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INTERNATIONAL FOLK ART ALLIANCE, INC.

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

October 31, 2016 and 2015

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
International Folk Art Alliance, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of International Folk Art Alliance, Inc.(a not-for-profit organization) (the Organization), which comprise the statements of financial position as of October 31, 2016 and 2015, and the related statements of activities and changes in net assets 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 Unites 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Folk Art Alliance, Inc. as of October 31, 2016 and 2015, 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.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
February 16, 2017

International Folk Art Alliance, Inc.

STATEMENTS OF FINANCIAL POSITION

October 31,

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 538,833	$ 637,961
Short-term investments	180,108	230,163
Receivables		
Current portion of unconditional promises to give	148,500	213,962
Trade receivables	10,819	-
Grant receivables	2,600	5,000
Inventory	185,409	146,388
Prepaid expenses	3,958	-
Total current assets	1,070,227	1,233,474
UNCONDITIONAL PROMISES TO GIVE, less current portion, net of allowance for doubtful accounts and unamortized discounts of $60,607 at October 31, 2016 and $71,820 at October 31, 2015	240,599	339,386
INVESTMENTS RESTRICTED FOR LONG-TERM PURPOSES	1,687,505	1,617,502
PROPERTY AND EQUIPMENT, net	13,215	29,376
OTHER ASSETS		
Cash value of life insurance policy	112,898	109,735
Film development costs, net	26,194	65,651
Deposits	11,920	9,914
Trademarks	904	-
Total assets	$ 3,163,462	$ 3,405,038

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 10,969	$ 9,852
Accrued payroll liabilities	19,026	17,415
Promise to give to Museum of New Mexico Foundation, current portion	27,955	27,075
Total current liabilities	57,950	54,342
PROMISE TO GIVE TO MUSEUM OF NEW MEXICO FOUNDATION, less current portion	28,863	56,818
Total liabilities	86,813	111,160
COMMITMENTS	-	-
NET ASSETS		
Unrestricted:		
Undesignated	938,490	1,085,605
Board designated	587,318	544,743
Total unrestricted	1,525,808	1,630,348
Temporarily restricted	550,841	663,530
Permanently restricted	1,000,000	1,000,000
Total net assets	3,076,649	3,293,878
Total liabilities and net assets	$ 3,163,462	$ 3,405,038

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

International Folk Art Alliance, Inc.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended October 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Support:				
Cash contributions	$ 881,042	$ 64,002	$ -	$ 945,044
In-kind contributions	326,937	-	-	326,937
Grants from private foundations	295,767	57,500	-	353,267
State and local grants	50,000	-	-	50,000
Total support	1,553,746	121,502	-	1,675,248
Revenue:				
Market revenue:				
Ticket sales	521,876	-	-	521,876
Handling fee for artist sales	304,508	-	-	304,508
Booth revenue	200,609	-	-	200,609
Special event revenue	7,595	-	-	7,595
Total market revenue	1,034,588	-	-	1,034,588
Investment return	12,487	52,428	-	64,915
Online and book sales, net of cost of sales of $96,137	85,676	-	-	85,676
Other income	6,110	-	-	6,110
Total revenue	1,138,861	52,428	-	1,191,289
Total support and revenue	2,692,607	173,930	-	2,866,537
Net assets released from restrictions	286,619	(286,619)	-	-
EXPENSES				
Program services:				
Annual Folk Art Market	1,072,983	-	-	1,072,983
Marketing and communication	359,193	-	-	359,193
Artist development and social impact	339,539	-	-	339,539
Artist relations	270,189	-	-	270,189
Folk art online	146,987	-	-	146,987
Volunteers	112,051	-	-	112,051
Markets and enterprises	92,835	-	-	92,835
Supporting services:				
Fundraising	440,086	-	-	440,086
Management and general	249,903	-	-	249,903
Total expenses	3,083,766	-	-	3,083,766
CHANGES IN NET ASSETS	(104,540)	(112,689)	-	(217,229)
Net assets, beginning of year	1,630,348	663,530	1,000,000	3,293,878
Net assets, end of year	$ 1,525,808	$ 550,841	$ 1,000,000	$ 3,076,649

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS – CONTINUED

Year Ended October 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Support:				
Cash contributions	$ 766,839	$ 15,500	$ -	$ 782,339
In-kind contributions	372,402	-	-	372,402
Grants from private foundations	344,405	-	-	344,405
State and local grants	79,875	-	-	79,875
Total support	1,563,521	15,500	-	1,579,021
Revenue:				
Market revenue:				
Ticket sales	568,257	-	-	568,257
Handling fee for artist sales	348,975	-	-	348,975
Booth revenue	182,130	-	-	182,130
Special event revenue	19,641	-	-	19,641
Total market revenue	1,119,003	-	-	1,119,003
Investment return	10,849	56,469	-	67,318
Online and book sales, net of cost of sales of $36,870	33,221	-	-	33,221
Other income	1,980	-	-	1,980
Total revenue	1,165,053	56,469	-	1,221,522
Total support and revenue	2,728,574	71,969	-	2,800,543
Net assets released from restrictions	435,966	(435,966)	-	-
EXPENSES				
Program services:				
Annual Folk Art Market	2,305,661	-	-	2,305,661
New markets	222,331	-	-	222,331
Education and community outreach	112,597	-	-	112,597
Artist training	101,091	-	-	101,091
Supporting services:				
Fundraising	273,537	-	-	273,537
Management and general	222,134	-	-	222,134
Total expenses	3,237,351	-	-	3,237,351
CHANGES IN NET ASSETS	(72,811)	(363,997)	-	(436,808)
Net assets, beginning of year	1,703,159	1,027,527	1,000,000	3,730,686
Net assets, end of year	$ 1,630,348	$ 663,530	$ 1,000,000	$ 3,293,878

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

International Folk Art Alliance, Inc.

STATEMENTS OF CASH FLOWS

Year Ended October 31,

Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (217,229)	$ (436,808)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Gain on cash surrender life insurance	(3,163)	(1,037)
In-kind donations of inventory	(8,316)	(337)
Depreciation expense	16,161	16,759
Film amortization expense	39,457	39,457
Reinvested interest on short-term investments	(498)	(719)
Net realized and unrealized (gains) losses on investments	(3,828)	20,213
Discount and amortization of discount on promise to give to Museum of New Mexico Foundation	2,925	(6,107)
Bad debt expense	1,230	-
Amortization of discount on promises to give	(10,336)	(20,544)
Net changes in assets and liabilities		
Decrease in unconditional promises to give	174,585	412,439
Decrease (increase) in grants receivables	2,400	(5,000)
(Increase) decrease in trade receivables	(12,049)	238
(Increase) in inventory	(30,705)	(33,352)
(Increase) in prepaid expenses	(3,958)	-
(Increase) in deposits	(2,006)	(1,639)
Increase in accounts payable	1,117	3,117
Increase (decrease) in accrued payroll liabilities	1,611	(45,208)
(Decrease) increase in promise to give to Museum of New Mexico Foundation	(30,000)	90,000
Net cash (used in) provided by operating activities	(82,602)	31,472
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in cash held for long-term endowments	(66,176)	(50,052)
Purchases of investments	-	(90,890)
Proceeds from sale of investments	50,554	10,062
Additions of trademark	(904)	-
Purchases of equipment	-	(6,130)
Net cash used in investing activities	(16,526)	(137,010)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(99,128)	(105,538)
Cash and cash equivalents, beginning of year	637,961	743,499
Cash and cash equivalents, end of year	$ 538,833	$ 637,961

SUPPLEMENTAL CASH FLOWS DISCLOSURES

	2016	2015
In-kind goods and materials	$ 300,857	$ 349,902
Interest paid in cash	$ 458	$ 1,312

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

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization

The Santa Fe International Folk Art Market, Inc. was formed November 27, 2006, as a not-for-profit corporation. Effective May 22, 2013, Santa Fe International Folk Art Market, Inc. changed its name to the International Folk Art Alliance, Inc. (the Organization). It is organized for charitable and educational purposes, including fostering economic and cultural sustainability for folk artists and folk art worldwide and creating intercultural exchange opportunities uniting the peoples of the world. The Organization accomplishes this purpose by conducting an annual international folk art market in Santa Fe each July. In conjunction with the annual market, the Organization has also provided an internship program to sustain its work and create capacity and leadership in Southern Africa for new folk art markets. In addition, the Organization is working to create new markets, either by expanding opportunities for artists or creating strategic partnerships to build additional markets, for international folk artists to succeed. The Organization is also providing the general public opportunities to learn about the International Folk Art Market through education and community outreach. The Organization also provides financial and other support for the Museum of International Folk Art, a division of the New Mexico Department of Cultural Affairs.

2. Financial Statement Presentation

The Organization uses the accrual method of accounting. 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 are classified and reported as follows:

Unrestricted net assets – represent resources whose use is not limited or restricted by donors. Unrestricted net assets have arisen from exchange transactions, receipt of unrestricted contributions, and expirations or satisfaction of existing restrictions.

Temporarily restricted net assets – arise from contributions whose use by the Organization have been limited by donors to later periods of time or to specified purposes and from earnings on permanently restricted net assets, if such earnings have been limited by donors to specified purposes. Temporarily restricted contributions are recorded as unrestricted to the extent the restrictions are satisfied in the same reporting period.

Permanently restricted net assets – arise from contributions which are restricted by donors to be maintained in perpetuity.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

4. Concentration of Credit Risk

Cash and investments are maintained with local financial institutions and a brokerage firm. Accounts at each institution may, at times, exceed the applicable insured limits of $250,000 per depositor, per insured bank, for each account ownership category. The Organization has not experienced any losses from, and believes it is not exposed to, significant credit risk from these deposits.

5. Cash and Cash Equivalents

For purposes of the statements of cash flows, all cash depository accounts and highly liquid investments with initial maturities of three months or less are classified as cash and cash equivalents, unless restricted for long-term purposes by a donor or the Board of Directors. Cash and cash equivalents at October 31, 2016 and 2015, include cash on hand, cash in banks, short-term certificates of deposit, and money market accounts.

6. Investments

Investments consist of long-term certificates of deposit, municipal bonds, equity securities, and the cash value of a life insurance policy, held at local financial institutions, a brokerage firm, and an insurance company, and are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded on a specific identification method upon the sale of investments. Realized and unrealized gains and losses on investments are included in investment income in the accompanying statements of activities and changes in net assets. Investment income is included in the statements of activities and changes in net assets as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition may differ from the amounts reported in these financial statements. Certain amounts are designated by the Board of Directors for long-term purposes as discussed in Note A14.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Unconditional Promises to Give

Contributions received, including unconditional promises to give, are recognized at fair value as revenues in the period received. Additionally, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. If the restriction is met in the same reporting period as the contribution is received, the contribution is considered unrestricted.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on pledges is computed using the risk-free interest rates ranging from .27% to 3.46% applicable to the year in which the promise is received in addition to a risk factor determined by management. Amortization of the discount is included in temporarily restricted contribution revenue. The Organization has provided an allowance for doubtful promises to give based on collection history and other factors. At October 31, 2016 and 2015, the Organization has provided an allowance of approximately 4% of total outstanding unconditional promises to give.

Conditional promises to give are not included as support until the conditions are substantially met. There were no outstanding conditional promises to give as of October 31, 2016 and 2015.

8. Intentions to Give

The Organization has received indications of gifts in the form of bequests which are revocable during the donor's lifetime. Due to the uncertain nature of these intentions, the Organization has not recognized an asset or contribution revenue for these gifts. There is no known estimate of the value of these intended gifts.

9. Donated Goods and Services

In-kind contributions and inventory donations are recorded at the estimated fair value at the date of contribution or donation. For each year ended October 31, 2016 and 2015, the Organization received $26,080 and $22,500 in works of art, and $300,857 and $349,902, respectively, in other goods and services to support the annual market and the Organization. In-kind services are recorded if the services increase financial assets or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Donated Goods and Services – Continued

The Organization relies on the assistance of the volunteers that help with the annual market in a variety of duties, including but not limited to, cashiers, set-up and clean-up crews, ticket sales, and other tasks. The value of these services as determined by management approximates $860,250 (unaudited) and $813,904 (unaudited) for the years ended October 31, 2016 and 2015, respectively; however, such amount does not meet the criteria for recognition.

10. Property and Equipment

Property and equipment are stated at cost. Donated property is recorded at estimated fair value as of the date of donation. Depreciation is provided for all depreciable assets on a straight-line basis over the estimated useful life of the asset and is allocated to each functional category based on utilization. Depreciation and amortization expense for the year ended October 31, 2016 and 2015, was $16,161 and $16,759, respectively. The Organization capitalizes all acquisitions greater than $1,000.

Maintenance and repairs, including the replacement of minor items, are expensed as incurred. Major repairs to property and equipment are capitalized.

11. Film Development Costs

During 2012, the Organization entered into a professional services agreement to begin production of a film that documents folk artists and their artwork. The Organization uses this film to educate the general public about folk art and what the Organization does to promote folk art. The Organization also uses the film as a tool to increase future contribution revenues. The film completed production in July 2013. The final cost of the film is $157,439. The film is being amortized over four years on a straight-line basis. Amortization of the film as of October 31, 2016 and 2015 is $39,457, respectively.

12. Functional Expenses

The Organization reports its expenses according to three functional classifications: Program Services, which includes the direct costs of providing benefits and services to the Organization; Management and General; and Fundraising. Common costs are allocated among the classifications on the basis of management’s estimate of the amount of resources used by each classification.

13. Advertising

The Organization incurs advertising costs related to the annual market and new markets. These costs are expensed as incurred. Advertising expense totaled $41,530 and $21,303 as of October 31, 2016 and 2015, respectively.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Board Designated Net Assets

During fiscal year 2008, the Organization received a $100,000 donation from a Board member for the purpose of establishing a $100,000 quasi-endowment fund. As a result, the Board of Directors has designated this $100,000 donation in addition to the interest earned and any new donations to the endowment to be set aside as Board designated for long-term purposes. The balance of the quasi-endowment is $587,318 and $544,743 as of October 31, 2016 and 2015, respectively. (See also Note K.)

15. Inventory

Donated works of art are recorded at estimated fair value at the date of donation. During 2016 and 2015, the Organization purchased certain types of inventory to be sold online and at events held during the year. Book inventory consists of costs incurred for an anniversary book completed during 2013. The inventory is recorded at the lower of cost or market on a specific identification basis except for the purchased works which are valued at average cost. The estimated value of inventory is as follows:

	2016	2015
Purchased works of art	$ 123,167	$ 87,319
Book inventory	29,513	34,528
Donated works of art	24,928	16,984
Ambiance	7,801	7,557
	$ 185,409	$ 146,388

16. Income Taxes

The Organization received its letter of exemption from the Internal Revenue Service on November 14, 2007. The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law. Contributions to the Organization are tax deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly supported organization that is not a private foundation under the Code.

The Organization applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. FASB ASC 740 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions in an Organization's financial statements. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The Organization's policy is to classify income tax penalties and interest as miscellaneous expense. During the

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Income Taxes – Continued

years ended October 31, 2016 and 2015, the Organization recognized no income tax penalties or interest. As of October 31, 2016 and 2015, management does not believe the Organization has any uncertain tax positions that would require financial statement recognition, measurement, or disclosure under FASB ASC 740. Due to statutes of limitation, the Organization is no longer subject to examinations by tax authorities for years prior to 2013.

17. Subsequent Events

Subsequent events have been evaluated through February 16, 2017, the date the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ended October 31, 2016. As discussed in Note M, the Organization entered into professional services agreements for public relations consulting, decorating, and fundraising and grant writing.

18. Reclassifications

During the year ended October 31, 2016, management of the Organization reevaluated its program allocation and restructured the chart of accounts. As a result, program descriptions were expanded and the allocation of costs were changed to meet the Organization's new chart of accounts restructuring. The program descriptions and allocations for fiscal year 2015 were not reclassified to align with these changes.

NOTE B – UNCONDITIONAL PROMISES TO GIVE

The Organization has outstanding promises to give from various donors. The balance of the outstanding unconditional promises to give is expected to be received as follows:

	2016	2015
Less than one year	$ 148,500	$ 213,962
One to five years	301,206	411,206
	449,706	625,168
Less allowance for doubtful accounts	(19,683)	(20,560)
Less unamortized discount	(40,924)	(51,260)
	$ 389,099	$ 553,348

NOTE C – PROMISES TO GIVE TO MUSEUM OF NEW MEXICO FOUNDATION

During 2015, the Organization entered into a lease agreement with several other organizations. Included in the lease agreement under appendix B, the Organization agreed to donate $120,000 to the Museum of New Mexico Foundation on behalf of the Museum of International Folk Art (MOIFA) in support of MOIFA's education and exhibition programs, beginning in October 2015. The balance of the promise to give is expected to be paid as follows:

	2016	2015
Less than one year	$ 30,000	$ 30,000
One to five years	30,000	60,000
	60,000	90,000
Less unamortized discount	(3,182)	(6,107)
	$ 56,818	$ 83,893

As part of the lease agreement, the Organization agreed to pay MOIFA $5,000 and the Museum of Indian Arts and Culture (MIAC) $10,000 per year in full consideration for the use of MOIFA's and MIAC's facilities at Milner Plaza. See also Note G.

NOTE D – RELATED PARTY TRANSACTIONS

Prior to the formation of the Organization, the Museum of New Mexico Foundation (MNMF) processed transactions for the annual market as fiscal agent. On occasion, minimal transactions continue to be processed by MNMF as needed.

During the year ended October 31, 2016 and 2015, the Organization has received approximately $403,200 and $309,700, respectively, in contributions from various Board members and staff. As of October 31, 2016 and 2015, approximately $411,206 and $512,668 of contributions are recorded as outstanding unconditional promises to give.

The Secretary of the Department of Cultural Affairs, the Director of the Museum of International Folk Art, and the Executive Director of the Museum of New Mexico Foundation each serve as non-voting, advisory members of the Board of the Organization.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment at October 31 consisted of the following:

	2016	2015
Leasehold improvements	$ 35,554	$ 35,554
Computer equipment	27,500	27,500
Furniture, fixtures, and equipment	20,208	20,208
	83,262	83,262
Less accumulated depreciation and amortization	(70,047)	(53,886)
	$ 13,215	$ 29,376

NOTE F – FILM DEVELOPMENT COSTS

Film development costs at October 31 consisted of the following:

	2016	2015
Film development costs	$ 157,439	$ 157,439
Less accumulated amortization	(131,245)	(91,788)
	$ 26,194	$ 65,651

NOTE G – OPERATING LEASE OBLIGATIONS

The Organization has non-cancelable operating leases, primarily for equipment, office and storage space and premises used for the market that expire at various dates through July 2018. Rental expense for those leases was $141,572 and $137,570 for the years ended October 31, 2016 and 2015, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows for the years ending October:

2017	$ 135,123
2018	94,361
	$ 229,484

NOTE H – FUNCTIONAL EXPENSES

Functional expenses are as follows:

	2016									
	Program Services							Supporting Services		
	Annual Folk Art Market	Marketing and Communication	Artist Development and Social Impact	Artist Relations	Folk Art Online	Volunteers	Markets and Enterprises	Fundraising	Management and General	Total
Human resources	$ 217,942	$ 54,359	$ 85,744	$ 86,828	$ 77,074	$ 62,671	$ 72,461	$ 202,982	$ 194,951	$ 1,055,012
Program expenses	410,626	60,913	66,495	144,065	22,909	27,187	12,310	116,032	3,517	864,054
Professional services	204,306	201,167	18,422	11,403	9,815	6,525	1,446	26,403	7,923	487,410
In-kind expenses	66,589	11,263	153,593	894	18,601	5,945	-	39,650	4,324	300,859
Technology and support	81,138	13,208	4,549	5,161	4,026	4,168	1,758	20,309	9,865	144,182
Facilities	50,941	11,288	6,033	15,114	6,933	3,443	3,012	12,992	16,903	126,659
Depreciation and amortization	17,672	6,434	3,439	4,980	2,374	1,962	1,717	7,405	9,635	55,618
Banking	18,066	277	1,112	1,524	4,828	63	55	13,608	171	39,704
Insurance	4,708	284	152	220	105	87	76	327	425	6,384
Other	995	-	-	-	322	-	-	378	2,189	3,884
Total expenses	$ 1,072,983	$ 359,193	$ 339,539	$ 270,189	$ 146,987	$ 112,051	$ 92,835	$ 440,086	$ 249,903	$ 3,083,766

	2015						
	Program Services				Supporting Services		
	Annual Folk Art Market	New Markets	Education and Community Outreach	Artist Training	Fundraising	Management and General	Total
Human resources	$ 533,292	$ 131,949	$ 76,970	$ 87,966	$ 104,459	$ 164,936	$ 1,099,572
General market	1,099,488	-	-	-	-	-	1,099,488
Office	167,991	23,624	13,124	13,125	10,499	34,122	262,485
Artists	215,154	-	-	-	-	-	215,154
Development	22,444	5,611	6,295	-	84,164	-	118,514
Public relations	120,023	1,225	1,225	-	-	-	122,473
Board and organizational	34,613	34,613	-	-	23,075	23,076	115,377
Marketing	108,493	1,107	1,107	-	-	-	110,707
Special events	4,163	-	13,876	-	51,340	-	69,379
Enterprise expenses	-	24,202	-	-	-	-	24,202
Total expenses	$ 2,305,661	$ 222,331	$ 112,597	$ 101,091	$ 273,537	$ 222,134	$ 3,237,351

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of October 31 are available for the following purposes:

	2016	2015
Restricted for time:		
Pledge receivables	$ 389,099	$ 553,348
Total restricted for time	389,099	553,348
Restricted for purpose:		
Operations	100,187	72,759
Artist relief fund	41,555	37,423
Mentor to market	20,000	-
Total restricted for purpose	161,742	110,182
Total temporarily restricted net assets	$ 550,841	$ 663,530

Net assets released from restrictions were comprised of the following:

	2016	2015
Pledges	$ 218,251	$ 397,395
Operations	62,500	25,000
Artist relief fund	5,868	9,988
Online learning lab	-	3,583
	$ 286,619	$ 435,966

NOTE J – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value for assets and liabilities subject to a fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at October 31, 2016 and 2015.

Certificates of deposit: Valued at net realizable value.

Municipal bonds: Valued at an evaluated price which is based on a compilation of primarily observable market information or a broker quote in a non-active market.

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

Equity securities: Valued at closing price reported on the active market on which the individual securities are traded.

Cash value of life insurance policy: Fair value determined using net asset value of quoted prices of securities held in active markets at year-end, as well as the present values of future cash flows, based on the Organization's ownership percentage of the fair value of the assets held in the policy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets at Fair Value as of October 31, 2016

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 180,108	$ -	$ -	$ 180,108
Cash invested for long-term purposes	229,771	-	-	229,771
Municipal bonds				
A rated	-	292,258	-	292,258
AA rated	-	720,280	-	720,280
AAA rated	-	237,533	-	237,533
Equities				
Technology	71,858	-	-	71,858
Consumer cyclical	47,043	-	-	47,043
Industrials	28,037	-	-	28,037
Consumer defensive	25,137	-	-	25,137
Financial services	18,768	-	-	18,768
Healthcare	16,820	-	-	16,820
Cash value of life insurance policy	-	-	112,898	112,898
Total	$ 617,542	$ 1,250,071	$ 112,898	$ 1,980,511

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

Assets at Fair Value as of October 31, 2015

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 230,163	$ -	$ -	$ 230,163
Cash invested for long-term purposes	163,597	-	-	163,597
Municipal bonds				
A rated	-	292,764	-	292,764
AA rated	-	677,335	-	677,335
AAA rated	-	264,556	-	264,556
Equities				
Technology	71,052	-	-	71,052
Consumer cyclical	54,311	-	-	54,311
Consumer defensive	30,927	-	-	30,927
Industrials	23,846	-	-	23,846
Healthcare	19,756	-	-	19,756
Financial services	19,358	-	-	19,358
Cash value of life insurance policy	-	-	109,735	109,735
Total	$ 613,010	$ 1,234,655	$ 109,735	$ 1,957,400

The following table sets forth a summary of changes in fair value of the Organization's level 3 assets for the year ended October 31,

	2016 Cash value of life insurance policy	2015 Cash value of life insurance policy
Balance, beginning of year	$ 109,735	$ 108,698
Realized and unrealized gains	3,163	1,037
Balance, end of year	$ 112,898	$ 109,735

NOTE K – ENDOWMENT

The Organization's endowment consists of two individual funds established collectively as a quasi-endowment fund and a donor-restricted fund. The endowment includes funds designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by Type of Fund as of October 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ -	$ 1,000,000	$ 1,000,000
Board-designated endowment fund	587,318	100,187	-	687,505
Total funds	$ 587,318	$ 100,187	$ 1,000,000	$ 1,687,505

Changes in Endowment Net Assets for the Fiscal Year Ended October 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 544,743	$ 72,759	$ 1,000,000	$ 1,617,502
Investment return:				
Investment income	8,613	52,428	-	61,041
Contributions	53,962	-	-	53,962
Appropriated for expenditure in current year	(20,000)	(25,000)	-	(45,000)
Endowment net assets, end of year	$ 587,318	$ 100,187	$ 1,000,000	$ 1,687,505

NOTE K – ENDOWMENT – CONTINUED

Endowment Net Asset Composition by Type of Fund as of October 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ -	$ 1,000,000	$ 1,000,000
Board-designated endowment fund	544,743	72,759	-	617,502
Total funds	$ 544,743	$ 72,759	$ 1,000,000	$ 1,617,502

Changes in Endowment Net Assets for the Fiscal Year Ended October 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 465,544	$ 41,290	$ 1,000,000	$ 1,506,834
Investment return:				
Investment income	9,161	56,469	-	65,630
Contributions	70,038	-	-	70,038
				-
Appropriated for expenditure in current year	-	(25,000)	-	(25,000)
Endowment net assets, end of year	$ 544,743	$ 72,759	$ 1,000,000	$ 1,617,502

Interpretation of Relevant Law

The Finance Committee of the Organization has interpreted the accounting for its endowments as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence. The Organization considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation/depreciation of investments, (6) other resources of the Organization, and (7) the Organization’s investment policies.

NOTE K – ENDOWMENT – CONTINUED

Return Objectives and Risk Parameters

The Organization's Board designated endowment is in its seventh year of existence. As such, all monies earned are being reinvested. The Organization is currently investing in money market funds, equity securities and municipal bonds in order to protect the corpus of the endowment while still earning returns. Once the Organization and the endowment are more thoroughly established, the Board will look at changing their investment policy. The Organization's permanent endowment fund's objective is to obtain a reasonable total return on the investment funds that ensures the preservation and growth of the funds over the long-term on an inflation adjusted basis. The permanent endowment fund was set up in November 2012, with Charles Schwab.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization plans to rely on a diversified asset strategy in which investment returns are achieved through balancing risks and rewards of market behavior. The Organization will target a diversified asset allocation that emphasizes equities, fixed income, and alternative investments exercising judgment and care that persons of prudence, discretion, and intelligence exercise in the management of their own affairs.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors expects distributions, in total, to equal $25,000 of the portfolio annually while strictly observing specified restrictions. It is anticipated that distributions will be made from only income while being able to grow the principal.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. There were no funds with deficiencies at October 31, 2016 and 2015.

NOTE L – EMPLOYEE RETIREMENT PLAN

In January 2016, the Organization set up a participant directed, defined contribution pension plan (403(b) plan). All employees who are 21 years of age and have performed at least one year of service with a minimum of 1,000 hours during the year are eligible to participate in the 403(b) plan. The Organization has elected to make a 3% discretionary contribution and up to a 2% match contribution of the participant's deferral contributions. The 403(b) plan expense was $21,477 for the year ended October 31, 2016. The 403(b) plan replaces the simple IRA retirement account.

NOTE L – EMPLOYEE RETIREMENT PLAN – CONTINUED

In 2008, the Organization set up a simple IRA retirement account for its employees. All employees who are 21 years of age, have performed at least one year of service, and have earned more than $450 in compensation during the year are eligible to participate in the simple IRA. The Organization has elected to make an 8% non-elective contribution to all employees meeting eligibility requirements. Simple IRA expense was $4,542 and $32,415 for the years ended October 31, 2016 and 2015, respectively.

NOTE M – COMMITMENTS

In October 2016, the Organization entered into a professional services agreement with an advertising organization for the purpose of public relations. The agreement requires the Organization to pay a fee of $86,520 plus expenses and gross receipts tax. The agreement requires an initial payment of $9,613 and varying monthly payments through July 2017.

In October 2016, the Organization entered into a professional services agreement with a contractor for the purpose of creating the decorating theme and implementation for the 2017 International Folk Art Market in Santa Fe, New Mexico. The agreement requires the Organization to pay a fee of $25,995. The agreement requires an initial payment of $1,500 and varying payments through July 2017.

In January 2017, the Organization entered into a professional services agreement with a contractor to research potential funders and write grants. The agreement calls for the Organization to pay $ 22,000 in monthly payments of $2,200 through October 2017.

In January 2017, the Organization entered into a professional services agreement with a contractor to research potential funders and write grants. The agreement calls for the Organization to pay up to $23,000. The contractor will be paid hourly ($40 - $100) based on the type of work performed and is to submit monthly invoices from January 2017 through October 2017.

NOTE N – NEW ACCOUNTING STANDARDS

1. The Financial Accounting Standards Board (FASB) has recently issued Accounting Standards Update (ASU) 2014-09, (FASB Codification Topic 606): *Revenue from Contracts with Customers* that was designed to develop a common revenue standard for U.S. GAAP and international standards. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

NOTE N – NEW ACCOUNTING STANDARDS – CONTINUED

Steps to apply the core principle are as follows:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied

Several new disclosures will also be required to include sufficient information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for annual periods beginning after December 15, 2018.

2. In July of 2015, the FASB issued ASU 2015-11 *Inventory* (FASB Codification Topic 330) which changed the measurement test of inventory from the lower of cost or market to the lower of cost or net realizable value. Under this standard, net realizable value includes the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years beginning after December 15, 2016.

3. In February 2016, the FASB issued ASU 2016-02 *Leases* (FASB Codification Topic 842) which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB Codification Topic 840. With this update, GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2019.

4. In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (FASB Codification Topic 958) to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU are as follows:

A. Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.

B. Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item A) rather than that of the currently required three classes. A not-for-profit would continue to report the currently required amount of the change in total net assets for the period.

NOTE N – NEW ACCOUNTING STANDARDS – CONTINUED

C. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

D. Provide the following enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements.
- Method(s) used to allocate costs among program and support functions.
- Underwater endowment funds, which include required disclosures of (1) a not-for-profit's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

E. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.

F. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

NOTE N – NEW ACCOUNTING STANDARDS – CONTINUED

The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

As of the date of these financial statements, management has not determined the impact these new ASUs will have on future reporting periods.

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