

SWALLOW HILL MUSIC ASSOCIATION

**Financial Statements
and
Independent Auditors' Report
December 31, 2017
(With Summarized Comparative Totals for December 31, 2016)**

EKS&H

SWALLOW HILL MUSIC ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Swallow Hill Music Association (a non-profit corporation), which are comprised of the statement of financial position as of December 31, 2017, 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.

AUDITORS' 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 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 auditors consider 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.

To the Board of Directors
Swallow Hill Music Association
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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, 2017, 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.

**PRIOR YEAR FINANCIAL STATEMENTS AND REPORT ON SUMMARIZED
COMPARATIVE INFORMATION**

The 2016 financial statements were audited by other auditors, and they expressed an unmodified opinion on them in their report dated May 25, 2017, but they have not performed any auditing procedures since that date. The summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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May 7, 2018
Denver, Colorado

SWALLOW HILL MUSIC ASSOCIATION

Statement of Financial Position

December 31, 2017

(With Summarized Comparative Information as of December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 908,278	\$ 849,943
Accounts receivable	39,886	30,077
Pledges receivable	51,995	-
SCFD receivable	169,100	174,802
Other assets	<u>45,217</u>	<u>35,311</u>
Total current assets	<u>1,214,476</u>	<u>1,090,133</u>
Non-current assets		
Investments	442,068	419,486
Property and equipment, net	856,575	926,089
Construction in progress	20,879	-
Beneficial interest in assets held by others	<u>60,133</u>	<u>54,147</u>
Total non-current assets	<u>1,379,655</u>	<u>1,399,722</u>
Total assets	<u>\$ 2,594,131</u>	<u>\$ 2,489,855</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 109,825	\$ 55,294
Accrued benefits	52,733	87,712
Deferred concert and class revenue	262,303	239,091
Current portion of note payable	30,336	29,029
Current portion of capital lease obligations	<u>3,383</u>	<u>3,629</u>
Total current liabilities	458,580	414,755
Non-current liabilities		
Note payable, net of current portion	264,780	295,116
Capital lease obligations, net of current portion	<u>2,914</u>	<u>6,297</u>
Total liabilities	<u>726,274</u>	<u>716,168</u>
Commitments		
Net assets		
Unrestricted	1,139,887	1,209,738
Temporarily restricted	673,107	509,802
Permanently restricted	<u>54,863</u>	<u>54,147</u>
Total net assets	<u>1,867,857</u>	<u>1,773,687</u>
Total liabilities and net assets	<u>\$ 2,594,131</u>	<u>\$ 2,489,855</u>

See notes to financial statements.

SWALLOW HILL MUSIC ASSOCIATION

Statement of Activities December 31, 2017

(With Summarized Comparative Information for the Year Ended December 31, 2016)

	For the Year Ended December 31, 2017				2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenue and support					
Ticket sales, net	\$ 3,152,168	\$ -	\$ -	\$ 3,152,168	\$ 2,767,957
Music class tuition	1,326,423	-	-	1,326,423	1,271,249
SCFD support	625,761	-	-	625,761	643,785
Grants and contributions	151,579	244,527	716	396,822	300,010
Retail, net cost of sales of \$192,142 (2017) and \$198,052 (2016)	179,100	-	-	179,100	226,566
Membership dues	151,307	-	-	151,307	175,126
Investment income	1,150	30,507	-	31,657	4,598
In-kind contributions	18,940	-	-	18,940	35,776
Rental income	44,848	-	-	44,848	33,990
Other revenue	<u>86,564</u>	<u>-</u>	<u>-</u>	<u>86,564</u>	<u>7,107</u>
Total revenue and support	<u>5,737,840</u>	<u>275,034</u>	<u>716</u>	<u>6,013,590</u>	<u>5,466,164</u>
Net assets released from restrictions	<u>111,729</u>	<u>(111,729)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>5,849,569</u>	<u>163,305</u>	<u>716</u>	<u>6,013,590</u>	<u>5,466,164</u>
Expenses					
Program services	4,938,504	-	-	4,938,504	4,594,306
Support services					
Management and general	659,846	-	-	659,846	521,890
Fundraising	<u>321,070</u>	<u>-</u>	<u>-</u>	<u>321,070</u>	<u>364,300</u>
Total expenses	<u>5,919,420</u>	<u>-</u>	<u>-</u>	<u>5,919,420</u>	<u>5,480,496</u>
Change in net assets	(69,851)	163,305	716	94,170	(14,332)
Net assets at beginning of year	<u>1,209,738</u>	<u>509,802</u>	<u>54,147</u>	<u>1,773,687</u>	<u>1,788,019</u>
Net assets at end of year	<u>\$ 1,139,887</u>	<u>\$ 673,107</u>	<u>\$ 54,863</u>	<u>\$ 1,867,857</u>	<u>\$ 1,773,687</u>

See notes to financial statements.

SWALLOW HILL MUSIC ASSOCIATION

Statement of Functional Expenses

For the Year Ended December 31, 2017

(With Summarized Comparative Information for the Year Ended December 31, 2016)

	For the Year Ended December 31, 2017				2016 Total
	Program Services	Management and General	Fundraising	Total	
Wages and related expenses					
Salaries	\$ 1,240,902	\$ 452,745	\$ 187,505	\$ 1,881,152	\$ 1,782,263
Payroll taxes and benefits	148,104	54,036	22,379	224,519	208,931
Total wages and related expenses	1,389,006	506,781	209,884	2,105,671	1,991,194
Contract - performers	1,494,585	-	-	1,494,585	1,250,232
Facility rental	715,945	-	-	715,945	625,204
Software	248,005	-	62,001	310,006	329,383
Professional services	232,653	80,823	-	313,476	313,651
Advertising	208,701	-	-	208,701	192,852
Contract - other	182,248	-	-	182,248	230,577
Merchant and bank fees	133,178	-	-	133,178	115,223
Depreciation	72,448	23,051	14,270	109,769	104,325
Printing	56,127	-	6,236	62,363	55,802
Insurance	34,205	10,884	6,737	51,826	48,970
Repairs and maintenance	29,598	9,418	5,830	44,846	41,123
Dues and licenses	42,635	-	-	42,635	22,301
Supplies	22,584	7,186	4,447	34,217	24,751
Utilities	18,811	5,985	3,706	28,502	27,359
Telephone	10,340	3,290	2,037	15,667	17,042
Interest	9,050	2,880	1,783	13,713	16,691
Postage	8,717	2,773	1,717	13,207	9,924
Other expenses	8,441	2,685	1,662	12,788	17,080
Travel	8,943	1,005	101	10,049	15,484
Small instruments	7,797	-	-	7,797	17,307
Meals and entertainment	3,347	1,065	659	5,071	12,901
Bad debt expense	-	2,020	-	2,020	-
Conferences and workshops	1,140	-	-	1,140	1,120
Total	\$ 4,938,504	\$ 659,846	\$ 321,070	\$ 5,919,420	\$ 5,480,496

See notes to financial statements.

SWALLOW HILL MUSIC ASSOCIATION

Statement of Cash Flows

For the Year Ended December 31, 2017

(With Summarized Comparative Information for the Year Ended December 31, 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 94,170	\$ (14,332)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	109,769	104,325
Contributions restricted for endowment	(716)	(1,321)
Net realized and unrealized (gain) loss on investments	(13,440)	1,740
Net change in beneficial interest in assets held by others	(5,986)	(2,056)
Changes in operating assets and liabilities		
Accounts and pledges receivable	(61,804)	(35,592)
SCFD receivable	5,702	-
Other assets	(9,906)	70
Accounts payable and accrued benefits	19,552	35,657
Deferred concert and class revenues	23,212	(20,115)
	66,383	82,708
Net cash provided by operating activities	160,553	68,376
Cash flows from investing activities		
Purchases of property and equipment and construction in progress	(61,134)	(140,892)
Purchases of investments	(9,142)	(421,226)
Net cash used in investing activities	(70,276)	(562,118)
Cash flows from financing activities		
Payments on note payable	(29,029)	(18,468)
Payments on capital lease obligations	(3,629)	(2,933)
Contributions restricted for endowment	716	1,321
Net cash used in financing activities	(31,942)	(20,080)
Net increase (decrease) in cash and cash equivalents	58,335	(513,822)
Cash and cash equivalents at beginning of year	849,943	1,363,765
Cash and cash equivalents at end of year	\$ 908,278	\$ 849,943

Supplemental disclosure of cash flow information

Cash paid for interest was \$13,713 for the year ended December 31, 2017.

See notes to financial statements.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Organization

The Swallow Hill Music Association (the "Organization"), a non-profit corporation, was incorporated in the State of Colorado in 1979, and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Organization serves 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 the community's cultural life. The Organization is funded primarily by ticket sales, music class tuition, Scientific and Cultural Facilities District ("SCFD") support, and other grants and contributions.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") guidance in Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities*. Under 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.

Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in the Organization's operations and those resources invested in property and equipment.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted amounts are assets that must be maintained permanently by the Organization as required by the donor; but the Organization is permitted to use or expend part or all of any income derived from those assets.

Prior-Year Comparative 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016 from which the summarized information was derived.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies **(continued)**

Recently Issued Accounting Pronouncements

In August 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities as a separate statement or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program, and support functions and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective. The new standard is effective for all fiscal years beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition on the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with certain practical expedients available.

The Organization is currently evaluating the impact of these pronouncements on its financial statements.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies **(continued)**

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of money market accounts, investment securities, contributions and accounts receivable. The Organization places its temporary cash and money market accounts with creditworthy, high-quality financial institutions. As of as of December 31, 2017, the Organization's cash accounts exceeded federally insured limits by approximately \$584,000.

Accounts Receivable

Accounts receivable consist of tuition and fees and other miscellaneous receivables. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical collections that are tracked by the Organization on an ongoing basis. Management has reviewed accounts receivable as of December 31, 2017 and determined that an allowance would be insignificant to the financial statements as a whole and was, therefore, not recorded.

Pledges Receivable

Contributions are recognized when a donor makes a promise to give or a pledge receivable that is, in substance, unconditional. Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The pledges receivable have not been discounted to present value because the effect would not be significant. All pledges receivable are expected to be received within one year.

The allowance method is used to determine uncollectible, unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific pledges, and, as of December 31, 2017, no allowance is deemed necessary.

SCFD Receivable

SCFD receivable represent amounts due from the Scientific and Cultural Facilities District. The Organization considers the grant receivable to be fully collectible based on past history; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

Investments in equity securities with readily determinable fair values are reported at their fair values on the statement of financial position. Investment income, gains and losses, and dividends and interest are reported on the statement of activities.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies **(continued)**

Property and Equipment

The Organization capitalizes all property and equipment with a cost or contributed fair value of \$1,500 or greater. Property and equipment purchased by the Organization is recorded at cost. Donated fixed assets are capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 39 years. Construction in progress is not depreciated until construction is complete and the assets are placed in service.

Ticket Sales, Tuition Revenue, and Deferred Revenue

Ticket sales and tuition receipts are deferred and recognized as revenue in the applicable future period when the services are provided and the related expenses are incurred. Ticket sales are recorded net of any seat and sales tax.

Contributions

The Organization reports contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. 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.

Donated Services and Goods

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation. Donated goods represents the fair market value of donated musical instruments. The amount of donated services and goods is reported as in-kind contribution and support with the related expense on the statement of activities.

Advertising Costs

Advertising costs are expensed as incurred.

Functional Expenses

Expenses incurred directly for a program service are charged to such service. Wages and related expenses are allocated to services based on a pro-rata basis of total direct salary expenses incurred. Fringe benefits are allocated to all services based on a pro-rata basis of total direct salary expenses incurred. Allocations of certain overhead costs are also allocated to services on a pro-rata basis of total space occupied by each service.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 1 - Description of Organization and Summary of Significant Accounting Policies **(continued)**

Income Taxes

The Organization is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Code and is classified as a publicly supported organization under Section 509(a)(1) of the Code. Accordingly, no provision for income taxes is made for federal, state, or local taxes.

The Organization applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken, or expected to be taken, in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of as of December 31, 2017. If incurred, interest and penalties associated with tax positions would be recorded in the period assessed as management and general expense. No interest or penalties have been assessed as of as of December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Subsequent Events

The Organization has evaluated all subsequent events through the auditors' report date, which is the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 2 - Investment Income

Investment income consists of the following for the year ended December 31, 2017:

Dividends and interest	\$	9,142
Net unrealized gain on investments		13,440
Investment return on beneficial interest in assets held by others		<u>7,925</u>
Total return on investments	\$	<u>30,507</u>

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 3 - Fair Value Measurements

The Organization has adopted the FASB guidance surrounding fair value measurements, which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. This guidance clarifies that fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This guidance also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds and exchange traded funds: Valued at the closing price reported on the active market on which the mutual funds or individual securities are traded.

Beneficial interest in assets held by others: the underlying investments held by others are readily marketable, based on quoted fair values. Since the Organization's interest cannot be priced on an active exchange, the interest is classified as Level 3.

There were no changes in the valuation methodologies during the year.

Financial assets carried at fair value as of December 31, 2017 are classified in the table below in one of the three categories described above:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 15,774	\$ -	\$ -	\$ 15,774
Mutual funds	217,490	-	-	217,490
Exchange traded funds	208,804	-	-	208,804
Beneficial interest in assets held by others	<u>-</u>	<u>-</u>	<u>60,133</u>	<u>60,133</u>
Total assets at fair value	<u>\$ 442,068</u>	<u>\$ -</u>	<u>\$ 60,133</u>	<u>\$ 502,201</u>

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 3 - Fair Value Measurements (continued)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2017:

Beginning balance - Beneficial interest in assets held by others	\$	54,147
Change in beneficial interest		7,925
Contributions		716
Distributions		<u>(2,655)</u>
Ending balance - Beneficial interest in assets held by others	\$	<u>60,133</u>

Note 4 - Property and Equipment

The Organization's property and equipment are comprised of the following as of December 31, 2017:

Land	\$	115,192
Buildings and improvements		1,175,616
Furniture and equipment		<u>363,065</u>
		1,653,873
Less accumulated depreciation		<u>(797,298)</u>
	\$	<u>856,575</u>

Depreciation expense for the year ended December 31, 2017 was \$109,769.

Note 5 - Beneficial Interest in Assets Held by Others

In 2013, the Organization established an endowment fund with the Community First Foundation (the "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 5% of the average of the net fair market values of three preceding calendar years. As of December 31, 2017, the Organization's beneficial interest had a fair value of \$60,133.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 5 - Beneficial Interest in Assets Held by Others (continued)

Changes in endowment assets for the year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ -	\$ -	\$ 54,147	\$ 54,147
Investment return				
Investment income	-	1,194	-	1,194
Net appreciation, net of fees	-	6,731	-	6,731
Total investment return	-	7,925	-	7,925
Contributions	-	-	716	716
Appropriation and distribution of endowment assets for expenditure	-	(2,655)	-	(2,655)
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 5,270</u>	<u>\$ 54,863</u>	<u>\$ 60,133</u>

Note 6 - Line-of-Credit

The Organization has a \$50,000 line-of-credit with a bank, which bears interest at the prime rate per annum (4.50% at December 31, 2017) and is due on demand. There was no outstanding balance at December 31, 2017. The line-of-credit is collateralized by the Organization's building. Principal is payable on demand. There was no interest charged on the line-of-credit for the year ended December 31, 2017.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 7 - Note Payable

The Organization has a note payable with a bank, which accrues interest at 4.35% annually. Payments of principal are due monthly through the maturity date in March 2026. The note is secured by a deed of trust on the Organization's real property. At December 31, 2017, the outstanding balance on the loan totaled \$295,116. Maturities of the note payable are as follows:

Year Ending December 31,

2018	\$	30,336
2019		31,701
2020		33,099
2021		34,617
Thereafter		<u>165,363</u>
	\$	<u>295,116</u>

Interest expense on the note totaled \$13,713 for the year ended December 31, 2017.

Note 8 - Capital Lease Obligation

The Organization has acquired equipment under a capital lease. For financial reporting purposes, minimum lease payments relating to the asset have been capitalized. The lease expires in December 2019. Amortization of the leased property is included in the statement of activities.

The assets under capital lease have cost and accumulated amortization as follows:

Equipment	\$	15,621
Less accumulated amortization		<u>(10,935)</u>
	\$	<u>4,686</u>

Maturities of capital lease obligations are as follows:

For the Year Ending December 31,

2018	\$	3,624
2019		<u>3,624</u>
Total minimum lease payments		7,248
Amount representing interest		<u>(951)</u>
Present value of net minimum lease payments		6,297
Less current portion		<u>(3,383)</u>
Long-term capital lease obligation	\$	<u>2,914</u>

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 9 - Restricted Net Assets

The temporarily restricted net assets represent the net proceeds of donations, which have been restricted by the donors to be used only for the following purposes as of December 31, 2017.

Capital improvements	\$	442,068
Outreach		191,838
Scholarships		33,931
Endowment earnings		<u>5,270</u>
	\$	<u>673,107</u>

Temporarily restricted net assets were released for unrestricted purposes in accordance as follows as of December 31, 2017:

Outreach	\$	70,296
Scholarships		37,918
Endowment appropriation		2,655
Take a Stand Campaign		<u>860</u>
	\$	<u>111,729</u>

Permanently restricted net assets represent an endowment fund held by Community First Foundation and are included in the beneficial interest in assets held by others on the accompanying statements of financial position.

Note 10 - In-Kind Contributions

During the year, in-kind contributions were received as follows as of December 31, 2017:

Advertising	\$	10,265
Legal		5,815
Donated instruments		<u>2,860</u>
	\$	<u>18,940</u>

The Organization also received over 5,000 volunteer hours from ticket takers, ushers, and other non-professional services that are not recorded in the financial statements.

Note 11 - Interest in Limited Liability Company

The Organization was assigned a 1/3 minority interest in a limited liability company 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.

SWALLOW HILL MUSIC ASSOCIATION

Notes to Financial Statements

Note 12 - Commitments

Operating Leases

The Organization leases facilities under non cancelable operating leases. Rent expense for these leases was \$21,600 for the year ended December 31, 2017.

Future minimum lease payments under these leases are as follows:

Year Ending December 31,

2018	\$	40,727
2019		<u>6,634</u>
	\$	<u><u>47,361</u></u>