

Cottonwood Gulch Expeditions

FINANCIAL STATEMENTS

September 30, 2020

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cottonwood Gulch Expeditions

We have audited the accompanying financial statements of Cottonwood Gulch Expeditions (the Organization), which comprise of the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year ended September 30, 2020, 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 controls 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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 Organization as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the year ended September 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

March 29, 2021

PULAKOS CPAs, PC

Pulakos CPAs, PC

Cottonwood Gulch Expeditions

STATEMENTS OF FINANCIAL POSITION

September 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets		
Cash	\$ 334,293	\$ 26,191
Accounts receivable, net	119,353	100,835
Total current assets	453,646	127,026
Investments	1,080,026	1,477,459
Property and equipment, net	2,112,122	1,660,550
Total assets	<u>\$ 3,645,794</u>	<u>\$ 3,265,035</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities		
Accounts payable and accrued liabilities	\$ 32,462	\$ 18,763
Refundable advances - Paycheck Protection Program	115,700	-
Note payable - current portion	577	-
Deferred revenue	22,207	-
Total current liabilities	170,946	18,763
Note payable - noncurrent portion	149,323	-
Total liabilities	320,269	18,763
Net assets without donor restrictions		
Board designated	1,012,067	994,714
Undesignated	2,313,458	2,251,558
Total net assets	3,325,525	3,246,272
Total liabilities and net assets	<u>\$ 3,645,794</u>	<u>\$ 3,265,035</u>

Cottonwood Gulch Expeditions

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2020

Support and Revenue	
Program services	\$ 286,218
Contributions	533,593
Investment income, net	56,232
Other income	<u>1,405</u>
Total support and revenue	877,448
Expenses	
Program	639,694
Management and general	92,004
Fundraising	<u>66,497</u>
Total expenses	<u>798,195</u>
Change in net assets	79,253
Net assets without donor restrictions, beginning of year	<u>3,246,272</u>
Net assets without donor restrictions, end of year	<u><u>\$ 3,325,525</u></u>

Cottonwood Gulch Expeditions

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Wages, payroll taxes and benefits	\$ 356,098	\$ 73,046	\$ 27,392	\$ 456,536
Professional services	54,832	7,152	17,483	79,467
Insurance	50,958	6,845	18,253	76,056
Facility and office	72,662	920	2,003	75,585
Depreciation	61,462	2,615	1,308	65,385
Vehicle and equipment	21,594	1,137	-	22,731
Other/miscellaneous	22,088	289	58	22,435
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 639,694</u>	<u>\$ 92,004</u>	<u>\$ 66,497</u>	<u>\$ 798,195</u>

Cottonwood Gulch Expeditions

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2020

Cash flows from operating activities	
Change in net assets	\$ 79,253
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	65,385
Realized and unrealized gains on investments	(56,232)
Change in assets and liabilities	
Accounts receivable	(18,518)
Accounts payable	13,699
Refundable advances - Paycheck Protection Program	115,700
Deferred revenue	22,207
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Net cash provided by operating activities	221,494
Cash flows from investing activities	
Purchase of investments and reinvestment of dividends and interest	(32,318)
Proceeds from sale of investments	485,983
Purchases of property and equipment	(516,957)
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Net cash used by investing activities	(63,292)
Cash flows from financing activities	
Borrowings on note payable	149,900
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Net cash provided by investing activities	149,900
Net change in cash	308,102
Cash, beginning of year	26,191
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Cash, end of year	\$ 334,293
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Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 1 – NATURE OF ORGANIZATION

Cottonwood Gulch Expeditions (the Organization), located in Albuquerque, New Mexico is a not-for-profit organization that offers unique expeditions rooted in the culture and landscape of the American Southwest. The Organization sponsors educational wilderness expeditions and outdoor programs that promote personal growth, scientific, historic and cultural discovery as well as a knowledgeable environmental ethic among all those who participate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

The Organization utilizes the allowance method for receivable valuation and for estimated collectability. The allowance is based on experience and other circumstances which may affect the collectability of the account. Balances that are still outstanding after management has used reasonable collection efforts are written off. The Organization has not established any such allowance as of September 30, 2020 and 2019, as all receivable amounts are considered fully collectible.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

Property and equipment are recorded at cost if purchased or, if donated, at its estimated fair value on the date of donation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 39 years. The Organization capitalizes all expenditures for property in excess of \$250.

Investments

Investments in are measured at fair market value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities and changes in net assets as increases or decreases 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 market fluctuations, creating unrealized gains or losses for the investments. The amount ultimately realized upon sale of the investments may differ significantly for the fair value reported in these financial statements.

Fair Value Measurement

Accounting principles generally accepted in the United States of America, establishes a framework for measuring fair value. 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.

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.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Support from contributions, grants and special events is recognized when awarded, earned, or when expenditures have been incurred in accordance with provisions of the contributions and special event. Program service fee revenue is recognized when the service is performed. Monies received, but not earned are recorded as deferred revenue until earned.

Tax Exempt Status

The Organization has received tax-exempt status under Code Section 501(c)(3) of the Internal Revenue Code. The Organization has adopted accounting principles generally accepted in the United States of America, as they relate to uncertain tax positions for all open tax years. The Organization is not currently under audit nor has the Organization been contacted by any taxing jurisdiction. Income from certain activities not directly related to the Organization's tax-exempt purpose are subject to taxation as unrelated business income. Management believes that all positions taken would be upheld under an examination and that there are no uncertain tax positions.

Any interest and penalties recognized associated with a tax position would be classified as current in the Organization's financial statements. No interest or penalties were recorded in 2020.

Functional Classification of Expenses

The cost of providing the various programs and all other activities has been summarized on a functional basis in the statements of activities and changes in net assets and the statements of functional expenses. Expenses that can be identified with a specific program are recorded as direct costs according to their natural expenditure classification. Other common costs have been allocated among the programs and supporting services benefited based on various relationships.

Donated Assets and Services

Donated assets and services are recorded at their estimated fair values as of the date of contribution and capitalized if exceeding the Organization's threshold policy. Contributions of services are recognized in the financial statements if the services received enhance or create non-financial assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Some services are provided by volunteers who perform a variety of tasks that benefit the Organization but are not recorded, as they do not meet the above criteria.

Financial Instruments

The carrying amounts of cash, receivables, payables, accrued expenses and other liabilities approximate fair value due to the short maturity periods of these instruments. The fair value of long-term debt is the carrying value due to the adjustable market rate of interest.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Accounting Pronouncements

Revenue from Contracts with Customers - The Organization has adopted Accounting Standards Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, as amended. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue and therefore, no changes to the previously issued audited financial statements were required on a retrospective basis.

Contributions Received and Contributions Made – The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 – *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. The standard is applied prospectively. There were no changes to previously unrecognized promises to give as a result of this new standard.

Subsequent Events

The Organization has evaluated all events occurring subsequent to September 30, 2020 through March 29, 2021, which is the date that the financial statements were issued and does not believe that any events occurring during this period require either recognition or disclosure in the accompanying financial statements.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 334,293	\$ 26,191
Accounts receivable, net	119,353	100,835
Investments	<u>1,080,026</u>	<u>1,477,459</u>
Total financial assets	1,533,672	1,604,485
Financial assets not available for use within one year:		
Board designated net assets	<u>1,012,067</u>	<u>994,714</u>
Financial assets available to meet cash needs for general expenditure within one year from September 30, 2020 and 2019	<u>\$ 521,605</u>	<u>\$ 609,771</u>

The Organization is supported by contributions, tuition, and fee-for-service contracts. This variety of funding supports consistent cash flow. The Organization strives to maintain liquid financial assets sufficient to cover 45 days of general expenditures. Cash is held in checking and money market accounts.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 4 – FAIR VALUE MEASUREMENT

The following table sets forth by level, within the fair value hierarchy of the Organization’s assets at fair value as of September 30, 2020 and 2019:

Assets at Fair Value as of September 30, 2020				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money market	\$ 105,631	\$ -	\$ -	\$ 105,631
Equities	801,350	-	-	801,350
Fixed income	173,045	-	-	173,045
	\$ 1,080,026	\$ -	\$ -	\$ 1,080,026
Assets at Fair Value as of September 30, 2019				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money market	\$ 307,850	\$ -	\$ -	\$ 307,850
Equities	774,369	-	-	774,369
Fixed income	395,240	-	-	395,240
	\$ 1,477,459	\$ -	\$ -	\$ 1,477,459

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2020.

Money market, equities and fixed income securities: Fair value determined using the closing price of the traded security at the statement of financial position date.

NOTE 5 – NOTE PAYABLE

	2020	2019
Note payable to the U.S. Small Business Administration, 2.75%, secured by property and equipment; monthly payments of principal and interest of \$641, starting June 2021; all remaining unpaid principal and interest due June 2050	\$ 149,900	\$ -
	149,900	-
Less current maturities:	577	-
	\$ 149,323	\$ -

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 5 – NOTE PAYABLE – CONTINUED

Annual maturities of long-term debt are as follows:

2021	\$	577
2022		3,520
2023		3,618
2024		3,718
2025		3,822
Thereafter		134,645

NOTE 6 – PAYCHECK PROTECTION PROGRAM

On April 27, 2020, the Organization entered into a Loan Agreement and Promissory Note (SBA Loan) pursuant to the Paycheck Protection Program (PPP) under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (CARES Act) administered by the U.S. Small Business Administration. The Organization received total loan proceeds of \$115,700. The loan is scheduled to mature on April 27, 2022, carries a 1.00% interest rate, and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. The loan contains customary events of default relating to, among other things, payment defaults and breaches of representations and warranties.

Subject to certain conditions, the loan may be forgiven in whole or in part by applying for forgiveness pursuant to the CARES Act and the PPP. The amount of loan proceeds eligible for forgiveness is determined on a formula based on a number of factors, including the amount of loan proceeds used by the Organization during the 24-week forgiveness period after the loan origination for certain purposes, including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments, provided that, among other matters, a least 60% of the loan amount is used for eligible payroll costs, the maintenance or rehiring of employees, and maintaining salaries at certain levels. In accordance with the requirements of the CARES Act and the PPP, the Organization intends to use the proceeds from the loan primarily for payroll costs.

The Organization has elected to account for these transactions as conditional contributions, pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, *Financial Statements for Not-For-Profit Organizations – Revenue Recognition*. Accordingly, the Organization asserts that loan forgiveness pursuant to the CARES Act constitute the condition placed on the funds to be met and therefore, a contribution should be recorded at that time. As of September 30, 2020, loan forgiveness had not been granted, and accordingly all loan proceeds are recorded as a liability in the accompanying statements of financial position as of that date. The loan was forgiven in February 2021.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 7 – BOARD DESIGNATED ENDOWMENT

The Organization has a single endowment fund that consists entirely of amounts designated by its Board of Directors for sustainable future funding for the Organization. The Organization has adopted investment and spending policies for its endowment that attempts to provide a predictable stream of funding for initiatives supported by its endowments while seeking to maintain the purchasing power of the endowment. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to the Organization. The State of New Mexico adopted UPMIFA effective July 1, 2009. The Organization has determined that its board designated endowment fund meets the definition of an endowment fund under UPMIFA. In accordance with UPMIFA and as described in the Organization's Investment Policy, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds.

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment Investment and Spending Policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Organization's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The spending policy calculates the amount of money annually distributed from the Organization's various endowed funds for intended purposes. The spending policy is board determined and follows in line with the intended desire (not requirement) of the Board of Directors.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 7 – BOARD DESIGNATED ENDOWMENT – CONTINUED

The Organization’s endowment fund consists entirely of board designated funds:

Endowment assets, September 30, 2019	\$	994,714
Contributions		17,937
Investment return, net		53,163
Appropriated for expenditure		<u>(53,747)</u>
Endowment net assets, September 30, 2020	\$	<u>1,012,067</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Retirement Plan

The Organization sponsors a 403(b) defined contribution plan for the benefit of its employees. Full time employees become eligible to participate immediately after hired and may elect to defer wages into the plan subject to regulatory limits. The Organization matches participant contributions up to 5% of eligible salary. Expense related to this plan was \$12,886 in 2020.

Major Funding

The Organization had grants and contributions from two major donors of approximately \$255,000 in 2020.

COVID-19 Pandemic

The Secretary for the New Mexico Department of Health has mandated temporary closing of businesses that were deemed non-essential and requested citizens of the State to adopt behavioral changes in response to the COVID-19 outbreak in the State. At a national and international level, government restrictions on travel and the behavioral changes by the public due to COVID-19 outbreaks across the globe are negatively impacting various industries and the related world markets. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and ultimate financial impact of these actions.

Credit Risk

The Organization maintains cash depository accounts with various financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Balances in these accounts may at times exceed the federally insured amount. The Organization has not experienced, and its management believes it is not exposed to, significant credit risk from excess deposits.

Cottonwood Gulch Expeditions

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

NOTE 9 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective for its annual financial statements for 2022, the Organization is subject to new accounting standards issued by FASB that will require significant changes in accounting for operating leases under which the Organization is lessee. Upon adoption, among other effects, the Organization will be required to record assets and liabilities for all operating lease obligations with terms of 12 months or greater. These changes will entail certain retrospective adjustments. The qualitative effects on the Organization future financial statements of these changes and related retrospective adjustments have not yet been determined.