

THE COUSE FOUNDATION
Independent Auditor's Report
and
Audited Financial Statements
February 28, 2018

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The Couse Foundation
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February 28, 2018

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THE COUSE FOUNDATION
OFFICIAL ROSTER
February 28, 2018
BOARD OF DIRECTORS

Carl Jones	President
Rich Rinehart	Vice President
Virginia Couse Leavitt	Secretary
Deborah McLean	Treasurer
Kristin Bender	Member
Dustin Leavitt	Member
Abigail Hornik-Minckler	Member
Anthony Skvarla	Member
Laura Finlay Smith	Member
Barbara Sparks	Member

ADMINISTRATIVE OFFICIALS

Davison Koenig	Executive Director
Regina Scherffius	Financial Coordinator

JOSEPH M. SALAZAR
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INDEPENDENT AUDITOR'S REPORT

Carl Jones, President
Board of Directors
The Couse Foundation.
Taos, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of The Couse Foundation (Foundation) which comprise the statement of financial position as of February 28, 2018 and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

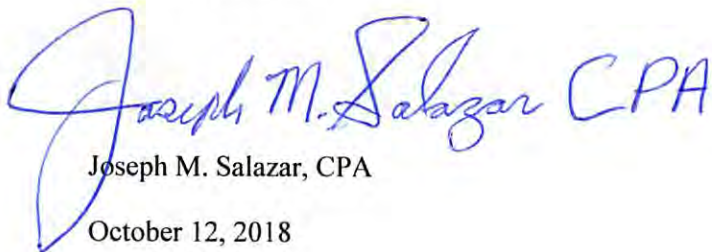
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Couse Foundation, as of February 28, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Joseph M. Salazar, CPA

October 12, 2018

The Couse Foundation
Statement of Financial Position
As of February 28, 2018

ASSETS

Cash and cash equivalents	\$ 525,277
Investments	55,706
Accounts receivable	3,500
Prepaid expenses	4,969
Inventories	39,729
Other assets	390
Total current assets	<u>629,571</u>

Non Current Assets

Property and equipment	
Land, building and equipment	3,943,341
Less accumulated depreciation	<u>(112,714)</u>
Total non current assets	<u>3,830,627</u>
Total Assets	<u><u>\$ 4,460,198</u></u>

LIABILITIES AND NET ASSETS

Current liabilities

Account payable	\$ 2,277
Other liabilities	1,250
Total current liabilities	<u>3,527</u>

Net Assets

Unrestricted	1,434,304
Temporarily restricted	196,341
Permanently restricted	<u>2,826,026</u>
Total net assets	<u>4,456,671</u>
Total liabilities and net assets	<u><u>\$ 4,460,198</u></u>

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

The Couse Foundation
Statement of Activities
For the year ended February 28, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Contributions	\$ 566,353	\$ 129,475	-	\$ 695,828
Program service revenue	3,500	-	-	3,500
Investment income	2,561	-	-	2,561
Net rental income	17,450	-	(2,685)	14,765
Net fundraising income	59,662	-	-	59,662
Net income from sale of inventory	(649)	-	-	(649)
Net unrealized gain (loss) on investments	5,038	-	-	5,038
Total revenue and other support	653,915	129,475	(2,685)	780,705
Expenses				
Program services	162,951	-	9,603	172,554
Total program service	162,951	-	9,603	172,554
Supporting services				
Management and general	77,697	-	-	77,697
Fundraising	32,352	-	-	32,352
Total support services	110,049	-	-	110,049
Total expenses	273,000	-	-	282,603
Net increase (decrease) in net assets	380,915	129,475	(12,288)	498,102
Net assets at beginning of year	1,053,389	66,866	2,838,314	3,958,569
Net assets at end of year	\$ 1,434,304	\$ 196,341	\$2,826,026	\$ 4,456,671

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

The Couse Foundation
Statement of Functional Expenses
Year Ended February 28, 2018

	Program Services	Management and General	Fundraising	Total
Accounting fees	\$ -	\$ 13,755	\$ -	\$ 13,755
Advertising and promotion	26,216	-	6,690	32,906
Automobile expenses	-	132	-	132
Bank fees	-	1,956	1,956	3,912
Compensation	40,211	40,963	10,019	91,193
Payroll taxes	3,375	3,433	835	11,076
Depreciation	19,246	-	-	19,246
Donations	100	-	-	100
Insurance	17,573	4,393	-	21,966
Meeting expenses	1,534	1,799	60	3,393
Occupancy	34,436	2,612	-	37,048
Office expense	3,025	4,817	5,456	13,298
Other professional fees	17,269	1,190	3,612	22,071
Printing and publication	39	39	40	118
Postage and shipping	-	931	931	1,862
Travel	3,513	104	2,753	6,370
Curatorial expense	6,017	-	-	6,017
Dues and licenses	-	1,573	-	1,573
Total expenses	<u>\$ 172,554</u>	<u>\$ 77,697</u>	<u>\$ 32,352</u>	<u>\$ 282,603</u>

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

The Couse Foundation
Statement of Cash Flows
Year Ended February 28, 2018

Cash flow from operating activities	
Net increase in net assets	\$ 498,102
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	21,931
Donated investment	(50,668)
Unrealized gain (loss) on investments	(5,038)
Donated collections received	(427,111)
Collections purchased	(1,000)
Accounts receivable	(2,094)
Changes in operating assets and operating liabilities (increase) decrease in:	
Prepaid expense	10,878
Inventory	(15,814)
Payroll liabilities	(123)
Net cash flows provided by operating activities	<u>29,063</u>
Cash flows from investing activities	
Purchase of video equipment	(16,609)
Purchase of property and improvements	(99,570)
Net cash (used in) provided by investing activities	<u>(116,179)</u>
Cash flows from financing activities	
Net cash (used in) provided by financing activities	<u>-</u>
(Decrease) increase in cash and cash equivalents	(87,116)
Cash and cash equivalents -beginning of year	612,393
Cash and cash equivalents-end of year	<u><u>\$ 525,277</u></u>
Supplemental disclosures of cash information	
Interest paid	<u>\$ -</u>
Income tax	<u>\$ -</u>

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

The Couse Foundation
Notes to Financial Statements

February 28, 2018

Note 1 Summary of Significant Accounting Policies

A. Nature of Organizations

The mission of the The Couse Foundation. (Foundation) a nonprofit organization is to preserve the artifacts, furnishings, residences and studio of Eanger Irving Couse and two studios of Joseph Henry Sharp, in order to educate the public as to the environment, both personal and historical, in which the members of the Taos Society of Artists worked in the early 20th Century to create an artistic legacy for the Southwest . The Organization utilizes the historic site to encourage and support programs and research in the fields of historic preservation, art and art history and related regional studies.

Summary of Significant Accounting Policies

B. Basis of Accounting

Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned rather than when received and expenses are recognized when the related liability is incurred rather than when paid.

C. Financial Statement Presentation

The Foundation's financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, accounting for Contributions Received and Made, and SFAS No. 117, Financial Statements of Not-for-Profit Organizations. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. SFAS No. 116 requires that unconditional promises to give (pledge) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. A description of the three net asset categories follows.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

D. Net Assets

Permanently Restricted Net Assets

Permanently restricted net assets would include the historical dollar amounts of contributions and grants (including unconditional promises to give), trusts and remainder interests, and any investment earnings required by donors/grantors to be permanently retained. At February 28, 2018, The Foundation had \$2,826,026 in permanently restricted net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include contributions, grants, unconditional promises to give, trusts and remainder interests, income and gains which can be expended but for which restrictions have not yet been met. Such restrictions might include restrictions where contributors /grantors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors/grantors or implied by the nature of the contributions/grant (capital projects, unconditional promises to give to be paid in the future, life income funds). At February 28, 2018, the Foundation had temporarily restricted net assets of \$196,341.

Unrestricted Net Assets

Unrestricted net assets are not subject to contributor/grantor imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by contributor/grantor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit contributor/grantor stipulations or law. Board designated unrestricted net assets are designated by the board and can be changed at the discretion of the board.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

E. Cash and Cash Equivalents

Cash and cash equivalents consist of a cash account balance with financial institution. The amount on deposit with this institution do not exceeds the \$250,000 of insurance available to individual depositors through the Federal Deposit Insurance Corporation (FDIC).

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with a maturity date of three months or less at the time of purchase to be a cash equivalent. Cash and cash equivalents consist of checking accounts, certificate of deposit, treasury money market and cash on hand. Custodial credit risk is the risk that in the event of bank failure, the Foundation deposits will not be recovered. All of the Foundations bank accounts are fully insured.

F. Investments

The Foundation investment is with Janus Henderson Global Life Science Fund D Shares. Investments are reported at fair value. Fair value of investments is based on lower of cost or market. The Foundation does not have an investment policy.

G. Accounts Receivable

The Foundation received a grant from the County of Taos for advertising expenses that will be reimbursed for cost incurred from July 1, 2017 to June 30, 2018. The Foundation has incurred advertising expenses as of February 28, 2018 and subsequently received payment for the full amount.

H. Inventories

The Foundation's inventory consist mostly of book available for resale. The inventory is stated at cost.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

I. Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair value at the date donated. Expenditures for property and equipment costing \$2,500 or more and having a useful life in excess of one year are capitalized and depreciated on a straight line basis over their estimated useful life. Depreciation is computed using primarily the straight-line method using these asset lives:

Buildings	39 years
Computers	5 years
Furniture, fixtures and equipment	7 years
Improvements	7 to 39 years

J. Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Gifts of cash and other assets are reported as restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donated stocks, bonds or other securities are recorded at the fair market value on the date of the gift.

Gifts of long lived assets are reported as unrestricted support unless the donor has restricted the use of the assets for specific purposes. Long-lived assets with explicit restrictions and gifts of cash that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Long-lived assets are recorded at their fair market value on the date of receipt.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

K. Donated Services

A number of volunteers have given significant amounts of their time to the Foundation in support of its mission. However, because there is no objective basis for measuring the value of these services, no amounts have been recorded for donated services.

L. Income Taxes

The Foundation has adopted accounting principles generally accepted in the United States of America as they relate to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified as current in the organization's financial statements. Currently, the 2015, 2016 and 2017 tax years are open and subject to examination by the Internal Revenue Service and the New Mexico Taxation and Revenue Department. However, the organization is not currently under audit nor has the organization been contacted by any of these jurisdictions. Management believes that they are operating within their tax-exempt purpose. Therefore, no provisions for the effects of uncertain tax positions have been recorded for the year ended February 28, 2018.

M. Expense Allocation

Expenses are allocated primarily to the various functions on a specific identification basis. Those expenses which are more of an indirect nature or which benefit all functions are allocated based on predetermined allocation factors.

N. Travel

Amounts classified as travel expenses include all amounts expended for in-state and out-of-state travel for all personnel.

O. Advertising

The cost of all advertising is expensed as incurred.

P. Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, results could differ from those estimates.

The Couse Foundation
Notes to Financial Statements

February 28, 2018

Q. Functional Allocations of Expenses

The costs of providing the program and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited

R. Uncertain Tax Provisions

The Foundation files federal form 990 tax return in the U.S. federal jurisdiction and the online charitable registration in the Office of the Attorney General for the State of New Mexico. The Foundation is generally no longer subject to examination by the Internal Revenue Service and the New Mexico Taxation and Revenue Department for fiscal years before 2015. The organization is not currently under audit nor has the foundation been contacted by any of these jurisdictions. Management believes that they are operating within their tax-exempt purposes. No provisions for the effects of uncertain tax positions have been recorded for the year ended February 28, 2018.

1. Cash and Cash Equivalents

At February 28, 2018 cash and cash equivalents were as follows:

US Bank- checking account	\$ 82,193
US Bank- certificate of deposit	100,050
Vanguard-Treasury money market	181,248
Northern Trust –checking account	82,543
Centinel Bank-checking	78,081
Paypal account	1,087
Petty cash	<u>75</u>
Total	<u>\$ 525,277</u>

The Couse Foundation
Notes to Financial Statements

February 28, 2018

2. Investments

Investments consist of the following as February 28, 2018:

Janus Fund	<u>\$55,706</u>
Total	<u>\$55,706</u>

The Foundation is subject to investment credit risk. Investment credit risk is the risk an issuer or other counter party to an investment will not fulfill its obligations.

3. Accounts Receivables

Accounts receivables as of February 28, 2018 are as follows:

Grant award	<u>\$ 3,500</u>
Total accounts receivable,	<u>\$ 3,500</u>

The accounts receivable is considered fully collectible.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

4. Property and Equipment and Depreciation

Property and equipment consisted of the following at February 28, 2018:

	Balance
Couse-Sharp historic site	\$ 1,029,236
Improvements-Couse-Sharp site	262,448
2012 Couse family gift	1,378,962
2015 Couse family gift	487,460
Art collection	647,054
Furniture and equipment	17,181
Educational video	21,154
TCF Video production library	16,609
Research center project	<u>83,237</u>
Total property and equipment in service	<u>3,943,341</u>
Accumulated depreciation	<u>(112,714)</u>
Net property and equipment	\$ <u>3,830,627</u>

Depreciation expense for the year ended February 28, 2018 was \$21,931. This includes \$19,246 related to program services and \$2,685 reflected as rental activity expense.

5. Significant Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash balances. The Foundation maintains its cash deposits in financial institutions. The Federal Deposit Insurance Corporation insures balances up to \$250,000. At February 28, 2018 the Foundation's had no uninsured cash balances.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

6. Fair Value Measurements

FASB ASC 820-10 and subsections establishes a framework for measuring fair value. That 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 asset or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). (The inputs and methodology used for valuing the Foundation's financial assets and liabilities are not indicators of the risks associated with those instruments.) The three levels of the fair value hierarchy under FASB ASC 820-10 are as follows:

Level 1 - Valuation for assets and liabilities traded in active exchange markets, such as the New York Stock exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3- Valuation for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchanges, dealers, or brokers traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The fair value of investments securities is the market value based on the quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs to the limit market activity of the instruments. The Foundation's significant financial instruments are cash and investments. For these financial instruments, carrying values approximate fair value.

Fair value of financial instruments- The carrying amounts of cash and cash equivalents, receivables, payables, accrued expenses and other liabilities approximate fair value due to the short maturity periods of these instruments. 17

The Couse Foundation
Notes to Financial Statements
February 28, 2018

7. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Couse Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing the financial statements. The Couse Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after the balance sheet date and before financial statements are available to be issued.

The Couse Foundation has evaluated subsequent events through October 12, 2018, which is the date the financial statements are available to be issued. The Foundation is not aware of any material subsequent events which would require disclosure in the accompanying notes to the financial statements of the financial statement other than as described below.

Contract to purchase real estate

The Foundation has entered into an agreement to purchase the real estate at 138 Kit Carson Road, Taos, New Mexico for a purchase price of \$680,000. The Foundation has made an earnest money deposit of \$10,000 securing the purchase obligation. The agreement calls for the Foundation to close escrow on the purchase of the property on September 28, 2018, which has occurred.

Capital Campaign to Purchase Real Estate

The Foundation has launched a capital campaign to raise the necessary funds to purchase and repurpose the real estate at 138 Kit Carson Road, Taos, New Mexico into an archive facility and research center. The Foundation has entered into a pledge agreement with private foundation for a grant of \$600,000 which includes naming rights to the archive facility and research center. Funds from this grant are expected to be received in two equal installments in 2018 and 2019. In addition, the Foundation has temporarily restricted funds on hand of \$134,753 at February 28, 2018 and has additional gifts received and pledges to be received after year-end of \$425,509 to be used to complete the purchase of the real estate for a total of \$560,262. Should the Foundation fail to reach its goal to purchase the real estate from restricted funds it has adequate unrestricted cash reserves necessary to close with its own funds. Events occurring after October 12, 2018 have not been evaluated to determine whether a change in the financial statements would be required.

The Couse Foundation
Notes to Financial Statements
February 28, 2018

8. Insurance coverage

The Foundation is exposed to various risk of loss. The Foundation carries insurance with various insurance companies. Coverage is provided for Commercial General Liability, Surety Bond, and Commercial Property.

9. Contingencies

The Foundation has no known pending legal matters as of the date of the audit report for the year ended February 28, 2018.