

**47 PALMER, INC.
DBA PASSIM**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

47 PALMER, INC.
DBA PASSIM

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**Business Advisors
Certified Public Accountants**

To the Board of Directors
47 Palmer, Inc.
DBA Passim
Cambridge, Massachusetts

Independent Auditors' Report

We have audited the accompanying balance sheet of 47 Palmer, Inc., dba Passim (a Massachusetts nonprofit Corporation) as of December 31, 2010, and the related statements of activities, cash flows, and functional expenses for the year 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 audit. The prior year summarized comparative information has been derived from Passim's December 31, 2009 financial statements and, in our report dated April 30, 2010 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 audit provides 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 47 Palmer, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles

Paavento, Ratcliffe, Renzi & Co. PLLC

April 28, 2011

**47 PALMER, INC.
DBA PASSIM**

BALANCE SHEETS - DECEMBER 31, 2010 and 2009

ASSETS

| | 2010 | 2009 |
|---|------------------|------------------|
| CURRENT ASSETS: | | |
| Cash | \$108,525 | \$ 46,942 |
| Grants and contributions receivable | 8,300 | 1,820 |
| Accounts receivable | 22,297 | 16,502 |
| Prepaid expenses and other current assets | 9,064 | 15,212 |
| Inventory | 3,782 | 1,510 |
| Deposits | <u>1,380</u> | <u>785</u> |
| Total current assets | <u>153,348</u> | <u>82,771</u> |
| PROPERTY, PLANT AND EQUIPMENT | 115,365 | 98,970 |
| Less - Accumulated depreciation | <u>88,485</u> | <u>83,171</u> |
| | <u>26,880</u> | <u>15,799</u> |
| OTHER ASSETS | | |
| Deposits | <u>6,500</u> | <u>6,500</u> |
| | <u>\$186,728</u> | <u>\$105,070</u> |

LIABILITIES AND NET ASSETS

| | | |
|-----------------------------|------------------|------------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 34,268 | \$ 45,528 |
| Accrued expenses | 18,562 | 10,858 |
| Deferred revenue | <u>31,615</u> | <u>24,148</u> |
| Total current liabilities | <u>84,445</u> | <u>80,534</u> |
| NET ASSETS: | | |
| Unrestricted | 100,755 | 21,543 |
| Temporarily restricted | <u>1,528</u> | <u>2,993</u> |
| | <u>102,283</u> | <u>24,536</u> |
| | <u>\$186,728</u> | <u>\$105,070</u> |

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

**47 PALMER, INC.
DBA PASSIM**

STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2009

| | 2010 | | 2009 | |
|--|---------------------|-----------------------------------|--------------|--------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Total</u> |
| SUPPORT AND REVENUE: | | | | |
| Admission, Club, and benefits | \$ 744,628 | \$ - | \$ 744,628 | \$ 651,407 |
| Tuitions & newsletter revenue | 70,423 | - | 70,423 | 59,053 |
| Grants and donations | 208,207 | 20 | 208,227 | 226,190 |
| Membership revenue | 82,474 | - | 82,474 | 86,600 |
| In-kind contributions and donated services | 25,891 | - | 25,891 | 37,717 |
| Other income | 3,414 | - | 3,414 | 14,203 |
| Special events | 11,639 | - | 11,639 | 16,055 |
| Assets released from restrictions: | | | | |
| Restrictions satisfied by payments | 1,485 | (1,485) | - | - |
| Total support and revenue | 1,148,161 | (1,465) | 1,146,696 | 1,091,225 |
| EXPENSES: | | | | |
| Program expenses | 778,915 | - | 778,915 | 727,202 |
| Management and general | 178,899 | - | 178,899 | 155,438 |
| Fundraising expenses | 111,135 | - | 111,135 | 117,335 |
| Total expenses | 1,068,949 | - | 1,068,949 | 999,975 |
| Increase (decrease) in net assets | 79,212 | (1,465) | 77,747 | 91,250 |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | 21,543 | 2,993 | 24,536 | (66,714) |
| NET ASSETS, END OF YEAR | \$ 100,755 | \$ 1,528 | \$ 102,283 | \$ 24,536 |

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

47 PALMER, INC.
DBA PASSIM

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009

| | 2010 | | | | | | | 2009 | |
|---------------------------------------|-------------------|----------------------|------------------|------------------------|------------------------|-------------------|---------------------------|---------------------|-------------------|
| | Program Services | | | | Supporting Services | | | TOTAL | TOTAL |
| | Club Passim | Educational Programs | Outreach | Total Program Services | Management and General | Fund-raising | Total Supporting Services | | |
| Salaries | \$ 99,408 | \$ 52,046 | \$ 12,228 | \$ 163,682 | \$ 79,923 | \$ 78,087 | \$ 158,010 | \$ 321,692 | \$ 311,531 |
| Employee benefits | 8,160 | 4,601 | 998 | 13,759 | 5,794 | 4,417 | 10,211 | 23,970 | 30,891 |
| Payroll taxes | 10,855 | 5,613 | 1,329 | 17,797 | 9,358 | 8,482 | 17,840 | 35,637 | 28,449 |
| Total salaries and related expenses | <u>118,423</u> | <u>62,260</u> | <u>14,555</u> | <u>195,238</u> | <u>95,075</u> | <u>90,986</u> | <u>186,061</u> | <u>381,299</u> | <u>370,871</u> |
| Advertising & promotion | 1,285 | 745 | 175 | 2,205 | 602 | - | 602 | 2,807 | 718 |
| Artist fees | 378,981 | 925 | 3,000 | 382,906 | - | - | - | 382,906 | 341,511 |
| Accounting & legal | - | - | - | - | 7,001 | - | 7,001 | 7,001 | 8,722 |
| Bad debt expense | - | - | - | - | - | - | - | - | 954 |
| Bank & credit card fees | - | - | - | - | 25,128 | - | 25,128 | 25,128 | 25,242 |
| Conferences, conventions and meetings | - | - | - | - | - | - | - | - | 818 |
| Cost of goods sold | 27,039 | - | - | 27,039 | - | 92 | 92 | 27,131 | 23,564 |
| Depreciation | 3,646 | - | - | 3,646 | 1,668 | - | 1,668 | 5,314 | 6,063 |
| Dues & subscriptions | 330 | - | - | 330 | 1,280 | 630 | 1,910 | 2,240 | 1,934 |
| Hospitality | 5,249 | - | - | 5,249 | 2,885 | 369 | 3,254 | 8,503 | 12,939 |
| Instructor fees | - | 33,459 | - | 33,459 | - | - | - | 33,459 | 31,012 |
| Insurance | 1,863 | - | - | 1,863 | 7,816 | - | 7,816 | 9,679 | 8,673 |
| Interest expense | 58 | - | - | 58 | 344 | - | 344 | 402 | 2,884 |
| Licenses & permits | 12,475 | - | - | 12,475 | 472 | 15 | 487 | 12,962 | 11,287 |
| Miscellaneous | 5,778 | 190 | 250 | 6,218 | 2,206 | 1,504 | 3,710 | 9,928 | 9,606 |
| Occupancy costs | 21,119 | 8,436 | 1,967 | 31,522 | 1,304 | 11,404 | 12,708 | 44,230 | 52,242 |
| Postage and shipping | 33 | 41 | - | 74 | 2,819 | 1,906 | 4,725 | 4,799 | 5,883 |
| Printing and publications | 225 | 321 | 100 | 646 | 5,543 | 3,439 | 8,982 | 9,628 | 9,119 |
| Professional fees & consultants | 23,189 | - | - | 23,189 | 2,539 | - | 2,539 | 25,728 | 24,317 |
| Rental & maintenance of equipment | 4,674 | - | - | 4,674 | 5,769 | - | 5,769 | 10,443 | 9,079 |
| Scholarships | - | 29,869 | - | 29,869 | - | - | - | 29,869 | 20,117 |
| Subcontractor fees | - | 4,171 | - | 4,171 | 3,600 | - | 3,600 | 7,771 | 9,556 |
| Supplies & small equipment | 6,125 | 5,828 | 82 | 12,035 | 10,880 | 518 | 11,398 | 23,433 | 8,648 |
| Telephone | 1,572 | 477 | - | 2,049 | 1,968 | 272 | 2,240 | 4,289 | 4,216 |
| Total operating expenses | <u>493,641</u> | <u>84,462</u> | <u>5,574</u> | <u>583,677</u> | <u>83,824</u> | <u>20,149</u> | <u>103,973</u> | <u>687,650</u> | <u>629,104</u> |
| Total expenses | <u>\$ 612,064</u> | <u>\$ 146,722</u> | <u>\$ 20,129</u> | <u>\$ 778,915</u> | <u>\$ 178,899</u> | <u>\$ 111,135</u> | <u>\$ 290,034</u> | <u>\$ 1,068,949</u> | <u>\$ 999,975</u> |

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

**47 PALMER, INC.
DBA PASSIM**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009

| | 2010 | 2009 |
|--|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 77,747 | \$ 91,250 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities- | | |
| Depreciation | 5,314 | 6,063 |
| Increase in long-term deposits | - | (244) |
| (Increase) decrease in current assets- | | |
| Grants and contributions receivable | (6,480) | (12,502) |
| Accounts receivable | (5,795) | - |
| Prepaid expenses | 6,148 | (6,330) |
| Inventory | (2,272) | 124 |
| Deposits | (595) | 4,990 |
| Increase (decrease) in current liabilities- | | |
| Accounts payable | (11,260) | (28,559) |
| Accrued expenses | 7,704 | (1,082) |
| Deferred revenue | <u>7,466</u> | <u>(11,196)</u> |
| Net cash provided (used) by operating activities | 77,977 | 42,514 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | <u>(16,394)</u> | <u>(14,699)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | <u>-</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH | 61,583 | 27,815 |
| CASH AT BEGINNING OF YEAR | <u>46,942</u> | <u>19,127</u> |
| CASH AT END OF YEAR | <u>\$ 108,525</u> | <u>\$ 46,942</u> |

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

**47 PALMER, INC.
DBA PASSIM**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(1) NATURE OF OPERATIONS

47 Palmer, Inc., dba Passim, was incorporated in 1994 as a Massachusetts nonprofit corporation. The objectives of Passim are the cultivation and preservation of folk music. The Organization, through its operations, serves as a local and national resource for teaching, performing, and celebrating the art and folk music traditions of countries worldwide. Passim reaches out to people of all ages, backgrounds and communities through its diverse programming including a performance venue, school of music, historical archive and multi-cultural children's programming.

Passim operates the following programs:

Club Passim – A legendary folk music venue located in Harvard Square, Cambridge, first opened in 1958. Club Passim continues to bring in the best of emerging and established acoustic and roots musicians.

Educational Programs -

Culture for Kids – Provides free programs that bring children from all backgrounds together to learn through music, dance, cooking and art. Children learn about world cultures and the history of different styles of music in interactive environment.

Passim School of Music – One of the only schools in New England to focus on folk music. The Passim School of Music provides classes for all levels in various instruments such as guitar, fiddle, and banjo, as well as classes in such disciplines as music industry, voice, and songwriting. The Passim School of Music also offers workshops by nationally known musicians and other music professionals.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of Passim have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

(b) Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

47 PALMER, INC.
DBA PASSIM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein may be classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

The financial statements contain 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 the basis of accounting as described above. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

(c) Contributions

Passim recognizes all contributed support when it is received or unconditionally pledged. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction 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. However, if a restriction is fully satisfied in the same time period in which the contribution is received, Passim reports the support as unrestricted.

(d) Promises to Give

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decrease of liabilities or expenses depending on the form of benefit received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

(e) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**47 PALMER, INC.
DBA PASSIM**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Deferred Revenue

Ticket sales and other program revenue received prior to the fiscal year to which they apply are not recognized as revenues until the year earned.

(g) Grants and Contributions Receivable

Receivables for grants and contributions are recorded when the commitment to give is formalized and unconditional. During the year, management periodically reviews the status of receivables and adjustments are made through an allowance for doubtful accounts for those receivables in question. There were no doubtful accounts as of December 31, 2010 and 2009, respectively.

(h) Tax Status

Passim is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. The Organization's federal Exempt Organization Tax Returns for 2007 through 2009 are subject to examination by the IRS. Tax returns are, generally, subject to examination for three years after the filing date.

(i) In-Kind Contributions and Donated Services

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

(j) Property and Equipment

Passim capitalizes property and equipment acquisitions in excess of \$500. Investments in property and equipment are recorded at cost and include expenditures for improvements, which substantially increase the useful lives of these assets. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Depreciation of property and equipment (including assets acquired by capital lease) is computed using the straight-line method. The estimated useful lives are as follows:

| <u>Shorter of Estimated Lives/ Classification</u> | <u>Lease Terms</u> |
|---|--------------------|
| Leasehold improvements | 3 years |
| Furniture and equipment | 3-7 years |

**47 PALMER, INC.
DBA PASSIM**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Advertising

Advertising costs are expensed as incurred.

(3) PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classification as follows:

| | 2010 | 2009 |
|--------------------------------|-----------------|-----------------|
| Leasehold improvements | \$56,395 | \$53,335 |
| Furniture and equipment | 55,831 | 42,496 |
| Donated equipment | <u>3,139</u> | <u>3,139</u> |
| | 115,365 | 98,970 |
| Less- Accumulated depreciation | <u>88,485</u> | <u>83,171</u> |
| | <u>\$26,880</u> | <u>\$15,799</u> |

Depreciation expense for the years ended December 31, 2010 and 2009 was \$5,314 and \$6,063, respectively.

(4) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | 2010 | 2009 |
|------------------|----------------|----------------|
| Scholarship fund | <u>\$1,528</u> | <u>\$2,993</u> |

**47 PALMER, INC.
DBA PASSIM**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(5) IN-KIND CONTRIBUTIONS AND DONATED SERVICES

Passim receives a significant amount of donated services from unpaid volunteers who assist in program and fund-raising activities. No amounts have been recognized in the statements of activity for these volunteer services because the criteria for recognition have not been satisfied.

In-kind contributions and donated services that meet the recognitions criteria are recorded in the accompanying statements of activity and include the following:

| | 2010 | 2009 |
|---|-----------------|-----------------|
| Building rent (see Commitment Note below) | \$15,240 | \$37,717 |
| Computer software | 6,171 | - |
| Guitars and music accessories | <u>4,300</u> | <u>-</u> |
| | <u>\$25,891</u> | <u>\$37,717</u> |

(6) RELATED PARTY ACTIVITY

A member of the board of directors loaned the Organization \$10,000 during fiscal year 2009. The loan was repaid, with interest of \$100, prior to the end of the fiscal year.

(7) COMMITMENTS AND CONTINGENCIES

Facility Operating Lease

Passim leases its operating facility on a month-to-month, tenant-at-will basis.

In August of 2006, the landlord issued a memorandum agreeing to: below market rates on a tenant-at-will basis through December of 2008, a return to fair market value basis in January of 2009, and a possibility of renegotiating the lease terms in January of 2009. In July of 2008, lease terms were re-negotiated for calendar year 2009 only. The landlord agreed to accept a monthly rent of \$8,000 (See note 5 regarding in-kind contributions). These lease terms, although not rising to the level of a contract, translate into an increase in rent of \$12,000 for calendar year 2009. In November 2009, the landlord agreed to accept a monthly rent of \$9,000 for the calendar year 2010 and to forgive \$14,000 of rent for 2009. The landlord has agreed to a monthly rent of \$9,200 for 2011. This will be partially offset by pro rata increases in sublease rates (see next paragraph).

**47 PALMER, INC.
DBA PASSIM**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

(7) COMMITMENTS AND CONTINGENCIES (Continued)

Sublessee

In order to provide a better experience for patrons and members, Passim shares its plant facility with a for-profit food concession entity. As such, the for-profit entity is a sublessee of Passim on its share of the facility. Passim had entered into an agreement with its sublessee to operate a restaurant on its premises. The agreement provided for a stated annual fee for a period of five years and expired on September 4, 2004. The sub-tenant continues to occupy the same premises and operate its restaurant on a month-to-month tenant-at-will-basis. The sub-tenant continues to pay rent and taxes based on year-to-year agreements. In addition, an agreed upon factor of sales in excess of a base amount is to be paid by the sub-tenant, if in fact such excess occurs. The sublessee's base rent was \$6,187.50 and \$5,500 per month, respectively, for fiscal years ending December 31, 2010 and 2009. Amounts received as rent and utility reimbursements totaled \$74,250 and \$66,000 for the years ended December 31, 2010 and 2009, respectively.

In addition, Passim subleases excess office space on a tenant-at-will basis. Amounts received under these arrangements totaled \$10,767 during the year ended December 31, 2010.

(8) SUBSEQUENT EVENTS

The Organization evaluated subsequent events through April 28, 2011, which is the date the financial statements were available to be issued.

(9) RECLASSIFICATIONS

Certain amounts from the 2009 presentation have been reclassified to conform to the 2010 presentation.