

FOLK ALLIANCE INTERNATIONAL

Financial Statements and
Auditor's Report

June 30, 2013 and 2012

FOLK ALLIANCE INTERNATIONAL

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MIZE & HOUSER
& COMPANY P.A.

To the Board of Directors
Folk Alliance International
Kansas City, Missouri

Independent Auditor's Report

We have audited the accompanying statement of financial position of Folk Alliance International as of June 30, 2013, and the related statements of activities and changes in net assets, 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 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 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 2013 financial statements referred to above present fairly, in all material respects, the financial position of Folk Alliance International as of June 30, 2013, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matter

The financial statements of Folk Alliance International as June 30, 2012, were audited by other auditors whose report dated July 31, 2012, expressed an unmodified opinion on those statements.

Mize Hauser & Company P.A.

Certified Public Accountants

Overland Park, Kansas
September 4, 2013

FOLK ALLIANCE INTERNATIONAL

Statements of Financial Position
June 30,

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ 231,076	\$ 136,845
Receivables	15,118	6,725
Storefront inventory	4,061	-
Deposits and prepaid expenses	6,466	6,548
Property and equipment, net	7,868	9,626
Total assets	<u>\$ 264,589</u>	<u>\$ 159,744</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 11,203	\$ 22,422
Deferred compensation	8,882	16,397
Total liabilities	<u>20,085</u>	<u>38,819</u>
Net Assets:		
Unrestricted	244,504	117,084
Temporarily restricted	-	3,841
Total net assets	<u>244,504</u>	<u>120,925</u>
Total liabilities and net assets	<u>\$ 264,589</u>	<u>\$ 159,744</u>

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

FOLK ALLIANCE INTERNATIONAL

Statements of Activities and Changes in Net Assets
Years Ended June 30,

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Contributions	\$ 56,296	\$ -	\$ 56,296	\$ 90,539	\$ 3,491	\$ 94,030
Program services	4,820	-	4,820	4,990	-	4,990
Conference	511,027	-	511,027	328,067	-	328,067
Memberships	135,489	-	135,489	129,643	-	129,643
Dave Carter Legacy	28,650	-	28,650	15,000	-	15,000
Special events	6,636	-	6,636	9,335	-	9,335
In-kind donations	6,626	-	6,626	17,042	-	17,042
Interest income	-	-	-	10	-	10
Advertising and other income	30,807	-	30,807	43,658	-	43,658
Total revenues and other support before net assets released from restrictions	780,351	-	780,351	638,284	3,491	641,775
Net assets released from restrictions	3,841	(3,841)	-	1,000	(1,000)	-
Total revenues and other support	784,192	(3,841)	780,351	639,284	2,491	641,775
Expenses:						
Program services	361,032	-	361,032	382,540	-	382,540
Management and general	178,582	-	178,582	197,521	-	197,521
Fundraising	117,158	-	117,158	51,321	-	51,321
Total expenses	656,772	-	656,772	631,382	-	631,382
Change in net assets	127,420	(3,841)	123,579	7,902	2,491	10,393
Net assets at beginning of year	117,084	3,841	120,925	109,182	1,350	110,532
Net assets at end of year	<u>\$ 244,504</u>	<u>\$ -</u>	<u>\$ 244,504</u>	<u>\$ 117,084</u>	<u>\$ 3,841</u>	<u>\$ 120,925</u>

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

FOLK ALLIANCE INTERNATIONAL

Statement of Functional Expenses

Year Ended June 30, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes and benefits	\$ 122,510	\$ 100,235	\$ 55,686	\$ 278,431
Advertising	33,239	15,412	7,706	56,357
Bank and credit card charges	12,313	237	-	12,550
Contract labor	13,774	-	3,443	17,217
Conference	128,088	-	-	128,088
Equipment rental	1,785	198	-	1,983
Occupancy expense	7,751	6,343	3,523	17,617
Insurance	2,467	2,466	-	4,933
Marketing initiatives	6,388	-	6,388	12,776
Miscellaneous	248	414	166	828
Postage	2,974	992	992	4,958
Printing	4,908	2,945	1,963	9,816
Professional services	-	22,250	-	22,250
Dave Carter Legacy	-	-	25,920	25,920
Special events direct costs	-	-	4,818	4,818
Supplies	1,681	1,009	673	3,363
Telephone and internet	3,381	2,028	1,352	6,761
Travel	18,113	22,641	4,528	45,282
Depreciation	1,412	1,412	-	2,824
Total	\$ 361,032	\$ 178,582	\$ 117,158	\$ 656,772

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

FOLK ALLIANCE INTERNATIONAL

Statement of Functional Expenses

Year Ended June 30, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes and benefits	\$ 129,879	\$ 124,232	\$ 28,235	\$ 282,346
Advertising	28,017	9,941	-	37,958
Bank and credit card charges	13,742	290	-	14,032
Contract labor	10,383	-	-	10,383
Conference	144,224	-	-	144,224
Equipment rental	11,517	1,280	-	12,797
Occupancy expense	9,098	8,703	1,978	19,779
Insurance	2,399	2,398	-	4,797
Marketing initiatives	4,223	-	4,222	8,445
Miscellaneous	122	283	-	405
Postage	4,330	2,887	-	7,217
Printing	5,533	5,532	-	11,065
Professional services	-	16,703	-	16,703
Dave Carter Legacy	-	-	13,500	13,500
Special events direct costs	-	-	3,386	3,386
Supplies	1,292	1,292	-	2,584
Telephone and internet	3,515	3,515	-	7,030
Travel	12,400	18,600	-	31,000
Depreciation	1,866	1,865	-	3,731
Total	\$ 382,540	\$ 197,521	\$ 51,321	\$ 631,382

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

FOLK ALLIANCE INTERNATIONAL

Statements of Cash Flows
Years Ended June 30,

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 123,579	\$ 10,393
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,824	3,731
(Increase) decrease in assets:		
Receivables	(8,393)	17,239
Storefront inventory	(4,061)	-
Deposits and prepaid expenses	82	(3,435)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(11,219)	(19,169)
Deferred compensation	(7,515)	8,210
Net cash provided by operating activities	95,297	16,969
Cash flows from investing activities:		
Purchases of property and equipment	(1,066)	-
Net cash used in investing activities	(1,066)	-
Net increase in cash and cash equivalents	94,231	16,969
Cash and cash equivalents at beginning of year	136,845	119,876
Cash and cash equivalents at end of year	\$ 231,076	\$ 136,845
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$ 237	\$ 132

The accompanying summary of significant accounting policies and notes are an integral part of these statements.

FOLK ALLIANCE INTERNATIONAL

Summary of Significant Accounting Policies Years Ended June 30, 2013 and 2012

Organization and Nature of Operations

Folk Alliance International (Folk Alliance) was organized in 1989 for the purpose of fostering and promoting traditional, contemporary, and multicultural folk music and dance and related performing arts. The Folk Alliance seeks to strengthen and advance organizational and individual initiatives in folk music and dance through education, networking, advocacy, and professional and field development. 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 was headquartered in Memphis, Tennessee until it was relocated to Kansas City, Missouri during 2013.

Basis of Accounting

The financial statements of the Folk Alliance have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Non-binding promises to give are not reflected in the financial statements. Contributions are recorded at the time of receipt.

Classes of Net Assets

The statement of financial position reports amounts separately by class of net assets.

- Unrestricted amounts are those that are currently available at the discretion of the board for use in the Folk Alliance's operation.
- Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes.

Property and Equipment

Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Expenditures in excess of \$1,000 for additions and improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to income currently. When assets are retired or otherwise disposed, the assets and related allowances for depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Management annually reviews these assets to determine whether carrying values have been impaired.

For financial reporting purposes, depreciation is determined using the straight-line method with estimated useful lives ranging from 3 to 5 years for property and equipment.

Functional Allocation 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 benefitted based on management's time estimates.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end.

FOLK ALLIANCE INTERNATIONAL

Summary of Significant Accounting Policies Years Ended June 30, 2013 and 2012

Revenue Recognition

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 and changes in net assets 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. Typically the Folk Alliance will exchange conference registration fees and program advertising for a portion of these goods and services. The appropriate income and expenses are recorded and any residual value is considered the in-kind donation. In-kind donations for the years ended June 30, 2013 and 2012 were \$6,626 and \$17,042, respectively.

Storefront Inventory

Inventory is valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Advertising Costs

The Folk Alliance expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2013 and 2012 was \$56,357 and \$37,958, respectively.

Income Taxes

The Folk Alliance is exempt from federal and state income tax under Internal Revenue Code Section 501(c)(3) and has been classified as a public charity. The Folk Alliance files an exempt organization income tax return in the federal jurisdiction. The federal income tax returns for tax years 2010 and beyond remain subject to examination by the taxing authorities.

Income from advertising and certain inventory sales, which are not directly related to the Folk Alliance's exempt purpose, are subject to taxation as unrelated business income.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Folk Alliance considers highly liquid debt instruments purchased with original maturity dates of less than three months to be cash equivalents. The Folk Alliance has determined it has no cash equivalents at June 30, 2013 and 2012.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

FOLK ALLIANCE INTERNATIONAL

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

1. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Computer and office equipment	\$ 29,011	\$ 29,361
Leasehold improvements	<u>1,065</u>	<u>900</u>
	30,076	30,261
Less accumulated depreciation and amortization	<u>(22,208)</u>	<u>(20,635)</u>
Property and equipment, net	<u>\$ 7,868</u>	<u>\$ 9,626</u>

2. Deferred Compensation

In July 2010, the Folk Alliance entered into a deferred compensation agreement with the Executive Director (ED) as part of the extension of his employment contract. Under the terms of that agreement, one month's salary plus health insurance benefits for each year worked up to a maximum of three month's salary were payable to the ED. In February 2013, the Folk Alliance entered into a new deferred compensation agreement with the ED and under the terms of the new agreement, past deferred compensation earned of approximately \$17,500 was paid to the ED. At June 30, 2012, accrued deferred compensation under the original plan, including applicable payroll taxes, retirement contributions and health insurance was \$16,397.

Under the new agreement, the ED, while in his current position, will earn deferred compensation in the amount of \$856 per month for the period December 1, 2012 through June 30, 2014. Effective July 1, 2014 and through June 30, 2015, the ED, while serving only in the role of special projects director, will earn \$463 per month in deferred compensation. The deferred compensation earned vests on June 30 of each contract year. At June 30, 2013 accrued deferred compensation, including applicable payroll taxes, retirement contributions and health insurance, was \$8,882.

3. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Mike Seeger Scholarship	<u>\$ -</u>	<u>\$ 3,841</u>

The Mike Seeger Scholarship was established for the purpose of bringing an elder traditional artist to the Folk Alliance International Conference every year.

4. 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 in two consecutive years. The plan provides for discretionary employer contributions which totaled \$5,430 and \$4,245 for 2013 and 2012, respectively.

FOLK ALLIANCE INTERNATIONAL

Notes to the Financial Statements Years Ended June 30, 2013 and 2012

5. Operating Leases

During April 2013, the Folk Alliance entered into a lease agreement to rent building space in Kansas City, Missouri. This lease expires April 30, 2018. The future minimum lease payments are as follows:

Year ending June 30,	
2014	\$ 19,400
2015	20,600
2016	21,800
2017	23,000
2018	<u>20,000</u>
	<u>\$ 104,800</u>

Total rent expense was \$12,554 and \$14,400 for the years ended June 30, 2013 and 2012, respectively.

6. Concentrations

The Folk Alliance maintains cash in financial institutions in the Kansas City, Missouri metropolitan area. At June 30, 2013, the Folk Alliance had no amounts on deposit that exceeded the FDIC insured limits.

7. 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 conferences being held in calendar years 2014 through 2018 is approximately \$1,500,000. This cost would be minimized by any hotel resell of the meeting space and guestrooms.

8. Subsequent Events

The Folk Alliance has evaluated subsequent events through September 4, 2013, the date the financial statements were available to be issued.