	205,731
Dayton Contemporary Dance Company		66,341
Muse Machine		69,322
The Human Race Theater Company		63,359
K12 Gallery for Young People		3,873
Dayton Visual Arts Center		3,596
Bach Society of Dayton		2,029
Kettering Children's Choir		1,775
	$	416,026

All grants payable will be distributed in 2016.

11. RETIREMENT PLAN

The Organization sponsors a 403(b) Plan. All employees are eligible to voluntary contribute as of the date of employment. Employees are eligible for an employer match after one full consecutive year of employment with the Organization at a rate of 50% of the employee contribution up to 6% of gross pay per pay period. After three years of service, the employee is eligible for a match of 50% of the employee contribution up to 10% of gross pay per pay period. Expenses relating to this plan amounted to $6,597 for the year ended June 30, 2015.

12. LEASES

The Organization has entered into an operating lease for office space, with a monthly rate of $1,759, which expires August 31, 2017. Minimum lease payments are $21,429 in 2016, $21,429 in 2016 and $3,572 in 2018.The net rent expense for office space totaled $24,623 for the year ended June 30, 2015. The Organization also leases various office equipment under operating lease agreements expiring through June 2017. Net rent expense for office equipment totaled $5,899 for the year ended June 30, 2015.

13. FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. The framework provides a 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under accounting principles generally accepted in the United States of America are described as follows:

> Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
>
> Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2015.

Cash equivalents: The carrying value approximates fair value.

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Fixed income and equity mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Beneficial interest in endowment funds held by The Dayton Foundation: The Organization maintains units of participation in pooled investment fund accounts held at a local community foundation. The investment pool maintains an asset allocation that distributes the pools investments into a variety of classes including equity securities, fixed income securities, and mutual funds. The fair value as reported by The Dayton Foundation is based on the fair value of the individual securities within the pooled account as determined by the custodian using quoted market prices and other techniques, without adjustment by management.

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 with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At July 1, 2014, the Organization changed its valuation technique for units of beneficial interest in endowment fund held by The Dayton Foundation. Previously, the Organization assessed the assets at Level 2. The assets were transferred to Level 3 during 2014, based on the inputs used for valuation.

Assets measured at fair value on a recurring basis as of June 30, 2015 are summarized below:

		Total	Level 1	Level 2	Level 3
Cash equivalents	$	31,857	31,857	-	-
Common stock		499	499	-	-
Equity mutual funds:					
Foreign large growth		4,014	4,014	-	-
Large cap growth		19,267	19,267	-	-
Large cap value		19,365	19,365	-	-
Bond mutual funds:					
Short term		196,467	196,467	-	-
Intermediate term		25,130	25,130	-	-
	$	296,599	296,599	-	-
Beneficial interest in endowment funds held by The Dayton Foundation	$	2,082,642	-	-	2,082,642

The following is a reconciliation of the investments, which are valued at Level 3 inputs for the year ended June 30, 2015:

		Endowment Funds Held by The Dayton Foundation
Balance, July 1, 2014	$	318,701
Transfer from Level 2 to Level 3		1,759,095
Change in fair value of beneficial		4,846
Balance, June 30, 2015	$	2,082,642

14. IN-KIND DONATIONS

The Organization receives various in-kind donations from its donors. The following schedule details the in-kind donations received for the years ended June 30, 2015:

Advertising	$	27,000
Meeting space and hospitality		865
Parking		4,320
Printing		4,925
Professional fees		3,075
Auction items		10,335
	$	50,520

SUPPLEMENTAL INFORMATION

		Program Services			Supporting Services	
		Campaign for the Arts and Grantmaking	Power2Give	Arts Awareness and Advocacy	Management, General and Fundraising	Total
Payroll	$	30,874	12,864	75,501	70,961	190,200
Payroll taxes and workers' compensation		2,524	1,052	6,173	5,801	15,550
Employee benefits		1,499	713	2,642	2,246	7,100
Organizational development		305	-	4,229	1,287	5,821
Travel		2,469	47	4,505	4,409	11,430
Supplies		687	47	533	1,880	3,147
Technology expenses		12,210	3,045	4,293	3,011	22,559
Professional services		16,042	3,675	10,203	33,292	63,212
Bank charges		315	2,100	-	2,495	4,910
Rent		6,156	6,156	6,156	6,155	24,623
Postage		3,315	30	4,295	96	7,736
Printing		4,851	-	2,951	-	7,802
Telephone		1,441	1,441	1,441	546	4,869
Insurance		2,707	2,707	2,707	428	8,549
Marketing		7,758	17	3,555	655	11,985
Advertising		789	-	8,227	308	9,324
Dues and subscriptions		1,435	1,615	1,983	792	5,825
Franchise fees		-	2,955	-	-	2,955
Cultural plan		-	-	16,393	-	16,393
Depreciation and amortization		5,216	16,466	5,216	5,218	32,116
Miscellaneous		4,430	-	209	5,440	10,079
Donated materials and service		7,895	-	36,290	5,985	50,170
Equipment leases		1,359	1,199	1,359	1,982	5,899
	$	114,277	56,129	198,861	152,987	522,254