



OFFICE OF INSPECTOR GENERAL
City of Albuquerque

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Inspector General

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Review

FILE NO: 20-0001 R

DATE: October 28, 2020

SUBJECT: The OIG was asked to review the contract between the City and the Balloon Fiesta that details responsibilities of each party to the other. The purpose was to review the contract deliverables and reporting requirements to ensure they were in compliance. The Balloon Fiesta is not a City function although the City provides Police, Fire, Solid Waste, Parks and Recreation and other services for the event.

STATUS: Final

INVESTIGATOR: J. S.

DocuSigned by:

Nicole Kelley

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NICOLE KELLEY
INTERIM INSPECTOR GENERAL

DocuSigned by:

Edmund E. Perea, Esq.

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EDMUND E. PEREA, ESQ
ACCOUNTABILITY IN GOVERNMENT OVERSIGHT COMMITTEE CHAIRPERSON

DISTRIBUTION:

Honorable Mayor
President City Council
Chief Administrative Officer
City Councilors
Director Council Services
City Attorney
Members, Accountability and Government Oversight Committee
Committee
File

Executive Summary

The OIG was asked to review the contract between the City and the Balloon Fiesta that details responsibilities of each party to the other. The purpose was to review the contract deliverables and reporting requirements to ensure they were in compliance. The Balloon Fiesta is not a City function although the City provides Police, Fire, Solid Waste, Parks and Recreation and other services for the event.

The OIG review focused on the compliance with terms of the contract. The methodology consisted of reviewing relevant documents and interviewing witnesses that could provide information regarding compliance with contract terms. The following activities were conducted as part of the review process:

- Review of pertinent documents as they relate to the history of the Balloon Fiesta contracts and relationship with the City of Albuquerque;
- Interviews of relevant staff members and Balloon Fiesta interested parties;
- Review of relevant City Ordinances, SOP's and COA's policies and procedures;
- Review of previous investigative reports relating to the Balloon Fiesta; and
- Review of the organizations relating to the Balloon Fiesta, Museum and Foundation.

After a review of the contract, it is evident that it was agreed upon by the parties that the COA provide services such as police and fire, among others. The expenses, as per the license, that are at the sole cost of the AIBF, such as the services provided by the Solid Waste Department, were reviewed and demonstrated that they were paid in full and in a timely manner.

It is the suggestion of the OIG that the COA reviews expenditures on a city-wide basis and utilize this information in negotiating any future contracts or licenses.

Lastly, the OIG recommends that the COA designate a staff member/position that serves as the liaison between the AIBF and the COA. This person will act as a repository for all contract related requirements and can ensure and log all approvals and submissions, annually, to ensure that these are completed and routed to the appropriate departments.

The contract with the Balloon Fiesta states in **Section 28. Termination for Convenience:** *Either Party may terminate this Agreement, without cause, at any time by giving at least Three Hundred (300) days' notice in writing to the other, except that if the proposed date of termination falls during the Fiesta, that being between the Tuesday after Labor Day and October 31, then the Agreement shall terminate as of November 1.* It is the recommendation that the contract be reviewed thoroughly and departments be consulted with, to determine additional costs incurred by the COA and possible renegotiated for reimbursement.

Abbreviations

COA – City of Albuquerque
IG – Inspector General
OIG – Office of the Inspector General
AIBF – Albuquerque International Balloon Fiesta, Inc.

Background, Document Review, and Interviews

Document Review
History of the Balloon Fiesta
Albuquerque International Balloon Fiesta website

From a small gathering of thirteen (13) balloons in 1972, the Albuquerque International Balloon Fiesta has grown to become the largest balloon event in the world. Held each year during the first week in October, the Balloon Fiesta now features about 600 balloons and 700 pilots. The first gathering of 13 balloons in 1972 was held in the parking lot of Coronado Center Mall in Albuquerque. The following year, thirteen (13) countries took part in the "First World Hot Air Balloon Championship", the world's largest ballooning event, held at the New Mexico State Fairgrounds. By 1978 Albuquerque was playing host to 273 entries. The number of balloons steadily increased, with 600 in 1988 and 903 balloons in 1999. The organizers of the Balloon Fiesta registered more than 1000 balloons in the year 2000. Due to shrinking landing site availability, the number of hot air balloons is now limited.

In 1972 there were about 10,000 guests that viewed the first Balloon Fiesta. Hundreds of thousands of guests visit Balloon Fiesta each year, and hundreds of thousands more fans watch the balloons from outlying areas and on TV. New in 2017, fans around the world can now watch the event online via Balloon Fiesta Live!, a professionally-produced live stream, with expert commentary, of all the flying events.

To accommodate the increases in balloons and guests, the Balloon Fiesta's home field has grown from a corner in a mall parking lot, to its present home, a permanent site which is more than 350 acres, at the Balloon Fiesta Park.

Document Review and Summary
License Agreement between the City of Albuquerque (COA) and the Albuquerque International Balloon Fiesta, Inc. (AIBF).

The OIG reviewed the contract terms pertaining to revenue associated with the Fiesta. A review of the License Agreement, dated January 7, 2013 and valid through October 31, 2027, stated, in part, the following:

- AIBF shall pay to the City for the Term an annual License Fee. The License Fee shall be a partial setoff for the annual expenditures of the City in support of the Fiesta and for AIBF's exclusive use of the Complex. This License Fee is for all uses by AIBF during the Fiesta, including the Los Angeles Landfill site, and a portion of the parking at the Balloon Museum.
- The annual License fee shall be in the amount of \$100,000 and shall be payable in cash or as a set-off against the AIBF's Credit Balance. If elected by the AIBF, the amount of \$100,000 shall be credited annually by the City against an AIBF Credit Balance that is agreed to be \$1,500,000.00 which started at the execution of this License Agreement.
- The AIBF may, within 60 days of the last day of the Fiesta, meet with the City's representative, and the parties shall agree on what the AIBF's amount of annual expenditures shall be a credit to AIBF against possible future License Fees due the City in a renewal of this Agreement.
- During Fiesta Events and Ballooning Events, AIBF will, at the sole cost and expense of AIBF provide for solid waste disposal by the City's Solid Waste Management department, and for potable, i.e. not irrigation water, water, electricity, gas, sanitary sewage, and telephone services required by AIBF to reasonably conduct the Fiesta, During the Fiesta, AIBF, or its designee, shall have access to and use of the liquid waste disposal facilities located at the southwest corner of the Specialty Golf Area.
- The City agrees to provide in-kind services to support the Fiesta for balloon events, up to but not to exceed annually 9 days (14 events). These in-kind services shall be limited to activities that the City can provide in the conduct of ordinary business. These services shall include, traffic control to and from the Balloon Fiesta park; fire protection and rescue services; dust control. The City shall provide other services to AIBF that cannot reasonably be obtained from private contractors and that these services be provided in a marginal cost recovery basis. Such services may be provided by the following City Departments: Fire, Police, Cultural Services, Environmental Health, Planning, Municipal Development, and Parks and Recreation. The City shall be recognized as an official sponsor of the Albuquerque International Balloon Fiesta.

A full copy of the referenced contract is attached as Exhibit One.

Interview
President, Board of Directors
Executive Director, General Counsel
Albuquerque International Balloon Fiesta

On August 19, 2020 a meeting was held with the Albuquerque International Balloon Fiesta (AIBF) to discuss the current License Agreement between the COA and the AIBF.

The President and Executive Director stated that often times the various entities involved get convoluted due to the use of the name 'International Balloon Fiesta'. The OIG conducted a review to outline the various entities involved:

Albuquerque International Balloon Fiesta, Inc: a New Mexico non-profit organization which coordinates, finances and implements the annual Albuquerque International Balloon Fiesta and other ballooning events.

Balloon Fiesta Park: real estate complex which is utilized for public park purposes, including without limitation, hot air and gas ballooning, outdoor sport and recreational events and museum sites. Certain portions of the Complex have been leased to others or have been reserved by the COA for the installation of improvements or structures, including, without limitation, museums, for the operation and maintenance by the COA. However, no construction will be allowed that materially impeded balloon launches from, or landing on, the Complex or the free light of balloons during the Fiesta event.

Anderson-Abruzzo International Balloon Museum Foundation: The Anderson-Abruzzo International Balloon Museum Foundation is a 501(c)(3), non-profit organization. The Anderson-Abruzzo Albuquerque International Balloon Museum is a collaborative project of the Anderson-Abruzzo International Balloon Museum Foundation and the City of Albuquerque, Cultural Services Division. Additional information about the Museum, membership and sponsorship opportunities may be obtained by calling the foundation office. Please see contact information below. The Mission of the Anderson-Abruzzo International Balloon Museum Foundation is to raise funds, foster public recognition and promote and build membership for the Albuquerque International Balloon Museum.

Anderson-Abruzzo International Balloon Museum: Named in honor of Albuquerque's pioneering aeronauts Maxie Anderson and Ben Abruzzo, the museum opened in 2005 and has since welcomed over one million visitors from across New Mexico, the United States, and around the world. The mission of the museum is to inspire a spirit of exploration, discovery, and achievement through experiences that engage our visitors in the history, science, sport, and art of ballooning and other innovative forms of flight.

The President and Executive Director stated that in regards to the license provision which states, *the AIBF may, within 60 days of the last day of the Fiesta, meet with the City's representative, and the parties shall agree on what the AIBF's amount of annual expenditures shall be a credit to AIBF against possible future License Fees due the City in a renewal of this Agreement*, that these were submitted in 2016/2017 but not yet for 2018/2019.

The President and Executive Director stated that the COA staff and the AIBF overall work well together in terms of the space and the calendar. The COA shares their calendar of events regularly and often is assisted by the AIBF with lighting, various electrical hookups or other needs. They view this as a partnership for the park.

The President and Executive Director provided the OIG with the last three years of financial statements and audits conducted, as per the agreement by an outside firm, for the AIBF (attached hereto as Exhibits Two, Three and Four).

It was stated that the AIBF often deals with multiple COA staff and Departments, due to the various license provisions. Through the terms of the license agreement, there has been numerous departmental changes with the COA and when questioned about the completion of various provisions, the President and Executive Director stated that while these were all completed, in some instances they did not receive a reply so they are unsure if they are approved or received by the correct persons.

Director
Solid Waste Department (SWD)
City of Albuquerque

In the license agreement, expenses related to Solid Waste are listed to be at the sole cost and responsibility of the AIBF. The OIG asked the SWD for the past five (5) years of invoices for services submitted to the Balloon Fiesta for reimbursement which demonstrated the following amounts:

- 2015 – \$ 44,399.95
- 2016 – \$ 51,080.68
- 2017 – \$ 57,685.66
- 2018 – \$ 55,699.10
- 2019 – \$ 58,656.96

Each packet received by the OIG on August 13, 2020 included documentation for the total billing, commercial adjustment, tax, and event oversight fee from the Oracle system. In addition, attached were spreadsheets on each trash dump, special events services contracts, and front loader and roll-off tickets from each driver.

The Director stated that each invoice has been paid promptly after being submitted for each event.

Document Review and Research
National Council of Nonprofits and IRS

The term “nonprofit” means different things to many different people. It’s a commonly used word without a common understanding between writer and reader. People often use the words “nonprofit” and “tax exempt” interchangeably. Congress has created almost three dozen types of tax-exempt organizations in different sections of the tax code. These include Section 501(c)(4) (social welfare organizations, homeowners associations, and volunteer fire companies), Section 501(c)(5) (includes labor unions), Section 501(c)(6) (includes chambers of commerce), and Section 501(k) (child care organizations). Each section identifies certain

conditions that must be met to be exempt from paying federal income taxes. The one common condition is not paying out profits (“no part of the organization’s net earnings can inure to the benefit of any private shareholder or individual”); hence the term, “nonprofit.” Section 501(c)(3) of the tax code refers to “public charities” (also known as charitable nonprofits) and “private foundations.” The tax code considers “churches and religious organizations” (which the IRS defines to include mosques, synagogues, temples, and other houses of worship) to be “public charities.”

The term "nonprofit" is a bit of a misnomer. Nonprofits can make a profit (and should try to have some level of positive revenue to build a reserve fund to ensure sustainability.) The key difference between nonprofits and for-profits is that a nonprofit organization cannot distribute its profits to any private individual (although nonprofits may pay reasonable compensation to those providing services). This prohibition against “private benefit” is because tax-exempt charitable nonprofits are formed to benefit the public, not private interests.

Document Review
AIBF Financial Statements

Each year, as required by the License Agreement, the AIBF is audited by an independent consultant (the past three years are attached hereto as Exhibits Two, Three and Four). In the opinion of the consultant, the financial statements referred to in each report present fairly, in all material respects, the financial position of AIBF and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Document Review
AIBF Financial Audits

A review of and summary of AIBF salaries and benefits was conducted. The following is a breakdown taken from the provided annual audits and tax documents provided:

2018, Form 990

Part I, Summary

No. 15: Salaries, other compensation, employee benefits
\$ 1,324,159

Part IX, Schedule of Functional Expenses

No. 5: Compensation of current officers, directors, trustees and key employees
\$ 207,960

No. 7: Other salaries and wages
\$ 1,120,739

No. 9: Other employee benefits
\$ 65,913

No. 10: Payroll Taxes

\$ 128,221

Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Executive Director

\$ 173,965

Sponsorship Coordinator

\$ 112,898

Merchandise Manager

\$ 103,974

Part II, Officers, Directors, Trustees, Key Employees, Highest Compensated Employees

Executive Director

Base Compensation

\$ 156,465

Bonus & Incentive Compensation

\$ 17,500

Retirement and other deferred compensation

\$ 7,262

Nontaxable benefits

\$ 26,732

2014, Form 990

Part I, Summary

No. 15: Salaries, other compensation, employee benefits

\$ 603,391

Part IX, Schedule of Functional Expenses

No. 5: Compensation of current officers, directors, trustees and key employees

\$ 157,641

No. 7: Other salaries and wages

\$ 298,582

No. 9: Other employee benefits

\$ 48,280

No. 10: Payroll Taxes

\$ 92,572

Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Executive Director
\$ 149,667

Part II, Officers, Directors, Trustees, Key Employees, Highest Compensated Employees

Executive Director
Base Compensation
\$ 134,667
Bonus & Incentive Compensation
\$ 15,000
Retirement and other deferred compensation
\$ 5,579
Nontaxable benefits
\$ 2,395

2010, Form 990

Part I, Summary

No. 15: Salaries, other compensation, employee benefits
\$ 552,095

Part IX, Schedule of Functional Expenses

No. 5: Compensation of current officers, directors, trustees and key employees
\$ 155,641
No. 7: Other salaries and wages
\$ 349,303
No. 9: Other employee benefits
\$ 28,788
No. 10: Payroll Taxes
\$ 49,839

Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Executive Director
\$ 142,200

Part II, Officers, Directors, Trustees, Key Employees, Highest Compensated Employees

Executive Director

	Base Compensation	
\$	142,200	
	Bonus & Incentive Compensation	
\$	0	
	Retirement and other deferred compensation	
\$	13,441	
	Nontaxable benefits	
\$	0	

Summary and Results

After a review of the contract, it is evident that it was agreed upon by the parties that the COA provide services such as police and fire, among others. The expenses, as per the license, that are at the sole cost of the AIBF, such as the services provided by the Solid Waste Department, were reviewed and demonstrated that they were paid in full and in a timely manner.

A randomly selected review of additional services illustrates that the COA does incur costs relating to services and overtime for the events of Fiesta week. The OIG asked other departments, to include Parks, Department of Municipal Development and APD for documentation on the amount of time, resources and funds they have spent on past years Balloon Fiestas. Each Department is not/has not been required to maintain documentation or logs of hours and dollars spent for and during the annual Balloon Fiesta, therefore it took some time for this to be provided. A breakdown is as follows:

Department-Cost Item	2019	2018	2017	Notes
Parks & Recreation Department				
CIP	\$ 364,817.00	\$ 106,394.00	\$ 129,203.00	Capital
Water (September & October)	\$ 41,911.00	\$ 16,371.00	\$ 2,209.00	Operating
Electric (September & October)	\$ 21,126.00	\$ 21,338.00	\$ 21,296.00	Operating
Gas (September & October)	\$ 278.00	\$ 374.00	\$ 288.00	Operating
Recreation Div Salaries - full and part time employees	\$ 86,709.07	\$ 74,311.12	\$ 51,974.48	Operating
Recreation Division-Repairs and Maintenance (note 1)	\$ 188,290.00	\$ 46,630.00	\$ 30,111.43	Operating
Note 1 - In 2019, P&R did not have an electrician or plumber during event				
Total Park & Recreation (including capital)	\$ 703,131.07	\$ 265,418.12	\$ 235,081.91	

Other Departments				
Aviation			\$ 15,976.00	Operating
APD-Regular Salaries & OT (note 2)	\$ 382,535.00	\$ 543,245.00	\$ 586,654.00	Operating

AFR-Regular Salaries & OT (note 2)	\$ 15,947.04	\$ 76,992.00	\$ 100,162.00	Operating
Note 2 - In 2019, APD and AFR made changes to reduce labor costs				Operating
Cultural Services-Regular Salaries	\$ -	\$ -	\$ 23,081.00	Operating
Volunteer hours			\$ 64,848.90	Operating
DFA-311	\$ 3,614.49		\$ 4,817.84	Operating
DMD-Streets, Storm Maintenance	\$ 291,240.28	\$ 348,177.49	\$ 199,656.00	Operating
Unpaid hours contributed			\$ 4,150.00	Operating
EHD-Los Angeles Landfill & RV Parking	\$ 41,047.87	\$ 135,517.00	\$ 45,317.00	Operating
DMD-Security	\$ 79,404.13			Operating
Office of Emergency Management			\$ 21,550.00	Operating
Volunteer hours	\$ 20,850.00	\$ 6,952.32	\$ 55,190.44	Operating
Solid Waste	\$ 58,657.00	\$ 55,689.00	\$ 57,686.00	Operating
Total-OtherDepartments	\$ 893,295.81	\$ 1,166,572.81	\$ 1,179,089.18	
Total – Capital	\$ 364,817.00	\$ 106,394.00	\$ 129,203.00	
Total – Operating	\$ 1,231,609.88	\$ 1,325,596.93	\$ 1,284,968.09	
GRAND TOTAL	\$ 1,596,426.88	\$ 1,431,990.93	\$ 1,414,171.09	

It is the suggestion of the OIG that the COA reviews expenditures on a city-wide basis and utilize this information in negotiating any future contracts or licenses.

Lastly, the OIG recommends that the COA designates a staff member/position that serves as the liaison between the AIBF and the COA. This person will act as a repository for all contract related requirements and can ensure and log all approvals and submissions, annually, to ensure that these are completed and routed to the appropriate departments.

The contract with the Balloon Fiesta states in **Section 28. Termination for Convenience:** *Either Party may terminate this Agreement, without cause, at any time by giving at least Three Hundred (300) days' notice in writing to the other, except that if the proposed date of termination falls during the Fiesta, that being between the Tuesday after Labor Day and October 31, then the Agreement shall terminate as of November 1.* It is the recommendation that the contract be reviewed thoroughly and departments be consulted with, to determine additional costs incurred by the COA and possible renegotiated for reimbursement. As per the deadline in the contract this would need to be completed by January 3, 2021 to allow for contract termination or changes.

**AGREEMENT BETWEEN
CITY OF ALBUQUERQUE FOR THE ANDERSON ABRUZZO ALBUQUERQUE
INTERNATIONAL BALLOON MUSEUM AND
ANDERSON ABRUZZO INTERNATIONAL BALLOON MUSEUM FOUNDATION**

THIS AGREEMENT, dated _____, 2005, is entered into by and between the City of Albuquerque (the "City") for The Anderson Abruzzo Albuquerque International Balloon Museum (the "Museum"), and The Anderson Abruzzo International Balloon Museum Foundation, a New Mexico non-profit corporation whose office address is 6121 Indian School NE, Albuquerque, NM 87110.

RECITALS:

- (a) The Foundation has been established by private citizens of New Mexico to promote and provide financial and other kinds of support to the Museum.
- (b) The City has constructed the Museum (the "Project") substantially in accordance with plans and specifications heretofore developed by it (the "Project Plans").
- (c) The City Council has appropriated Thirteen Million (\$13,000,000) Dollars in bond monies (the "Bond Monies") for the Project and expects to complete construction during December 2004.
- (d) The Foundation has informed and assured the City, in reliance on the City's plans for construction and installation of exhibits within the Museum, that it has sought, and will continue to seek donations to the Foundation, and, from donations will raise and will contribute Three Million (\$3,000,000) Dollars to the Project (the "Foundation Funding") for the development, construction, and installation of Exhibits.
- (e) The Foundation has already secured donations, which are in the bank, of approximately One Million (\$1,000,000) Dollars of the Foundation Funding. The Foundation will exercise its best efforts to raise an additional Two Million (\$2,000,000.00) Dollars within 10 months from the date of the completion of the Museum so that it may open with Phase I of the Exhibits completed. The Foundation currently has a firm commitment from a qualified donor pledging to match up to \$900,000.00 of contributions in cash or pledges from other qualified donors, which will mean a total of \$1,800,000.00 ultimately receivable related to the match commitment.
- (f) The Museum may choose in the future to operate, and/or contract for the operation of, a gift shop, a café and a catering kitchen. The Foundation has the option to construct and operate such services if the Foundation provides written notice to the Director of Cultural Affairs for the City on or before **March 25, 2005**

that it will do so. In that event, the Foundation and the City will execute a new agreement relating to those services.

(g) If the Foundation chooses to operate, or contract for the operation of, a catering kitchen, then the Foundation, or its contracted caterer, shall have exclusive rights to provide catering to all public gathering spaces, including the second floor multi-purpose room, in or on the outside grounds of the Museum.

NOW THEREFORE, the parties agree as follows:

1. Responsibilities of the Foundation. The Foundation shall:

1.1 Subject to receipt of cash donations, the Foundation will pay over to the City from the Foundation Funding the sum of Three Million (\$3,000,000) Dollars for Exhibit Development.

1.2 Provide to the City written evidence that it has established, in the Foundation's name, a separate account (the "Account") in a bank or other financial institution and deposited therein not less than One Million (\$1,000,000.00) Dollars constituting a portion of the Foundation Funding. The Account is further dealt with in paragraph 3 of this agreement.

1.3 Subject to cash availability, provide timely payments to the City (or its designee) pursuant to requests from the City to draw upon the Foundation Funding.

1.4 Carry out its other obligations under this agreement.

2. Responsibilities of the City. The City shall:

2.1 Following consultation with the Foundation, construct and complete the installation of Exhibits substantially in accord with the actually approved Project Plans. The City shall have the sole discretion to choose the contractor(s) and designers of and location and placement of all Museum Exhibits.

2.2 Submit to the Foundation timely requests to draw on the Foundation Funding.

2.3 Utilize the Foundation Funding exclusively for the Project Exhibit Development, construction, and installation, and solely for direct Project costs.

2.4 Provide in the design and construction of the Project for the recognition and acknowledgement of donors to the Foundation for the Project in accordance with a consistent plan of recognition and acknowledgement that has been approved by the City and the Foundation.

2.5 Carry out its other obligations under this agreement.

3. Concerning the Account. The Account may be established as an interest-bearing bank account or institutional money market account. Monies in the Account, and income therefrom, shall be the property of the Foundation and the income shall be added to its principal. Funds from the Account may be withdrawn therefrom only upon the joint instructions of two signatories, one designated by the Foundation and the other by the City. Monies in the Account may be withdrawn therefrom only for the Foundation Funding and shall be expended in full for such purpose prior to any borrowing by the Foundation under a Bank Loan agreement.

4. Disbursement of the Foundation Funding. Disbursements of the Foundation Funding from the Account shall be made directly to the City. Disbursement of the Foundation Funding from any Bank Loan shall be made directly to the City or to the Foundation; in the latter event, the Foundation shall promptly forward said monies to the City. All disbursements of the Foundation Funding shall be made on the instructions of the Foundation.

5. Effectiveness of this agreement; its term.

5.1 This agreement has been executed by the Foundation on Feb 3, 2005. It shall not become effective or binding upon the City until executed by its Chief Administrative Officer, following its approval by the Albuquerque City Council. In the event that this Agreement has not been executed by the City's Chief Administrative Officer by _____, the Foundation's execution hereof shall be deemed withdrawn and no longer binding on it.

5.2 Once effective, this agreement shall continue in force until each of the parties has satisfied all of its obligations hereunder, including the obligations under paragraph 10 hereof.

6. Accountability for Receipts and Disbursements. The Foundation and the City shall each keep and maintain records of their receipts and disbursements relating to the performance of their obligations hereunder and shall make such records available for inspection by the other upon reasonable request. Such records shall be maintained while this agreement remains in force and for three years thereafter.

7. Ownership of the Museum.

Notwithstanding the Foundation Funding of a portion of the cost of the Project, the Museum and all improvements or property purchased through the Foundation Funding shall be, and remain, the property of the City.

8. Museum Operation.

8.1 Subject to the rights allowed the Foundation in Recitals (f) and (g) above, and the specific provisions and conditions following, the City shall have general control of all other areas within the Museum building, and revenue therefrom shall accrue to the City. The Foundation shall, however, be entitled to schedule and hold up to ten (10) events or functions in the Museum, including, if desired, access to and use of adjacent balconies and/or outdoor exhibit and patio areas, during each and every calendar year. In addition, the Foundation shall also be entitled to the use, and revenues therefrom, of the second floor multi-purpose area and/or second floor northwest corner special-event room, including the adjacent balconies, for Foundation sponsored events or functions on any and all of the following yearly dates: New Year's Eve; 4th of July evening (including the outdoor patio areas); two (2) days during the Christmas season while ballooning events are held on the balloon launch field; and, eight (8) days during the annual Balloon Fiesta.

8.2 For those events that are revenue producing, the Foundation shall receive the gross income therefrom. The Foundation shall reimburse the City for its reasonable maintenance costs plus any additional security expenses incurred during and resulting from events sponsored by the Foundation.

8.3 Should the parties hereto at a time in the future, mutually deem it desirable to have tethered balloon rides installed and operated on the outdoor Museum grounds, or an Imax or similar theater, or if a type of virtual reality theater be considered, then the Foundation shall have the right and option to arrange and provide any such service or facility, either itself or by concession contract with another party.

9. Concerning any Unused Part of the Foundation Funding. The parties anticipate that all of the Foundation Funding and the Bond Monies will be needed and expended for construction of the Museum and the development and installation of exhibits. However, in the event that the Foundation Funding is not fully utilized for Phase I exhibits, the Foundation will retain any unused part thereof (the "Unused Foundation Funding") upon completion of the Project. The Unused Foundation Funding shall be maintained by the Foundation in a separate, income bearing account to be utilized for the Phase II Exhibit construction and installation.

10. Amendment. This Agreement may not be amended, except by an instrument in writing executed by the parties hereto.

11. Compliance with Laws. In performing this Agreement, the parties shall comply with all applicable laws, ordinances and codes of the federal, State and local governments, including the Americans with Disabilities Act of 1990.

12. Assignability. Neither party shall assign any interest in this Agreement and shall not transfer any interest in this Agreement (whether by assignment or novation), without written consent of the other party thereto.

13. **Construction and Severability.** If any part of this Agreement is held to be invalid or unenforceable, such holding will not affect the validity or enforceability of any other part of this Agreement so long as the remainder of the Agreement is reasonably capable of completion.

14. **Enforcement.** In any litigation to enforce or remedy a breach of this Agreement, the losing party shall pay to the prevailing party all costs and expenses including reasonable attorney's fees incurred by the prevailing party in such litigation.

15. **Entire Agreement.** This Agreement, an Agreement executed between the Maxie L. Anderson Foundation, which has changed its name to the Anderson Abruzzo International Balloon Museum Foundation, and the City under date of December 5, 2000, and a Memorandum of Understanding between these same parties dated April 10, 2001, contain the entire agreements of the parties and supersedes any and all other agreements or understandings, oral or written, whether previous to the execution hereof or contemporaneous herewith.

16. **Applicable Law.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New Mexico and the laws, rules and regulations of the City of Albuquerque.

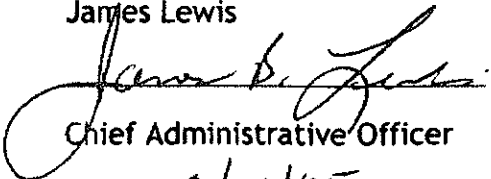
IN WITNESS WHEREOF, the Foundation has executed this Agreement on the date shown below and the City of Albuquerque has executed it on the date first above written.

CITY OF ALBUQUERQUE:

**ANDERSON ABRUZZO INTERNATIONAL
BALLOON MUSEUM FOUNDATION**

Approved:

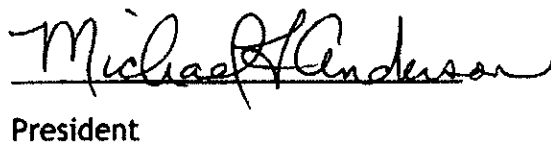
James Lewis


Chief Administrative Officer

Date: 2/17/05


Millie Santillanes, Director Cultural Services Department

Date: 2/15/05


President

Date: Feb. 3, 2005

DATE: February 15, 2005

DOCUMENTS REQUIRING MAYOR/CAO SIGNATURE

Originating Department/Division: Legal /Real Estate Land Use

Contact Person: Assistant City Attorney J. Brent Ricks Phone # 84511

Mayor's Signature:

Document Name:	Reason Requiring Signature:
1.	
2.	
3.	
4.	

CAO's Signature:

Document Name:	Reason Requiring Signature:
1. Agreement Between City of Albuquerque for the Anderson Abruzzo Albuquerque International Balloon Museum and Anderson Abruzzo International Balloon Museum Foundation	To complete the Agreement for Museum Foundation funding
2.	
3.	

Council Approval Required? Yes X No

If contract amount exceeds \$55,000.00 and Council approval not required, please state reason.

just

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Albuquerque International Balloon Fiesta, Inc.
Albuquerque, New Mexico

We have audited the accompanying financial statements of Albuquerque International Balloon Fiesta, Inc. (AIBF) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the 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 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 control relevant to the entity'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 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.

Board of Directors
Albuquerque International Balloon Fiesta, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIBF as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
March 27, 2018

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 939,071	\$ 3,021,870
Investments	1,424,642	966,353
Accounts Receivable, Net of Allowance for Uncollectible Accounts	62,158	15,479
Inventories	259,520	122,391
Prepaid Expenses and Other Assets	3,000	5,369
Total Current Assets	2,688,391	4,131,462
PROPERTY AND EQUIPMENT, NET	6,740,008	3,666,820
Total Assets	\$ 9,428,399	\$ 7,798,282
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 25,098	\$ 47,499
Accrued Expenses and Other Liabilities	73,344	84,870
Deferred Revenue	619,738	448,212
Total Current Liabilities	718,180	580,581
Total Liabilities	718,180	580,581
NET ASSETS		
Unrestricted	8,703,288	7,139,916
Unrestricted - Board Designated	6,931	77,785
Total Unrestricted Net Assets	8,710,219	7,217,701
Total Liabilities and Net Assets	\$ 9,428,399	\$ 7,798,282

See accompanying Notes to Financial Statements.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES, GAINS, AND PUBLIC SUPPORT		
Special Event	\$ 7,142,417	\$ 6,802,670
Sponsors	2,445,410	2,341,947
Merchandise	1,335,563	900,916
Contributions	480	670
Miscellaneous	178,918	134,969
Investment Income	200,749	39,055
Total Revenues, Gains, and Public Support	<u>11,303,537</u>	<u>10,220,227</u>
 Expenses:		
Program Services:		
Special Event	7,607,230	7,189,119
Cost of Sales	622,438	325,046
Management and General	1,581,351	1,329,782
Total Expenses	<u>9,811,019</u>	<u>8,843,947</u>
 INCREASE IN NET ASSETS	 1,492,518	 1,376,280
Net Assets - Beginning of Year	<u>7,217,701</u>	<u>5,841,421</u>
 NET ASSETS - END OF YEAR	 <u>\$ 8,710,219</u>	 <u>\$ 7,217,701</u>

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,492,518	\$ 1,376,280
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	194,498	127,327
Donated Assets	100,000	-
Reinvested Interest, Dividends, and Gains	95,840	-
Interest and dividend income	9,966	(56,038)
Realized and Unrealized Losses on Investments	(210,715)	16,983
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(46,679)	(6,908)
Inventories	(137,129)	(14,131)
Prepaid Expenses and Other Assets	2,369	(5,369)
Accounts Payable	(22,401)	(59,434)
Accrued Expenses and Other Liabilities	(11,526)	(36,241)
Deferred Revenue	171,532	67,402
Net Cash Provided by Operating Activities	1,638,273	1,421,254
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(3,367,686)	(818,550)
Purchase of Investments	(391,059)	(324,179)
Proceeds from Sale of Investments	37,673	78,381
Net Cash Used by Investing Activities	(3,721,072)	(1,064,348)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,082,799)	356,906
Cash and Cash Equivalents - Beginning of Year	3,021,870	2,664,964
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 939,071	\$ 3,021,870

SUPPLEMENTAL DISCLOSURE

AIBF had noncash operating activities relating to barter transactions with sponsors of approximately \$676,268 and \$746,300 for the years ended December 31, 2017 and 2016, respectively.

See accompanying Notes to Financial Statements.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Definition of Reporting Entity

Albuquerque International Balloon Fiesta, Inc. (AIBF) was incorporated in the state of New Mexico in 1976. AIBF is a nonprofit, tax-exempt corporation whose purpose is to organize and operate the annual Albuquerque International Balloon Fiesta event (Event), to bring about civic betterments and social improvements, to promote the City of Albuquerque nationally and internationally, and to afford the community recreational and entertainment opportunities.

Use of Estimates in Preparing 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 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. Significant estimates include the allowance for uncollectible accounts receivable and the methods and lives used to compute depreciation expense. Actual results could differ from those estimates.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, AIBF is required to report information regarding its financial position and activities according to three classes of net assets. In addition, AIBF is required to present a statement of cash flows. AIBF held only unrestricted assets during the years ended December 31, 2017 and 2016.

Unrestricted Net Assets. These assets represent sources whose use is not limited to or restricted by donors. Unrestricted net assets have arisen from exchange transactions, receipt of unrestricted contributions and expirations or satisfaction of existing restrictions. AIBF treats restricted contributions whose restrictions are satisfied during the same fiscal year as unrestricted support. All contributions made to AIBF are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets. These assets result from (a) contributions and other inflows of assets whose use by AIBF is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of AIBF pursuant to those stipulations; (b) other assets enhancements and diminishments subject to the same kinds of stipulations; and (c) imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of AIBF pursuant to those stipulations.

Permanently Restricted Net Assets. These assets have donor-imposed restrictions that stipulate that resources be maintained permanently but permit AIBF to use up or expend part or all of the income or economic benefits derived from the donated assets.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, AIBF considers all undesignated interest-bearing accounts and debt instruments with an original maturity date of three months or less to be cash equivalents.

Investments

Investments consist primarily of mutual funds, exchange traded funds and stocks. Investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are calculated by specific identification and are included in the statements of activities and changes in net assets.

Accounts Receivable

Accounts receivable consist primarily of commitments from sponsors that are still in arrears at year-end. Accounts receivable are stated at the unpaid balance, less an allowance for doubtful accounts. AIBF provides for losses on accounts receivable using the allowance method. The allowance is based on experience with the licensors. It is AIBF's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2017 and 2016, the allowance for doubtful accounts balance was approximately \$5,000.

Inventories

Inventories, which primarily consist of Event memorabilia to be sold in the gift shop, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value at the date of donation. Depreciation is provided under the straight line method over the estimated useful lives of the assets, ranging from five to thirty-one years. AIBF capitalizes all expenditures for land, buildings, and equipment in excess of \$2,500.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

AIBF reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets at December 31, 2017 and 2016.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenue is generated from deposits placed on RV campsites for the upcoming Event prior to commencement of the Event. Income is earned as the campsites are used and is fully earned by the end of the Event each October. Deferred revenue is also generated through the prepayment of sponsorship fees by the sponsor, prior to the commencement of the Event.

Revenue Recognition

Revenue is primarily related to the annual Event and is recognized in the year of the Event. Revenue is recorded at net realizable amounts in the accompanying statement of activities and changes in net assets.

Periodically, AIBF enters into barter transactions with sponsors where it exchanges goods and services leading up to and during the Event for goods and services. No gain or loss is recorded from barter transactions as the revenue recognized equals the fair value of the goods and services surrendered. For the years ended December 31, 2017 and 2016, AIBF entered into several barter arrangements for a total value of approximately \$676,268, and \$746,300, respectively. The amounts are included in sponsor revenues and were allocated to program during 2017 and 2016.

Unrestricted Net Assets – Board Designated

As of December 31, 2017 and 2016, the Board designated \$6,931 and \$77,785, respectively, to be reserved for future capital expenditure needs. These amounts are reflected on the Statements of Financial Position as Unrestricted – Board Designated.

Expense Allocation

The cost of providing the various programs and all other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

AIBF uses advertising to promote the Event among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$140,834 and \$136,754, respectively.

Income Tax Status

AIBF is a nonprofit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. AIBF did not incur any unrelated business taxable income for the years ended December 31, 2017 and 2016. As a result, AIBF did not recognize federal and state income tax for the years ended December 31, 2017 and 2016.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

AIBF files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, AIBF is subject to examination by federal, state, local, and foreign jurisdictions, where applicable.

AIBF would recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There was no such interest or penalties recorded for the years ended December 31, 2017 and 2016.

Subsequent Events

Management evaluated subsequent events through March 27, 2018, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2017, but prior to March 27, 2018, that provided additional evidence about conditions that existed at December 31, 2017 have been recognized in the financial statements for the year ended December 31, 2017. Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2017.

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, AIBF uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- *Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- *Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- *Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Mutual funds, exchange traded funds, alternative investments and stocks are measured at fair value using Level 1 inputs. The fair values are based on quoted market prices at the reporting date.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31:

2017				
Fair Value Measurement Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common Stock	\$ 11,712	\$ -	\$ -	\$ 11,712
Mutual Funds	1,412,930	-	-	1,412,930
Total	<u>\$ 1,424,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,424,642</u>

2016				
Fair Value Measurement Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common Stock	\$ 13,731	\$ -	\$ -	\$ 13,731
Mutual Funds	952,622	-	-	952,622
Total	<u>\$ 966,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 966,353</u>

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following information summarizes the difference between cost and the estimated fair value for investments as of December 31:

	2017		
	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Common Stock	\$ 9,772	\$ 11,712	\$ 1,940
Mutual Funds	1,220,192	1,412,930	192,738
Total	<u>\$ 1,229,964</u>	<u>\$ 1,424,642</u>	<u>\$ 194,678</u>
	2016		
	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Common Stock	\$ 12,265	\$ 13,731	\$ 1,466
Mutual Funds	924,475	952,622	28,147
Total	<u>\$ 936,740</u>	<u>\$ 966,353</u>	<u>\$ 29,613</u>

Investment income consists of the following at December 31:

	2017	2016
Interest and Dividends	\$ (9,966)	\$ 56,039
Realized Gains (Losses)	38,359	(35,031)
Unrealized Gains (Losses)	172,356	18,048
Total	<u>\$ 200,749</u>	<u>\$ 39,056</u>

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Buildings and Building Improvements	\$ 1,449,088	\$ 1,178,315
Vehicles and Equipment	628,216	585,209
Field Improvements	1,369,768	1,100,028
Furniture and Fixtures	96,049	96,049
Bridge	559,367	-
Land Improvements	1,118,388	-
Work in Process	-	117,115
	<u>5,220,876</u>	<u>3,076,716</u>
Less: Accumulated Depreciation and Amortization	(1,546,559)	(1,450,911)
Property and Equipment, Net	<u>3,674,317</u>	<u>1,625,805</u>
Land	3,065,691	2,041,015
Total	<u>\$ 6,740,008</u>	<u>\$ 3,666,820</u>

Total depreciation expense for the years ended December 31, 2017 and 2016 was \$194,498 and \$127,327, respectively.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 4 LINE OF CREDIT

AIBF has a \$1,000,000 revolving line of credit agreement with a bank. The line includes interest payable monthly at a rate equal to the lender's prime rate, not to fall below 4.0%. In March of 2017, AIBF added an additional \$1,000,000 revolving line of credit agreement with the same bank. This line bears interest at 1.5% over the lender's prime rate. There were no outstanding amounts borrowed against either line of credit at December 31, 2017 nor 2016. Both lines of credit are secured by property, plant, and equipment.

NOTE 5 RETIREMENT PLAN

AIBF has a 401(k) retirement plan covering all full-time employees. AIBF will match employee contributions to the Plan up to a maximum of 4% of the employee's annualized compensation. AIBF's contributions to the plan were \$32,395 and \$27,350 for 2017 and 2016, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

AIBF 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. AIBF had deposits in excess of the insured amounts at year-end. AIBF has not experienced, and management believes it is not exposed to, significant credit risk from these excess deposits.

License Agreement

Effective January 7, 2013, AIBF entered into a License Agreement (Agreement) with the City of Albuquerque, New Mexico (City) to provide for the use by AIBF of the City's Balloon Fiesta Park (Complex) for the conduct of the Albuquerque International Balloon Fiesta and other balloon events. The term of the Agreement expires in October 2027.

Under the current agreement, AIBF has exclusive license to use the Complex, excepting and excluding certain reserved sites, during the period from the Tuesday after Labor Day through October 31 of each year. AIBF shall pay the City an annual license fee of \$100,000.

Operating Leases

The Company rents substantially all of its equipment under month-to-month operating leases. In addition, the Company leases copiers under noncancelable operating leases. The leases are for five years and have an option to renew under the same terms for an additional ninety days to one year. Rent expense under the copier leases was \$44,241 and \$43,981 in 2017 and 2016, respectively.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (Continued)

Future minimum lease payments under the noncancelable operating leases are as follows at December 31, 2017:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 22,439
2019	17,674
2020	17,674
2020	1,120
Total	<u>\$ 58,907</u>

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP



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**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Albuquerque International Balloon Fiesta, Inc.
Albuquerque, New Mexico

We have audited the accompanying financial statements of Albuquerque International Balloon Fiesta, Inc. (AIBF) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the 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 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 control relevant to the entity'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 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.

Board of Directors
Albuquerque International Balloon Fiesta, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIBF as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
March 1, 2019

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,951,032	\$ 939,071
Investments	1,666,160	1,424,642
Accounts Receivable, Net of Allowance for Uncollectible Accounts	22,073	62,158
Inventories, Net of Allowance	133,054	259,520
Prepaid Expenses and Other Assets	36,905	3,000
Total Current Assets	3,809,224	2,688,391
PROPERTY AND EQUIPMENT, NET	6,733,677	6,740,008
Total Assets	\$ 10,542,901	\$ 9,428,399
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 3,725	\$ 25,098
Accrued Expenses and Other Liabilities	79,470	73,344
Deferred Revenue	747,738	619,738
Total Current Liabilities	830,933	718,180
Total Liabilities	830,933	718,180
NET ASSETS		
Without Donor Restrictions	9,711,968	8,710,219
Total Liabilities and Net Assets	\$ 10,542,901	\$ 9,428,399

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Special Event	\$ 7,531,540	\$ 7,142,417
Sponsors	2,339,512	2,445,410
Merchandise	1,581,859	1,335,563
Contributions	1,102	480
Miscellaneous	211,843	178,918
Investing Return (Loss)	<u>(151,084)</u>	<u>200,749</u>
Total Revenues, Gains, and Public Support	11,514,772	11,303,537
OPERATING EXPENSES		
Program Services:		
Special Event	7,999,583	7,607,230
Cost of Sales	736,732	622,438
Management and General	1,776,708	1,581,351
Total Expenses	<u>10,513,023</u>	<u>9,811,019</u>
INCREASE IN NET ASSETS	1,001,749	1,492,518
Net Assets - Beginning of Year	<u>8,710,219</u>	<u>7,217,701</u>
NET ASSETS - END OF YEAR	<u>\$ 9,711,968</u>	<u>\$ 8,710,219</u>

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,001,749	\$ 1,492,518
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	308,799	194,498
Donated Assets	-	100,000
Reinvested Interest, Dividends, and Gains	(82,332)	95,840
Unrealized Gain and Losses	233,468	(200,749)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	40,085	(46,679)
Inventories	126,466	(137,129)
Prepaid Expenses and Other Assets	(33,905)	2,369
Accounts Payable	(21,373)	(22,401)
Accrued Expenses and Other Liabilities	6,126	(11,526)
Deferred Revenue	128,006	171,532
Net Cash Provided by Operating Activities	1,707,089	1,638,273
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(302,468)	(3,367,686)
Purchase of Investments	(488,044)	(391,059)
Proceeds from Sale of Investments	95,384	37,673
Net Cash Used by Investing Activities	(695,128)	(3,721,072)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,011,961	(2,082,799)
Cash and Cash Equivalents - Beginning of Year	939,071	3,021,870
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,951,032	\$ 939,071

SUPPLEMENTAL DISCLOSURE

AIBF had noncash operating activities relating to barter transactions with sponsors of approximately \$593,190 and \$676,268 for the years ended December 31, 2018 and 2017, respectively.

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Total
Salaries	\$ 432,112	\$ 862,593	\$ 1,294,705
Payroll Taxes and Fringe Benefits	117,923	134,742	252,665
Professional Fees and Contract Services	1,165,434	27,868	1,193,302
Supplies	962,248	20,943	983,191
Printing, Publications, and Artwork	64,467	-	64,467
Postage, Shipping, and Delivery	8,884	-	8,884
Telephone	106,973	9,174	116,147
Occupancy	165,674	65,901	231,575
Insurance	5,276	145,659	150,935
Meetings and Conferences	7,183	-	7,183
Equipment Lease and Maintenance	685,253	111,207	796,460
Membership Dues and Subscriptions	-	5,184	5,184
Advertising	156,269	-	156,269
Sponsorship Expenses	883,935	-	883,935
Event Expenses	2,892,895	-	2,892,895
Miscellaneous	345,057	32,383	377,440
Taxes and Licenses	-	43,138	43,138
Travel	-	9,117	9,117
Cost of Sales	736,732	-	736,732
Depreciation and Amortization	-	308,799	308,799
Total Expenses by Function	<u>\$ 8,736,315</u>	<u>\$ 1,776,708</u>	<u>\$ 10,513,023</u>

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Total
Salaries	\$ 360,775	\$ 752,516	\$ 1,113,291
Payroll Taxes and Fringe Benefits	87,509	123,359	210,868
Professional Fees and Contract Services	1,187,257	23,135	1,210,392
Supplies	1,005,993	18,653	1,024,646
Printing, Publications, and Artwork	57,575	-	57,575
Postage, Shipping, and Delivery	8,792	-	8,792
Telephone	87,362	8,174	95,536
Occupancy	179,338	53,411	232,749
Insurance	4,323	136,084	140,407
Meetings and Conferences	8,963	-	8,963
Equipment Lease and Maintenance	506,571	93,864	600,435
Membership Dues and Subscriptions	1,398	6,181	7,579
Advertising	140,834	-	140,834
Sponsorship Expenses	915,835	-	915,835
Event Expenses	2,797,605	-	2,797,605
Miscellaneous	257,100	126,535	383,635
Taxes and Licenses	-	33,398	33,398
Travel	-	11,543	11,543
Cost of Sales	622,438	-	622,438
Depreciation and Amortization	-	194,498	194,498
Total Expenses by Function	<u>\$ 8,229,668</u>	<u>\$ 1,581,351</u>	<u>\$ 9,811,019</u>

See accompanying Notes to Financial Statements.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Definition of Reporting Entity

Albuquerque International Balloon Fiesta, Inc. (AIBF) was incorporated in the state of New Mexico in 1976. AIBF is a nonprofit, tax-exempt corporation whose purpose is to organize and operate the annual Albuquerque International Balloon Fiesta event (Event), to bring about civic betterments and social improvements, to promote the City of Albuquerque nationally and internationally, and to afford the community recreational and entertainment opportunities.

Use of Estimates in Preparing 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 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. Significant estimates include the allowance for uncollectible accounts receivable and the methods and lives used to compute depreciation expense. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Net Assets with Donor Restrictions

When the Organization incurs an expense for which it may use either net assets with or without donor restrictions, it uses the restricted assets first.

Cash and Cash Equivalents

For purposes of the statement of cash flows, AIBF considers all undesignated interest-bearing accounts and debt instruments with an original maturity date of three months or less to be cash equivalents.

Investments

Investments consist primarily of mutual funds, exchange traded funds and stocks. Investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are calculated by specific identification and are included in the statements of activities and changes in net assets.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist primarily of commitments from sponsors that are still in arrears at year-end. Accounts receivable are stated at the unpaid balance, less an allowance for doubtful accounts. AIBF provides for losses on accounts receivable using the allowance method. The allowance is based on experience with the licensors. It is AIBF's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2018 and 2017, the allowance for doubtful accounts balance was approximately \$5,000.

Inventories

Inventories, which primarily consist of Event memorabilia to be sold in the gift shop, are valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation. AIBF has an inventory reserve of \$18,000 for the years ending December 31, 2018 and 2017.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value at the date of donation. Depreciation is provided under the straight line method over the estimated useful lives of the assets, ranging from five to thirty-one years. AIBF capitalizes all expenditures for land, buildings, and equipment in excess of \$2,500.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

AIBF reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets at December 31, 2018 and 2017.

Deferred Revenue

Deferred revenue is generated from deposits placed on RV campsites for the upcoming Event prior to commencement of the Event. Income is earned as the campsites are used and is fully earned by the end of the Event each October. Deferred revenue is also generated through the prepayment of sponsorship fees by the sponsor, prior to the commencement of the Event.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is primarily related to the annual Event and is recognized in the year of the Event. Revenue is recorded at net realizable amounts in the accompanying statement of activities and changes in net assets.

Periodically, AIBF enters into barter transactions with sponsors where it exchanges goods and services leading up to and during the Event for goods and services. No gain or loss is recorded from barter transactions as the revenue recognized equals the fair value of the goods and services surrendered. For the years ended December 31, 2018 and 2017, AIBF entered into several barter arrangements for a total value of approximately \$593,190, and \$676,268, respectively. The amounts are included in sponsor revenues and were allocated to program during 2018 and 2017.

Revenue With and Without Donor Restriction

Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases to net assets with donor restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as Net Assets Released from Restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services 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. Expenses are charged to program costs based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to program costs based on management estimates which include number of employees, time spent on event, and time of year.

Advertising Costs

AIBF uses advertising to promote the Event among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was \$156,269 and \$140,834, respectively.

Income Tax Status

AIBF is a nonprofit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. AIBF did not incur any unrelated business taxable income for the years ended December 31, 2018 and 2017. As a result, AIBF did not recognize federal and state income tax for the years ended December 31, 2018 and 2017.

AIBF files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, AIBF is subject to examination by federal, state, local, and foreign jurisdictions, where applicable.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

AIBF would recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There was no such interest or penalties recorded for the years ended December 31, 2018 and 2017.

Subsequent Events

Management evaluated subsequent events through March 1, 2019, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2018, but prior to March 1, 2019, that provided additional evidence about conditions that existed at December 31, 2018 have been recognized in the financial statements for the year ended December 31, 2018. Events or transactions that provided evidence about conditions that did not exist at December 31, 2018, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2018.

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, AIBF uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- *Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- *Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- *Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Mutual funds, exchange traded funds, alternative investments and stocks are measured at fair value using Level 1 inputs. The fair values are based on quoted market prices at the reporting date.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31:

	2018			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	\$	\$	\$	
Common Stock	-	-	-	-
Mutual Funds	50,663	-	-	50,663
Exchange Traded Funds	1,230,780	-	-	1,230,780
Certificate of Deposit	-	100,000	-	100,000
Quoted Alternative Investments	284,717	-	-	284,717
Total	<u>\$ 1,566,160</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 1,666,160</u>

	2017			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	\$	\$	\$	
Common Stock	11,712	-	-	11,712
Mutual Funds	44,399	-	-	44,399
Exchange Traded Funds	1,123,835	-	-	1,123,835
Quoted Alternative Investments	244,696	-	-	244,696
Total	<u>\$ 1,424,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,424,642</u>

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following information summarizes the difference between cost and the estimated fair value for investments as of December 31:

	2018		
	Cost	Estimated Fair Value	Market Value Over (Under) Cost
	Common Stock	\$ 1,311	\$ -
Mutual Funds	53,181	50,663	(2,518)
Exchange Traded Funds	1,266,390	1,230,780	(35,610)
Certificate of Deposit	100,000	100,000	-
Quoted Alternative Investments	284,068	284,717	649
Total	<u>\$ 1,704,950</u>	<u>\$ 1,666,160</u>	<u>\$ (38,790)</u>
	2017		
	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Common Stock	\$ 9,772	\$ 11,712	\$ 1,940
Mutual Funds	42,146	44,399	2,253
Exchange Traded Funds	948,706	1,123,835	175,129
Quoted Alternative Investments	229,340	244,696	15,356
Total	<u>\$ 1,229,964</u>	<u>\$ 1,424,642</u>	<u>\$ 194,678</u>

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2018	2017
Buildings and Building Improvements	\$ 1,522,886	\$ 1,449,088
Vehicles and Equipment	686,547	628,216
Field Improvements	1,475,111	1,369,768
Furniture and Fixtures	96,049	96,049
Bridge	559,367	559,367
Land Improvements	1,183,384	1,118,388
Work in Process	-	-
	<u>5,523,344</u>	<u>5,220,876</u>
Less: Accumulated Depreciation and Amortization	(1,855,358)	(1,546,559)
Property and Equipment, Net	3,667,986	3,674,317
Land	3,065,691	3,065,691
Total	<u>\$ 6,733,677</u>	<u>\$ 6,740,008</u>

Total depreciation expense for the years ended December 31, 2018 and 2017 was \$308,799 and \$194,498, respectively.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 LINE OF CREDIT

AIBF has a \$1,000,000 revolving line of credit agreement with a bank. The line includes interest payable monthly at a rate equal to the lender's prime rate, not to fall below 4.0%. There were no outstanding amounts borrowed against this line of credit at December 31, 2018 nor 2017. This line of credit is secured by property, plant, and equipment.

NOTE 5 RETIREMENT PLAN

AIBF has a 401(k) retirement plan covering all full-time employees. AIBF will match employee contributions to the Plan up to a maximum of 4% of the employee's annualized compensation. AIBF's contributions to the plan were \$31,799 and \$32,395 for 2018 and 2017, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

AIBF 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. AIBF had deposits in excess of the insured amounts at year-end. AIBF has not experienced, and management believes it is not exposed to, significant credit risk from these excess deposits.

License Agreement

Effective January 7, 2013, AIBF entered into a License Agreement (Agreement) with the City of Albuquerque, New Mexico (City) to provide for the use by AIBF of the City's Balloon Fiesta Park (Complex) for the conduct of the Albuquerque International Balloon Fiesta and other balloon events. The term of the Agreement expires in October 2027.

Under the current agreement, AIBF has exclusive license to use the Complex, excepting and excluding certain reserved sites, during the period from the Tuesday after Labor Day through October 31 of each year. AIBF shall pay the City an annual license fee of \$100,000.

Operating Leases

The Company rents substantially all of its equipment under month-to-month operating leases. In addition, the Company leases copiers under noncancelable operating leases. The leases are for five years and have an option to renew under the same terms for an additional ninety days to one year. Rent expense under the copier leases was \$35,761 and \$43,981 in 2018 and 2017, respectively.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (Continued)

Future minimum lease payments under the noncancelable operating leases are as follows at December 31, 2018:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 23,345
2020	17,402
Total	<u>\$ 40,747</u>

NOTE 7 LIQUIDITY

The Albuquerque International Balloon Fiesta has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet a minimum of 60 days of normal operating expenses, which are, on average, approximately \$1,607,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The accounts receivable are subject to time restrictions, but will be collected within one year. As part of its liquidity management, The Albuquerque International Balloon Fiesta invests cash in excess of daily requirements in various short-term investments including certificates of deposits and short-term treasury instruments. As more fully described in Note 4, The Albuquerque International Balloon Fiesta also has a committed line of credit in the amount of \$1,000,000, which it could draw upon in the event of an unanticipated liquidity need.

	<u>2018</u>	<u>2017</u>
Financial Assets, as of December 31	\$ 3,639,265	\$ 2,425,871
Less: Board-Designated Cash, Primarily for Capital Asset Reserves	<u>(6,931)</u>	<u>(6,931)</u>
Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 3,632,334</u>	<u>\$ 2,418,940</u>

NOTE 8 NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's governing board has designated net assets without donor restrictions for capital asset reserves in the amount of \$6,931 for both years ending December 31, 2018 and 2017.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 CHANGE IN ACCOUNTING POLICY

The Organization changed accounting policies related to presentation of financial statements and notes about liquidity and financial performance by adopting Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-14, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used which resulted in no change to the previously reported net assets.

NOTE 10 ACCOUNTING STANDARDS CHANGES

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Management is currently evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018



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**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Albuquerque International Balloon Fiesta, Inc.
Albuquerque, New Mexico

We have audited the accompanying financial statements of Albuquerque International Balloon Fiesta, Inc. (AIBF) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the 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 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 control relevant to the entity'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 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.

Board of Directors
Albuquerque International Balloon Fiesta, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIBF as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
March 18, 2020

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,407,544	\$ 1,951,032
Investments	1,895,725	1,666,160
Accounts Receivable, Net of Allowance for Uncollectible Accounts	31,723	22,073
Inventories, Net of Allowance	150,463	133,054
Prepaid Expenses and Other Assets	-	36,905
Total Current Assets	<u>4,485,455</u>	<u>3,809,224</u>
PROPERTY AND EQUIPMENT, NET	7,818,564	6,733,677
Total Assets	<u>\$ 12,304,019</u>	<u>\$ 10,542,901</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 45,830	\$ 3,725
Accrued Expenses and Other Liabilities	95,629	79,470
Deferred Revenue	1,085,106	747,738
Total Current Liabilities	<u>1,226,565</u>	<u>830,933</u>
Total Liabilities	1,226,565	830,933
NET ASSETS		
Without Donor Restrictions		
Board Designated	115,825	6,931
Undesignated	10,961,629	9,705,037
Total Without Donor Restrictions	<u>11,077,454</u>	<u>9,711,968</u>
Total Liabilities and Net Assets	<u>\$ 12,304,019</u>	<u>\$ 10,542,901</u>

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Special Event	\$ 7,986,295	\$ 7,531,540
Sponsors	2,435,043	2,339,512
Merchandise	1,810,119	1,581,859
Contributions	1,820	1,102
Miscellaneous	138,905	211,843
Net Investment Return	<u>287,623</u>	<u>(151,084)</u>
Total Revenues, Gains, and Public Support	12,659,805	11,514,772
OPERATING EXPENSES		
Program Services:		
Special Event	8,589,607	7,999,583
Cost of Sales	735,322	736,732
Management and General	<u>1,969,390</u>	<u>1,776,708</u>
Total Expenses	11,294,319	10,513,023
INCREASE IN NET ASSETS	1,365,486	1,001,749
Net Assets - Beginning of Year	<u>9,711,968</u>	<u>8,710,219</u>
NET ASSETS - END OF YEAR	<u>\$ 11,077,454</u>	<u>\$ 9,711,968</u>

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,365,486	\$ 1,001,749
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	359,607	308,799
Reinvested Interest, Dividends, and Gains	(44,800)	(82,332)
Unrealized Gain and Losses	(242,685)	233,468
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(9,650)	40,085
Inventories	(17,409)	126,466
Prepaid Expenses and Other Assets	36,905	(33,905)
Accounts Payable	42,105	(21,373)
Accrued Expenses and Other Liabilities	16,159	6,126
Deferred Revenue	337,368	128,006
Net Cash Provided by Operating Activities	1,843,086	1,707,089
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,444,494)	(302,468)
Purchase of Investments	(143,704)	(488,044)
Proceeds from Sale of Investments	201,624	95,384
Net Cash Used by Investing Activities	(1,386,574)	(695,128)
NET INCREASE IN CASH AND CASH EQUIVALENTS	456,512	1,011,961
Cash and Cash Equivalents - Beginning of Year	1,951,032	939,071
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,407,544	\$ 1,951,032

SUPPLEMENTAL DISCLOSURE

AIBF had noncash operating activities relating to barter transactions with sponsors of approximately \$589,565 and \$593,190 for the years ended December 31, 2019 and 2018, respectively.

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Total
Event Expenses	\$ 2,948,097	\$ -	\$ 2,948,097
Professional Fees and Contract Services	1,510,750	45,224	1,555,974
Salaries	511,173	927,285	1,438,458
Supplies	1,026,085	18,714	1,044,799
Equipment Lease and Maintenance	804,884	149,537	954,421
Sponsorship Expenses	872,735	-	872,735
Cost of Sales	735,332	-	735,332
Depreciation and Amortization	-	359,607	359,607
Miscellaneous	317,716	7,702	325,418
Occupancy	178,100	82,886	260,986
Payroll Taxes and Fringe Benefits	120,201	137,837	258,038
Insurance	5,482	158,467	163,949
Advertising	-	153,384	153,384
Telephone and Internet	64,867	10,461	75,328
Printing, Publications and Artwork	56,129	-	56,129
Taxes and Licenses	-	52,311	52,311
Travel	-	15,234	15,234
Meetings and Conferences	10,360	-	10,360
Postage, Shipping and Delivery	9,634	-	9,634
Membership Dues and Subscriptions	-	4,125	4,125
Total Expenses by Function	<u>\$ 9,171,545</u>	<u>\$ 2,122,774</u>	<u>\$ 11,294,319</u>

See accompanying Notes to Financial Statements.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Total
Event Expenses	\$ 2,892,895	\$ -	\$ 2,892,895
Salaries	432,112	862,593	1,294,705
Professional Fees and Contract Services	1,165,434	27,868	1,193,302
Supplies	962,248	20,943	983,191
Sponsorship Expenses	883,935	-	883,935
Equipment Lease and Maintenance	685,253	111,207	796,460
Cost of Sales	736,732	-	736,732
Miscellaneous	345,057	32,383	377,440
Depreciation and Amortization	-	308,799	308,799
Payroll Taxes and Fringe Benefits	117,923	134,742	252,665
Occupancy	165,674	65,901	231,575
Advertising	-	156,269	156,269
Insurance	5,276	145,659	150,935
Telephone and Internet	106,973	9,174	116,147
Printing, Publications and Artwork	64,467	-	64,467
Taxes and Licenses	-	43,138	43,138
Travel	-	9,117	9,117
Postage, Shipping and Delivery	8,884	-	8,884
Meetings and Conferences	7,183	-	7,183
Membership Dues and Subscriptions	-	5,184	5,184
Total Expenses by Function	<u>\$ 8,580,046</u>	<u>\$ 1,932,977</u>	<u>\$ 10,513,023</u>

See accompanying Notes to Financial Statements.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Definition of Reporting Entity

Albuquerque International Balloon Fiesta, Inc. (AIBF) was incorporated in the state of New Mexico in 1976. AIBF is a nonprofit, tax-exempt corporation whose purpose is to organize and operate the annual Albuquerque International Balloon Fiesta event (Event), to bring about civic betterments and social improvements, to promote the City of Albuquerque nationally and internationally, and to afford the community recreational and entertainment opportunities.

Use of Estimates in Preparing 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 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. Significant estimates include the allowance for uncollectible accounts receivable and the methods and lives used to compute depreciation expense. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Net Assets with Donor Restrictions

When the Organization incurs an expense for which it may use either net assets with or without donor restrictions, it uses the restricted assets first.

Cash and Cash Equivalents

For purposes of the statement of cash flows, AIBF considers all undesignated interest-bearing accounts and debt instruments with an original maturity date of three months or less to be cash equivalents.

Investments

Investments consist primarily of mutual funds, exchange traded funds and stocks. Investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are calculated by specific identification and are included in the statements of activities and changes in net assets.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist primarily of commitments from sponsors that are still in arrears at year-end. Accounts receivable are stated at the unpaid balance, less an allowance for doubtful accounts. AIBF provides for losses on accounts receivable using the allowance method. The allowance is based on experience with the licensors. It is AIBF's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2019 and 2018, the allowance for doubtful accounts balance was approximately \$5,000.

Inventories

Inventories, which primarily consist of Event memorabilia to be sold in the gift shop, are valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation. AIBF has an inventory reserve of \$18,700 for the years ending December 31, 2019 and 2018.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value at the date of donation. Depreciation is provided under the straight line method over the estimated useful lives of the assets, ranging from five to thirty-one years. AIBF capitalizes all expenditures for land, buildings, and equipment in excess of \$2,500.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

AIBF reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets at December 31, 2019 and 2018.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. AIBF recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of returns are not recognized until the conditions on which they depend have been met. There were no conditional promises to give at December 31, 2019 or 2018.

AIBF recognizes revenue from the following sources:

Special Event Revenue

Special Event Revenues are recognized when received (point in time) in the year of the event. Special Event revenue is recorded at net realizable amounts in the accompanying statement of activities and changes in net assets. Special Event Revenue includes: Event Admissions, Event Parking, RV, Licensing, Concessions, Arts & Crafts, Gondola Club, Chasers Club, Pilots, Concierge Program, Glamping, Group Tours, Jackets, Brick Revenue, and miscellaneous revenues. Special event revenue is exchange revenue.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

Sponsorship Revenue

Sponsorship Revenues are recognized during the event (point in time). Sponsorship revenue is recorded at net realizable amounts in the accompanying statement of activities and changes in net assets. Sponsorship revenues include cash and trade. AIBF enters into barter transactions with sponsors where it exchanges goods and services leading up to and during the Event for goods and services. No gain or loss is recorded from barter transactions as the revenue recognized equals the fair value of the goods and services surrendered. For the years ended December 31, 2019 and 2018, AIBF entered into several barter arrangements for a total value of approximately \$589,565, and \$593,190, respectively. The amounts are included in sponsor revenues and were allocated to program during 2019 and 2018. All sponsorship revenues are exchange revenues.

Merchandise Revenue

Merchandise revenues are earned (point in time) from sales of various types of event merchandise; including sportswear, calendars, pins, patches, and other merchandise items. Merchandise revenue is recorded at net realizable amounts in the accompanying statement of activities and changes in net assets. All merchandise revenues are exchange revenues.

Deferred Revenue

AIBF does not have contracts that span multiple years. However, deferred revenue is generated from deposits placed on RV campsites for the upcoming Event prior to commencement of the Event. Income is earned as the campsites are used. Deferred revenue is also generated through the prepayment of sponsorship fees by the sponsor, prior to the commencement of the event. Both are fully earned by the end of the Event each October. The amount of deferred revenues were \$1,085,106 and \$747,738 at December 31, 2019 and 2018. For the year ended December 31, 2019, AIBF deferred \$226,000 of sponsorship fees and \$859,106 of special event revenues (RV campsites) for the 2020 event. For the year ended December 31, 2018, AIBF deferred \$747,738 of special event revenues (RV campsites) for the 2019 event.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services 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. Expenses are charged to program costs based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to program costs based on management estimates which include number of employees, time spent on event, and time of year. These include salaries and related expenses, professional fees, supplies, equipment lease and maintenance, insurance, telephone, occupancy, and miscellaneous.

Advertising Costs

AIBF uses advertising to promote the Event among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2019 and 2018 was \$153,384 and \$156,269, respectively.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

AIBF is a nonprofit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. AIBF did not incur any unrelated business taxable income for the years ended December 31, 2019 and 2018. As a result, AIBF did not recognize federal and state income tax for the years ended December 31, 2019 and 2018.

AIBF files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, AIBF is subject to examination by federal, state, local, and foreign jurisdictions, where applicable.

AIBF would recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There was no such interest or penalties recorded for the years ended December 31, 2019 and 2018.

Subsequent Events

Management evaluated subsequent events through March 18, 2020, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2019, but prior to March 18, 2020, that provided additional evidence about conditions that existed at December 31, 2019 have been recognized in the financial statements for the year ended December 31, 2019. Events or transactions that provided evidence about conditions that did not exist at December 31, 2019, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2019.

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, AIBF uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- *Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- *Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- *Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Mutual funds, exchange traded funds, alternative investments and stocks are measured at fair value using Level 1 inputs. The fair values are based on quoted market prices at the reporting date.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31:

	2019			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	\$	\$	\$	
Common Stock	153,817	-	-	153,817
Mutual Funds	65,342	-	-	65,342
Exchange Traded Funds	1,276,314	-	-	1,276,314
Certificate of Deposit	-	154,436	-	154,436
Quoted Alternative Investments	245,815	-	-	245,815
Total	\$ 1,741,289	\$ 154,436	\$ -	\$ 1,895,725

	2018			Total
	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	\$	\$	\$	
Common Stock	-	-	-	-
Mutual Funds	50,663	-	-	50,663
Exchange Traded Funds	1,230,780	-	-	1,230,780
Certificate of Deposit	-	100,000	-	100,000
Quoted Alternative Investments	284,717	-	-	284,717
Total	\$ 1,566,160	\$ 100,000	\$ -	\$ 1,666,160

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following information summarizes the difference between cost and the estimated fair value for investments as of December 31:

	2019		
	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Common Stock	\$ 136,023	\$ 153,817	\$ 17,794
Mutual Funds	60,187	65,342	5,156
Exchange Traded Funds	1,093,448	1,276,314	182,866
Certificate of Deposit	154,436	154,436	-
Quoted Alternative Investments	235,190	245,815	10,625
Total	<u>\$ 1,679,284</u>	<u>\$ 1,895,725</u>	<u>\$ 216,441</u>
	2018		
	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Common Stock	\$ -	\$ -	\$ -
Mutual Funds	53,181	50,663	(2,518)
Exchange Traded Funds	1,266,390	1,230,780	(35,610)
Certificate of Deposit	100,000	100,000	-
Quoted Alternative Investments	284,068	284,717	649
Total	<u>\$ 1,703,639</u>	<u>\$ 1,666,160</u>	<u>\$ (37,479)</u>

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2019	2018
Buildings and Building Improvements	\$ 2,529,057	\$ 1,522,886
Vehicles and Equipment	818,322	686,547
Field Improvements	1,481,611	1,475,111
Furniture and Fixtures	96,049	96,049
Bridge	559,367	559,367
Land Improvements	1,183,384	1,183,384
	<u>6,667,790</u>	<u>5,523,344</u>
Less: Accumulated Depreciation and Amortization	(2,214,965)	(1,855,358)
Property and Equipment, Net	4,452,825	3,667,986
Land	3,365,739	3,065,691
Total	<u>\$ 7,818,564</u>	<u>\$ 6,733,677</u>

Total depreciation expense for the years ended December 31, 2019 and 2018 was \$359,607 and \$308,799, respectively.

**ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 LINE OF CREDIT

AIBF has a \$1,000,000 revolving line of credit agreement with a bank. The line includes interest payable monthly at a rate equal to the lender's prime rate, not to fall below 4.0%. There were no outstanding amounts borrowed against this line of credit at December 31, 2019 nor 2018. This line of credit is secured by property, plant, and equipment.

NOTE 5 RETIREMENT PLAN

AIBF has a 401(k) retirement plan covering all full-time employees. AIBF will match employee contributions to the Plan up to a maximum of 4% of the employee's annualized compensation. AIBF's contributions to the plan were \$36,525 and \$31,799 for 2019 and 2018, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

AIBF 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. AIBF had deposits in excess of the insured amounts at year-end. AIBF has not experienced, and management believes it is not exposed to, significant credit risk from these excess deposits.

License Agreement

Effective January 7, 2013, AIBF entered into a License Agreement (Agreement) with the City of Albuquerque, New Mexico (City) to provide for the use by AIBF of the City's Balloon Fiesta Park (Complex) for the conduct of the Albuquerque International Balloon Fiesta and other balloon events. The term of the Agreement expires in October 2027.

Under the current agreement, AIBF has exclusive license to use the Complex, excluding certain reserved sites, during the period from the Tuesday after Labor Day through October 31 of each year. AIBF shall pay the City an annual license fee of \$100,000.

Operating Leases

The Company rents substantially all of its equipment under month-to-month operating leases. In addition, the Company leases copiers under noncancelable operating leases. The leases are for five years and have an option to renew under the same terms for an additional ninety days to one year. Rent expense under the copier leases was \$32,691 and \$35,761 in 2019 and 2018, respectively.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (Continued)

Future minimum lease payments under the noncancelable operating leases are as follows at December 31, 2019:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 20,398
2021	21,396
2022	21,396
2023	21,396
2024 and Thereafter	14,264
Total	<u>\$ 98,850</u>

NOTE 7 LIQUIDITY

AIBF has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet a minimum of 60 days of normal operating expenses, which are, on average, approximately \$1,860,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The accounts receivable are subject to time restrictions, but will be collected within one year. As part of its liquidity management AIBF invests cash in excess of daily requirements in various short-term investments including certificates of deposits and short-term treasury instruments. As more fully described in Note 4, AIBF also has a committed line of credit in the amount of \$1,000,000, which it could draw upon in the event of an unanticipated liquidity need.

	<u>2019</u>	<u>2018</u>
Financial Assets, as of December 31	\$ 4,334,992	\$ 3,639,265
Less: Board-Designated Cash, Primarily for Capital Asset Reserves	<u>(115,825)</u>	<u>(6,931)</u>
Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 4,219,167</u>	<u>\$ 3,632,334</u>

NOTE 8 NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's governing board has designated net assets without donor restrictions for capital asset reserves in the amount of \$115,825 and \$6,931 in 2019 and 2018, respectively.

ALBUQUERQUE INTERNATIONAL BALLOON FIESTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 CHANGE IN ACCOUNTING POLICY

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

AIBF's financial statements reflect the application of ASC 606 guidance beginning in 2018. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the organization's reported historical revenue.

NOTE 10 ACCOUNTING STANDARDS UPDATES

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is a comprehensive lease accounting standard that requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the balance sheet for leases with terms exceeding 12 months. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. The guidance is required to be applied by the Organization for the year ended December 31, 2021; however, early application is permitted. AIBF is currently evaluating the impact this guidance will have on its financial statements.

