



Report of Independent Auditors  
and Consolidated Financial Statements for

**Taos Community Foundation, Inc.  
and Subsidiary**

June 30, 2013 and 2012

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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

**JUNE 30, 2013**

**BOARD OF DIRECTORS AND PRINCIPAL EMPLOYEE**

**Board of Directors**

Laurie Dunn	Chair
Billy Knight	Vice Chair
Andrea Szekeres	Secretary
Robert Shaw	Treasurer
John Hamilton	Member
BT Coleman	Member
Scott McAdams	Member
Eleanor Romero	Member
Wanda Lucero	Member
Ben Maddox	Member
Betty Backer	Member
Dave Lambert	Member

**Principal Employee**

Elizabeth Crittenden Palacios	Executive 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 Financial Statements**

We have audited the accompanying consolidated statement of financial position of Taos Community Foundation, Inc. and Subsidiary (Foundation), a nonprofit organization, as of June 30, 2013 and 2012, and the related statements of activities, 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 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.

### ***Auditor's Responsibility***

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taos Community Foundation, Inc. and Subsidiary as of June 30, 2013 and 2012, and the results of their operations 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  
October 9, 2013

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**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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**ASSETS**

	June 30,	
	2013	2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 593,033	\$ 577,529
Accounts receivable	100	100
Pledges receivable	9,335	3,528
Inventory	46,775	21,225
Prepaid expenses	-	2,707
Total current assets	<u>649,243</u>	<u>605,089</u>
<b>NONCURRENT ASSETS</b>		
Investments	6,332,134	5,769,748
Deferred compensation	141,709	108,988
Property and equipment, net	19,610	20,075
Total noncurrent assets	<u>6,493,453</u>	<u>5,898,811</u>
Total assets	<u>\$ 7,142,696</u>	<u>\$ 6,503,900</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 292	\$ 4,634
Grants payable	58,320	51,198
Accrued expenses	2,210	3,080
Deferred compensation	141,709	108,953
Funds held as agency endowments	2,507,985	2,375,537
Total current liabilities	<u>2,710,516</u>	<u>2,543,402</u>
<b>LONG-TERM LIABILITIES</b>		
Grants payable	15,000	8,000
Total liabilities	<u>2,725,516</u>	<u>2,551,402</u>
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(586,103)	(144,642)
Temporarily restricted	2,924,720	2,191,390
Permanently restricted	2,078,563	1,905,750
Total net assets	<u>4,417,180</u>	<u>3,952,498</u>
Total liabilities and net assets	<u>\$ 7,142,696</u>	<u>\$ 6,503,900</u>

**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS (LOSSES) AND OTHER SUPPORT</b>				
Revenues				
Contributions	\$ 150,281	\$ 472,524	\$ 202,089	\$ 824,894
Event income and fee revenue	96,482	34,182	-	130,664
Dividends and interest	11,702	86,652	-	98,354
Realized and unrealized gain on investments	128,088	211,450	-	339,538
Total revenues	<u>386,553</u>	<u>804,808</u>	<u>202,089</u>	<u>1,393,450</u>
Other Support				
In-kind contributions	<u>18,033</u>	<u>13,477</u>	<u>-</u>	<u>31,510</u>
Total revenue and other support	<u>404,586</u>	<u>818,285</u>	<u>202,089</u>	<u>1,424,960</u>
Net assets released from restrictions/change in restriction	<u>114,231</u>	<u>(84,955)</u>	<u>(29,276)</u>	<u>-</u>
Total revenue, gains (losses), and other support after release from restrictions/change in restriction	<u>518,817</u>	<u>733,330</u>	<u>172,813</u>	<u>1,424,960</u>
<b>EXPENSES</b>				
Grants	382,455	-	-	382,455
Program expenses	408,517	-	-	408,517
General and administrative	143,347	-	-	143,347
Fundraising	20,297	-	-	20,297
Other in-kind expense	5,662	-	-	5,662
Total expenses	<u>960,278</u>	<u>-</u>	<u>-</u>	<u>960,278</u>
CHANGE IN NET ASSETS	(441,461)	733,330	172,813	464,682
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(144,642)</u>	<u>2,191,390</u>	<u>1,905,750</u>	<u>3,952,498</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (586,103)</u>	<u>\$ 2,924,720</u>	<u>\$ 2,078,563</u>	<u>\$ 4,417,180</u>



**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (continued)**  
**YEAR ENDED JUNE 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, (LOSSES) AND OTHER SUPPORT</b>				
Revenues and (losses)				
Contributions	\$ 82,257	\$ 307,181	\$ 165,451	\$ 554,889
Event income and fee revenue	91,346	24,922	-	116,268
Dividends and interest	11,044	86,575	-	97,619
Realized and unrealized loss on investments	(6,094)	(42,312)	-	(48,406)
Total revenues and (losses)	<u>178,553</u>	<u>376,366</u>	<u>165,451</u>	<u>720,370</u>
Other Support				
In-kind contributions	<u>71,855</u>	<u>(1,700)</u>	<u>-</u>	<u>70,155</u>
Total revenue and other support	<u>250,408</u>	<u>374,666</u>	<u>165,451</u>	<u>790,525</u>
Interfund transfers	47,059	(26,401)	(20,658)	-
Net assets released from restrictions/change in restriction	<u>64,692</u>	<u>94,444</u>	<u>(159,136)</u>	<u>-</u>
Total revenue, (losses), and other support after release	<u>362,159</u>	<u>442,709</u>	<u>(14,343)</u>	<u>790,525</u>
<b>EXPENSES</b>				
Grants	361,951	-	-	361,951
Program expenses	419,174	-	-	419,174
General and administrative	20,336	-	-	20,336
Fundraising	19,447	-	-	19,447
Other in-kind expense	<u>1,572</u>	<u>-</u>	<u>-</u>	<u>1,572</u>
Total expenses	<u>822,480</u>	<u>-</u>	<u>-</u>	<u>822,480</u>
CHANGE IN NET ASSETS	(460,321)	442,709	(14,343)	(31,955)
NET ASSETS, BEGINNING OF YEAR	<u>315,679</u>	<u>1,748,681</u>	<u>1,920,093</u>	<u>3,984,453</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (144,642)</u>	<u>\$ 2,191,390</u>	<u>\$ 1,905,750</u>	<u>\$ 3,952,498</u>

**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 464,682	\$ (31,955)
Adjustments to reconcile the change in net assets to net cash flows provided by operating activities:		
Realized and unrealized (gain) loss on investments	(339,538)	48,406
Depreciation	6,270	5,717
Donated stock	(15,650)	(12,451)
Changes in assets and liabilities:		
Accounts receivable	-	-
Pledges receivable	(5,807)	61,472
Inventory	(25,550)	1,700
Prepaid expenses	2,707	(2,707)
Accounts payable	(4,342)	(2,659)
Grants payable	14,122	(48,639)
Accrued expenses	(870)	(156)
Deferred compensation	35	28,154
Funds held as agency endowments	132,448	24,326
Net cash flows provided by operating activities	<u>228,507</u>	<u>71,208</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(374,936)	(721,458)
Proceeds from sale of investments	167,738	684,028
Proceeds from sale of property and equipment	-	12,451
Purchase of property and equipment	(5,805)	-
Net cash flows used by investing activities	<u>(213,003)</u>	<u>(24,979)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	15,504	46,229
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>577,529</u>	<u>531,300</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 593,033</u>	<u>\$ 577,529</u>

# TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 1 – Organization

The Taos Community Foundation, Inc. and Subsidiary (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, enables more strategic funding to non-profits working to make a difference and effect change. Contributions are received from individuals, businesses, and foundations.

The Foundation has 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, 2013 and 2012.

### 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

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### 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.

**Pledges receivable** - Management feels that pledges receivable are fully collectible and, accordingly, no allowance has been provided for uncollectible accounts.

**Functional expense allocation** - The costs of providing the various programs and other activities have been summarized on a functional basis in the 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.

**Furniture 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

## TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 2 – Summary of Significant Accounting Policies (continued)

Depreciation expense was \$6,270 and \$5,717 for the years ended June 30, 2013 and 2012, respectively.

**Contributions of long-lived assets** - Gifts of long-lived operating assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from excess of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**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 statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements. There are no outstanding conditional promises to give at June 30, 2013 or 2012.

**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.

**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.

## TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **Note 2 – Summary of Significant Accounting Policies (continued)**

**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, 2013 or 2012. 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, 2013 and 2012. Accordingly, a provision for income taxes has not been established in the accompanying financial statements. The Foundation is no longer subject to income tax examinations by the IRS for tax years through June 30, 2010.

**Advertising** - The cost of advertising is expensed in the year incurred.

**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 amounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year consolidated financial statements.

**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 October 9, 2013, which is the date the consolidated financial statements are available to be issued.

## TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 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.

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, 2013 and 2012.

Equity and Bond Mutual Funds (*Mutual funds*): Shares of mutual funds are valued at the net asset value (NAV) of shares held by the Foundation and are valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of Deposit: Deposit accounts with an original maturity of greater than three month are valued at the price reported for market of the deposit account.

**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 – Fair Value Measurements (continued)**

The Foundation’s fair value measurements are as follows as of June 30, 2013:

	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, 2013
<b>Assets</b>				
Equity mutual funds	\$ 4,184,686	\$ -	\$ -	\$ 4,184,686
Bond mutual funds	2,139,914	-	-	2,139,914
Certificate of deposit	7,534	-	-	7,534
 Total investments at fair market value	 <u>\$ 6,332,134</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 6,332,134</u>

For the year ended June 30, 2013, realized and unrealized gain on investments was recognized in the amount of \$339,538.

The Foundation’s fair value measurements are as follows as of June 30, 2012:

	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, 2012
<b>Assets</b>				
Equity mutual funds	\$ 3,914,201	\$ -	\$ -	\$ 3,914,201
Bond mutual funds	1,848,047	-	-	1,848,047
Certificate of deposit	7,500	-	-	7,500
 Total investments at fair market value	 <u>\$ 5,769,748</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 5,769,748</u>

For the year ended June 30, 2012, realized and unrealized loss on investments was recognized in the amount of \$48,406.



## TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 4 – Property and Equipment

Property and equipment consist of the following at June 30:

	2013	2012
Furniture and equipment	\$ 37,700	\$ 37,700
Leasehold improvements	10,723	10,723
Software	13,575	7,657
	<u>61,998</u>	<u>56,080</u>
Accumulated depreciation	<u>(42,388)</u>	<u>(36,005)</u>
	<u>\$ 19,610</u>	<u>\$ 20,075</u>

#### Note 5 – Net Assets Classifications

The Foundation's endowment consists of 119 and 112 individual funds established for a variety of purposes for the years ended June 30, 2013 and 2012, 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

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### 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 Taos Community Foundation Board of Directors, prior to January 1 of each year. Presently, the payout percentage is 2.5% inclusive of 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

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#### 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 12). Permanently restricted Foundation assets and Agency funds are as follows:

	2013	2012
Permanently Restricted Agency Fund Endowment	\$ 2,507,985	\$ 2,375,537
Permanently Restricted Foundation Endowment	2,078,563	1,905,750
	\$ 4,586,548	\$ 4,281,287

Change in Endowment Net Assets consist of:

#### For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of the year	\$ 20,214	\$ 1,816,992	\$ 4,281,287	\$ 6,118,493
Investment Return: Investment Income	-	147,315	-	147,315
Net depreciation (realized and unrealized)	-	520,880	-	520,880
Total investment return	-	668,195	-	668,195
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	-	14,355	334,537	348,892
Appropriation of endowment assets for expenditure	(18,239)	(62,586)	(29,276)	(110,101)
Endowment Net Assets, end of year	\$ 1,975	\$ 2,436,956	\$ 4,586,548	\$ 7,025,479

#### For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of the year	\$ 24,838	\$ 1,906,835	\$ 4,115,836	\$ 6,047,509
Investment Return: Investment Income	-	159,779	-	159,779
Net depreciation (realized and unrealized)	-	(80,929)	-	(80,929)
Total investment return	-	78,850	-	78,850
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	-	62,581	165,451	228,032
Appropriation of endowment assets for expenditure	(4,624)	(231,274)	-	(235,898)
Endowment Net Assets, end of year	\$ 20,214	\$ 1,816,992	\$ 4,281,287	\$ 6,118,493

**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5 – Net Assets Classifications (continued)**

Endowment Net Asset Composition by Type of Fund:

For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 1,975	\$ 2,436,956	\$ 3,539,201	\$ 5,978,132
Named funds-designated endowment funds	-	-	1,047,347	1,047,347
Donor-restricted endowment funds	<u>\$ 1,975</u>	<u>\$ 2,436,956</u>	<u>\$ 4,586,548</u>	<u>\$ 7,025,479</u>

For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 20,214	\$ 1,816,992	\$ 3,463,146	\$ 5,300,352
Named funds-designated endowment funds	-	-	818,141	818,141
Donor-restricted endowment funds	<u>\$ 20,214</u>	<u>\$ 1,816,992</u>	<u>\$ 4,281,287</u>	<u>\$ 6,118,493</u>

**Note 6 – Unconditional Promises to Give**

Unconditional promises to give consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Pledges receivable in less than one year	\$ 9,335	\$ 3,528

There were no conditional promises to give at June 30, 2013 or 2012. Management believes these amounts are fully collectible and thus there is no allowance for doubtful accounts.

**Note 7 – Operating Lease Commitment**

The Foundation pays \$1,000 per month for rent of its administrative office located in Taos, New Mexico, as of May 2012. Prior to that date, the Foundation paid \$900 per month for the same location. The Foundation is currently on a month to month lease. Rent expense was \$12,000 and \$11,000 for the years ended June 30, 2013 and 2012, respectively.

## TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 8 – Temporarily and Permanently Restricted Net Assets

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

	<u>2013</u>	<u>2012</u>
Donor advised funds	\$ 311,955	\$ 1,082
Field of interest	2,109,000	1,991,435
Special programs	382,083	152,549
Designated funds	73,945	1,405
Agency funds	<u>47,737</u>	<u>44,919</u>
Total temporarily restricted net assets	<u>\$ 2,924,720</u>	<u>\$ 2,191,390</u>

Permanently restricted net assets are endowments intended to be held in perpetuity. Permanently restricted net assets for June 30, 2013 and 2012 were \$2,078,563 and \$1,905,750, respectively.

### Note 9 – 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 clothing donations received for the Kids Project award grants. This project provides new apparel, shoes, toys, juvenile products, and other items that benefit children who are ill, living in poverty or are the victims of natural disasters. The Foundation awards the in-kind clothing donations to non-profit organizations through grants. The amount of in-kind revenue attributable to clothing donations for June 30, 2013 and 2012 was \$278,360 and \$66,690, respectively. The Foundation also receives in-kind donations for newspaper advertising, information technology services, and investment administrative fees. Total in-kind contributions, including the clothing donation, for the year ending June 30, 2013 and 2012 were \$309,870 and \$70,155. These have been recorded in the consolidated financial statements as in-kind revenue and in-kind expense.

## **TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 10 – 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 58% and 70% of its revenue from contributions in the years ended June 30, 2013 and 2012, respectively. The Foundation depends on contributions for yearly operations.

**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. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution. At times during the years ended June 30, 2013 and 2012, the Foundation maintained uninsured cash balances in excess of the amounts insured by the Federal Deposit Insurance Corporation.

### **Note 11 – 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 \$5,846 and \$7,091 for the years ended June 30, 2013 and 2012, respectively. The Foundation also provides a nonqualified deferred compensation plan for the Executive Director. The Foundation matches up to 7% of gross salary. The Foundation's contribution for the nonqualified deferred compensation plan was \$5,468 and \$5,468 for the years ended June 30, 2013 and 2012, respectively.

### **Note 12 – 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 Statement of Financial Accounting Standards No. 136, *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.

**TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 12 – Funds Held as Agency Endowments (continued)**

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:

	<u>2013</u>	<u>2012</u>
Funds held for agencies, beginning of year	\$ 2,375,537	\$ 2,351,211
Additions:		
Contributions	10,500	60,929
Investment income	61,183	63,024
Net unrealized and realized gains	207,375	(32,553)
Interfund transfers, net	<u>(10,000)</u>	<u>10,000</u>
Total additions	<u>269,058</u>	<u>101,400</u>
Deductions:		
Distributions - grants	107,918	50,667
Administrative fees	27,097	24,821
Investment expenses	<u>1,595</u>	<u>1,586</u>
Total deductions	<u>136,610</u>	<u>77,074</u>
Balance in agency funds, end of year	<u>\$ 2,507,985</u>	<u>\$ 2,375,537</u>

**Note 13 – Related Party Transactions**

The Taos Community Foundation has entered into certain transactions with the members of the Foundation’s Board of Directors. These transactions include certain contributions made for general operations of the Foundation from the members of the Board of Directors of \$81,006 and \$67,106 in 2013 and 2012, respectively.