FOLK ALLIANCE INTERNATIONAL FINANCIAL STATEMENTS

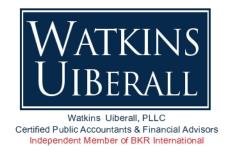
June 30, 2010 and 2009



Watkins Ulberall, PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Folk Alliance International Memphis, Tennessee

We have audited the accompanying statements of financial position of Folk Alliance International (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Folk Alliance International as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Memphis, Tennessee September 27, 2010

Jothins Vilusall, PLLC

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

<u>Assets</u>		
	 2010	 2009
Assets Cash and cash equivalents Receivables Deposits and prepaid expenses Property and equipment, net	\$ 150,590 17,932 3,903 2,457	\$ 66,710 14,075 3,047 4,111
Total assets	\$ 174,882	\$ 87,943
<u>Liabilities and Net Assets</u>		
Liabilities Accounts payable and accrued expenses Deferred fees Total liabilities	\$ 52,388 - 52,388	\$ 21,613 675 22,288
Net Assets Unrestricted	122,494	65,155
Temporarily restricted Total net assets	122,494	500 65,655

\$ 174,882

\$ 87,943

The accompanying notes are an integral part of the financial statements.

Total liabilities and net assets

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2010 and 2009

	2010					
	Temporarily					
	Un	restricted	Re	stricted	Total	
Revenues and Other Support						
Contributions	\$	74,837	\$	-	\$	74,837
Program services		6,300		-		6,300
Conference		408,762		-		408,762
Memberships		133,101		-		133,101
Special events		4,942		-		4,942
In-kind donations		23,322		-		23,322
Interest income		41		-		41
Advertising and other income		43,485		-		43,485
Net assets released from restrictions		500		(500)		_
Total revenues and other support		695,290		(500)		694,790
Expenses						
Program services		411,266		-		411,266
Management and general		186,669		-		186,669
Fundraising		40,016		-		40,016
Total expenses		637,951				637,951
Change in net assets		57,339		(500)		56,839
Net assets (deficit) at beginning of year		65,155		500		65,655
Net assets at end of year	\$	122,494	\$		\$	122,494

2009							
	Temporarily						
<u>Un</u>	restricted	Res	tricted		Total		
\$	59,140	\$	_	\$	59,140		
Ψ	5,440	Ψ	_	Ψ	5,440		
	380,896		_		380,896		
	115,049		_		115,049		
	12,167		_		12,167		
	14,584		-		14,584		
	132		-		132		
	36,089		-	36,089			
	623,497		-		623,497		
	318,215		-		318,215		
	167,552		-		167,552		
	66,630		_	66,630			
	552,397		_		552,397		
	71,100		-		71,100		
	(5,945)		500		(5,445)		
\$	65,155	\$	500	\$	65,655		

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010

		Program Services		nagement d General	Fu	ndraising		Total
Salaries, payroll taxes and benefits	\$	111,818	\$	106,956	\$	24,308	\$	243,082
Advertising	·	30,141	•	8,906	·	, -		39,047
Bank and credit card charges		40,409		6,843		-		47,252
Contract labor		13,365		-		-		13,365
Conferences, seminars and meetings		171,894		-		-		171,894
Equipment rental		12,092		1,344		-		13,436
Occupancy expense		8,845		8,461		1,923		19,229
Insurance		3,184		3,184		-		6,368
Marketing initiatives		-		-		9,005		9,005
Miscellaneous		1,062		2,477		-		3,539
Postage		3,866		2,578		-		6,444
Printing		1,853		1,852		-		3,705
Professional services		-		17,001		-		17,001
Special events direct costs		_		-		4,780		4,780
Supplies		3,128		3,128		-		6,256
Telephone and internet		4,006		4,006		-		8,012
Travel		4,776		19,106		-		23,882
Depreciation		827		827		_		1,654
							-	
Total	\$	411,266	\$	186,669	\$	40,016	\$	637,951

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009

	Program Services	Management and General	Fundraising	Total
Salaries, payroll taxes and benefits	\$ 106,812	\$ 102,168	\$ 23,220	\$ 232,200
Advertising	6,000	5,999	-	11,999
Bank and credit card charges	11,647	11,647	-	23,294
Contract labor	6,504	6,504	-	13,008
Conferences, seminars and meetings	146,017	-	-	146,017
Equipment rental	549	549	-	1,098
Occupancy expense	9,565	9,566	-	19,131
Insurance	3,274	3,275	-	6,549
Marketing initiatives	-	-	34,439	34,439
Miscellaneous	838	839	-	1,677
Postage	1,969	1,969	-	3,938
Printing	4,189	4,189	-	8,378
Professional services	6,652	6,652	-	13,304
Special events direct costs	-	-	8,971	8,971
Supplies	1,433	1,432	-	2,865
Telephone and internet	4,867	4,866	-	9,733
Travel	4,528	4,527	-	9,055
Depreciation	1,233	1,233	-	2,466
Bad debt expense	2,138	2,137		4,275
Total	\$ 318,215	\$ 167,552	\$ 66,630	\$ 552,397

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows Provided By (Used For) Operating Activities: Change in net assets Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:	\$ 56,839	\$ 71,100
Depreciation Change in Operating Assets and Liabilities: Increase (Decrease) in Cash and Cash Equivalents:	1,654	2,466
Receivables	(3,857)	2,080
Deposits and prepaid expenses	(856)	2,355
Accounts payable and accrued expenses	30,775	(55,243)
Deferred fees	(675)	 675
Total adjustments	 27,041	 (47,667)
Net cash provided by operating activities	 83,880	 23,433
Net increase in cash and cash equivalents	83,880	23,433
Cash and cash equivalents at beginning of year	 66,710	 43,277
Cash and cash equivalents at end of year	\$ 150,590	\$ 66,710
Supplemental Cash Flow Information: Cash paid for income taxes	\$ 756	\$ 2,243

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

North American Folk Music and Dance Alliance was organized in 1989 for the purpose of supporting artistic and cultural activities centered on folk music and dance. In October 2009, the North American Folk Music and Dance Alliance changed its name to the Folk Alliance International ("Folk Alliance"). A major activity of the Folk Alliance is its annual conference with sessions on the folk music business and other aspects of the genre as well as talent showcasing. Other programs include a business directory of venues, performers, folk societies, cultural organizations, media and the recording industry; an umbrella program for smaller 501(c)(3) organizations; annual Lifetime Achievement Awards; and other educational programs. The Folk Alliance receives a majority of its income from conference fees, memberships and contributions. The Folk Alliance is headquartered in Memphis, Tennessee.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Under GAAP, the Folk Alliance is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Folk Alliance 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, such as, when a stipulated time restriction ends or purpose 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. When a donor restriction expires in the same year received, revenue is recognized as unrestricted net assets.

In-Kind Donations

Contributions of donated goods and services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market value in the period received. The Folk Alliance records income and expense related to conference registration fees forgiven in exchange for the value of donated merchandise and/or in-kind services provided. In-kind donations for the years ended June 30, 2010 and 2009 totaled \$23,322 and \$14,584, respectively.

Functional Allocations of Expenses

The cost of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's time estimates.

Credit Risks

The Folk Alliance's credit risks primarily relate to cash and cash equivalents. The Folk Alliance maintains cash balances at a bank. Those accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Folk Alliance considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is provided over the estimated useful lives ranging from 3-5 years, using the straight-line method of depreciation. Repairs and maintenance costs are expensed as incurred.

Income Taxes

The Folk Alliance is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and has been classified as a public charity. The Folk Alliance files an exempt organization return in the U.S. federal jurisdiction. The federal returns for tax years 2006 and beyond remain subject to examination by the taxing authorities.

Income from advertising, which is not directly related to the Folk Alliance's exempt purpose, is subject to taxation as unrelated business income. Unrelated business income tax expense for the years ended June 30, 2010 and 2009 was \$756 and \$2,243, respectively.

Advertising Costs

The Folk Alliance expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2010 and 2009 totaled \$39,047 and \$11,999, respectively.

Reclassifications

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

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2010		 2009
Computer and office equipment	\$	15,357	\$ 15,357
Leasehold improvements		900	900
		16,257	 16,257
Less accumulated depreciation and amortization		(13,800)	 (12,146)
	\$	2,457	\$ 4,111

NOTE 3 - RETIREMENT PLAN

The Folk Alliance adopted a Savings Incentive Match Plan for Employees (SIMPLE) IRA effective January 1, 2003, covering all full-time employees receiving compensation of at least \$5,000. The plan provides for discretionary employer contributions which totaled \$3,534 and \$3,879 for 2010 and 2009, respectively.

NOTE 4 - OPERATING LEASES

The Folk Alliance leases property and office equipment according to various lease agreements classified as operating leases. Total rental expense under these agreements was \$14,811 and \$14,953 for the years ended June 30, 2010 and 2009 respectively. As of June 30, 2010, the Folk Alliance is leasing the property on a month-to-month basis at \$1,200 per month. Future minimum lease payments for the office equipment total \$704 for the year ending June 30, 2011.

NOTE 5 - COMMITMENTS

The Folk Alliance has entered into cancelable agreements for meeting space and guestroom rentals related to future conferences through 2018. The cancellation clauses call for payments to

be made for conference space and guestrooms if cancellation occurs within a specified time frame prior to the events or if hotel usage is less than contracted. The maximum cancellation fee payable for commitments related to the conferences being held in calendar years 2011 and 2012 is approximately \$234,000 each. This cost would be minimized by any hotel resell of the meeting space and guestrooms.

NOTE 6 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30:

	201	0	2009		
Special events	\$	_	\$	500	

NOTE 7 - SUBSEQUENT EVENTS

The Folk Alliance evaluated its June 30, 2010 financial statements for subsequent events through September 27, 2010, the date the financial statements were available to be issued. The Folk Alliance is not aware of any subsequent events which would require recognition or disclosure in the financial statements.