

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015
AND
INDEPENDENT AUDITORS' REPORT

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

December 31, 2016 and 2015

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities and changes in net assets	3
Statements of functional expenses	4 - 5
Statements of cash flows	6
Notes to financial statements	7 - 10

INDEPENDENT AUDITORS' REPORT

Board of Directors
Organization for Transformative Works, Inc.

We have audited the accompanying financial statements of the Organization for Transformative Works, Inc. (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 organization'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 organization'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 Organization for Transformative Works, Inc., as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Davie Kaplan, CPA, P.C.

Rochester, NY

March 5, 2018

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ 589,377	\$ 426,347
Donations receivable	-	4,880
Prepaid expenses	<u>18,652</u>	<u>14,107</u>
	<u>608,029</u>	<u>445,334</u>
Property and equipment		
Servers and equipment	240,146	200,537
Less: Accumulated depreciation	<u>(153,640)</u>	<u>(106,005)</u>
	<u>86,506</u>	<u>94,532</u>
Other assets		
Long-term investments	10,155	10,145
Deferred expenses	<u>4,366</u>	<u>15,730</u>
	<u>14,521</u>	<u>25,875</u>
	<u>\$ 709,056</u>	<u>\$ 565,741</u>
<u>NET ASSETS</u>		
Net assets		
Unrestricted net assets	<u>\$ 709,056</u>	<u>\$ 565,741</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Direct contributions	\$ 298,730	\$ 347,347
Donations from matching programs	3,574	695
In-kind revenue	<u>226,480</u>	<u>366,290</u>
	<u>528,784</u>	<u>714,332</u>
Other income		
Interest income	<u>10</u>	<u>63</u>
Expenses		
Program	256,310	304,537
Fundraising	19,449	26,298
Management and general	<u>109,720</u>	<u>193,639</u>
	<u>385,479</u>	<u>524,474</u>
Increase in net assets	143,315	189,921
Unrestricted net assets, beginning of year	<u>565,741</u>	<u>375,820</u>
Unrestricted net assets, end of year	<u>\$ 709,056</u>	<u>\$ 565,741</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total 2016</u>
In-kind expense	\$ 135,888	\$ -	\$ 90,592	\$ 226,480
Server and programming fees	51,488	-	6,514	58,002
License fees	12,185	-	-	12,185
Transaction fees	-	11,787	-	11,787
Advertising	-	5,335	-	5,335
Contractor service fees	5,010	-	-	5,010
Supplies and materials	2,165	348	2,174	4,687
Postage and freight	-	1,881	2,151	4,032
Insurance	-	-	3,008	3,008
Accounting software	-	-	2,637	2,637
Travel	1,897	-	-	1,897
Telephone and internet	548	84	554	1,186
Banking fees	-	14	661	675
Books and subscriptions	328	-	-	328
Legal expenses	300	-	-	300
Training and certification	262	-	-	262
Printing and reproduction	33	-	-	33
Total expenses before depreciation	<u>210,104</u>	<u>19,449</u>	<u>108,291</u>	<u>337,844</u>
Depreciation	<u>46,206</u>	<u>-</u>	<u>1,429</u>	<u>47,635</u>
Total	<u>\$ 256,310</u>	<u>\$ 19,449</u>	<u>\$ 109,720</u>	<u>\$ 385,479</u>

The accompanying Notes to Financial Statements
are an integral part of this statement.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total 2015</u>
In-kind expense	\$ 205,122	\$ -	\$ 161,168	\$ 366,290
Server and programming fees	41,794	-	3,342	45,136
Travel	1,521	-	20,688	22,209
Transaction fees	-	12,557	-	12,557
License fees	9,567	-	916	10,483
Advertising	-	9,796	-	9,796
Supplies and materials	4,323	-	2,079	6,402
Postage and freight	-	3,945	324	4,269
Insurance	-	-	2,981	2,981
Banking fees	1,247	-	-	1,247
Telephone and internet	810	-	390	1,200
Accounting software	-	-	522	522
Books and subscriptions	326	-	-	326
Contractor service fees	75	-	-	75
Total expenses before depreciation	<u>264,785</u>	<u>26,298</u>	<u>192,410</u>	<u>483,493</u>
Depreciation	<u>39,752</u>	<u>-</u>	<u>1,229</u>	<u>40,981</u>
Total	<u>\$ 304,537</u>	<u>\$ 26,298</u>	<u>\$ 193,639</u>	<u>\$ 524,474</u>

The accompanying Notes to Financial Statements
are an integral part of this statement.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Increase in net assets	\$ 143,315	\$ 189,921
Adjustments to reconcile change in net assets to net cash flows provided by operating activities		
Depreciation	47,635	40,981
Interest income on certificate of deposit	<u>(10)</u>	<u>(63)</u>
	190,940	230,839
Increase (decrease) in cash and cash equivalents due to changes in operating assets and liabilities		
Donations receivable	4,880	(4,880)
Prepaid expenses	(4,545)	(14,107)
Deferred expenses	<u>11,364</u>	<u>(15,730)</u>
	<u>202,639</u>	<u>196,122</u>
Cash flows for investing activities		
Cash paid for purchase of property and equipment	<u>(39,609)</u>	<u>(70,328)</u>
Net increase in cash	163,030	125,794
Cash, beginning of year	<u>426,347</u>	<u>300,553</u>
Cash, end of year	<u>\$ 589,377</u>	<u>\$ 426,347</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Notes to Financial Statements
December 31, 2016 and 2015

1. Description of Organization

Organization for Transformative Works, Inc. ("the Organization") was incorporated as a nonprofit corporation in the State of Delaware on September 5, 2007, and has 501(c)(3) nonprofit status under the Internal Revenue Code. The Organization was established by fans to serve the interests of fans by providing access to and preserving the history of fanworks and fan culture in its myriad forms. The Organization is a collaborative effort initiated and driven by fans for fans. Over 500 volunteers contribute to the Organization's five major projects (Archive of our Own; Open Doors; Fanlore; Legal Advocacy; Transformative Works & Cultures) as well as fundraising, membership development, and internal management and administration.

2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial statement presentation

The Organization utilizes Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Organization 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) based upon the existence or absence of donor-imposed restrictions.

In accordance with FASB ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donations receivable

The Organization considers donations receivable to be fully collectible; accordingly, no allowance for doubtful donations is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Contributed materials and services

Contributed materials and services are reflected in the financial statements at the estimated fair value of the materials and services received. The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Organization maintains cash at one financial institution which may exceed federally insured amounts at times.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met, either by passage of time or by use, in the reporting period in which the income and gains are recognized.

The Organization accounts for investments in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. FASB ASC Topic 820 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

- Level 1: Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs are quoted prices for similar assets in markets that are not active, inputs other than quoted prices that are observable and market corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3: Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

Property and equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset 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. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method or declining balance methods over the estimated useful lives of the related assets, which are 5 years. Maintenance and repairs are charged to operations as incurred. Significant improvements or renewals are capitalized.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions which have any restrictions satisfied in the same period they are received are recorded as increases in net assets and are reflected as unrestricted.

Functional allocation of expenses

The costs of providing program services, fund raising and administrative functions have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based upon management estimates.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and application of state law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2016 and 2015.

ORGANIZATION FOR TRANSFORMATIVE WORKS, INC.

Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

Income taxes (Continued)

The Organization files its Form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for various states. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

Recognition and public relation costs

Recognition and public relation costs are expensed as incurred.

Management's review of subsequent events

The Organization evaluated events occurring between the end of the most recent fiscal year and March 5, 2018, the date the financial statements were available to be issued.

3. Investments

Investments are recorded at fair value based on quoted prices in active markets and consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Long-term investments:		
Certificate of Deposit	<u>\$ 10,155</u>	<u>\$ 10,145</u>

4. Advertising

Advertising costs amounted to \$5,335 and \$9,796 for the years ended December 31, 2016 and 2015, respectively.

5. Contributed Materials and Services

Contributed services of \$226,480 and \$366,290 were recorded as operating contributions during the years ended December 31, 2016 and 2015, respectively.

The following is a summary of the In-kind expenses listed on the statement of functional expenses for which the contributed services were utilized:

	<u>2016</u>	<u>2015</u>
Donated legal services	<u>\$226,480</u>	<u>\$366,290</u>