



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

**TAOS COMMUNITY FOUNDATION, INC.
AND SUBSIDIARY**

June 30, 2018 and 2017



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TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

JUNE 30, 2018

BOARD OF DIRECTORS AND PRINCIPAL EMPLOYEE (unaudited)

Board of Directors

John Hamilton	Chair
George Jaramillo	Vice Chair
Dave Lambert	Secretary
Ben Maddox	Treasurer
Laurie M. Dunn	Member
Adriana Blake	Member
David Norden	Member
Vernon Lujan	Member
Robert Shaw	Member
Andrea Szekeres	Member
Kate O'Neill	Member
Wes Patterson	Member

Principal Employee

Lisa O'Brien	Director
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Report of Independent Auditors

To the Board of Directors and Management
Taos Community Foundation, Inc. and Subsidiary
Taos, New Mexico

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Taos Community Foundation, Inc. and Subsidiary (the Foundation), a nonprofit, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Taos Community Foundation, Inc. and Subsidiary as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mess Adams LLP

Albuquerque, New Mexico
November 14, 2018

Taos Community Foundation, Inc. and Subsidiary
Consolidated Statements of Financial Position

ASSETS

	June 30,	
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 391,691	\$ 457,472
Accounts receivable	100	100
Inventory	24,875	24,875
Prepaid expenses	10,694	2,341
Total current assets	<u>427,360</u>	<u>484,788</u>
NONCURRENT ASSETS		
Investments	9,698,928	9,462,260
Deferred compensation	-	164,914
Property and equipment, net	150,635	62,274
Total noncurrent assets	<u>9,849,563</u>	<u>9,689,448</u>
Total assets	<u>\$ 10,276,923</u>	<u>\$ 10,174,236</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 196	\$ 26,292
Grants payable	104,850	130,000
Accrued expenses	8,053	6,339
Deferred compensation	-	164,914
Funds held as agency endowments	2,891,224	2,821,030
Total current liabilities	<u>3,004,323</u>	<u>3,148,575</u>
NET ASSETS		
Unrestricted	16,456	37,257
Unrestricted - board designated for future improvements	1,000,000	1,000,000
Total unrestricted	<u>1,016,456</u>	<u>1,037,257</u>
Temporarily restricted	1,467,669	1,349,030
Permanently restricted	4,788,475	4,639,374
Total net assets	<u>7,272,600</u>	<u>7,025,661</u>
Total liabilities and net assets	<u>\$ 10,276,923</u>	<u>\$ 10,174,236</u>

Taos Community Foundation, Inc. and Subsidiary
Consolidated Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS AND OTHER SUPPORT				
Revenues				
Grants and contributions	\$ 292,534	\$ 861,102	\$ 149,101	\$ 1,302,737
Event income and fee revenue	200,646	37,618	-	238,264
Dividends and interest	56,163	97,655	-	153,818
Realized and unrealized gains on investments	134,803	196,392	-	331,195
Total revenues	<u>684,146</u>	<u>1,192,767</u>	<u>149,101</u>	<u>2,026,014</u>
Other Support				
In-kind contributions	260	-	-	260
Total revenues, gains and other support	<u>684,406</u>	<u>1,192,767</u>	<u>149,101</u>	<u>2,026,274</u>
Net assets released from restrictions/change in restrictions	<u>1,074,128</u>	<u>(1,074,128)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support after release from restrictions/change in restrictions	<u>1,758,534</u>	<u>118,639</u>	<u>149,101</u>	<u>2,026,274</u>
EXPENSES				
Program				
Grants	772,984	-	-	772,984
Program services	520,407	-	-	520,407
Total grants and program services	<u>1,293,391</u>	<u>-</u>	<u>-</u>	<u>1,293,391</u>
Supporting services				
General and administrative	470,675	-	-	470,675
Fundraising	15,009	-	-	15,009
Other in-kind expense	260	-	-	260
Total supporting services	<u>485,944</u>	<u>-</u>	<u>-</u>	<u>485,944</u>
Total expenses	<u>1,779,335</u>	<u>-</u>	<u>-</u>	<u>1,779,335</u>
CHANGE IN NET ASSETS	(20,801)	118,639	149,101	246,939
NET ASSETS, BEGINNING OF YEAR	<u>1,037,257</u>	<u>1,349,030</u>	<u>4,639,374</u>	<u>7,025,661</u>
NET ASSETS, END OF YEAR	<u>\$ 1,016,456</u>	<u>\$ 1,467,669</u>	<u>\$ 4,788,475</u>	<u>\$ 7,272,600</u>

Taos Community Foundation, Inc. and Subsidiary
Consolidated Statements of Activities and Changes in Net Assets (continued)

	Year Ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Revenues				
Grants and contributions	\$ 1,366,947	\$ 1,067,701	\$ 174,404	\$ 2,609,052
Event income and fee revenue	169,979	33,010	-	202,989
Dividends and interest	43,372	85,597	-	128,969
Realized and unrealized gains on investments	153,810	335,972	-	489,782
Total revenues	<u>1,734,108</u>	<u>1,522,280</u>	<u>174,404</u>	<u>3,430,792</u>
Other Support				
In-kind contributions	260	-	-	260
Total revenues, gains and other support	<u>1,734,368</u>	<u>1,522,280</u>	<u>174,404</u>	<u>3,431,052</u>
Net assets released from restrictions/change in restrictions	679,677	(679,677)	-	-
Total revenues, gains, and other support after release from restrictions/change in restrictions	<u>2,414,045</u>	<u>842,603</u>	<u>174,404</u>	<u>3,431,052</u>
EXPENSES				
Program				
Grants	293,837	-	-	293,837
Program services	498,700	-	-	498,700
Total grants and program services	<u>792,537</u>	<u>-</u>	<u>-</u>	<u>792,537</u>
Supporting services				
General and administrative	378,013	-	-	378,013
Fundraising	16,400	-	-	16,400
Other in-kind expense	260	-	-	260
Total supporting services	<u>394,673</u>	<u>-</u>	<u>-</u>	<u>394,673</u>
Total expenses	<u>1,187,210</u>	<u>-</u>	<u>-</u>	<u>1,187,210</u>
CHANGE IN NET ASSETS	1,226,835	842,603	174,404	2,243,842
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(189,578)</u>	<u>506,427</u>	<u>4,464,970</u>	<u>4,781,819</u>
NET ASSETS, END OF YEAR	<u>\$ 1,037,257</u>	<u>\$ 1,349,030</u>	<u>\$ 4,639,374</u>	<u>\$ 7,025,661</u>

See accompanying notes.

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Taos Community Foundation, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 246,939	\$ 2,243,842
Adjustments to reconcile the change in net assets to net cash flows (used) provided by operating activities:		
Realized and unrealized gains on investments	(331,195)	(489,782)
Depreciation	17,465	1,816
Donated securities	(192,745)	(302,789)
Changes in assets and liabilities:		
Prepaid expenses	(8,353)	1,055
Accounts payable	(26,096)	22,306
Grants payable	(25,150)	76,700
Accrued expenses	1,714	(962)
Funds held as agency endowments	70,194	45,876
Net cash flows (used) provided by operating activities	(247,227)	1,598,062
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(105,826)	(58,220)
Purchases of investments	(471,228)	(2,127,262)
Proceeds from sales of investments	758,500	590,051
Net cash flows provided (used) by investing activities	181,446	(1,595,431)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(65,781)	2,631
 CASH AND CASH EQUIVALENTS, beginning of year	457,472	454,841
 CASH AND CASH EQUIVALENTS, end of year	\$ 391,691	\$ 457,472
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Contributed securities at fair value	\$ 192,745	\$ 302,789

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Organization

The Taos Community Foundation, Inc. and Subsidiary (the Foundation) was formed in 1994. The mission of the Foundation is to enhance the quality of life in the communities it serves by encouraging permanent charitable giving to meet the needs of present and future generations. This is achieved by initiating projects and coordinating resources that promote a healthy and safe community. The Foundation serves Taos and western Colfax counties, offering people a variety of ways to touch the community through giving. Grants are made to 501(c)(3) organizations in these counties, which serve the areas of health and human services, education and activities for youth, visual, literary and performing arts, economic and community development, natural environment and historic preservation. The Foundation pools the contributions of many individuals and businesses which, in turn, enable more strategic funding to non-profits working to make a difference and effect change. Contributions are received from individuals, businesses, and foundations.

The Foundation formed a wholly owned subsidiary, named Taos Foundation for Property Gifts, Inc. (TFPG). The purpose of TFPG is to accept and liquidate real estate gifts, for the benefit of the Foundation. As a wholly owned subsidiary, TFPG is considered a disregarded entity for tax reporting purposes. There were no real estate gifts made to TFPG for the years ended June 30, 2018 and 2017.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary. All significant inter-entity accounts and transactions have been eliminated in the consolidation.

Basis of Consolidated Financial Statement Presentation

The Foundation's consolidated financial statements are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities, Presenting Financial Statements. Under ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Unrestricted Net Assets

Represent those assets that the Foundation may use at its discretion. Unrestricted net assets are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets

Represent those assets subject to restrictions imposed by donors, grantors, or contract provision that may or will be met by the occurrence of a specific event or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Result from donor-imposed stipulations that neither expire by the passage of time or can be fulfilled or otherwise removed by actions of the Foundation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all liquid investments having initial maturities of three months or less to be cash equivalents. Money market funds held as a portion of the Foundation's investment portfolio, are classified as short-term investments and are considered to be cash equivalents. Cash equivalents and short-term investments are stated at cost, which approximates market value.

Inventory

Inventory consists of a piece of artwork donated to, and held for sale by, the Foundation. The artwork is recorded at estimated fair market value as determined by an appraisal.

Functional Expense Allocation

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

Investment Valuation

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Investment income and gains restricted by donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or use) in the reporting period in which the income and gains are recognized.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Acquisition of property and equipment of \$500 or more with a useful life of more than one year are recorded at cost if purchased and fair market value if donated. Depreciation is provided for using the straight line method over the following estimated useful lives:

Furniture and equipment	5 to 7 years
Leasehold improvements	5 to 10 years
Software	3 years

Depreciation expense was \$17,465 and \$1,816 for the years ended June 30, 2018 and 2017, respectively.

Contributions of Long-Lived Assets

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as unrestricted support unless the donor has restricted the donated assets for a specific purpose. Assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations of how those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service for the purpose stipulated by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts received with donor stipulations that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by the Foundation, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. There are no outstanding conditional or unconditional promises to give at June 30, 2018 or 2017.

Grant Revenues

Grant revenues are recognized according to the type of grant:

Grants based on a direct cost reimbursement for expenditures incurred under the grant scope of work – revenues are recognized at the time of expenditure and billed to the grantor on a monthly or quarterly basis as required by the grant.

Grants in which funds are disbursed to the Foundation prior to service being rendered – revenue is recognized when funds are received, unexpended funds at the end of the fiscal year are reported as temporarily restricted net assets or deferred revenue.

Grants in which fee for services are billed for payment – revenues are recognized after services are provided and billed.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Donated Goods and Services

Donated materials, equipment, and services are recorded as in-kind contributions in the accompanying consolidated financial statements at their estimated fair values as of the date received.

Donated Marketable Securities

Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation. The estimated fair value of donated securities was \$192,745 and \$302,789 for the years ended June 30, 2018 and 2017, respectively.

Event and Fee Income

Income from events is recognized in the year the event is held. Fee income is recognized as earned.

Federal Income Tax

The Foundation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. Any such tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Foundation had no unrecognized tax benefits at June 30, 2018 or 2017. The Foundation files an exempt organization return with the Internal Revenue Service (IRS). The Foundation had no taxable unrelated business income for the years ended June 30, 2018 and 2017. Accordingly, a provision for income taxes has not been established in the accompanying consolidated financial statements.

Advertising

The cost of advertising is expensed in the year incurred. Advertising expense for the years ended June 30, 2018 and 2017 totaled \$40,937 and \$30,960, respectively.

Risk Management

The Foundation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The Foundation has obtained commercial insurance coverage to protect itself against such losses.

Reclassifications

Certain reclassifications have been made to the prior year consolidated statement of financial position and consolidated statement of activities and changes in net assets to correspond to the current year's presentation.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued or are available to be issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Foundation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before consolidated financial statements are available to be issued. The Foundation has evaluated subsequent events through November 14, 2018, which is the date the consolidated financial statements are available to be issued.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

FASB ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities during August 2016*: This ASU revises the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management is evaluating the effect that implementation of ASU 2016-14 will have on the consolidated financial statements of the Foundation.

FASB ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*: This ASU provides clarification in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The guidance is applicable for transactions where the entity serves as the resource recipient beginning after December 15, 2018 and for transactions in which the entity serves as the resource provider beginning after December 15, 2019. The Foundation is in the process of determining the impact of this pronouncement.

Note 3 – Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Basis of Fair Value Measurement

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

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

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

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

Taos Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Equity and Bond Mutual Funds (*Mutual funds*): Shares of mutual funds are valued at the closing price reported on the active market on which the individual funds are traded.

The Foundation's fair value measurements are as follows as of June 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2018
Assets				
Equity mutual funds	\$ 5,646,154	\$ -	\$ -	\$ 5,646,154
Bond mutual funds	4,052,774			4,052,774
Total investments at fair market value	<u>\$ 9,698,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,698,928</u>

For the year ended June 30, 2018, net realized and unrealized gains on investments were recognized in the amount of \$331,195.

The Foundation's fair value measurements are as follows as of June 30, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2017
Assets				
Equity mutual funds	\$ 5,858,910	\$ -	\$ -	\$ 5,858,910
Bond mutual funds	3,603,350	-	-	3,603,350
Total investments at fair market value	<u>\$ 9,462,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,462,260</u>

For the year ended June 30, 2017, net realized and unrealized losses on investments were recognized in the amount of \$489,782.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 59,459	\$ 37,700
Leasehold improvements	153,009	68,943
Software	13,575	13,575
	<u>226,043</u>	<u>120,218</u>
Accumulated depreciation	<u>(75,408)</u>	<u>(57,944)</u>
Property and equipment, net	<u>\$ 150,635</u>	<u>\$ 62,274</u>

Note 5 – Net Assets Classifications

The Foundation's endowment consisted of approximately 120 individual funds established for a variety of purposes for the years ended June 30, 2018 and 2017, respectively. The Foundation's endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Net Assets Classifications (continued)

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted an Investment Policy Statement and Guidelines, approved by the Board of Directors, for endowment assets that attempt to achieve a reasonable total return on endowed funds that will optimize annual distributions of the Foundation, while allowing for the long-term growth of the endowment net of management fees. Total return is defined as the aggregate investment return, which includes a combination of current income plus the net impact of prices changes. Income return is defined as the actual dividends and interest earned. Although protection of principal is important, it is understood that some market risk must be assumed in order to fulfill these objectives over the long term. Because the portfolio is expected to endure into perpetuity, and because inflation is a component in the growth of the endowment funds, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, a majority of the assets will be invested in equity or equity-like securities. Fixed income securities will be used to reduce the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Investments of the Foundation will be diversified to reduce portfolio risk. The current allocation guideline for the endowment fund investments is 60% equity securities and 40% fixed income securities. Investments in the securities of any single issuer (stock or bond) may not exceed 5% of the portfolio at market value, except that obligations of the U.S. Government or its agencies may be held in any amounts.

Spending Policy

The intent of endowed funds is to create and build a permanent financial reserve, the earnings from which can be used for charitable purposes. In that light:

- A new fund must wait four quarters before granting any funds.

For all funds that have been in existence prior to January 31 of the current year, the spending policy is as follows:

- The amount available for grants for the coming twelve months will be based on the average fair market value of the fund for the previous twelve closing quarters (or the number of the full quarters the fund has been in existence, if less than twelve), through January 31 of the current year.
- The percentage to be multiplied by the average fair market value of each fund will be determined annually by the Foundation's Board of Directors, prior to January 1 of each year. Presently, the payout percentage is 4.5% plus relevant fees. The intent of this is to ensure that fund principal amounts are not spent in times of investment and stock market depreciation.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Net Assets Classifications (continued)

Endowment assets consist of both Foundation assets and agency funds and changes in the endowment account include contribution activities that are recorded as changes in the agency funds (see Note 11). Permanently restricted Foundation assets and agency funds are as follows at June 30:

	<u>2018</u>	<u>2017</u>
Permanently Restricted Agency Fund Endowment	\$ 2,891,224	\$ 2,821,030
Permanently Restricted Foundation Endowment	<u>4,788,475</u>	<u>4,639,374</u>
Total Permanently Restricted Endowment Net Assets	<u>\$ 7,679,699</u>	<u>\$ 7,460,404</u>

Changes in Endowment Net Assets consist of the following:

For the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of the year	\$ 27,033	\$ 308,790	\$ 7,460,404	\$ 7,796,227
Investment Return: Investment Income	49,742	80,878	64,102	194,722
Net appreciation (realized and unrealized)	<u>119,696</u>	<u>187,565</u>	<u>139,565</u>	<u>446,826</u>
Total investment return	<u>169,438</u>	<u>268,443</u>	<u>203,667</u>	<u>641,548</u>
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	(3,059)	497	168,819	166,257
Appropriation of endowment assets for expenditure	<u>(274,521)</u>	<u>(277,692)</u>	<u>(153,191)</u>	<u>(705,404)</u>
Endowment Net Assets (Deficit), end of year	<u>\$ (81,109)</u>	<u>\$ 300,038</u>	<u>\$ 7,679,699</u>	<u>\$ 7,898,628</u>

Taos Community Foundation, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note 5 – Net Assets Classifications (continued)

For the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets (Deficit), beginning of the year	\$ (102,121)	\$ 61,833	\$ 7,240,124	\$ 7,199,836
Investment Return: Investment Income	40,615	75,394	59,011	175,020
Net appreciation (realized and unrealized)	149,513	304,086	230,304	683,903
Total investment return	190,128	379,480	289,315	858,923
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	-	-	188,655	188,655
Appropriation of endowment assets for expenditure	(60,974)	(132,524)	(257,690)	(451,188)
Endowment Net Assets, end of year	<u>\$ 27,033</u>	<u>\$ 308,789</u>	<u>\$ 7,460,404</u>	<u>\$ 7,796,226</u>

Endowment Net Asset Composition by Type of Fund is as follows:

For the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 263,822	\$ 7,679,699	\$ 7,943,521
Named funds-designated endowment funds	(81,109)	36,216	-	(44,893)
Donor-restricted endowment funds (deficit)	<u>\$ (81,109)</u>	<u>\$ 300,038</u>	<u>\$ 7,679,699</u>	<u>\$ 7,898,628</u>

For the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 282,768	\$ 7,460,404	\$ 7,743,172
Named funds-designated endowment funds	27,033	26,021	-	53,054
Donor-restricted endowment funds	<u>\$ 27,033</u>	<u>\$ 308,789</u>	<u>\$ 7,460,404</u>	<u>\$ 7,796,226</u>

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6 – Operating Lease Commitments

The Foundation paid \$1,100 per month for rent of its administrative office and a storage unit located in Taos, New Mexico through May 2017. Rent expense was \$18,282 and \$13,410 for the years ended June 30, 2018 and 2017, respectively.

The Foundation signed a new lease with option to purchase office space on May 30, 2017. The lease term began June 1, 2017 and ends December 31, 2023. Monthly rent of \$1,357 is due on the first day of each month beginning August 1, 2017 through December 31, 2018. Commencing January 1, 2019, the base monthly rent increases to \$2,200.

The Foundation exercised the option to purchase the office space for a minimum sale price (MSP) of \$400,000 effective October 29, 2018 and is in the process of scheduling the appraisal and closing on or before May 29, 2019. The actual purchase price shall be adjusted if the appraised value exceeds the MSP. The difference between the MSP and purchase price shall be considered a charitable contribution by the Lessor to the Foundation.

Future minimum payments under this noncancelable lease agreement are as follows:

Year ending June 30:

2019	\$	21,342
2020		26,400
2021		26,400
2022		26,400
2023		26,400
Thereafter		<u>13,200</u>
Total	<u>\$</u>	<u>140,142</u>

Note 7 – Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Donor advised funds	\$ 1,018,807	\$ 963,005
Field of interest	195,922	203,837
Special programs	158,119	82,871
Designated funds	75,972	61,590
Agency funds	<u>18,849</u>	<u>37,727</u>
Total temporarily restricted net assets	<u>\$ 1,467,669</u>	<u>\$ 1,349,030</u>

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7 – Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are endowments intended to be held in perpetuity. Permanently restricted net assets for June 30, 2018 and 2017 were \$4,788,475 and \$4,639,374, respectively. During 2018 and 2017, certain reclassifications between temporarily and permanently restricted net assets were made to comply with fiduciary standards and donor intent.

Note 8 – Donated Assets and Services

Generally accepted accounting principles requires that professional service hours (attorney, accountants, doctors, etc.) be recorded in the consolidated financial statements, but not volunteer hours. Volunteers and board members have donated significant amounts of their time in the Foundation's program and in its fund-raising campaigns. The value of these hours is not recorded in the consolidated financial statements.

The majority of in-kind donations received by the Foundation are in-kind donations for newspaper advertising, information technology services, art and investment administrative fees. Total in-kind contributions, including clothing donations, have been recorded in the consolidated financial statements as in-kind revenue and in-kind expense.

Note 9 – Concentrations of Credit, Market and Business Risk

Geographical Concentration

The Foundation's operations are limited to Taos and western Colfax Counties in New Mexico.

Revenue Concentration

The Foundation received 64% and 76% of its revenue from contributions in the years ended June 30, 2018 and 2017, respectively.

Credit and Market Risk Concentration

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash and investments. At times during the years ended June 30, 2018 and 2017, the Foundation maintained uninsured cash balances in excess of the amounts insured by the Federal Deposit Insurance Corporation. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution.

Note 10 – Deferred Compensation Plan

The Foundation provides a SIMPLE IRA plan in which the Foundation matches up to 3% of qualified employee gross salaries. SIMPLE IRA employer contributions were \$4,250 and \$3,287 for the years ended June 30, 2018 and 2017, respectively.

The Foundation discontinued the nonqualified deferred compensation plan and paid out \$163,856 to the former Executive Director during the year ended June 30, 2018.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 11 – Funds Held as Agency Endowments

Funds established by an unrelated not-for-profit organization using its own funds and for its own benefit are classified by the Foundation as a liability, rather than as a net asset, in accordance with ASC 958-405 for *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. The Foundation refers to such funds as agency funds. The Foundation maintains variance power and legal ownership of agency funds and as such continues to report the funds as assets of the Foundation.

The financial effects of transactions related to agency funds are recorded as changes in the funds held for agencies liability and are not included in the consolidated statements of activities. The changes in that liability are summarized as follows at June 30:

	<u>2018</u>	<u>2017</u>
Funds held for agencies, beginning of year	\$ 2,821,030	\$ 2,775,154
Additions:		
Contributions	19,718	14,250
Investment income	64,102	59,012
Net unrealized and realized gains	62,612	38,765
Interfund transfers, net	76,953	191,539
Total additions	<u>223,385</u>	<u>303,566</u>
Deductions:		
Distributions - grants	117,937	224,596
Administrative fees	33,059	31,107
Investment expenses	2,195	1,987
Total deductions	<u>153,191</u>	<u>257,690</u>
Balance in agency funds, end of year	<u>\$ 2,891,224</u>	<u>\$ 2,821,030</u>

Note 12 – Related Party Transactions

The Foundation has entered into certain transactions with members of its Board of Directors. These transactions include certain contributions made for general operations of the Foundation from the Board of Directors of \$40,500 and \$92,500 in 2018 and 2017, respectively.