

STRINGS MUSIC FESTIVAL

Financial Statements

September 30, 2016

STRINGS MUSIC FESTIVAL

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Independent Auditor's Report

The Board of Directors
Strings Music Festival
Steamboat Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Strings Music Festival, which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses and cash flows for the fiscal 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 financial statements referred to above present fairly, in all material respects, the financial position of Strings Music Festival as of September 30, 2016, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

The financial statements of Strings Music Festival as of September 30, 2015 were audited by a predecessor auditor whose report dated December 10, 2015, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative financial information presented herein as of and for the fiscal year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Catterton + Company, P.C.".

Steamboat Springs, Colorado
December 13, 2016

STRINGS MUSIC FESTIVAL
Statement of Financial Position
September 30, 2016
(with summarized financial information as of September 30, 2015)

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 195,050	\$ 158,115
Investments	51,245	50,947
Accounts receivable	19,022	7,110
Prepaid expenses	4,459	5,832
Endowment investments	<u>2,151,064</u>	<u>1,975,408</u>
Total current assets	<u>2,420,840</u>	<u>2,197,412</u>
Noncurrent assets:		
Property and equipment, net	6,458,804	6,662,458
Performance facility maintenance reserve	<u>230,521</u>	<u>234,000</u>
Total noncurrent assets	<u>6,689,325</u>	<u>6,896,458</u>
Total assets	<u><u>\$ 9,110,165</u></u>	<u><u>\$ 9,093,870</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15,652	\$ 2,095
Deferred revenue	7,219	1,339
Deferred tap fees	5,530	7,373
Retirement agreement, current portion	<u>45,933</u>	<u>-</u>
Total current liabilities	74,334	10,807
Noncurrent liabilities:		
Retirement agreement, net of current portion	<u>45,934</u>	<u>-</u>
Total liabilities	<u>120,268</u>	<u>10,807</u>
Net assets:		
Temporarily restricted	181,150	161,000
Unrestricted	<u>8,808,747</u>	<u>8,922,063</u>
Total net assets	<u>8,989,897</u>	<u>9,083,063</u>
Total liabilities and net assets	<u><u>\$ 9,110,165</u></u>	<u><u>\$ 9,093,870</u></u>

The accompany notes are an integral part of these financial statements.

STRINGS MUSIC FESTIVAL
Statement of Activities
For the Fiscal Year Ended September 30, 2016
(with summarized financial information for the year ended September 30, 2015)

	2016				2015
	Unrestricted		Temporarily	Total	Total
	Operating	Endowment	Restricted		
Revenues and support:					
Contributions and grants	\$ 830,715	\$ 2,750	\$ 41,150	\$ 874,615	\$ 993,525
Contributed goods and services	266,396	-	-	266,396	235,587
Performance revenues	674,450	-	-	674,450	625,655
Program revenues	90,220	-	-	90,220	75,483
Special events	73,705	-	-	73,705	86,789
Pavilion rental	39,657	-	-	39,657	32,116
Investment income	1,168	-	-	1,168	851
Other	42,076	-	-	42,076	41,624
Net assets released from restrictions	21,000	-	(21,000)	-	-
Total revenues and support	2,039,387	2,750	20,150	2,062,287	2,091,630
Operating expenses:					
Program services:					
Performances	1,232,144	-	-	1,232,144	1,118,179
Other programs	541,166	-	-	541,166	514,234
Management and general	263,263	-	-	263,263	458,265
Fundraising	201,736	-	-	201,736	253,828
Total operating expenses	2,238,309	-	-	2,238,309	2,344,506
Change in net assets - operating activities	(198,922)	2,750	20,150	(176,022)	(252,876)
Nonoperating expenses:					
Endowment investment income		220,656		220,656	
Release of endowment funds	45,000	(45,000)	-	-	-
Retirement agreement	(137,800)	-	-	(137,800)	-
Change in net assets	(291,722)	178,406	20,150	(93,166)	(252,876)
Net assets, beginning of year	6,946,655	1,975,408	161,000	9,083,063	9,335,939
Net assets, end of year	\$ 6,654,933	\$ 2,153,814	\$ 181,150	\$ 8,989,897	\$ 9,083,063

The accompany notes are an integral part of these financial statements.

STRINGS MUSIC FESTIVAL
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2016
(with summarized financial information for the fiscal year ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (93,166)	\$ (252,876)
Depreciation	230,406	239,353
Net gain on endowment investments	(217,905)	(58,340)
Interest earned on investments	(819)	-
Gain on disposal of equipment	(2,174)	-
(Increase) decrease in:		
Accounts receivable	(11,912)	(2,379)
Prepaid expenses	1,373	17,402
(Decrease) increase in:		
Accounts payable and accrued expenses	13,557	(65,945)
Deferred revenue	5,880	1,317
Retirement agreement	91,867	-
Net cash provided (used) by operating activities	<u>17,107</u>	<u>(121,468)</u>
Cash flows from investing activities:		
Purchase of endowment investments	(2,750)	-
Transfer from endowment fund	45,000	-
Transfer from performance facility maintenance reserve	4,000	-
Purchase of property and equipment	<u>(24,579)</u>	<u>(30,375)</u>
Net cash provided (used) by investing activities	<u>21,671</u>	<u>(30,375)</u>
Cash flows from financing activities:		
Payment on deferred tap fees	<u>(1,843)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(1,843)</u>	<u>-</u>
Net change in cash and cash equivalents	36,935	(151,843)
Cash and cash equivalents, beginning of year	<u>158,115</u>	<u>309,958</u>
Cash and cash equivalents, end of year	<u><u>\$ 195,050</u></u>	<u><u>\$ 158,115</u></u>

The accompany notes are an integral part of these financial statements.

STRINGS MUSIC FESTIVAL
Statement of Functional Expenses
For the Fiscal Year Ended September 30, 2016
(with summarized financial information for the fiscal year ended September 30, 2015)

	2016						2015
	Program Services			Management and General	Fundraising	Total	Total
	Performances	Other Programs	Total				
Expenses:							
Wages and benefits	\$ 137,500	\$ 215,899	\$ 353,399	\$ 221,475	\$ 140,355	\$ 715,229	\$ 744,138
Artist fees	478,158	-	478,158	-	2,700	480,858	466,233
Lodging and meals	216,252	-	216,252	-	-	216,252	182,319
Travel	39,424	-	39,424	-	511	39,935	42,397
Advertising	-	164,774	164,774	-	-	164,774	170,598
Music director fees	53,560	-	53,560	-	-	53,560	52,000
Snow removal and maintenance	-	29,737	29,737	-	-	29,737	34,294
Utilities	-	11,833	11,833	6,228	2,699	20,760	20,544
Website and internet	-	18,122	18,122	9,538	4,133	31,793	42,658
Insurance	-	17,600	17,600	9,263	4,014	30,877	29,553
Credit card fees	26,205	-	26,205	-	-	26,205	14,020
Office	-	10,196	10,196	5,366	2,325	17,887	27,806
Depreciation	230,406	-	230,406	-	-	230,406	239,353
Other	50,639	73,005	123,644	11,393	44,999	180,036	278,593
Total expenses	\$ 1,232,144	\$ 541,166	\$ 1,773,310	\$ 263,263	\$ 201,736	\$ 2,238,309	\$ 2,344,506

The accompany notes are an integral part of these financial statements.

STRINGS MUSIC FESTIVAL
Notes to Financial Statements
September 30, 2016

(with summarized financial information as of September 30, 2015 and for the fiscal year then ended)

Note 1: Nature of Organization and Significant Accounting Policies

Strings Music Festival (the Organization) was incorporated as a Colorado not-for-profit corporation in December 1986. The Organization's mission is to present innovative programs of distinctive classical and popular contemporary music in an intimate and friendly setting to audiences of all ages, enhancing the cultural, educational and entertainment experiences of the community of Northwest Colorado and its visitors. Concerts are held at the intimate 569-seat Strings Music Pavilion located in Steamboat Springs, Colorado.

Basis of Presentation

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (US GAAP) for not-for-profit entities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted net assets are resources available to support operations.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use.

Permanently restricted net assets are resources whose use by the Organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The Organization has no permanently restricted net assets at September 30, 2016.

All revenues are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Net Asset Classifications for Endowment Funds

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*, and FASB ASC 958-205-50-1A, *Reporting Endowment Funds*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205-50-1B improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Colorado adopted House Bill 08-1173, its enacted version of UPMIFA, effective September 1, 2008.

The Organization's board of directors has established an endowment with unrestricted funds to be used annually for operating expenses or for other types of costs including capital projects.

STRINGS MUSIC FESTIVAL
Notes to Financial Statements
September 30, 2016

(with summarized financial information as of September 30, 2015 and for the fiscal year then ended)

Note 1: Nature of Organization and Significant Accounting Policies (continued)

Endowment Investment and Spending Policies

The Organization has adopted an endowment investment policy requiring a \$200,000 cash reserve to meet operating or capital needs with the remaining funds invested in diversified mutual funds.

The Organization's board of directors has approved 5% of the endowment fund balance, including investment earnings, to be available for use in operations or for capital projects.

Cash and Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less.

Investments

Investments are reported at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Financial instruments are categorized into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Investments in mutual funds are based on quoted market prices in active markets and are therefore classified within Level 1. The Organization's certificates of deposit are valued based on other observable inputs and categorized within Level 2.

Accounts Receivable

Accounts receivable are primarily contributions pledged and program advertising. Management believes that all outstanding receivables are collectible in full; therefore, no allowance for uncollectible receivables has been provided.

Property and Equipment

Property and equipment is stated at cost, or if donated, the fair value at the date of the gift, less accumulated depreciation. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed on the straight-line method over the estimated lives of the assets, as follows:

	<u>Years</u>
Land improvements	15
Performance facility	15-40
Machinery and equipment	5-20
Equipment and fixtures	3-10

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized as revenues when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Donor-restricted contributions whose restrictions are met within the same reporting period are reported as unrestricted support.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

STRINGS MUSIC FESTIVAL
Notes to Financial Statements
September 30, 2016

(with summarized financial information as of September 30, 2015 and for the fiscal year then ended)

Note 1: Nature of Organization and Significant Accounting Policies (continued)

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

Advertising

The Organization expenses the costs of advertising when incurred.

Tax Status

The Organization is incorporated exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes. The Organization currently has no unrelated business income. Accordingly, no provision has been made for income tax. The Organization is not classified as a private foundation.

The Organization's tax returns related to the fiscal years ending September 30, 2013 through 2015 remain open for examination by taxing authorities.

Comparative Financial Statements

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 US GAAP. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the fiscal year ended September 30, 2015, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

STRINGS MUSIC FESTIVAL
Notes to Financial Statements
September 30, 2016

(with summarized financial information as of September 30, 2015 and for the fiscal year then ended)

Note 2: Investments

Investments, including those included in the endowment and performance facility maintenance reserve, consist of the following at September 30, 2016 and 2015:

	2016			2015
	Level 1	Level 2	Total	Total
Money market funds	\$ -	\$ 155,645	\$ 155,645	\$ 150,090
Certificates of deposit	-	267,115	267,115	271,603
Equity mutual funds	1,205,391	-	1,205,391	1,055,970
Bond mutual funds	790,028	-	790,028	769,348
	<u>\$ 1,995,419</u>	<u>\$ 422,760</u>	<u>\$ 2,418,179</u>	<u>\$ 2,247,011</u>

The composition of investment return reported in the statement of activities for the fiscal years ended September 30, 2016 and 2015 is as follows:

	2016	2015
Interest and dividends	\$ 50,086	\$ 49,461
Unrealized and realized net gains on investments	<u>171,738</u>	<u>(48,610)</u>
Total investment return	<u>\$ 221,824</u>	<u>\$ 851</u>

Note 3: Endowment

Changes in board designed endowment net assets for the fiscal years ended September 30, 2016 and 2015:

	2016	2015
Endowment net assets, beginning of period	\$ 1,975,408	\$ 2,014,491
Interest and dividends	47,115	48,987
Net realized and unrealized gains	170,791	(48,610)
Contributions	2,750	10,540
Amounts appropriated for expenditure	<u>(45,000)</u>	<u>(50,000)</u>
Endowment net assets, end of period	<u>\$ 2,151,064</u>	<u>\$ 1,975,408</u>

STRINGS MUSIC FESTIVAL
Notes to Financial Statements
September 30, 2016

(with summarized financial information as of September 30, 2015 and for the fiscal year then ended)

Note 4: Property and Equipment

The Organization's property and equipment consists of the following at September 30, 2016 and 2015:

	2016	2015
Land and improvements	\$ 2,801,309	\$ 2,801,309
Performance facility	4,837,066	4,837,066
Machinery and equipment	562,860	582,443
Furniture and fixtures	171,981	186,162
Construction in progress	14,605	8,080
	<u>8,387,821</u>	<u>8,415,060</u>
Less accumulated depreciation	<u>(1,929,017)</u>	<u>(1,752,602)</u>
Property and equipment, net	<u><u>\$ 6,458,804</u></u>	<u><u>\$ 6,662,458</u></u>

Note 5: Retirement Agreement

The Organization entered into a retirement agreement with its Executive Director upon her retirement as of September 30, 2015. Terms of the agreement require 36 monthly installments of \$3,828 beginning October 31, 2015 through October 31, 2018.

Note 6: Tap Fee Deferral Agreement

The Organization entered into an agreement with Mt. Werner Water and Sanitation District (the District) to defer payment of tap fees totaling \$7,373 associated with development of the Organization's performance facility. The Organization is scheduled to make annual payments of \$1,843 to the District through the fiscal year ended September 30, 2019.

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2016 and 2015 are restricted for the following purposes:

	2016	2015
Maintenance of performance facility	\$ 130,000	\$ 134,000
Contributions for future periods	51,150	27,000
	<u><u>\$ 181,150</u></u>	<u><u>\$ 161,000</u></u>

STRINGS MUSIC FESTIVAL
Notes to Financial Statements
September 30, 2016

(with summarized financial information as of September 30, 2015 and for the fiscal year then ended)

Note 8: Contributed Goods and Services

The Organization received contributed goods and services during the fiscal years ended September 30, 2016 and 2015 for the following purposes:

	2016	2015
Artists' lodging and meals	\$ 181,771	\$ 146,150
Advertising	31,875	39,030
Fundraising	29,784	34,327
Parking lot usage	10,000	10,000
Other	12,966	6,080
	<u>\$ 266,396</u>	<u>\$ 235,587</u>

Many individuals volunteer their time and perform a variety of tasks within the Organization's programs and other activities. However, these services do not meet the criteria for recognition as contributed services in accordance with US GAAP.

Note 9: Retirement Plan

The Organization offers its employees participation in a 401(k) retirement plan effective January 1, 2016. Employees must have at least twelve consecutive months of service to be eligible to participate in the plan. The Organization matches 100% of employee contributions up to 4% of employee compensation and 50% of employee contributions between 4%-8% of employee compensation. Employees become vested in employer contributions at 20% per year over a five year period. The Organization's contributions to the plan were \$23,344 for the fiscal year ended September 30, 2016.

Note 10: Subsequent Events

The Organization evaluated subsequent events through December 13, 2016, the date these financial statements were available to be issued.