



Watkins Uiberall, PLLC
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July 31, 2012

To the Board of Directors and Management of
Folk Alliance International

We have audited the financial statements of Folk Alliance International for the year ended June 30, 2012, and have issued our report thereon dated July 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 18, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and

corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 31, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Very truly yours,

Watkins Mikusall, PLLC

FOLK ALLIANCE INTERNATIONAL

FINANCIAL STATEMENTS

June 30, 2012 and 2011



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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, 2012 and 2011, 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, 2012 and 2011, 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
July 31, 2012

FOLK ALLIANCE INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

<u>Assets</u>		
	2012	2011
Assets		
Cash and cash equivalents	\$ 136,845	\$ 119,876
Receivables	6,725	23,964
Deposits and prepaid expenses	6,548	3,113
Property and equipment, net	9,626	13,357
Total assets	\$ 159,744	\$ 160,310
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 22,422	\$ 41,591
Deferred compensation	16,397	8,187
Total liabilities	38,819	49,778
Net Assets		
Unrestricted	117,084	109,182
Temporarily restricted	3,841	1,350
Total net assets	120,925	110,532
Total liabilities and net assets	\$ 159,744	\$ 160,310

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

FOLK ALLIANCE INTERNATIONAL

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2012 and 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Contributions	\$ 105,539	\$ 3,491	\$ 109,030
Program services	4,990	-	4,990
Conference	328,067	-	328,067
Memberships	129,643	-	129,643
Special events	9,335	-	9,335
In-kind donations	17,042	-	17,042
Interest income	10	-	10
Advertising and other income	43,658	-	43,658
Net assets released from restrictions	1,000	(1,000)	-
Total revenues and other support	<u>639,284</u>	<u>2,491</u>	<u>641,775</u>
Expenses			
Program services	382,540	-	382,540
Management and general	197,521	-	197,521
Fundraising	51,321	-	51,321
Total expenses	<u>631,382</u>	<u>-</u>	<u>631,382</u>
Change in net assets	7,902	2,491	10,393
Net assets at beginning of year	<u>109,182</u>	<u>1,350</u>	<u>110,532</u>
Net assets at end of year	<u>\$ 117,084</u>	<u>\$ 3,841</u>	<u>\$ 120,925</u>

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

2011		
Unrestricted	Temporarily Restricted	Total
\$ 86,682	\$ 1,350	\$ 88,032
6,335	-	6,335
385,699	-	385,699
118,954	-	118,954
6,015	-	6,015
23,063	-	23,063
36	-	36
36,418	-	36,418
-	-	-
<u>663,202</u>	<u>1,350</u>	<u>664,552</u>
423,392	-	423,392
199,482	-	199,482
53,640	-	53,640
<u>676,514</u>	<u>-</u>	<u>676,514</u>
(13,312)	1,350	(11,962)
<u>122,494</u>	<u>-</u>	<u>122,494</u>
<u>\$ 109,182</u>	<u>\$ 1,350</u>	<u>\$ 110,532</u>

FOLK ALLIANCE INTERNATIONAL
STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2012 and 2011

	2012			Total
	Program Services	Management and General	Fundraising	
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
Conferences, seminars and meetings	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
Special events direct costs	-	-	16,886	16,886
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
	<u>\$382,540</u>	<u>\$ 197,521</u>	<u>\$ 51,321</u>	<u>\$631,382</u>
Total				

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

2011

Program Services	Management and General	Fundraising	Total
\$124,341	\$ 121,578	\$ 30,394	\$276,313
28,307	12,166	-	40,473
18,601	450	-	19,051
14,571	-	-	14,571
162,147	-	-	162,147
15,855	1,762	-	17,617
8,815	8,432	1,916	19,163
2,851	2,851	-	5,702
17,970	-	17,969	35,939
275	641	-	916
4,792	3,195	-	7,987
4,811	4,811	-	9,622
-	17,195	-	17,195
-	-	3,361	3,361
2,199	2,198	-	4,397
3,611	3,611	-	7,222
12,694	19,040	-	31,734
1,552	1,552	-	3,104
<u>\$423,392</u>	<u>\$ 199,482</u>	<u>\$ 53,640</u>	<u>\$676,514</u>

FOLK ALLIANCE INTERNATIONAL

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	\$ 10,393	\$ (11,962)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	3,731	3,104
Increase (Decrease) in Operating Assets and Liabilities:		
Receivables	17,239	(6,032)
Deposits and prepaid expenses	(3,435)	790
Accounts payable and accrued expenses	(19,169)	(10,797)
Deferred compensation	8,210	8,187
Total adjustments	<u>6,576</u>	<u>(4,748)</u>
Net cash provided by (used for) operating activities	16,969	(16,710)
Cash Flows Used For Investing Activities:		
Purchases of property and equipment	<u>-</u>	<u>(14,004)</u>
Net increase (decrease) in cash and cash equivalents	16,969	(30,714)
Cash and cash equivalents at beginning of year	<u>119,876</u>	<u>150,590</u>
Cash and cash equivalents at end of year	<u>\$ 136,845</u>	<u>\$ 119,876</u>
Supplemental Cash Flow Information:		
Cash paid for income taxes	<u>\$ 132</u>	<u>\$ 100</u>

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

FOLK ALLIANCE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 is headquartered in Memphis, Tennessee and is anticipating relocating to Kansas City, Missouri in 2013.

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, 2012 and 2011 totaled \$17,042 and \$23,063, respectively.

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 benefited based on management's time estimates.

Credit Risks

The Folk Alliance's credit risks primarily relate to cash and cash equivalents and receivables. The Folk Alliance maintains cash balances at a bank. Interest bearing accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000 while non-interest bearing accounts are fully insured until December 31, 2012. Management believes that the receivables are fully collectible, and does not consider an allowance for uncollectible amounts to be necessary.

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 \$1,000 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 2008 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.

Advertising Costs

The Folk Alliance expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2012 and 2011 totaled \$37,958 and \$40,473, respectively.

Date of Management's Review

Management has evaluated its June 30, 2012, financial statements for subsequent events through July 31, 2012, 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.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Computer and office equipment	\$ 29,361	\$ 29,361
Leasehold improvements	900	900
	<u>30,261</u>	<u>30,261</u>
Less accumulated depreciation and amortization	<u>(20,635)</u>	<u>(16,904)</u>
	<u>\$ 9,626</u>	<u>\$ 13,357</u>

NOTE 3 – DEFERRED COMPENSATION

In July 2010, the Folk Alliance entered into a deferred compensation agreement with the Executive Director as part of the extension of his employment contract. Under the terms of the agreement, one month's salary plus health insurance benefits for each additional year worked up to a maximum of three month's salary will be accrued. At June 30, 2012 and 2011, deferred compensation expense, including future estimated health insurance expense was \$16,397 and \$8,187, respectively.

NOTE 4 – RESTRICTIONS ON NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Mike Seeger Scholarship	<u>\$ 3,841</u>	<u>\$ 1,350</u>

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

NOTE 5 – 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 \$4,245 and \$3,876 for 2012 and 2011, respectively.

NOTE 6 – 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 2013 through 2018 is approximately \$1,300,000. This cost would be minimized by any hotel resell of the meeting space and guestrooms.