



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

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

June 30, 2019

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TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

JUNE 30, 2019

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
Dennis Manzanares	Member
Andrea Szekeres	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, 2019, and the related consolidated statements of activities and changes in net assets, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Adoption of New Accounting Standard

As described in Note 2 to the financial statements, the Foundation adopted ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Mess Adams LLP

Albuquerque, New Mexico
January 21, 2020

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Taos Community Foundation, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 714,226
Promises to give	153,850
Inventory	24,875
Prepaid expenses	11,144
Total current assets	<u>904,095</u>

NONCURRENT ASSETS

Investments	11,245,560
Property and equipment, net	527,183
Total noncurrent assets	<u>11,772,743</u>
Total assets	<u><u>\$ 12,676,838</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 2,982
Grants payable	224,700
Accrued expenses	5,859
Funds held as agency endowments	3,163,913
Total current liabilities	<u>3,397,454</u>

NET ASSETS

Without donor restrictions	
Board designated for future improvements	1,000,000
Undesignated	449,589
Total without donor restrictions	<u>1,449,589</u>
With donor restrictions	
Donor advised and other funds	1,620,217
Endowments	6,209,578
Total with donor restrictions	<u>7,829,795</u>
Total net assets	<u>9,279,384</u>
Total liabilities and net assets	<u><u>\$ 12,676,838</u></u>

Taos Community Foundation, Inc. and Subsidiary
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Revenues			
Grants and contributions	\$ 488,827	\$ 2,498,994	\$ 2,987,821
Event income and fee revenue	31,917	41,582	73,499
Dividends and interest	90,491	116,331	206,822
Realized and unrealized gains on investments, net of \$22,765 in fees	78,064	183,801	261,865
Total revenues	<u>689,299</u>	<u>2,840,708</u>	<u>3,530,007</u>
Other Support			
In-kind contributions	<u>260</u>	<u>1,335</u>	<u>1,595</u>
Total revenues, gains, and other support	<u>689,559</u>	<u>2,842,043</u>	<u>3,531,602</u>
Net assets released from restrictions/change in restrictions	<u>1,268,392</u>	<u>(1,268,392)</u>	<u>-</u>
Total revenues, gains, and other support after release from restrictions/change in restrictions	<u>1,957,951</u>	<u>1,573,651</u>	<u>3,531,602</u>
EXPENSES			
Program			
Grants	915,052	-	915,052
Program services	483,536	-	483,536
Total program	<u>1,398,588</u>	<u>-</u>	<u>1,398,588</u>
Supporting services			
General and administrative	109,482	-	109,482
Fundraising	16,748	-	16,748
Total supporting services	<u>126,230</u>	<u>-</u>	<u>126,230</u>
Total expenses	<u>1,524,818</u>	<u>-</u>	<u>1,524,818</u>
INCREASE IN NET ASSETS	433,133	1,573,651	2,006,784
NET ASSETS, BEGINNING OF YEAR	<u>1,016,456</u>	<u>6,256,144</u>	<u>7,272,600</u>
NET ASSETS, END OF YEAR	<u>\$ 1,449,589</u>	<u>\$ 7,829,795</u>	<u>\$ 9,279,384</u>

Taos Community Foundation, Inc. and Subsidiary
Consolidated Statement of Cash Flows
Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 2,006,784
Adjustments to reconcile the increase in net assets to net cash flows provided by operating activities	
Realized and unrealized gains on investments	(261,865)
Depreciation	26,307
Donated securities	(359,310)
Changes in assets and liabilities:	
Promises to give	(153,750)
Prepaid expenses	(450)
Accounts payable	2,786
Grants payable	119,850
Accrued expenses	(2,194)
Funds held as agency endowments	272,689
Net cash flows provided by operating activities	<u>1,650,847</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(402,855)
Purchases of investments	(3,354,569)
Proceeds from sales of investments	<u>2,429,112</u>
Net cash flows used by investing activities	<u>(1,328,312)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	322,535
CASH AND CASH EQUIVALENTS, beginning of year	<u>391,691</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 714,226</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Contributed securities at fair value	<u>\$ 359,310</u>

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. TFPG received \$359,310 in real estate gifts during the year ended June 30, 2019.

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 accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Net assets without donor restrictions are assets not subject to stipulations imposed by the donor and are currently available for expenditures. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by explicit donor restrictions. Contributions are reported as without donor restriction where donor-imposed restrictions are met in the same reporting period as they are received. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Net assets may be designated for specific purposes by action of the Board of Directors.

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. Reserves for sales prices and commissions are established per the Foundation's policy and relieved at the time of sale.

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. These expenses include grants, salaries and benefits, professional fees, other general expenses, and depreciation. Costs are recorded directly to the function to which they relate based on the actual personnel assigned and vendor expenses paid with most allocated based on estimates of time and effort.

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 net assets without donor restrictions 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 \$26,307 for the year ended June 30, 2019.

Contributions of Long-Lived Assets

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as without donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions 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 with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by the Foundation, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. There were \$153,850 of outstanding unconditional promises to give and no conditional promises to give at June 30, 2019.

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 net assets with donor restrictions 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 \$359,310 for the year ended June 30, 2019.

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, 2019. The Foundation files an exempt organization return with the Internal Revenue Service (IRS). The Foundation had no taxable unrelated business income for the year ended June 30, 2019. 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 year ended June 30, 2019 totaled \$44,463.

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.

Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position 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 statement of financial position, 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 statement of financial position, but arose after the statement of financial position date and before consolidated financial statements are available to be issued. The Foundation has evaluated subsequent events through January 21, 2020, 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

Financial Accounting Standards Board (FASB) Accounting Standards Update (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. Management has adopted this effective July 1, 2018.

FASB ASU 2018-13, *Fair Value Measurement (Topic 820)*. This ASU requires changes to the disclosure requirements for fair value measurement. The amendments apply to all entities that are required, under existing U.S. generally accepted accounting principles (U.S. GAAP), to make disclosures about recurring or nonrecurring fair value measurements. Certain of the disclosures that are required by the amendments are not required for nonpublic entities. This amendment is effective for fiscal years beginning after December 15, 2019; however, early application is permitted. Management is currently considering the impact of this on the financial statements.

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

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.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements (continued)

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.

The following describes the valuation methodology used for assets measured at fair value.

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, 2019:

	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, 2019
Assets				
Equity mutual funds	\$ 6,495,629	\$ -	\$ -	\$ 6,495,629
Bond mutual funds	4,749,931	-	-	4,749,931
Total investments at fair market value	<u>\$ 11,245,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,245,560</u>

For the year ended June 30, 2019, net realized and unrealized gains on investments of \$261,865, net of \$22,765 in investment fees, were recognized.

Note 4 – Property and Equipment

Property and equipment consist of the following at June 30, 2019:

Building and improvements	\$ 555,864
Furniture and equipment	59,459
Software	<u>13,575</u>
	628,898
Accumulated depreciation	<u>(101,715)</u>
Property and equipment, net	<u>\$ 527,183</u>

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Net Assets Classifications

The Foundation's endowment consisted of approximately 120 individual funds established for a variety of purposes for the year ended June 30, 2019. The Foundation's endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, 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 net assets with donor restrictions: (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 net assets with permanent donor restrictions is classified as net assets with temporary donor restrictions 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.

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.

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Net Assets Classifications (continued)

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 12 months will be based on the average fair market value of the fund for the previous 12 closing quarters (or the number of the full quarters the fund has been in existence, if less than 12), 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.

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). Restricted Foundation assets and agency funds are as follows at June 30, 2019:

Restricted Agency Fund Endowment	\$ 3,163,913
Restricted Foundation Endowment	<u>6,209,578</u>
 Total Restricted Endowment Net Assets	 <u><u>\$ 9,373,491</u></u>

Changes in Endowment Net Assets consist of the following for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, beginning of the year	<u>\$ 918,890</u>	<u>\$ 7,979,737</u>	<u>\$ 8,898,627</u>
Investment Return: Investment Income	71,732	163,740	235,472
Net appreciation (realized and unrealized)	<u>121,940</u>	<u>234,800</u>	<u>356,740</u>
Total investment return	<u>193,672</u>	<u>398,540</u>	<u>592,212</u>
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	204,493	1,404,286	1,608,779
Appropriation of endowment assets for expenditure	<u>(323,333)</u>	<u>(409,072)</u>	<u>(732,405)</u>
Endowment Net Assets, end of year	<u><u>\$ 993,722</u></u>	<u><u>\$ 9,373,491</u></u>	<u><u>\$ 10,367,213</u></u>

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

Note 5 – Net Assets Classifications (continued)

Endowment Net Asset Composition by Type of Fund is as follows for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 9,337,276	\$ 9,337,276
Named funds-designated endowment funds	993,722	36,215	1,029,937
Donor-restricted endowment funds (deficit)	<u>\$ 993,722</u>	<u>\$ 9,373,491</u>	<u>\$ 10,367,213</u>

Note 6 – Liquidity and Funds Available

The following table reflects the financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Board designations are considered available for expenditure within the year since they could be drawn upon quickly with Board approval:

Financial assets available for use within one year	
Cash and cash equivalents	\$ 714,226
Investments	<u>11,245,560</u>
	<u>11,959,786</u>
Less funds unavailable for general expenditure within one year	
Agency endowment funds	(3,163,913)
Perpetually restricted endowment funds	(6,209,578)
Donor advised funds restricted for time and/or purpose	<u>(1,620,217)</u>
	<u>(10,993,708)</u>
Financial assets and liquidity resources available to meet general expenditures within one year	<u>\$ 966,078</u>

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30, 2019:

Donor advised funds	\$ 1,152,899
Field of interest	203,086
Special programs	170,344
Designated funds	84,151
Agency funds	<u>9,737</u>
Total restricted for specified purposes or passage of time	1,620,217
Endowment funds - restricted in perpetuity	<u>6,209,578</u>
Net assets with donor restrictions	<u>\$ 7,829,795</u>

During 2019, certain reclassifications between types of net assets with donor restrictions were made to comply with fiduciary standards and donor intent.

Note 8 – Donated Assets and Services

GAAP 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 85% of its revenue from contributions and grants during the year ended June 30, 2019.

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

Note 9 – Concentrations of Credit, Market and Business Risk (continued)

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 year ended June 30, 2019, 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 \$5,319 for the year ended June 30, 2019.

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, *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.

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, 2019:

Funds held for agencies, beginning of year	<u>\$ 2,891,224</u>
Additions	
Contributions	289,564
Investment income	74,249
Net unrealized and realized gains	7,352
Interfund transfers, net	<u>100,375</u>
Total additions	<u>471,540</u>
Deductions	
Distributions - grants	165,437
Administrative fees	31,417
Investment expenses	<u>1,997</u>
Total deductions	<u>198,851</u>
Balance in agency funds, end of year	<u><u>\$ 3,163,913</u></u>

Taos Community Foundation, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 12 – Related Party Transactions

The Foundation received contributions from the Board of Directors for general operations of the Foundation totaling \$21,625 for the year ended June 30, 2019.

Note 13 – Functional Expenses

Functional expenses by natural classification for the year ended June 30, 2019 are as follows:

Description	Grants and	Supporting Services		Total Expense
	Program Services Education, Health and Other	General and Administrative	Fundraising	
Grants	\$ 915,052	\$ -	\$ -	\$ 915,052
Salaries and benefits	209,541	70,282	9,367	289,190
Professional fees	108,464	8,037	1,005	117,506
Office and operations	67,440	5,075	1,208	73,723
Marketing	34,560	8,803	1,100	44,463
Depreciation	19,204	6,314	789	26,307
Rent and condo fees	14,745	4,815	602	20,162
Travel	17,129	2,240	280	19,649
Building funds campaign	6,060	2,180	2,180	10,420
Utilities and telephone	6,393	1,736	217	8,346
Total expenses	<u>\$ 1,398,588</u>	<u>\$ 109,482</u>	<u>\$ 16,748</u>	<u>\$ 1,524,818</u>