

SWALLOW HILL MUSIC ASSOCIATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

SWALLOW HILL MUSIC ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Swallow Hill Music Association
Denver, Colorado

We have audited the accompanying financial statements of Swallow Hill Music Association (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. Information for the year ended December 31, 2012 is presented for comparative purposes only and was extracted from the financial statements, presented by net asset class for that year, on which an unqualified audit opinion dated May 17, 2013 was expressed.

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 Swallow Hill Music Association as of December 31, 2013, 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.

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 12 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.

Taylor, Roth and Company PLLC
TAYLOR, ROTH AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Denver, Colorado
May 29, 2014

SWALLOW HILL MUSIC ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
<u>Assets</u>		
Cash and cash equivalents	\$ 420,973	\$ 540,378
Cash and cash equivalents - temporarily restricted	28,549	44,457
Accounts receivable - temporarily restricted and unrestricted	17,301	18,975
Grants receivable	126,926	114,355
Prepaid expenses and deposits	18,432	27,594
Investments	3,048	2,960
Donated property held for sale - temporarily restricted (Note 3)	-	708,000
Investment in LLC - temporarily restricted (Note 3)	522,995	-
Net property and equipment (Note 4)	944,040	906,393
Beneficial interest in assets held by others (Note 5)	56,090	-
Total assets	\$ 2,138,354	\$ 2,363,112
<u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Accounts payable	\$ 23,783	\$ 18,913
Accrued payroll costs	24,937	26,243
Deferred concert and class revenue	188,921	186,889
Note payable (Note 6)	358,384	365,580
Line of credit (Note 6)	-	-
Commitments (Note 7)		
Total liabilities	596,025	597,625
<u>Net assets</u>		
Unrestricted		
Operating	928,349	1,067,476
Temporarily restricted (Note 8)	557,890	698,011
Permanently restricted (Note 5)	56,090	-
Total net assets	1,542,329	1,765,487
Total liabilities and net assets	\$ 2,138,354	\$ 2,363,112

The accompanying notes are an integral part of these financial statements

SWALLOW HILL MUSIC ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<u>Revenue and other support</u>					
Ticket sales (Net of seat and sales tax)	\$ 2,641,367	\$ -	\$ -	\$ 2,641,367	\$ 2,539,405
Music class tuition	951,621	-	-	951,621	829,893
SCFD	443,528	23,342	-	466,870	461,777
Membership dues	178,082	-	-	178,082	156,987
Grants and contributions	99,386	20,000	54,666	174,052	96,442
Food and beverage (Net of cost of sales)	36,340	-	-	36,340	46,584
Rental income (Note 9)	31,145	-	-	31,145	43,177
Studio fees	25,133	-	-	25,133	24,102
Merchandise (Net of cost of sales)	16,291	-	-	16,291	16,766
Sponsorship	15,535	-	-	15,535	64,755
Raffle income	4,260	-	-	4,260	8,392
Advertising	1,940	-	-	1,940	3,601
Investment income (Net of management fees)	102	-	1,424	1,526	-
Bequests	-	-	-	-	54,446
All other	298	-	-	298	788
In-kind (Note 10)	21,938	-	-	21,938	7,568
Net assets released from restrictions (Note 11)	52,904	(52,904)	-	-	-
Total revenue and other support	4,519,870	(9,562)	56,090	4,566,398	4,354,683
<u>Expense</u>					
Program services	4,006,627	-	-	4,006,627	3,861,266
<u>Supporting services</u>					
Management and general	374,993	-	-	374,993	255,812
Fund-raising	222,931	-	-	222,931	145,955
Total expenses	4,604,551	-	-	4,604,551	4,263,033
Loss on sale of property (Note 3)	-	185,005	-	185,005	-
Total expense and losses	4,604,551	185,005	-	4,789,556	4,263,033
Change in net assets	(84,681)	(194,567)	56,090	(223,158)	91,650
Net assets, beginning of year	1,013,030	752,457	-	1,765,487	1,673,837
Net assets, end of year	\$ 928,349	\$ 557,890	\$ 56,090	\$ 1,542,329	\$ 1,765,487

The accompanying notes are an integral part of these financial statements

SWALLOW HILL MUSIC ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (223,158)	\$ 91,650
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on sale of donated property	185,005	-
Donated piano	(17,000)	-
Donated securities	(5,092)	(2,683)
Depreciation	79,860	75,047
Unrealized loss on investments	99	-
<u>Changes in operating assets and liabilities</u>		
(Increase)decrease in accounts receivable	1,674	(10,786)
(Increase)decrease in grants receivable	(12,571)	(2,393)
(Increase)decrease in prepaid expenses	9,162	(12,091)
Increase(decrease) in accounts payable	4,870	(1,073)
Increase(decrease) in payroll accruals	(1,306)	8,441
Increase(decrease) in deferred revenue	2,032	34,757
Increase(decrease) in deferred grant revenue	-	(10,000)
Net cash provided(used) by operating activities	<u>23,575</u>	<u>170,869</u>
<u>Cash flows from investing activities</u>		
(Purchases) of fixed assets	(100,507)	(265,100)
(Purchases) redemption of investments	4,905	-
Net cash provided(used) by investing activities	<u>(95,602)</u>	<u>(265,100)</u>
<u>Cash flows from financing activities</u>		
Borrowing (repayments) on note payable	(7,196)	(6,773)
(Additions) to endowment	(56,090)	-
Net cash provided by financing activities	<u>(63,286)</u>	<u>(6,773)</u>
Net increase in cash and cash equivalents	(135,313)	(101,004)
Cash and cash equivalents, beginning of year	<u>584,835</u>	<u>685,839</u>
Cash and cash equivalents, end of year	<u>\$ 449,522</u>	<u>\$ 584,835</u>
Supplemental disclosure of information:		
Cash paid during the period for interest	<u>\$ 22,679</u>	<u>\$ 22,806</u>

The accompanying notes are an integral part of these financial statements

SWALLOW HILL MUSIC ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - NATURE OF ACTIVITIES

Swallow Hill Music Association was incorporated in 1979, as a non-profit corporation in the state of Colorado. Swallow Hill Music Association has been granted tax-exempt status from the Internal Revenue Service in accordance with section 501(c)(3) of the Internal Revenue Code. Swallow Hill Music Association exists to serve as a local, regional and national resource for the teaching, presentation and preservation of roots, folk and acoustic music, and to make enjoyment of and participation in live performance and dancing a vital part of our community's cultural life. The Organization is funded primarily by music class tuition, ticket sales, and grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

1. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. 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.

3. Cash and Cash Equivalents

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

4. Presentation of Certain Taxes

The Organization collects various taxes from customers and remits these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from revenues and cost of sales.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Continued)

5. Donations

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities, as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless the explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

6. Capitalization and Depreciation

The Organization follows a practice of capitalizing all expenditures for furniture and equipment in excess of \$1,000. The fair value of donated assets is similarly capitalized. Depreciation of furniture and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

7. 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.

8. Income Taxes

The Organization has received an Internal Revenue Service exemption from federal income taxes under Section 501(c)(3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements. The Organization's federal return for organizations exempt from income tax (Form 990) is subject to examination by the IRS, generally for three years after filing.

9. Functional Reporting of Expenses

For the year ended December 31, 2013, the costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

10. Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Concluded)

11. Subsequent Events

Management has evaluated subsequent events through May 29, 2014, the date the financial statements were available to be issued.

NOTE 3 - DONATED PROPERTY HELD FOR SALE AND INVESTMENT IN LLC

On October 24, 2011, the Estate of Jeffery M. Quinlan transferred all membership interests in a Colorado limited liability company (LLC) to the Organization. The donated property, located in Colorado Springs, Colorado, consisted of a vacant, 5.0 acre parcel of land. On November 5, 2011, the land appraised for \$708,000. The property was sold September 3, 2013 for \$678,030. After an unexpected lien of \$122,515 previously undisclosed by the Estate, as well as closing costs, commissions, and fees of \$32,520, the LLC received \$522,995.

Investment in LLC –temporarily restricted

The proceeds will remain in the LLC’s bank account until the LLC is dissolved. It was the intention of the donor that the proceeds be restricted for capital improvements.

Loss on Sale of Property

The property was originally valued at \$708,000. Due to the unexpected and undisclosed lien on the property, a loss of \$185,005 was incurred and recorded.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<u>Description</u>	<u>Amount</u>
Land	\$ 115,192
Building and improvements	1,102,553
Furniture, fixtures, and equipment	<u>246,205</u>
Total	1,463,950
Less: accumulated depreciation	<u>(519,910)</u>
Net property and equipment	<u>\$ 944,040</u>

Depreciation expense for the year was \$79,860.

NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2013, the Organization established an endowment fund with the Community First Foundation for operational purposes. The Foundation has variance power over the funds. Under the terms of the endowment, the contributions are held in perpetuity. Amounts appropriated for expenditure are calculated using five percent of the average of the net fair market values of three preceding calendar years. At year-end, the fund had a fair value of \$56,090.

Changes in endowment net assets as of December 31, 2013 are as follows:

	<u>Amount</u>
Balance, beginning of year	\$ -
Initial contribution	30,000
Matching grant and donor contributions	24,666
Interest income	299
Net appreciation	1,216
Less: management fees	<u>(91)</u>
Balance, end of year	<u>\$ 56,090</u>

NOTE 6 - NOTE PAYABLE

On January 31, 2011, the Organization refinanced a note totaling \$372,991. The note accrues interest at 6% annually, with interest only payments through August 12, 2011; and monthly payments (principal plus interest) of \$2,436 through July 2016. There is a balloon payment of \$340,146 due July 2016. The note is secured by deed of trust on the real property.

Principal payments for the note are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 7,777
2015	8,257
2016 and balloon	<u>342,350</u>
Total	<u>\$ 358,384</u>

Line of Credit

The Organization established a \$100,000 line of credit secured by the building. Interest currently accrues at a variable rate of 6.25% per annum, based on a year of 360 days. There was no balance at year end.

NOTE 7 - COMMITMENTS

The Organization has entered into a two year lease for its first satellite location. The lease commences January 1, 2014 and ends January 31, 2015. Under the terms of this agreement, the Organization is obligated for future lease payments of:

<u>Year</u>	<u>Amount</u>
2014	\$ 18,000
2015	<u>18,000</u>
Total	<u>\$ 36,000</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

<u>Description</u>	<u>Amount</u>
Capital improvements	\$ 522,995
Bequest restricted to capital improvements and purchases	18,549
Scholarships	10,000
Discretionary portion of SCFD	<u>6,346</u>
Total	<u>\$ 557,890</u>

NOTE 9 - RENTAL INCOME

The Organization negotiated an agreement with New City Church allowing the church access to certain space in the Organization's building. The Organization charged \$1,800 per month or \$2,250 per month for months containing five Sundays. This arrangement ended June, 2013. The Organization also leased space to a tenant from January 1, 2013 through December 31, 2013. Monthly rent was \$1,100.

NOTE 10 - IN-KIND CONTRIBUTIONS

During the year, in-kind contributions were received as follows:

<u>Description</u>	<u>Amount</u>
Donated piano	\$ 17,000
Donated materials	3,320
Legal	<u>1,618</u>
Total	<u>\$ 21,938</u>

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year, net assets were released by satisfying program restrictions as follows:

<u>Description</u>	<u>Amount</u>
Property taxes and fees	\$ 25,908
SCFD-discretionary portion	16,996
Café remodel	5,000
School - smartboards	<u>5,000</u>
Total	<u>\$ 52,904</u>

NOTE 12 - CONCENTRATION OF CREDIT RISK

The Organization places most of its cash with one financial institution. Amounts over \$250,000 are not insured by the FDIC or related entity.

NOTE 13 - INTEREST IN LIMITED LIABILITY COMPANY (LLC)

The Organization was assigned a 1/3 minority interest in a limited liability company (LLC) that contains only a sole piece of property consisting of a parcel of land. Management has not been able to establish a value, and since the fair value of the property is not determinable, no amounts have been included in the financial statements.

SUPPLEMENTARY INFORMATION

SWALLOW HILL MUSIC ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			2012	
	Program Services	Supporting Services		Total	Total
		Management And General	Fund- raising		
Salaries	\$ 816,210	\$ 259,703	\$ 160,769	\$ 1,236,682	\$ 740,337
Payroll taxes and benefits	128,080	35,268	22,275	185,623	124,723
Contract - performers	1,191,683	-	-	1,191,683	1,190,579
Facility rental	803,754	-	-	803,754	700,871
Contract - other	272,553	-	-	272,553	319,719
Professional consulting	119,055	-	-	119,055	44,910
Advertising	118,259	-	-	118,259	129,175
Merchant and bank fees	107,306	-	-	107,306	92,876
Contract - teachers	105,155	-	-	105,155	466,554
Printing	56,328	-	1,742	58,070	58,720
Supplies	32,963	10,488	6,493	49,944	34,970
Equipment and software	32,737	2,090	-	34,827	56,715
Utilities	22,746	7,237	4,481	34,464	27,336
Insurance	19,704	6,270	3,881	29,855	29,024
Dues and licenses	27,547	-	-	27,547	29,020
Interest	14,968	4,763	2,948	22,679	22,806
Repair and maintenance	13,901	4,423	2,738	21,062	12,222
Postage	13,476	4,288	2,654	20,418	13,350
Travel	16,354	1,838	183	18,375	13,403
Meals and entertainment	10,699	3,404	2,107	16,210	15,204
Accounting and legal	11,341	4,860	-	16,201	29,470
Telephone	9,412	2,995	1,853	14,260	13,936
Property taxes	-	9,908	-	9,908	9,989
Conferences and workshops	7,528	-	-	7,528	3,027
Other	2,160	687	426	3,273	9,050
	<u>3,953,919</u>	<u>358,222</u>	<u>212,550</u>	<u>4,524,691</u>	<u>4,187,986</u>
Depreciation	52,708	16,771	10,381	79,860	75,047
Total expenses	<u>\$ 4,006,627</u>	<u>\$ 374,993</u>	<u>\$ 222,931</u>	<u>\$ 4,604,551</u>	<u>\$ 4,263,033</u>

The accompanying notes are an integral part of these financial statements