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**INTERNATIONAL FOLK  
ART ALLIANCE, INC.**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**December 31, 2018  
and  
October 31, 2017**

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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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 December 31, 2018 and October 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the fourteen months ended December 31, 2018 and year ended October 31, 2017, 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.

### 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 auditors' 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.

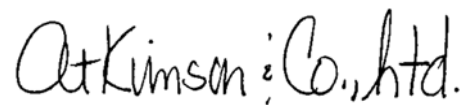
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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 December 31, 2018, and October 31, 2017, and the changes in its net assets and its cash flows for the fourteen months ended December 31, 2018, and the year ended October 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

As discussed in Note A1 to the financial statements, the Organization changed its fiscal year from October 31 to December 31. The financial statements for the current period reflect a fourteen month period. Additionally, as discussed in Note A17 to the financial statements, the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

A handwritten signature in black ink that reads "Atkinson & Co., Ltd." in a cursive, slightly stylized font.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
May 6, 2019

International Folk Art Alliance, Inc.

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2018 and October 31, 2017

**ASSETS**

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 282,023	\$ 694,566
Receivables		
Trade receivables	75,323	5,000
Current portion of unconditional promises to give	48,666	166,823
Grant receivables	4,000	-
Inventory	202,285	201,856
Prepaid expenses	<u>2,250</u>	<u>25,932</u>
Total current assets	614,547	1,094,177
UNCONDITIONAL PROMISES TO GIVE, less current portion, net of allowance for doubtful accounts and unamortized discounts of \$14,873 at December 31, 2018 and \$44,352 at October 31, 2017	109,001	141,854
INVESTMENTS RESTRICTED FOR LONG-TERM PURPOSES	1,544,068	1,397,949
PROPERTY AND EQUIPMENT, net	1,232,037	885,745
<b>OTHER ASSETS</b>		
Cash value of life insurance policy	116,902	114,800
Trademarks	8,142	4,821
Deposits	<u>5,048</u>	<u>13,442</u>
Total assets	<u>\$ 3,629,745</u>	<u>\$ 3,652,788</u>

## LIABILITIES AND NET ASSETS

	December 31, 2018	October 31, 2017
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 157,602	\$ 355,249
Accrued payroll liabilities	66,547	30,393
Promise to give to Museum of New Mexico Foundation, current portion	30,000	28,863
Unamortized rent, current portion	20,000	20,065
Total current liabilities	274,149	434,570
 UNAMORTIZED RENT, less current portion	 72,134	 96,075
Total liabilities	346,283	530,645
 COMMITMENTS	 -	 -
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	1,387,971	1,368,816
Board designated for endowment	496,242	314,496
Total without donor restriction	1,884,213	1,683,312
 With donor restrictions	 1,399,249	 1,438,831
Total net assets	3,283,462	3,122,143
Total liabilities and net assets	\$ 3,629,745	\$ 3,652,788

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

International Folk Art Alliance, Inc.

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

Fourteen Months Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support:			
Cash contributions	\$ 874,500	\$ 585,136	\$ 1,459,636
Grants from private foundations	375,083	50,500	425,583
In-kind contributions	332,307	-	332,307
State and local grants	<u>28,000</u>	<u>-</u>	<u>28,000</u>
Total support	1,609,890	635,636	2,245,526
Revenue:			
Market revenue:			
Handling fee for artist sales	696,473	-	696,473
Ticket sales	597,404	-	597,404
Booth revenue	250,792	-	250,792
Special event revenue	<u>223,794</u>	<u>-</u>	<u>223,794</u>
Total market revenue	1,768,463	-	1,768,463
Product sales, net of cost of sales of \$52,247	43,220	-	43,220
Investment return	12,298	24,373	36,671
Other income	<u>6,401</u>	<u>-</u>	<u>6,401</u>
Total revenue	<u>1,830,382</u>	<u>24,373</u>	<u>1,854,755</u>
Total support and revenue	3,440,272	660,009	4,100,281
Net assets released from restrictions	699,591	(699,591)	-
<b>EXPENSES</b>			
Program services:			
Annual Folk Art Market	1,222,752	-	1,222,752
Marketing and communication	428,128	-	428,128
Artist development and social impact	357,442	-	357,442
Artist relations	298,959	-	298,959
Product sales	271,232	-	271,232
Markets and enterprises	135,870	-	135,870
Volunteers	115,138	-	115,138
Supporting services:			
Fundraising	814,991	-	814,991
Management and general	<u>294,450</u>	<u>-</u>	<u>294,450</u>
Total expenses	<u>3,938,962</u>	<u>-</u>	<u>3,938,962</u>
CHANGES IN NET ASSETS	200,901	(39,582)	161,319
Net assets, beginning of period	<u>1,683,312</u>	<u>1,438,831</u>	<u>3,122,143</u>
Net assets, end of period	<u>\$ 1,884,213</u>	<u>\$ 1,399,249</u>	<u>\$ 3,283,462</u>

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



**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS – CONTINUED**

Year Ended October 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support:			
Cash contributions	\$ 695,388	\$ 631,743	\$ 1,327,131
In-kind contributions	471,810	-	471,810
Grants from private foundations	467,349	-	467,349
State and local grants	<u>26,000</u>	<u>-</u>	<u>26,000</u>
Total support	1,660,547	631,743	2,292,290
Revenue:			
Market revenue:			
Ticket sales	538,554	-	538,554
Handling fee for artist sales	341,988	-	341,988
Booth revenue	213,139	-	213,139
Special event revenue	<u>26,441</u>	<u>-</u>	<u>26,441</u>
Total market revenue	1,120,122	-	1,120,122
Product sales, net of cost of sales of \$84,528	88,636	-	88,636
Investment return	52,968	23,266	76,234
Other income	<u>1,663</u>	<u>-</u>	<u>1,663</u>
Total revenue	<u>1,263,389</u>	<u>23,266</u>	<u>1,286,655</u>
Total support and revenue	2,923,936	655,009	3,578,945
Net assets released from restrictions	767,019	(767,019)	-
<b>EXPENSES</b>			
Program services:			
Annual Folk Art Market	1,146,869	-	1,146,869
Artist development and social impact	386,577	-	386,577
Marketing and communication	369,766	-	369,766
Artist relations	304,013	-	304,013
Product sales	185,108	-	185,108
Volunteers	143,846	-	143,846
Markets and enterprises	121,131	-	121,131
Supporting services:			
Fundraising	586,622	-	586,622
Management and general	<u>289,519</u>	<u>-</u>	<u>289,519</u>
Total expenses	<u>3,533,451</u>	<u>-</u>	<u>3,533,451</u>
CHANGES IN NET ASSETS	157,504	(112,010)	45,494
Net assets, beginning of year	<u>1,525,808</u>	<u>1,550,841</u>	<u>3,076,649</u>
Net assets, end of year	<u>\$ 1,683,312</u>	<u>\$ 1,438,831</u>	<u>\$ 3,122,143</u>

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

**STATEMENTS OF FUNCTIONAL EXPENSES**

Fourteen Months Ended December 31, 2018

	Program Services				
	Annual Folk Art Market	Marketing and Communication	Artist Development and Social Impact	Artist Relations	Product Sales
Human resources	\$ 275,446	\$ 52,959	\$ 86,061	\$ 139,231	\$ 124,510
Program expenses	512,490	175,541	86,812	100,858	16,375
Professional services	222,712	154,604	14,692	25,341	29,469
In-kind expenses	20,624	5,260	148,703	3,416	1,281
Facilities	76,440	14,562	8,537	16,118	46,465
Technology and support	64,494	14,798	6,427	3,806	13,022
Depreciation and amortization	17,467	9,269	4,048	7,561	27,119
Banking	22,341	111	1,207	1,246	4,074
Insurance	9,985	1,023	804	1,380	7,821
Other	753	1	151	2	1,096
<b>Total expenses</b>	<b>\$ 1,222,752</b>	<b>\$ 428,128</b>	<b>\$ 357,442</b>	<b>\$ 298,959</b>	<b>\$ 271,232</b>

Supporting Services

<u>Markets and Enterprises</u>	<u>Volunteers</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
\$ 109,480	\$ 66,993	\$ 315,682	\$ 222,370	\$ 1,392,732
10,513	23,474	271,432	3,811	1,201,306
8,563	5,107	79,495	14,199	554,182
56	4,572	71,537	14,502	269,951
3,221	1,766	19,883	19,310	206,302
1,143	3,751	28,528	5,871	141,840
1,785	960	11,998	11,881	92,088
347	123	13,709	318	43,476
761	8,391	2,727	2,188	35,080
1	1	-	-	2,005
<u>\$ 135,870</u>	<u>\$ 115,138</u>	<u>\$ 814,991</u>	<u>\$ 294,450</u>	<u>\$ 3,938,962</u>

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

**STATEMENTS OF FUNCTIONAL EXPENSES – CONTINUED**

Year Ended October 31, 2017

	Program Services				
	Annual Folk Art Market	Artist Development and Social Impact	Marketing and Communication	Artist Relations	Product Sales
Human resources	\$ 287,983	\$ 109,912	\$ 29,836	\$ 117,768	\$ 118,012
Program expenses	418,253	89,761	73,885	127,288	24,850
Professional services	198,296	18,207	191,614	16,529	4,829
In-kind expenses	27,630	148,206	46,425	18,818	15,000
Facilities	82,964	10,229	11,797	14,176	9,416
Technology and support	70,543	6,728	12,268	4,090	3,621
Depreciation and amortization	11,286	2,198	2,981	2,630	1,564
Banking	38,263	874	334	2,162	4,541
Insurance	9,306	462	626	552	2,829
Other	2,345	-	-	-	446
<b>Total expenses</b>	<b>\$ 1,146,869</b>	<b>\$ 386,577</b>	<b>\$ 369,766</b>	<b>\$ 304,013</b>	<b>\$ 185,108</b>

Supporting Services

Volunteers	Markets and Enterprises	Fundraising	Management and General	Total
\$ 71,914	\$ 93,209	\$ 241,336	\$ 203,345	\$ 1,273,315
27,260	17,646	154,652	8,270	941,865
7,882	2,488	81,695	7,559	529,099
20,851	-	49,834	34,400	361,164
4,487	4,419	19,585	20,837	177,910
5,995	1,835	21,919	8,147	135,146
1,134	1,117	4,949	5,266	33,125
127	182	11,612	589	58,684
4,196	235	1,040	1,106	20,352
-	-	-	-	2,791
<u>\$ 143,846</u>	<u>\$ 121,131</u>	<u>\$ 586,622</u>	<u>\$ 289,519</u>	<u>\$ 3,533,451</u>

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

**STATEMENTS OF CASH FLOWS**

Fourteen Months Ended December 31, 2018 and Year Ended October 31, 2017

Increase (Decrease) in Cash and Cash Equivalents

	Fourteen Months Ended December 31,	Year Ended October 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions receipts	\$ 1,678,732	\$ 1,899,363
Receipts from customers	1,517,566	1,193,136
Receipts from government and foundation grants	423,583	475,949
Receipts from special events	223,794	26,441
Other receipts	93,344	58,187
Payments for salaries, benefits, and payroll taxes	(1,336,059)	(1,244,891)
Payments to vendors	(2,381,778)	(1,897,897)
Interest paid in cash	(292)	(347)
	<u>218,890</u>	<u>509,941</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in cash held for long-term endowments	(70,246)	21,124
Proceeds from sale of investments	174,018	433,403
Purchases of investments	(297,897)	-
Additions of trademark	(3,321)	(3,917)
Proceeds from the sale of property and equipment	750	-
Purchases of property and equipment	(434,737)	(804,818)
	<u>(631,433)</u>	<u>(354,208)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	(412,543)	155,733
Cash and cash equivalents, beginning of period	<u>694,566</u>	<u>538,833</u>
Cash and cash equivalents, end of period	<u>\$ 282,023</u>	<u>\$ 694,566</u>

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

**STATEMENTS OF CASH FLOWS – CONTINUED**

Fourteen Months Ended December 31, 2018 and Year Ended October 31, 2018

Increase (Decrease) in Cash and Cash Equivalents

	Fourteen Months Ended <u>December 31, 2018</u>	Year Ended <u>October 31, 2017</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 161,319	\$ 45,494
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Gain on cash surrender of life insurance	(2,102)	(1,902)
Loss on disposal of property	4,378	-
In-kind donations of inventory	(45,085)	(36,002)
In-kind donations of property and equipment	(20,271)	(74,644)
Depreciation and amortization expense	92,088	6,932
Film amortization expense	-	26,194
Net realized and unrealized losses on investments	48,006	15,137
Lease incentive rent	(673)	24,473
Amortization of tenant allowance	(23,333)	(8,333)
Amortization of discount on promise to give to Museum of New Mexico Foundation	1,137	2,045
Bad debt expense	(8,732)	846
Amortization of discount on unconditional promises to give	(23,626)	(8,755)
(Increases) decreases in operating assets:		
Unconditional promises to give	183,368	89,177
Grants receivables	(4,000)	2,600
Trade receivables	(70,323)	4,973
Inventory	56,156	19,555
Prepaid expenses	23,682	(21,974)
Deposits	8,394	(1,522)
Increases (decreases) in operating liabilities:		
Accounts payable	(197,647)	344,280
Accrued payroll liabilities	36,154	11,367
Lease liabilities	-	100,000
Promise to give to Museum of New Mexico Foundation	-	(30,000)
Net cash provided by operating activities	<u>\$ 218,890</u>	<u>\$ 509,941</u>

**SUPPLEMENTAL CASH FLOWS DISCLOSURES**

	Fourteen Months Ended <u>December 31, 2018</u>	Year Ended <u>October 31, 2017</u>
In-kind goods and materials	<u>\$ 332,307</u>	<u>\$ 471,810</u>
Transfer of property and equipment to inventory	<u>\$ 11,500</u>	<u>\$ -</u>

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and October 31, 2017

### 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 International Folk Art Market was formed November 27, 2006, as a not-for-profit corporation known as Santa Fe International Folk Art Market, Inc. Effective May 22, 2013, its legal name was changed to the International Folk Art Alliance, Inc. (the Organization); however, it does business as the International Folk Art Market (IFAM). IFAM is organized for charitable and educational purposes, specifically creating economic opportunities for and with folk artists worldwide who celebrate and preserve folk art traditions. The Organization accomplishes this purpose by identifying master artisans globally, educating and mentoring them as artisan entrepreneurs, and providing real-world enterprise experience, such as the annual flagship program convened each July in Santa Fe, New Mexico. In conjunction with the annual Santa Fe market program, the Organization is working to create additional markets, either by expanding existing opportunities or creating new strategic partnerships for international folk artists to achieve self-sufficiency. Most of the artists working with IFAM use social enterprise business models with social benefits, such as education and health care, that accrue to the artists' communities. The Organization is also providing the general public and school-age children opportunities to learn about the International Folk Art Market through education and community outreach. The Organization also provides financial and other support for regional cultural entities through partnerships with the New Mexico Department of Cultural Affairs.

During 2018, the Organization changed its fiscal year from October 31 to December 31. Therefore, the amounts reflected in these financial statements represent the fourteen month period ended December 31, 2018, and the year October 31, 2017.

#### 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:

Net assets without donor restrictions – represent resources not subject to donor-imposed restrictions and are available for use in general operations. Net assets without donor restrictions have arisen from exchange transactions, receipt of contributions without restrictions, and expirations or satisfaction of existing donor-imposed restrictions.

Net assets with donor restrictions – represent contributions subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions restricted by donors are recorded



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

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

2. Financial Statement Presentation – Continued

as increases to net assets without donor restrictions to the extent the restrictions are satisfied in the same reporting period. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

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. 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 December 31, 2018, and October 31, 2017, 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 net assets without donor restrictions 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**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 net assets without donor restrictions or net assets with donor restrictions support, depending on the existence and nature of any donor-imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 net assets without donor restrictions.

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 risk-free interest rates ranging from 1.30% 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 donor restriction contribution revenue. The Organization has provided an allowance for doubtful promises to give based on collection history and other factors. At December 31, 2018 and October 31, 2017, the Organization has provided an allowance of approximately 2% 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 December 31, 2018 and October 31, 2017.

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 the fourteen month period ended December 31, 2018 and the year ended October 31, 2017, the Organization received \$45,085 and \$36,002 in works of art, and \$287,222 and \$435,808, 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**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 \$909,629 (unaudited) and \$808,635 (unaudited) for the fourteen month period ended December 31, 2018, and the year ended October 31, 2017, 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 fourteen month period ended December 31, 2018, and the year ended October 31, 2017, was \$92,088 and \$33,126, 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 produce 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 was \$0 and \$26,194 for the fourteen month period ended December 31, 2018, and the year ended October 31, 2017, 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**13. Advertising

The Organization incurs advertising costs related to the annual market and new markets. These costs are expensed as incurred. Advertising expense totaled \$65,545 and \$33,824 for the fourteen month period ended December 31, 2018, and year ended October 31, 2017, respectively.

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 \$496,242 and \$314,496 as of December 31, 2018 and October 31, 2017, respectively. (See also Note J.)

15. Inventory

Donated works of art are recorded at estimated fair value at the date of donation. During 2018 and 2017, 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 net realizable value on a specific identification basis except for the purchased works which are valued at average cost. The estimated value of inventory is as follows:

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
Purchased works of art	\$ 111,452	\$ 127,922
Donated works of art	56,989	39,628
Book inventory	22,094	27,677
Ambiance	11,750	6,629
	<u>\$ 202,285</u>	<u>\$ 201,856</u>

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

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

16. Income Taxes – Continued

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 fourteen month period ended December 31, 2018, and the year ended October 31, 2017, the Organization recognized no income tax penalties or interest. As of December 31, 2018, and October 31, 2017, 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 2015.

17. Changes in Accounting Principle

During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, improves disclosures of information about liquidity and availability of resources, and improves disclosure about the type of information provided about expenses and investment returns. The Organization applied the change retrospectively to all periods presented except for the disclosures on liquidity as allowed under the ASU. There was no effect on net asset classifications as a result of this change.

18. Subsequent Events

Subsequent events have been evaluated through May 6, 2019, 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 December 31, 2018. As discussed in Note L, the Organization entered into professional services agreements for public relations consulting, artist participant activities and grant writing. No other subsequent events have been identified by management that would require accrual or disclosure.

**NOTE B – LIQUIDITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 27,874
Trade receivables	75,323
Pledge receivables without donor restriction	13,666
Grant receivables	<u>4,000</u>
	<u>\$ 120,863</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE B – LIQUIDITY – CONTINUED**

The Organization's endowment funds consist of both donor-restricted endowments and board designated endowments. The purpose of these endowments is to provide operating income to aid in achieving the Organization's mission as well as to preserve and grow the corpus for future needs. Income from the endowments is available for general operating use with spending policy distributions requiring approval from the Board's Executive Committee as the distribution amount. As part of the Organization's liquidity plan, cash in excess of daily requirements is maintained in cash and cash equivalents making it available for any unexpected liquidity needs.

**NOTE C – 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:

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
Less than one year	\$ 48,666	\$ 166,823
One to five years	<u>123,874</u>	<u>186,206</u>
	172,540	353,029
Less allowance for doubtful accounts	(3,451)	(12,183)
Less unamortized discount	<u>(11,422)</u>	<u>(32,169)</u>
	<u>\$ 157,667</u>	<u>\$ 308,677</u>

**NOTE D – 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, 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.

During 2018, the Organization exercised an option to extend the agreement by one year and agreed to donate \$30,000 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. The balance of the promise to give is expected to be paid as follows:

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
Less than one year	\$ 30,000	\$ 30,000
Less unamortized discount	<u>-</u>	<u>(1,137)</u>
	<u>\$ 30,000</u>	<u>\$ 28,863</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE D – PROMISES TO GIVE TO MUSEUM OF NEW MEXICO FOUNDATION – CONTINUED**

Under the 2015 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.

As part of the lease agreement extension, the Organization will pay MOIFA \$5,575 and the Museum of Indian Arts and Culture (MIAC) \$11,150 in full consideration for the use of MOIFA's and MIAC's facilities at Milner Plaza in 2019.

**NOTE E – 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.

During the fourteen month period ended December 31, 2018 and the year ended October 31, 2017, the Organization has received approximately \$569,070 and \$344,903, respectively, in contributions from various Board members and staff. As of December 31, 2018 and October 31, 2017, approximately \$147,540 and \$317,029 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 F – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at:

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
New headquarters leasehold improvements	\$ 1,081,164	\$ 756,752
Furniture, fixtures, and equipment	213,165	119,334
Computer equipment	69,758	51,085
Leasehold improvements	<u>-</u>	<u>35,554</u>
	1,364,087	962,725
Less accumulated depreciation and amortization	<u>(132,050)</u>	<u>(76,980)</u>
	<u>\$ 1,232,037</u>	<u>\$ 885,745</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE G – OPERATING LEASE OBLIGATIONS**

In April 2017, the Organization entered into an operating lease for office space at a new location. The lease agreement is for an initial term of five years with three options to extend for an additional five years each. The lease obligation increases by 3% each year. The lease agreement includes an option to purchase the property which may be exercised between August 1, 2019, and May 1, 2021. If exercised, the purchase price for the building will be \$2,400,000.

The Organization has other noncancelable operating leases for equipment, storage space and premises used for the market that expire at various dates through October 2022.

Rental expense for those leases was \$165,295 and \$177,318 for the fourteen month period ended December 31, 2018 and the year ended October 31, 2018, respectively.

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

2019	\$	88,267
2020		80,495
2021		80,495
2022		79,935
2023		<u>44,995</u>
	\$	<u>374,187</u>

In conjunction with the new office space lease, the landlord agreed to an allowance for tenant improvements of \$100,000 and to three months of free rent at the beginning of the lease term. In accordance with generally accepted accounting principles, the escalating rent, free rent and landlord allowance are recorded as unamortized rent and will be amortized over the life of the lease as an adjustment to rent expense.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE H – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
Restricted for time:		
Pledge receivables	\$ 85,402	\$ 298,677
Total restricted for time	85,402	298,677
Restricted for purpose:		
New headquarters	157,264	5,000
2019 market sponsorships	52,940	-
Artist relief fund	35,817	49,201
Marketing - artists stories	20,000	-
2018 market sponsorships	-	2,500
Total restricted for purpose	<u>266,021</u>	<u>56,701</u>
Endowments:		
Subject to the endowment spending policy and appropriation:		
Operations	<u>1,047,826</u>	<u>1,083,453</u>
Total endowments	<u>1,047,826</u>	<u>1,083,453</u>
Total net assets with donor restrictions	<u>\$ 1,399,249</u>	<u>\$ 1,438,831</u>

Net assets were released from donor restrictions by incurring expense satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for periods ended:

	<u>December 31, 2018</u>	<u>October 31, 2017</u>
Expirations of time restrictions	\$ 239,181	\$ 142,297
Satisfaction of purpose restrictions:		
New headquarters	372,445	551,873
Artist relief fund	25,465	7,849
2018 market sponsorships	2,500	-
Mentor to market	-	25,000
	<u>639,591</u>	<u>727,019</u>
Restricted-purpose spending-rate distributions and appropriations		
Operations	<u>60,000</u>	<u>40,000</u>
	<u>\$ 699,591</u>	<u>\$ 767,019</u>

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and October 31, 2017

### NOTE I – 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 December 31, 2018 and October 31, 2017.

*Municipal and Treasury 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.

*Equity securities and exchange-traded funds:* 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.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE I – FAIR VALUE MEASUREMENTS – CONTINUED**

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.

The schedules below also include cash invested for long-term purposes, which is not subject to a fair value measurement, but is included so the schedules below will reconcile to the amounts presented on the statements of financial position.

***Assets at Fair Value as of December 31, 2018***

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash invested for long-term purposes	\$ 278,894	\$ -	\$ -	\$ 278,894
Municipal bonds				
AA rated	-	463,942	-	463,942
AAA rated	-	242,840	-	242,840
Not rated	-	276,069	-	276,069
Treasury bonds				
AAA rated	-	98,453	-	98,453
Exchange-traded funds				
Domestic equity	139,928	-	-	139,928
International equity	43,942	-	-	43,942
Cash value of life insurance policy	-	-	116,902	116,902
Total	<u>\$ 462,764</u>	<u>\$ 1,081,304</u>	<u>\$ 116,902</u>	<u>\$ 1,660,970</u>

***Assets at Fair Value as of October 31, 2017***

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash invested for long-term purposes	\$ 208,649	\$ -	\$ -	\$ 208,649
Municipal bonds				
A rated	-	255,525	-	255,525
AA rated	-	540,696	-	540,696
AAA rated	-	253,827	-	253,827
Equities				
Technology	74,453	-	-	74,453
Financial services	25,896	-	-	25,896
Industrials	25,215	-	-	25,215
Consumer defensive	13,688	-	-	13,688
Cash value of life insurance policy	-	-	114,800	114,800
Total	<u>\$ 347,901</u>	<u>\$ 1,050,048</u>	<u>\$ 114,800</u>	<u>\$ 1,512,749</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE I – FAIR VALUE MEASUREMENTS – CONTINUED**

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

	<u>2018</u>	<u>2017</u>
	Cash value of life insurance policy	Cash value of life insurance policy
Balance, beginning of period	\$ 114,800	\$ 112,898
Realized and unrealized gains	<u>2,102</u>	<u>1,902</u>
Balance, end of period	<u>\$ 116,902</u>	<u>\$ 114,800</u>

**NOTE J – 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 Assets Composition by Type of Fund as of December 31, 2018***

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment fund			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 1,000,000	\$ 1,000,000
Accumulated investment gains	-	47,826	47,826
Board-designated endowment fund	<u>496,242</u>	<u>-</u>	<u>496,242</u>
Total funds	<u>\$ 496,242</u>	<u>\$ 1,047,826</u>	<u>\$ 1,544,068</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE J – ENDOWMENT – CONTINUED*****Changes in Endowment Net Assets for the Fourteen Month Period Ended December 31, 2018***

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of period	\$ 314,496	\$ 1,083,453	\$ 1,397,949
Investment return:			
Investment income	10,170	24,373	34,543
Contributions	221,576	-	221,576
Appropriated for expenditure in current period	<u>(50,000)</u>	<u>(60,000)</u>	<u>(110,000)</u>
Endowment net assets, end of period	<u>\$ 496,242</u>	<u>\$ 1,047,826</u>	<u>\$ 1,544,068</u>

***Endowment Net Assets Composition by Type of Fund as of October 31, 2017***

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment fund			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 1,000,000	\$ 1,000,000
Accumulated investment gains	-	83,453	83,453
Board-designated endowment fund	<u>314,496</u>	<u>-</u>	<u>314,496</u>
Total funds	<u>\$ 314,496</u>	<u>\$ 1,083,453</u>	<u>\$ 1,397,949</u>

***Changes in Endowment Net Assets for the Fiscal Year Ended October 31, 2017***

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 587,318	\$ 1,100,187	\$ 1,687,505
Investment return:			
Investment income	50,292	23,266	73,558
Contributions	50,000	-	50,000
Appropriated for expenditure in current year	<u>(373,114)</u>	<u>(40,000)</u>	<u>(413,114)</u>
Endowment net assets, end of year	<u>\$ 314,496</u>	<u>\$ 1,083,453</u>	<u>\$ 1,397,949</u>

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and October 31, 2017

### NOTE J – ENDOWMENT – CONTINUED

#### **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 retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the Organization's policies. 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.

#### **Return Objectives and Risk Parameters**

The Organization's Board designated endowment is in its ninth year of existence. While considering the Organization's liquidity needs, the Organization is currently investing in money market funds (cash), exchange-traded funds and municipal and treasury bonds in order to protect the corpus of the endowment while still earning returns. 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.

#### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Organization relies on a diversified asset strategy in which investment returns are achieved through balancing risks and rewards of market behavior. The Organization targets 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 approves distributions through majority vote for operational purposes proportionately from all accounts and approves capital expenditures without the requirement of proportionate distributions of the portfolio. Distributions will be made while strictly observing specified restrictions. It is anticipated that distributions will be made from only income, when possible, while being able to grow the principal. However, during the year ended October 31, 2017, the Board of Directors authorized distributions in excess of income to facilitate the improvements to the new headquarters and other operational needs.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

December 31, 2018 and October 31, 2017

**NOTE J – ENDOWMENT – CONTINUED**

**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 December 31, 2018 and October 31, 2017.

**NOTE K – 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 \$40,162 and \$43,606 for the fourteen month period ended December 31, 2018 and the year ended October 31, 2017, respectively.

**NOTE L – COMMITMENTS**

In May 2018, the Organization entered into a professional services agreement with a research organization for the purpose of donor outreach. The agreement requires the Organization to pay fees accumulating to \$31,500 plus administrative expenses. The agreement requires three installment payments during the life of the project.

In November 2018, 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 \$87,000 plus expenses and gross receipts tax. The agreement requires an initial payment of \$12,429 and monthly payments through July 2019.

During January 2019, the Organization entered into a professional services agreement with a transportation company for the purposes of shuttling services during the annual Santa Fe International Folk Art Market. The agreement requires the Organization to pay fees of \$146,441 based on a payment schedule starting in February 2019.

**NOTE M – NEW ACCOUNTING STANDARDS**

1. The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2014-09, (FASB Codification Topic 606): *Revenue from Contracts with Customers*, along with several subsequent amendments to the ASU, 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.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and October 31, 2017

### NOTE M – 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 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, generally accepted accounting principles 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.

3. In November 2016, the FASB issued ASU 2016-18 *Restricted Cash* which requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Under this standard, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, but early adoption is permitted.

4. In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (FASB Codification Topic 958) to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update clarify the criteria for evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional.

The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, with respect to contributions received and fiscal years beginning after December 15, 2019, with respect to contributions made. Early adoption is permitted.

As of the date of these financial statements, management has evaluated these new ASUs and is working to implement the applicable guidance and requirements in the period the ASUs become effective.



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