FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

<u>FINANCIAL STATEMENTS</u> <u>FOR THE YEAR ENDED DECEMBER 31, 2016</u>

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working exclusively with nonprofit organizations

May 25, 2017

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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CERTIFIED PUBLIC ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

Assets \$ 759,627 \$ 742,996 Cash and cash equivalents - temporarily restricted 90,316 620,769 Accounts receivable 30,077 5,305 Grants receivable 174,802 163,982 Prepaid expenses and deposits 33,493 31,083 Inventory (Note 3) 1,818 4,298 Inventory (Note 3) 926,089 889,522 Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets \$2,489,855 \$2,510,046 Accounts payable \$55,294 \$43,369 Accounts payable \$55,294 \$43,369 Accounts payable (Note 7) \$25,006 Notes payable (Note 7) \$2,16 32,613 Line of credit (Note 7) \$2,16 32,613 Line of credit (Note 7) \$2,202 12,859 Total liabilities \$2,10 1,115,159 Goperating \$2,20,70 59,802<		2016	2015
Cash and cash equivalents - temporarily restricted 90,316 620,769 Accounts receivable 30,077 5,305 Grants receivable 174,802 163,982 Prepaid expenses and deposits 33,493 31,083 Inventory (Note 3) 1,818 4,298 Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets 4 4 Liabilities and net assets 87,712 63,980 Accounts payable \$55,294 \$43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted 9,926 1,115,159 <t< td=""><td></td><td></td><td></td></t<>			
Accounts receivable 30,077 5,305 Grants receivable 174,802 163,982 Prepaid expenses and deposits 33,493 31,083 Inventory (Note 3) 1,818 4,298 Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities \$32,489,855 \$2,510,046 Accounts payable \$55,294 \$43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - - Copier lease obligation (Note 8) 9,926 12,859 Net assets - 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total	Cash and cash equivalents - unrestricted	\$ 759,627	\$ 742,996
Grants receivable 174,802 163,982 Prepaid expenses and deposits 33,493 31,083 Inventory (Note 3) 1,818 4,298 Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets 87,712 63,980 Accounts payable \$55,294 \$43,369 Accorded payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Net assets Unrestricted 716,168 722,027 Net assets Unrestricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets <	Cash and cash equivalents - temporarily restricted	90,316	620,769
Prepaid expenses and deposits 33,493 31,083 Inventory (Note 3) 1,818 4,298 Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets Liabilities and net assets \$55,294 \$43,369 Accounts payable \$55,294 \$43,369 Accounts payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted - - Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Accounts receivable	30,077	5,305
Prepaid expenses and deposits 33,493 31,083 Inventory (Note 3) 1,818 4,298 Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets Liabilities \$5,294 \$43,369 Accounts payable \$5,294 \$43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted - - Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (N	Grants receivable	174,802	163,982
Inventory (Note 3) 1,818 4,298 Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets Liabilities and net assets Liabilities and net assets Accounts payable \$55,294 \$43,369 Accounts payable (Note 3) 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted - - Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147	Prepaid expenses and deposits	33,493	
Investments - temporarily restricted (Note 4) 419,486 - Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets Liabilities Accounts payable S5,294 \$43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) 2 1 Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Inventory (Note 3)	1,818	
Net property and equipment (Note 5) 926,089 889,522 Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets Liabilities \$55,294 \$43,369 Accounts payable \$7,712 63,980 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted 9,926 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Investments - temporarily restricted (Note 4)	419,486	-
Beneficial interest in assets held by others (Note 6) 54,147 52,091 Total assets \$2,489,855 \$2,510,046 Liabilities and net assets \$1,2489,855 \$2,510,046 Liabilities \$55,294 \$43,369 Accounts payable \$55,294 \$43,369 Accrued payroll costs \$87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Net property and equipment (Note 5)		889,522
Liabilities and net assets Liabilities and net assets Accounts payable \$ 55,294 \$ 43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted - - Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Beneficial interest in assets held by others (Note 6)	**************************************	
Liabilities Accounts payable \$ 55,294 \$ 43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Total assets	\$ 2,489,855	\$ 2,510,046
Accounts payable \$ 55,294 \$ 43,369 Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Liabilities and net assets		
Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Liabilities		
Accrued payroll costs 87,712 63,980 Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Accounts payable	\$ 55.294	\$ 43,369
Deferred concert and class revenue 239,091 259,206 Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Accrued payroll costs		, , , , , , , , , , , , , , , , , , , ,
Notes payable (Note 7) 324,145 342,613 Line of credit (Note 7) - - Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Deferred concert and class revenue	100 mm and	
Line of credit (Note 7) - <td>Notes payable (Note 7)</td> <td></td> <td></td>	Notes payable (Note 7)		
Copier lease obligation (Note 8) 9,926 12,859 Total liabilities 716,168 722,027 Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019		-	2 1 2 ,013
Net assets Unrestricted Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019		9,926	12,859
Unrestricted 1,209,738 1,115,159 Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Total liabilities	716,168	722,027
Unrestricted 1,209,738 1,115,159 Operating 1,209,738 1,115,159 Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Net assets		
Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Unrestricted		
Temporarily restricted (Note 9) 509,802 620,769 Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019	Operating	1 209 738	1 115 150
Permanently restricted (Note 6) 54,147 52,091 Total net assets 1,773,687 1,788,019		888 8	S 50
<u> </u>			50
	Total net assets	1,773,687	1,788,019
	Total liabilities and net assets	\$ 2,489,855	\$ 2,510,046

The accompanying notes are an integral part of these financial statements

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

Temporarily Permanently Unrestricted Restricted Restricted Total	Γotal
omesuicied restricted restricted [013]	Ctui
Revenue and other support	
	132,265
1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 -	219,954
	613,421
20 No. 10	213,346
	100,145
The second secon	168,852
Sponsorship 37,850 - 37,850	35,999
Rental income (Note 10) 17,465 - 17,465	20,096
Merchandise (net of cost of sales) 17,290 - 17,290	24,724
Studio fees 16,525 - 16,525	17,686
Investment income (net of management fees) 1,176 - 3,422 4,598	380
Advertising 1,500 - 1,500	2,100
Commission from 3rd party ticket sales	50,000
All other 5,607 - 5,607	9,213
In-kind (Note 11) 35,776 - 35,776	36,227
Net assets released	
from restrictions (Note 12) 225,606 (222,919) (2,687)	2,772
Total revenue and other support	544,408
Expense	
Program services 4,525,451 4,525,451 4,7	731,262
Supporting services	
Management and general 499,982 499,982	170,584
	285,343
	187,189
Change in net assets before depreciation expense 198,904 (110,967) 2,056 89,993	57,219
Less: depreciation expense (104,325) - (104,325)	02,423)
Change in net assets 94,579 (110,967) 2,056 (14,332)	54,796
Net assets, beginning of year 1,115,159 620,769 52,091 1,788,019 1,7	33,223
	788,019

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	2016			2015	
	Supporting Services				
	Program Services	Management And General	Fund- raising	Total	Total
Salaries	\$ 1,176,294	\$ 374,275	\$ 231,694	\$ 1,782,263	\$ 1,568,366
Payroll taxes and benefits	144,162	39,697	25,072	208,931	196,758
Contract - performers	1,250,232	-	-	1,250,232	1,647,033
Facility rental	924,500	 :		924,500	778,779
Website	240,713	=	60,178	300,891	236,719
Contract - other	234,128		2	234,128	322,312
Advertising	192,852		_	192,852	203,362
Merchant and bank fees	115,223	-	-	115,223	126,026
Printing	50,222	-3	5,580	55,802	60,507
Insurance	32,320	10,284	6,366	48,970	46,573
Repair and maintenance	27,141	8,636	5,346	41,123	51,525
Accounting and legal	-	39,096		39,096	40,477
Utilities	18,057	5,745	3,557	27,359	28,586
Dues and licenses	22,301	3) was	-	22,301	50,745
Supplies	16,336	5,198	3,217	24,751	23,178
Small instruments	17,307	-	-	17,307	10,712
Telephone	11,250	3,579	2,216	17,045	16,978
Interest	11,016	3,505	2,170	16,691	22,235
Travel	13,781	1,548	155	15,484	11,918
Meals and entertainment	8,515	2,709	1,677	12,901	12,900
Postage	6,550	2,084	1,290	9,924	16,513
Conferences and workshops	1,120	=	-	1,120	850
Professional services	160	40	·	200	-
Property taxes			-9 -	×=	1,900
Other	11,271	3,586	2,220	17,077	12,237
*	4,525,451	499,982	350,738	5,376,171	5,487,189
Depreciation	68,855	21,908	13,562	104,325	102,423
Total expenses	\$ 4,594,306	\$ 521,890	\$ 364,300	\$ 5,480,496	\$ 5,589,612

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (14,332)	\$ 54,796
Adjustments to reconcile change in net assets		
to net cash provided by operating activities		
Donated equipment	-	(3,500)
Depreciation	104,325	102,423
Unrealized (gain) loss on investments and endowment	(316)	5,616
Transfer of assets from dissolution of LLC	-	522,995
Changes in operating assets and liabilities		
(Increase)decrease in accounts receivable	(24,772)	34,222
(Increase)decrease in grants receivable	(10,820)	(13,054)
(Increase)decrease in prepaid expenses	(2,410)	(19,857)
(Increase)decrease in inventory	2,480	(4,298)
Increase(decrease) in accounts payable	11,925	(4,452)
Increase(decrease) in payroll accruals	23,732	41,611
Increase(decrease) in deferred revenue	(20,115)	40,297
Net cash provided(used) by operating activities	69,697	756,799
Cash flows from investing activities		
(Purchases) of fixed assets	(140,892)	(53,522)
(Purchases) redemption of investments	(421,226)	9,788
Net cash provided(used) by investing activities	(562,118)	(43,734)
Cash flows from financing activities		
Borrowing (repayments) on note payable	(18,468)	(8,125)
(Payments) on capital lease obligation	(2,933)	(2,762)
Net cash provided by financing activities	(21,401)	(10,887)
Net (decrease) increase in cash and cash equivalents	(513,822)	702,178
Cash and cash equivalents, beginning of year	1,363,765	661,587
Cash and cash equivalents, end of year	\$ 849,943	\$ 1,363,765
Supplemental disclosure of information:		
Cash paid during the period for interest	\$ 16,691	\$ 22,235
para animg me period for interest	Ψ 10,091	\$ 22,235

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

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 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 6) 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.

10. Functional Reporting of Expenses

For the year ended December 31, 2016, 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, 2015, from which the summarized information was derived.

12. Subsequent Events

Management has evaluated subsequent events through May 25, 2017, 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 - TEMPORARILY RESTRICTED

At year-end, investments consist of:

			Unrealized
		Fair	Appreciation
Description	Cost	Value	(Depreciation)
Cash	\$ 5,422	\$ 5,422	\$ -
Bond and ETF funds	412,306	414,064	1,758
Total	\$ 417,728	\$ 419,486	\$ 1,758

Investment income is summarized as follows:

Description	Amount
Interest income Unrealized and realized gain (loss)	\$ 3,462
Endowment gain (loss) Note 6	(2,308) _3,422
Net investment return	\$ 4,576

NOTE 4 - INVESTMENTS (Concluded)

The Organization maintains an additional investment account for donations of stock. The board's policy however, is to liquidate immediately upon receipt.

During the year, the Organization also earned interest income of \$22 on its cash and cash equivalents.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Description	_Amount
Land Building and improvements Furniture, fixtures, and equipment	\$ 115,192 1,237,037 <u>323,229</u>
Total Less: accumulated depreciation	1,675,458 _(749,369)
Net property and equipment	\$ 926,089

Depreciation expense for the year was \$104,325.

NOTE 6 - 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 \$54,147.

Changes in endowment net assets as of December 31, 2016 are as follows:

Permanently Restricted Endowment (Level 3)	_Amount
Balance, beginning of year	\$ 52,091
Contributions Investment income Net appreciation Less: management fees	1,321 1,329 2,624 (531)
Total investment return Appropriations for expenditure	3,422 (2,687)
Balance, end of year	\$ 54,147

NOTE 7 - NOTE PAYABLE AND LINE OF CREDIT

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 loan will be paid in full. The note is secured by deed of trust on the real property.

Principal payments for the note are as follows:

Year		_Amount
2017		\$ 42,742
2018	£	42,742
2019		42,742
2020		42,742
2021 and beyond		153,177
Total		\$ 324,145

Interest expense for the year was \$16,691.

Line of Credit

At year end, there was no balance on 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 8 - CAPITAL LEASE OBLIGATION

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

Year	_Amount
2017 2018 2019	\$ 3,624 3,624 3,624
Total Less: imputed interest	10,872 (946)
Present value of capital lease obligation	\$ 9,926

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

Description	Amount
Capital improvements	\$ 419,486
Outreach	67,950
Scholarships	21,506
Take a Stand Campaign	860
Total	\$ 509,802

NOTE 10 - RENTAL INCOME

The Organization leased space to a tenant from January 1, 2016 through December 31, 2016. Monthly rent was \$1,200. The Organization also rented space for various other activities during the year.

NOTE 11 - IN-KIND CONTRIBUTIONS

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

Description	Amount
Legal	\$ 26,336
Donated instruments	6,465
Advertising	
Total	\$ 35,776

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 12 - NET ASSETS RELEASED FROM RESTRICTIONS

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

Description	Amount
Capital improvements	\$ 116,541
Outreach	52,698
Scholarship	29,555
Make Music Denver	20,000
Appropriated endowment disbursement	2,687
Concert	2,125
Commissioned painting	2,000
Total	\$ 225,606

NOTE 13 - 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 14 - 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 15 - 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, 2016, the outstanding amount totaled \$50,000. 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.