

FOLK ALLIANCE INTERNATIONAL

Financial Statements and
Auditor's Report

June 30, 2015 and 2014

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 financial statements of Folk Alliance International, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Folk Alliance International as of June 30, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mize Houser & Company P.A.

Certified Public Accountants

Overland Park, Kansas
February 3, 2016

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FOLK ALLIANCE INTERNATIONAL

Statements of Financial Position
June 30,

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 393,111	\$ 381,510
Other receivables	12,064	5,411
Grant receivables	20,000	-
Storefront inventory	19,487	13,500
Deposits and prepaid expenses	8,119	5,454
Property and equipment, net	5,740	6,196
Total assets	<u>\$ 458,521</u>	<u>\$ 412,071</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 46,460	\$ 34,745
Deferred compensation	17,948	20,460
Total liabilities	<u>64,408</u>	<u>55,205</u>
Net Assets:		
Unrestricted	388,117	356,866
Temporarily restricted	5,996	-
Total net assets	<u>394,113</u>	<u>356,866</u>
Total liabilities and net assets	<u>\$ 458,521</u>	<u>\$ 412,071</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,

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Contributions	\$ 130,937	\$ -	\$ 130,937	\$ 65,087	\$ -	\$ 65,087
Program services	3,990	-	3,990	6,180	-	6,180
Conference	611,197	-	611,197	543,977	-	543,977
Memberships	176,408	-	176,408	161,060	-	161,060
Dave Carter Legacy	6,741	-	6,741	42,699	-	42,699
Ellis Delaney	1,080	-	1,080	1,440	-	1,440
Scholarships	2,145	4,700	6,845	-	-	-
Wine Walk	3,054	1,296	4,350	-	-	-
Special events	50	-	50	1,163	-	1,163
In-kind donations	2,217	-	2,217	474	-	474
Advertising	52,078	-	52,078	82,880	-	82,880
Storefront sales and other income	28,683	-	28,683	36,722	-	36,722
Total revenues and other support before net assets released from restrictions	1,018,580	5,996	1,024,576	941,682	-	941,682
Net assets released from restrictions	-	-	-	-	-	-
Total revenues and other support	1,018,580	5,996	1,024,576	941,682	-	941,682
Expenses:						
Program services	732,209	-	732,209	563,337	-	563,337
Management and general	221,468	-	221,468	202,200	-	202,200
Fundraising	33,652	-	33,652	63,783	-	63,783
Total expenses	987,329	-	987,329	829,320	-	829,320
Change in net assets	31,251	5,996	37,247	112,362	-	112,362
Net assets at beginning of year	356,866	-	356,866	244,504	-	244,504
Net assets at end of year	\$ 388,117	\$ 5,996	\$ 394,113	\$ 356,866	\$ -	\$ 356,866

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, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes and benefits	\$ 212,989	\$ 98,303	\$ 16,384	\$ 327,676
Advertising	40,601	10,601	5,301	56,503
Bank and credit card charges	14,275	8,078	-	22,353
Contract labor	20,850	5,621	2,435	28,906
Conference, excluding music camp	240,459	-	-	240,459
Music camp expense	95,637	-	-	95,637
Equipment rental	3,479	387	-	3,866
Occupancy expense	20,204	9,325	1,554	31,083
Insurance	3,495	3,495	-	6,990
Marketing initiatives	2,681	2,144	536	5,361
Miscellaneous	2,956	4,927	1,970	9,853
Postage	1,708	569	569	2,846
Printing	3,390	7,346	565	11,301
Professional services	-	37,635	-	37,635
Dave Carter Legacy	6,741	-	-	6,741
Ellis Delaney	1,080	-	-	1,080
Special events direct costs	-	-	550	550
Storefront expenses	9,109	-	-	9,109
Store cost of goods sold	10,032	-	-	10,032
Supplies	7,564	3,491	582	11,637
Telephone and internet	4,785	2,209	368	7,362
Travel	28,377	25,539	2,838	56,754
Depreciation	1,797	1,798	-	3,595
Total	<u><u>\$ 732,209</u></u>	<u><u>\$ 221,468</u></u>	<u><u>\$ 33,652</u></u>	<u><u>\$ 987,329</u></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, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes and benefits	\$ 112,050	\$ 63,425	\$ 35,941	\$ 211,416
Advertising	62,746	15,396	7,698	85,840
Bank and credit card charges	10,835	11,903	-	22,738
Contract labor	12,938	-	3,234	16,172
Conference, excluding music camp	185,181	-	-	185,181
Music camp expense	55,918	-	-	55,918
Equipment rental	1,211	135	-	1,346
Occupancy expense	14,264	8,073	4,576	26,913
Insurance	2,825	2,825	-	5,650
Marketing initiatives	3,661	-	3,661	7,322
Miscellaneous	28	47	19	94
Postage	4,248	1,416	1,416	7,080
Printing	6,119	3,671	2,447	12,237
Executive director search expense	-	37,158	-	37,158
Professional services	8,290	42,663	-	50,953
Dave Carter Legacy	42,699	-	-	42,699
Ellis Delaney	1,440	-	-	1,440
Special events direct costs	-	-	600	600
Storefront expenses	2,808	-	-	2,808
Store cost of goods sold	20,684	-	-	20,684
Supplies	3,243	1,946	1,297	6,486
Telephone and internet	1,877	1,126	751	3,754
Travel	8,572	10,716	2,143	21,431
Depreciation	1,700	1,700	-	3,400
Total	<u><u>\$ 563,337</u></u>	<u><u>\$ 202,200</u></u>	<u><u>\$ 63,783</u></u>	<u><u>\$ 829,320</u></u>

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,

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 37,247	\$ 112,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	3,595	3,400
(Increase) decrease in assets:		
Receivables	(26,653)	9,707
Storefront inventory	(5,987)	(9,439)
Deposits and prepaid expenses	(2,665)	1,012
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	11,715	23,542
Deferred compensation	(2,512)	11,578
Net cash provided by operating activities	14,740	152,162
Cash flows from investing activities:		
Purchases of property and equipment	(3,139)	(1,728)
Net cash used in investing activities	(3,139)	(1,728)
Net increase in cash and cash equivalents	11,601	150,434
Cash and cash equivalents at beginning of year	381,510	231,076
Cash and cash equivalents at end of year	\$ 393,111	\$ 381,510
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$ -	\$ 129

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, 2015 and 2014

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 and is currently headquartered in Kansas City, Missouri. 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.

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. Certain expenses that benefit more than a single functional area are allocated among programs and supporting services based on management's estimates of the program or supporting service benefitted by those expenses.

Accounts and Grants Receivable

Accounts and grants 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, 2015 and 2014

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, 2015 and 2014 were \$2,217 and \$474, 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, 2015 and 2014 was \$56,503 and \$85,840, respectively. Advertising income received through barter transactions for the years ended June 30, 2015 and 2014 was \$30,250 and \$38,500, respectively. Advertising expense incurred through barter transactions for the years ended June 30, 2015 and 2014 was \$30,000 and \$61,875, 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 2012 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.

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Summary of Significant Accounting Policies Years Ended June 30, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014

1. Property and Equipment

Property and equipment consisted of the following at June 30:

	2015	2014
Computer and office equipment	\$ 30,510	\$ 29,011
Leasehold improvements	4,433	2,793
	34,943	31,804
Less accumulated depreciation and amortization	(29,203)	(25,608)
Property and equipment, net	\$ 5,740	\$ 6,196

2. Deferred Compensation

In February 2013, the Folk Alliance entered into a deferred compensation agreement with its Executive Director (ED) at the time. Under the terms of the agreement, the ED earned deferred compensation in the amount of \$856 per month for the period December 1, 2012 through June 30, 2014. In July 2014, the amounts accrued through June 30, 2014, were paid. Effective July 1, 2014 and through June 30, 2015, the same individual, while serving only in the role of special projects director, earned \$463 per month in deferred compensation under the same agreement. The deferred compensation earned vests on June 30 of each contract year. In June 2014, Folk Alliance entered into a salary agreement with the current ED. Under the terms of the agreement, the ED will accrue \$6,667 for each year worked with payment to be made upon termination of employment. At June 30, 2015 and 2014, accrued deferred compensation for both agreements, including applicable payroll taxes, retirement contributions and health insurance, was \$17,948 and \$20,460, respectively.

3. Temporarily Restricted Net Assets

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

	2015	2014
Gene Shay Scholarship	\$ 4,700	\$ -
Wine Walk	1,296	-
	\$ 5,996	\$ -

The Gene Shay Scholarship was established for the purpose of providing scholarships for conference registrations at the 2016 Folk Alliance International Conference.

The Wine Walk was established for the purpose of providing funds for equipment rental and artist fees for the monthly Wine Walk events that are held in the neighborhood where The Folk Store is located.

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Notes to the Financial Statements Years Ended June 30, 2015 and 2014

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 \$12,744 and \$6,731 for 2015 and 2014, respectively.

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,	
2016	\$ 21,800
2017	23,000
2018	<u>20,000</u>
	<u>\$ 64,800</u>

Total rent expense was \$24,600 and \$19,492 for the years ended June 30, 2015 and 2014, respectively

6. Concentrations

The Folk Alliance maintains cash in financial institutions in the Kansas City, Missouri metropolitan area. At certain times during the year ended June 30, 2015, the Folk Alliance had 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 2016 through 2018 is approximately \$980,000. 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 February 3, 2016, the date the financial statements were available to be issued.