

Downtown Aurora Visual Arts

Financial Statements

December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Downtown Aurora Visual Arts

We have audited the accompanying financial statements of Downtown Aurora Visual Arts (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Downtown Aurora Visual Arts as of December 31, 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.

Denver, Colorado
October 25, 2016

Cernishay & Company
PROFESSIONAL CORPORATION

Downtown Aurora Visual Arts
STATEMENT OF FINANCIAL POSITION
December 31, 2015

ASSETS	
<i>Current Assets</i>	
Cash and cash equivalents	
Unrestricted cash	\$ 264,186
Restricted cash	357,221
Investments (at fair market value)	6,704
Earned income receivable	21,751
Prepays	<u>3,116</u>
Total current assets	652,978
 <i>Property and Equipment</i>	
Construction in progress	1,202,839
Equipment and computers	31,625
Building and improvements	446,323
Less accumulated depreciation	<u>(249,058)</u>
Total property and equipment	<u>1,431,729</u>
 Total assets	 <u>\$ 2,084,707</u>
 LIABILITIES AND NET ASSETS	
<i>Current Liabilities</i>	
Accounts payable	\$ 2,524
Accrued expenses	<u>6,053</u>
Total current liabilities	8,577
 <i>Net Assets</i>	
Unrestricted	315,007
Temporarily restricted	<u>1,761,123</u>
	<u>2,076,130</u>
 Total liabilities and net assets	 <u>\$ 2,084,707</u>

The accompanying notes are an integral part of the financial statements.

**Downtown Aurora Visual Arts
STATEMENT OF ACTIVITIES
For year ended December 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Grants from State of Colorado and other local governments	\$ 161,787	\$ -	\$ 161,787
Foundation grants	140,006	474,328	614,334
Donated services and materials	8,220	-	8,220
Contributions and donations	35,652	-	35,652
Program service revenue	68,891	-	68,891
Special event revenue	33,305	-	33,305
Corporate grants	348	-	348
Interest, dividends and other	25,923	-	25,923
Unrealized gains on securities	<u>(1,593)</u>	<u>-</u>	<u>(1,593)</u>
 Total revenues and other support	 <u>472,539</u>	 <u>474,328</u>	 <u>946,867</u>
EXPENSES AND SERVICES			
<i>Program Services</i>			
OASIS	115,209	-	115,209
Job training	79,270	-	79,270
Computer art lab	64,376	-	64,376
Portable art school	68,365	-	68,365
Family arts	<u>45,679</u>	<u>-</u>	<u>45,679</u>
 Total program services	 <u>372,899</u>	 <u>-</u>	 <u>372,899</u>
<i>Supporting Services</i>			
Management and general	49,463	-	49,463
Financial development	<u>37,423</u>	<u>-</u>	<u>37,423</u>
 Total supporting services	 <u>86,886</u>	 <u>-</u>	 <u>86,886</u>
 Total expenses and services	 <u>459,785</u>	 <u>-</u>	 <u>459,785</u>
 Change in Net Assets	 12,754	 474,328	 487,082
 NET ASSETS, BEGINNING OF YEAR	 <u>302,253</u>	 <u>1,286,795</u>	 <u>1,589,048</u>
 NET ASSETS, END OF YEAR	 <u>\$ 315,007</u>	 <u>\$ 1,761,123</u>	 <u>\$ 2,076,130</u>

The accompanying notes are an integral part of the financial statements.

Downtown Aurora Visual Arts
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015

	Program Services					Supporting Services		Total Expenses
	OASIS	Job Training	Computer Art Lab	Portable Art School	Family Arts	Management and General	Financial Development	
Personnel expense	\$ 81,952	\$ 40,597	\$ 34,254	\$ 47,220	\$ 33,673	\$ 43,663	\$ 18,680	\$ 300,039
Occupancy costs	4,973	4,262	2,842	2,842	2,131	355	355	17,760
Program supplies and materials	6,665	6,415	3,355	6,435	1,712	50	21	24,653
Stipends and incentives	2,154	11,070	12,122	67	50	-	-	25,463
Office supplies and expense	1,633	1,284	856	856	640	3,104	534	8,907
Contracts and professional services	3,280	2,812	2,089	1,874	1,406	102	102	11,665
Travel, meetings, and conferences	264	560	162	920	2	117	-	2,025
Insurance and miscellaneous	6,991	6,007	4,352	4,085	2,996	1,123	493	26,047
Luncheon and Special Events	-	-	-	-	-	-	13,137	13,137
Hospitality	2,511	2,161	1,609	1,331	1,019	607	3,759	12,997
Expenses before depreciation	110,423	75,168	61,641	65,630	43,629	49,121	37,081	442,693
Depreciation	4,786	4,102	2,735	2,735	2,050	342	342	17,092
Total expenses	\$ 115,209	\$ 79,270	\$ 64,376	\$ 68,365	\$ 45,679	\$ 49,463	\$ 37,423	\$ 459,785

The accompanying notes are an integral part of the financial statements.

**Downtown Aurora Visual Arts
STATEMENT OF CASH FLOWS
For the year ended December 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	12,754
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation		17,092
Increase in investment account		(124)
Increase in grants, contributions and earned income receivable		(4,051)
Increase in prepaid assets		(498)
Decrease in accounts payable		(5,957)
Increase in accrued expenses and deferred revenue		215
		19,431
Net cash flows from operating activities		19,431

CASH FLOWS FROM INVESTING ACTIVITIES

Capital Campaign contributions		474,327
Restricted Cash		582,440
Cash paid for plant property and equipment for long-term purposes		(1,056,767)
Net cash flows from investing activities		-

NET DECREASE IN CASH AND CASH EQUIVALENTS

19,431

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

244,755

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 264,186

NON CASH TRANSACTIONS AND SUPPLEMENTAL CASH INFORMATION

Cash Paid During the Year for:
 In kind donations

\$ 7,390

**Downtown Aurora Visual Arts
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

1. Summary of Significant Accounting Policies

Organization

Downtown Aurora Visual Arts (“DAVA”) (the “Organization”) is a not-for-profit organization exempt from income tax under Section 501(c) (3) of the Internal Revenue Code. DAVA was established on May 24, 1993 for the purpose of developing the arts as a positive social force, especially as a resource building program for youth at risk. The Organization also seeks to add to the strengths of the local community (e.g., ethnic diversity, concentration of independent businesses, renewal efforts).

DAVA’s major programs and activities are described below.

Program Services

Young people at DAVA participate in projects using a variety of art mediums, from ceramics to printmaking. DAVA’s studio space, workshop areas, and gallery are located on the corner of 14th and Florence Streets in central downtown Aurora, Colorado. The Organization offers open studio and job training/art apprenticeships for young people along with a range of portable arts activities available to all ages through the following programs:

OASIS – a free after-school, art studio for youths ages 7 to 17 years. A variety of painting, drawing, mixed media, and ceramic projects are offered.

Job Training/Art Internship – an after-school, art program that uses longer-term art projects to teach youth about the expectations of the working world through art projects that have a particular theme or medium to explore. Job training develops teamwork through participation in a range of projects from ceramics to computer art.

Computer Art Lab – offers middle school students the opportunity to explore various aspects of art using the computer as a tool.

Portable Art School – a traveling arts program available to all age groups whose goal is to bring the experience of art to schools and other community organizations and events.

Family Arts – a program designed to reach parents with younger children ages 3 to 6 through projects directly involving the parent in the child’s creative process.

DAVA Gallery – celebrates the artwork of students in all DAVA programs and visiting artists through a series of exhibitions open to the entire community.

Public Arts – a program that lets students create artwork for visible public areas, which help to beautify the community at large.

Supporting Services

Management and General

Includes functions necessary to administer the programs and other financial and corporate governing of DAVA.

Financial Development

Includes activities that encourage and secure public and private financial support from individuals, foundations, corporations, and government agencies.

Downtown Aurora Visual Arts
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

DAVA's policy is to prepare its financial statements on the accrual basis of accounting; reflecting all significant receivables, payables, and other liabilities. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification in its ASC 958-205. Under ASC 958-205-55-2, DAVA is required to report 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.

Grants and Contributions

In accordance with ASC 958-605, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Revenue Recognition

All contributions are considered to be available to current operations, unless otherwise specifically indicated by the donor. Donor restricted contributions are recognized as revenue in the period received and the unspent portions reflected as either temporarily restricted or permanently restricted net assets (depending on the nature of the restriction) in the statement of financial position, herein. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. Scientific and Cultural Facilities District grants are expended pro-rata on a grant-year basis which starts on October of each year and ends on December of the following year.

Cash and Cash Equivalents

DAVA considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Earned income receivables represent monies due to the Organization at December 31, 2015 and are recorded using the accrual basis of accounting. As of December 31, 2015 receivables totaled \$21,751.

It is the policy of the Organization to ensure all available means of collecting accounts receivable have been exhausted before write-off procedures are initiated. Write-offs are initiated by the department associated with the amount to be written off, in conjunction with the accounting department. If an account receivable is deemed uncollectible, the appropriate approvals by upper management are required. For the year ended December 31, 2015, no receivables were written off.

Promises to Give

Unconditional promises to give are recognized as revenue in the period promised as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property, Equipment and Depreciation

DAVA records property and equipment at cost or fair market value, if donated. The Organization's capitalization threshold is set at \$1,500. Depreciation is computed by the use of the straight-line method over estimated useful lives of five years for equipment and computers, and twenty years for buildings and improvements.

Downtown Aurora Visual Arts
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

1. Summary of Significant Accounting Policies (continued)

In-kind Donations

Materials and Supplies

Donated materials and supplies are recorded as contributions at their estimated fair value at the date of donation.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. DAVA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. DAVA reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Goods and Services

Donated goods valued at \$1,040 during 2015 met the requirements for recognition under ASC 958-605. In addition, \$6,350 has been reflected in the financial statements for the value of donated services performed by skilled volunteers for their time assisting DAVA with programs. These goods and services are included as in-kind contributions in the 2015 financial statements.

Accrued Vacation Payable

In accordance with the Financial Accounting Standards Board Standards Codification 710-10, *Accounting for Compensated Absences*, at December 31, 2015 the minimal amount remaining unused by employees could not be reasonably estimated and, accordingly, no provision is recorded.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expense Allocation

Whenever possible, DAVA charges expenses directly to the benefiting program or support services based upon reasonable and allocable basis, such as time expended or other basis. The Organization has maintained a consistent functional expense allocation.

Concentration of Credit Risk

Throughout the year, the Company maintained a small cash balance in a non-insured investment account. The balance in this account at December 31, 2015 was \$2,333. The Organization's remaining cash is held in bank accounts, of which approximately \$280,624 exceeded available insurance coverage from the FDIC.

Income Taxes

As mentioned in Note 1, the Organization is a 501(c)3 entity and is exempt from federal and state income taxes under application provisions of the Internal Revenue Code and the Colorado Income Tax Act of 1964 (as amended). The Organization did not report any Unrelated Business Income Tax as of December 31, 2015.

Downtown Aurora Visual Arts
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. Economic Dependency

DAVA received a substantial amount of its total revenue and other support from the Scientific and Cultural Facilities District (approximately 15% in 2015). If a significant reduction in the level of such support were to occur it may have an adverse affect on DAVA's programs and activities.

3. Fair Value Measuring Inputs

The fair value hierarchy in ASC 820-10 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as described in the following list.

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in markets that are not active, prices are not current, or price quotations vary substantially over time, or among markets for which little information is released publicly
- Inputs other than quoted prices that are observable for the asset
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 Inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset, including risk.

Earnings and changes in fair value are included in unrestricted net assets unless the investment is subject to donor restriction.

Summary of
Fair Value Measurements at Reporting Date

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments	<u>\$ 6,704</u>	<u>\$ 6,704</u>	<u>\$ -</u>	<u>\$ -</u>

5. Pension Plan

DAVA offers its employees the option to contribute to a 403(b) pension plan as part of a salary reduction arrangement. There is no matching required by the Organization.

**Downtown Aurora Visual Arts
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

**6. Restrictions on Net Assets
Capital Campaign**

Temporary restrictions on net assets at the end of 2015 totaled \$358,282 related to funds raised through DAVA's Capital Campaign, a drive to raise funds for renovations of DAVA's building of operations.

DAVA intends to modernize its facility so that it reflects the talents and potential of the kids they serve. To fund the renovation costs, DAVA has raised support of \$1,579,876 since 2011, of which \$1,202,839 has been spent.

Support for the Capital Campaign includes a Community Development City of Aurora grant of \$200,000 that will be converted to debt if DAVA changes the use of the facilities before May 13, 2021. DAVA does not intend to change its use in the future, and as such, is accounting for the grant in temporarily restricted net assets until the satisfaction of DAVA's commitment in May, 2021.

7. Lease Commitment

DAVA has obligations under an operating lease agreement for a copier. The total monthly lease payments are \$190. The contract expires November 28, 2016. Rent incurred and expensed during 2015 was \$2,274 and is included in Occupancy Costs on the Statement of Functional Expenses.

Future minimum lease payments under the operating lease are as follows:

<u>For the year ended December 31,</u>	<u>Amount</u>
2015	\$ 2,274
2016	\$ <u>2,085</u>
	<u>\$ 4,359</u>

9. Line of Credit

The Company has a line of credit with a financial institution for \$12,500. The line of credit automatically renews May of every year. At December 31, 2015 there was no outstanding balance on the line of credit.

10. Subsequent Events

The Company has evaluated subsequent events for the period from December 31, 2015, the issuance date of these financial statements, through October 25, 2016 which is the date the financial statements are available to be issued. There were no other events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements. With respect to this disclosure, the Company has not evaluated subsequent events occurring after October 25, 2016.