

**SWALLOW HILL MUSIC ASSOCIATION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

**SWALLOW HILL MUSIC ASSOCIATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

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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, 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 Swallow Hill Music Association 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.

***Report on Summarized Comparative Information***

We have previously audited Swallow Hill Music Association's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 26, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Taylor, Roth and Company PLLC*

TAYLOR, ROTH AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Denver, Colorado  
April 28, 2016

**SWALLOW HILL MUSIC ASSOCIATION**

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR 2014)

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash and cash equivalents - unrestricted	\$ 742,996	\$ 617,130
Cash and cash equivalents - temporarily restricted	620,769	44,457
Accounts receivable	5,305	39,527
Grants receivable	163,982	150,928
Prepaid expenses and deposits	31,083	11,226
Inventory (Note 3)	4,298	-
Investments (Note 4)	-	11,182
Investment in LLC - temporarily restricted (Note 5)	-	522,995
Net property and equipment (Note 6)	889,522	934,923
Beneficial interest in assets held by others (Note 7)	52,091	56,313
Total assets	<u>\$ 2,510,046</u>	<u>\$ 2,388,681</u>
 <u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Accounts payable	\$ 43,369	\$ 47,821
Accrued payroll costs	63,980	22,369
Deferred concert and class revenue	259,206	218,909
Notes payable (Note 8)	342,613	350,738
Lines of credit (Note 8)	-	-
Copier lease obligation (Note 9)	12,859	15,621
Total liabilities	<u>722,027</u>	<u>655,458</u>
 <u>Net assets</u>		
<u>Unrestricted</u>		
Operating	1,115,159	1,064,325
Temporarily restricted (Note 10)	620,769	612,585
Permanently restricted (Note 7)	52,091	56,313
Total net assets	<u>1,788,019</u>	<u>1,733,223</u>
Total liabilities and net assets	<u>\$ 2,510,046</u>	<u>\$ 2,388,681</u>

The accompanying notes are an integral part of these financial statements

**SWALLOW HILL MUSIC ASSOCIATION**  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(WITH COMPARATIVE TOTALS FOR 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<u>Revenue and other support</u>					
Ticket sales (net of seat and sales tax)	\$ 3,132,265	\$ -	\$ -	\$ 3,132,265	\$ 3,130,684
Music class tuition	1,219,954	-	-	1,219,954	1,075,534
SCFD	582,751	30,670	-	613,421	526,457
Grants and contributions	60,586	152,760	-	213,346	212,573
Membership dues	168,852	-	-	168,852	175,750
Food and beverage (net of cost of sales)	100,145	-	-	100,145	79,264
Commission from 3rd party ticket sales	50,000	-	-	50,000	-
Sponsorship	35,999	-	-	35,999	62,486
Merchandise (net of cost of sales)	24,724	-	-	24,724	15,119
Rental income (Note 11)	20,096	-	-	20,096	20,170
Studio fees	17,686	-	-	17,686	22,316
Advertising	2,100	-	-	2,100	2,950
Investment income (net of management fees)	1,830	-	(1,450)	380	(729)
Raffle income	-	-	-	-	3,234
All other	9,213	-	-	9,213	12,196
In-kind (Note 12)	36,227	-	-	36,227	16,558
Net assets released from restrictions (Note 13)	178,018	(175,246)	(2,772)	-	2,804
<b>Total revenue and other support</b>	<b>5,640,446</b>	<b>8,184</b>	<b>(4,222)</b>	<b>5,644,408</b>	<b>5,354,562</b>
<u>Expense</u>					
Program services	4,798,861	-	-	4,798,861	4,489,876
Supporting services					
Management and general	492,093	-	-	492,093	435,848
Fund-raising	298,658	-	-	298,658	256,907
<b>Total expenses</b>	<b>5,589,612</b>	<b>-</b>	<b>-</b>	<b>5,589,612</b>	<b>5,182,631</b>
 Change in net assets	 50,834	 8,184	 (4,222)	 54,796	 171,931
Net assets, beginning of year	1,064,325	612,585	56,313	1,733,223	1,561,292
Net assets, end of year	<u>\$ 1,115,159</u>	<u>\$ 620,769</u>	<u>\$ 52,091</u>	<u>\$ 1,788,019</u>	<u>\$ 1,733,223</u>

The accompanying notes are an integral part of these financial statements

**SWALLOW HILL MUSIC ASSOCIATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(WITH COMPARATIVE TOTALS FOR 2014)**

	2015			2014	
	Supporting Services				
	Program	Management	Fund-	Total	Total
	Services	And General	raising		
Salaries	\$ 1,035,122	\$ 329,357	\$ 203,887	\$ 1,568,366	\$ 1,436,451
Payroll taxes and benefits	135,763	37,384	23,611	196,758	181,336
Contract - performers	1,647,033	-	-	1,647,033	1,403,606
Facility rental	778,779	-	-	778,779	851,753
Contract - other	322,312	-	-	322,312	345,684
Advertising	203,362	-	-	203,362	195,921
Merchant and bank fees	126,026	-	-	126,026	112,966
Website	86,717	-	21,679	108,396	67,371
Database fees	69,207	-	-	69,207	111,815
Printing	54,456	-	6,051	60,507	59,781
Professional services	47,293	11,823	-	59,116	21,884
Repair and maintenance	34,007	10,820	6,698	51,525	24,729
Dues and licenses	50,745	-	-	50,745	34,160
Insurance	30,738	9,780	6,055	46,573	37,002
Accounting and legal	-	40,477	-	40,477	15,708
Utilities	18,867	6,003	3,716	28,586	29,563
Supplies	15,297	4,867	3,014	23,178	64,209
Interest	14,675	4,669	2,891	22,235	21,594
Telephone	11,205	3,565	2,208	16,978	17,212
Postage	10,899	3,468	2,146	16,513	11,089
Meals and entertainment	8,514	2,709	1,677	12,900	21,302
Travel	10,607	1,192	119	11,918	11,481
Small instruments	10,712	-	-	10,712	-
Conferences and workshops	850	-	-	850	645
Property taxes	-	1,900	-	1,900	1,800
Other	8,076	2,570	1,591	12,237	7,480
	<u>4,731,262</u>	<u>470,584</u>	<u>285,343</u>	<u>5,487,189</u>	<u>5,086,542</u>
Depreciation	67,599	21,509	13,315	102,423	96,089
Total expenses	<u>\$ 4,798,861</u>	<u>\$ 492,093</u>	<u>\$ 298,658</u>	<u>\$ 5,589,612</u>	<u>\$ 5,182,631</u>

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, 2015**  
**(WITH COMPARATIVE TOTALS FOR 2014)**

	2015	2014
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 54,796	\$ 176,684
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated equipment	(3,500)	(9,500)
Depreciation	102,423	91,336
Prior period adjustment	-	14,210
Unrealized loss on investments and endowment	5,616	300
Transfer of assets from dissolution of LLC (Note 5)	522,995	-
<u>Changes in operating assets and liabilities</u>		
(Increase)decrease in accounts receivable	34,222	(22,226)
(Increase)decrease in grants receivable	(13,054)	(24,002)
(Increase)decrease in prepaid expenses	(19,857)	7,206
(Increase)decrease in inventory	(4,298)	-
Increase(decrease) in accounts payable	(4,452)	24,038
Increase(decrease) in payroll accruals	41,611	(2,568)
Increase(decrease) in deferred revenue	40,297	29,988
Net cash provided(used) by operating activities	756,799	285,466
<u>Cash flows from investing activities</u>		
(Purchases) of fixed assets	(53,522)	(57,098)
(Purchases) redemption of investments	9,788	(8,657)
Net cash provided(used) by investing activities	(43,734)	(65,755)
<u>Cash flows from financing activities</u>		
Borrowing (repayments) on note payable	(8,125)	(7,646)
Borrowing (repayments) on capital lease obligation	(2,762)	-
Net cash provided by financing activities	(10,887)	(7,646)
Net increase in cash and cash equivalents	702,178	212,065
Cash and cash equivalents, beginning of year	661,587	449,522
Cash and cash equivalents, end of year	\$ 1,363,765	\$ 661,587
Supplemental disclosure of information:		
Cash paid during the period for interest	\$ 22,235	\$ 21,594
Noncash investing and financing transactions		
Property purchased under a capital lease	\$ -	\$ 15,621

The accompanying notes are an integral part of these financial statements



# SWALLOW HILL MUSIC ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

### 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 ticket sales, music class tuition, and SCFD 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.

#### 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.

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

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. Investments

Investments are reported at fair value, and classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include mutual funds, listed equities, listed derivatives, cash, and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt. Because the types of endowment investments are not known to the Organization, the Endowment (Note 7) is classified as Level 3.

8. 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.

9. 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.

10. Functional Reporting of Expenses

For the year ended December 31, 2015, 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.

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

11. 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, 2014, from which the summarized information was derived.

12. Subsequent Events

Management has evaluated subsequent events through April 28, 2016, the date the financial statements were available to be issued.

13. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE 3 - INVENTORY

At year-end, inventory, valued at cost, consists of wine, beer, and spirits sold in the café during performances.

NOTE 4 - INVESTMENTS

The Organization maintains an investment account; however, the policy is to immediately liquidate donated securities.

Investment income is summarized as follows:

<u>Description</u>	
Unrealized and realized gain (losses)	\$ (22)
Endowment gain (loss) Note 7	<u>(1,160)</u>
Net investment return	<u>\$ (1,182)</u>

During the year, the Organization also earned interest income of \$1,562 on its cash and cash equivalents.

NOTE 5 - INVESTMENT IN LLC

The LLC was dissolved November 2, 2015 and the proceeds will remain restricted for capital improvements.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<u>Description</u>	<u>Amount</u>
Land	\$ 115,192
Building and improvements	1,156,044
Furniture, fixtures, and equipment	<u>263,325</u>
Total	1,534,561
Less: accumulated depreciation	<u>(645,039)</u>
Net property and equipment	<u>\$ 889,522</u>

Depreciation expense for the year was \$102,423.

NOTE 7 - 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 \$52,091.

Changes in endowment net assets as of December 31, 2015 are as follows:

<u>Permanently Restricted Endowment (Level 3)</u>	<u>Amount</u>
Balance, beginning of year	<u>\$ 56,313</u>
Contributions	<u>260</u>
Investment income	4,428
Net appreciation	(5,588)
Less: management fees	<u>(550)</u>
Total investment return	<u>(1,710)</u>
Appropriations for expenditure	<u>(2,772)</u>
Balance, end of year	<u>\$ 52,091</u>

NOTE 8 - NOTE PAYABLE AND LINE OF CREDIT

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 \$340,145 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>
2016 and balloon	<u>\$ 342,613</u>

Interest expense for the year was \$22,235.

Subsequent event- Refinance

On February 26, 2016, the Organization refinanced a note totaling \$427,420. The note accrues interest at 4.35% annually, with monthly payments (principal plus interest) of \$3,562 through March 1, 2026, at which time the entire unpaid principal and accrued interest will be due. The note is secured by deed of trust on the real property.

Payments (with interest) for the note are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 32,056
2017	42,742
2018	42,742
2019	42,742
2020 and beyond	<u>267,138</u>
Total	<u>\$ 427,420</u>

Line of Credit

At year end, there was no balance on the original \$100,000 line of credit secured by the building. On February 26, 2016, the line of credit was replaced with a \$50,000 demand line of credit secured by the building. Interest currently accrues at a variable rate of 5% per annum, based on a year of 360 days. Principal is payable on demand.

NOTE 9 - CAPITAL LEASE OBLIGATION

The Organization has acquired a photocopier under a capital leasing arrangement. The future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2016	\$ 3,624
2017	3,624
2018	3,624
2019	<u>3,624</u>
Total	\$ 14,496
Less: imputed interest	<u>(1,637)</u>
Present value of capital lease obligation	<u>\$ 12,859</u>

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

<u>Description</u>	<u>Amount</u>
Capital improvements	\$ 533,256
Outreach	60,712
Scholarships	23,941
Fine arts - mural	2,000
Take a Stand Campaign	<u>860</u>
Total	<u>\$ 620,769</u>

NOTE 11 - RENTAL INCOME

The Organization leased space to a tenant from January 1, 2015 through December 31, 2015. Monthly rent was \$1,100. The Organization also rented space for various other activities during the year.

NOTE 12 - IN-KIND CONTRIBUTIONS

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

<u>Description</u>	<u>Amount</u>
Legal	\$ 28,327
Donated piano	3,500
Donated instruments	3,500
Catering	<u>900</u>
Total	<u>\$ 36,227</u>

The Organization also received over 4,000 volunteer hours from ticket takers, ushers, and other nonprofessional services that are not recorded in the financial statements.

NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS

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

<u>Description</u>	<u>Amount</u>
Outreach	\$ 50,407
Ukefest	40,000
SCFD-discretionary portion	38,216
Scholarship	20,335
Assembly	10,000
Capital improvements	8,288
Take a Stand campaign	8,000
Appropriated endowment disbursement	<u>2,772</u>
Total	<u>\$ 178,018</u>

NOTE 14 - 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 15 - 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.

NOTE 16 - CONTINGENT RECEIVABLE

Generally Accepted Accounting Principles require promises to give to be recognized as revenue in the period the promise is received, unless there is uncertainty about whether the Organization will be able to meet any donor imposed conditions. In 2014, the Organization received a five-year pledge from an individual donor in the amount of \$125,000. The contribution is to be spent on Outreach and calls for five annual payments of \$25,000. At December 31, 2015, the outstanding amount totaled \$75,000. Management and the Board have evaluated this pledge and have determined certain conditions may exist about the possibility of meeting donor imposed restrictions. In accordance with the agreement, the Organization and the donor will review the outreach efforts on a yearly basis to evaluate implementation and impact. If this review proves to be satisfactory, the Organization will recognize the following year's proportion (\$25,000 per year) of the five-year gift with the understanding that the Organization intends to provide the same level of outreach efforts in the following year.