

Report of Independent Auditors
and Consolidated Financial Statements for

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

June 30, 2015 and 2014

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TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

JUNE 30, 2015

BOARD OF DIRECTORS AND PRINCIPAL EMPLOYEE

Board of Directors

Laurie M. Dunn	Chair
William J. Knight	Vice Chair
Andrea Szekeres	Secretary
Robert Shaw	Treasurer
John Hamilton	Member
George R. Jaramillo	Member
Scott McAdams	Member
Wanda Lucero	Member
Ben Maddox	Member
Dave Lambert	Member
Vernon Lujan	Member

Principal Employee

Elizabeth C. 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 financial statements of Taos Community Foundation, Inc. and Subsidiary (the Foundation), a nonprofit, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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 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 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.

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 consolidated 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, 2015 and 2014, 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
October 20, 2015

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

ASSETS

	June 30,	
	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 421,006	\$ 475,541
Accounts receivable	100	100
Pledges receivable	-	20,000
Inventory	13,100	34,775
Prepaid expenses	-	3,715
Total current assets	<u>434,206</u>	<u>534,131</u>
NONCURRENT ASSETS		
Investments	7,131,041	7,189,799
Deferred compensation	156,500	165,271
Property and equipment, net	9,521	14,644
Total noncurrent assets	<u>7,297,062</u>	<u>7,369,714</u>
Total assets	<u>\$ 7,731,268</u>	<u>\$ 7,903,845</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 991	\$ 4,780
Grants payable - current	55,895	29,651
Accrued expenses	2,367	7,457
Deferred compensation	156,500	165,271
Funds held as agency endowments	2,837,813	2,845,268
Total current liabilities	<u>3,053,566</u>	<u>3,052,427</u>
LONG-TERM LIABILITIES		
Grants payable - long-term	25,000	38,000
Total liabilities	<u>3,078,566</u>	<u>3,090,427</u>
NET ASSETS (DEFICIT)		
Unrestricted	(65,934)	(26,543)
Temporarily restricted	752,405	962,779
Permanently restricted	3,966,231	3,877,182
Total net assets	<u>4,652,702</u>	<u>4,813,418</u>
Total liabilities and net assets	<u>\$ 7,731,268</u>	<u>\$ 7,903,845</u>

TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS (LOSSES) AND OTHER SUPPORT				
Revenues				
Contributions	\$ 433,242	\$ 11,247	\$ 164,532	\$ 609,021
Event income and fee revenue	162,869	27,498	-	190,367
Dividends and interest	24,984	69,668	-	94,652
Realized and unrealized gain on investments	14,234	36,449	-	50,683
Total revenues	<u>635,329</u>	<u>144,862</u>	<u>164,532</u>	<u>944,723</u>
Other Support				
In-kind contributions	260	-	(27,460)	(27,200)
Total revenue and other support	<u>635,589</u>	<u>144,862</u>	<u>137,072</u>	<u>917,523</u>
Net assets released from restrictions/change in restriction	<u>403,259</u>	<u>(355,236)</u>	<u>(48,023)</u>	<u>-</u>
Total revenue, gains (losses), and other support after release from restrictions/change in restriction	<u>1,038,848</u>	<u>(210,374)</u>	<u>89,049</u>	<u>917,523</u>
EXPENSES				
Grants	504,941	-	-	504,941
Program expenses	411,958	-	-	411,958
General and administrative	148,867	-	-	148,867
Fundraising	12,213	-	-	12,213
Other in-kind expense	260	-	-	260
Total expenses	<u>1,078,239</u>	<u>-</u>	<u>-</u>	<u>1,078,239</u>
CHANGE IN NET ASSETS	(39,391)	(210,374)	89,049	(160,716)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(26,543)</u>	<u>962,779</u>	<u>3,877,182</u>	<u>4,813,418</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (65,934)</u>	<u>\$ 752,405</u>	<u>\$ 3,966,231</u>	<u>\$ 4,652,702</u>

TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (continued)
YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS (LOSSES) AND OTHER SUPPORT				
Revenues				
Contributions	\$ 206,544	\$ 396,757	\$ 203,520	\$ 806,821
Event income and fee revenue	144,557	37,066	4,972	186,595
Dividends and interest	20,781	67,834	-	88,615
Realized and unrealized gain on investments	261,289	387,882	-	649,171
Total revenues	633,171	889,539	208,492	1,731,202
Other Support				
In-kind contributions	1,071	-	(12,000)	(10,929)
Total revenue and other support	634,242	889,539	196,492	1,720,273
Net assets released from restrictions/change in restriction	1,249,353	(2,851,480)	1,602,127	-
Total revenue, gains (losses), and other support after release from restrictions/change in restriction	1,883,595	(1,961,941)	1,798,619	1,720,273
EXPENSES				
Grants	639,455	-	-	639,455
Program expenses	484,504	-	-	484,504
General and administrative	185,667	-	-	185,667
Fundraising	13,338	-	-	13,338
Other in-kind expense	1,071	-	-	1,071
Total expenses	1,324,035	-	-	1,324,035
CHANGE IN NET ASSETS	559,560	(1,961,941)	1,798,619	396,238
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(586,103)	2,924,720	2,078,563	4,417,180
NET ASSETS (DEFICIT), END OF YEAR	\$ (26,543)	\$ 962,779	\$ 3,877,182	\$ 4,813,418

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

	Years Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (160,716)	\$ 396,238
Adjustments to reconcile the change in net assets to net cash flows provided (used) by operating activities:		
Realized and unrealized gain on investments	(50,683)	(649,171)
Depreciation	5,123	4,966
Changes in assets and liabilities:		
Pledges receivable	20,000	(10,665)
Inventory	21,675	12,000
Prepaid expenses	3,715	(3,715)
Accounts payable	(3,789)	4,488
Grants payable	13,244	(5,669)
Accrued expenses	(5,090)	5,247
Funds held as agency endowments	(7,455)	337,283
Net cash flows (used) provided by operating activities	<u>(163,976)</u>	<u>91,002</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(151,557)	(329,590)
Proceeds from sale of investments	260,998	121,096
Net cash flows provided (used) by investing activities	<u>109,441</u>	<u>(208,494)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(54,535)	(117,492)
CASH AND CASH EQUIVALENTS, beginning of year	<u>475,541</u>	<u>593,033</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 421,006</u>	<u>\$ 475,541</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, 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, 2015 and 2014.

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.

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.

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

TAOS COMMUNITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Depreciation expense was \$5,123 and \$4,966 for the years ended June 30, 2015 and 2014, 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, 2015 or 2014.

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

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, 2015 or 2014. 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, 2015 and 2014. 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, 2011.

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.

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 20, 2015, 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 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, 2015 and 2014.

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, 2015:

	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, 2015
Assets				
Equity mutual funds	\$ 4,226,790	\$ -	\$ -	\$ 4,226,790
Bond mutual funds	2,896,664	-	-	2,896,664
Certificate of deposit	7,587	-	-	7,587
Total investments at fair market value	\$ 7,131,041	\$ -	\$ -	\$ 7,131,041

For the year ended June 30, 2015, net realized and unrealized gain on investments was recognized in the amount of \$50,683.

The Foundation's fair value measurements are as follows as of June 30, 2014:

	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, 2014
Assets				
Equity mutual funds	\$ 4,299,367	\$ -	\$ -	\$ 4,299,367
Bond mutual funds	2,882,864	-	-	2,882,864
Certificate of deposit	7,568	-	-	7,568
Total investments at fair market value	\$ 7,189,799	\$ -	\$ -	\$ 7,189,799

For the year ended June 30, 2014, net realized and unrealized gain on investments was recognized in the amount of \$649,171.

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>2015</u>	<u>2014</u>
Furniture and equipment	\$ 37,700	\$ 37,700
Leasehold improvements	10,723	10,723
Software	<u>13,575</u>	<u>13,575</u>
	61,998	61,998
Accumulated depreciation	<u>(52,477)</u>	<u>(47,354)</u>
	<u>\$ 9,521</u>	<u>\$ 14,644</u>

Note 5 – Net Assets Classifications

The Foundation's endowment consists of 121 and 126 individual funds established for a variety of purposes for the years ended June 30, 2015 and 2014, 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 Taos Community Foundation Board of Directors, prior to January 1 of each year. Presently, the payout percentage is 4.0% 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 12). Permanently restricted Foundation assets and Agency funds are as follows:

	2015	2014
Permanently Restricted Agency Fund Endowment	\$ 2,837,813	\$ 2,845,268
Permanently Restricted Foundation Endowment	3,966,232	3,877,196
	<u>\$ 6,804,045</u>	<u>\$ 6,722,464</u>

Change in Endowment Net Assets consist of:

For the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of the year	\$ 11,385	\$ 355,944	\$ 6,722,464	\$ 7,089,793
Investment Return: Investment Income	23,393	63,492	56,924	143,809
Net depreciation (realized and unrealized)	13,668	36,884	29,087	79,639
Total investment return	37,061	100,376	86,011	223,448
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	-	38,228	119,805	158,033
Appropriation of endowment assets for expenditure	(81,358)	(258,249)	(124,235)	(463,842)
Endowment Net Assets, end of year	<u>\$ (32,912)</u>	<u>\$ 236,299</u>	<u>\$ 6,804,045</u>	<u>\$ 7,007,432</u>

For the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of the year	\$ 1,975	\$ 2,436,956	\$ 4,586,548	\$ 7,025,479
Investment Return: Investment Income	23,765	62,040	56,589	142,394
Net depreciation (realized and unrealized)	139,687	364,904	322,175	826,766
Total investment return	163,452	426,944	378,764	969,160
Contributions, Reversions and changes in Donor Restrictions and Agency Funds	(74,310)	(2,268,465)	1,843,932	(498,843)
Appropriation of endowment assets for expenditure	(79,732)	(239,491)	(86,780)	(406,003)
Endowment Net Assets, end of year	<u>\$ 11,385</u>	<u>\$ 355,944</u>	<u>\$ 6,722,464</u>	<u>\$ 7,089,793</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:

For the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 212,922	\$ 6,804,045	\$ 7,016,967
Named funds-designated endowment funds	(32,912)	23,377	-	(9,535)
Donor-restricted endowment funds	<u>\$ (32,912)</u>	<u>\$ 236,299</u>	<u>\$ 6,804,045</u>	<u>\$ 7,007,432</u>

For the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 326,762	\$ 6,722,464	\$ 7,049,226
Named funds-designated endowment funds	11,385	29,182	-	40,567
Donor-restricted endowment funds	<u>\$ 11,385</u>	<u>\$ 355,944</u>	<u>\$ 6,722,464</u>	<u>\$ 7,089,793</u>

During 2015, certain reclassifications between temporarily and permanently restricted net assets were made to comply with fiduciary standards and donor intent.

Note 6 – Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2015	2014
Pledges receivable in less than one year	<u>\$ -</u>	<u>\$ 20,000</u>

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. The Foundation is currently on a month-to-month lease. Rent expense was \$12,400 and \$39,558 for the years ended June 30, 2015 and 2014, respectively. In 2015, the Foundation's total rent expense of \$12,400 was for its administrative office. In 2014, the Foundation's rent consisted of \$12,000 for its administrative office and \$27,558 related to the rental of facilities for workshops for a Foundation sponsored special project.

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

Note 8 – Temporarily and Permanently Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Donor advised funds	\$ 385,655	\$ 529,573
Field of interest	180,388	245,108
Special programs	128,013	110,235
Designated funds	45,677	52,362
Agency funds	<u>12,672</u>	<u>25,501</u>
Total temporarily restricted net assets	<u>\$ 752,405</u>	<u>\$ 962,779</u>

Permanently restricted net assets are endowments intended to be held in perpetuity. Permanently restricted net assets for June 30, 2015 and 2014 were \$3,966,231 and \$3,877,182, respectively. During 2015, certain reclassifications between temporarily and permanently restricted net assets were made to comply with fiduciary standards and donor intent.

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 in-kind donations for newspaper advertising, information technology services, art and investment administrative fees. Total in-kind contributions, including the clothing donation, for the years ending June 30, 2015 and 2014 were \$27,200 and \$10,929, respectively. 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

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 63% and 46% of its revenue from contributions in the years ended June 30, 2015 and 2014, 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. At times during the years ended June 30, 2015 and 2014, 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 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 \$6,123 and \$6,066 for the years ended June 30, 2015 and 2014, 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 for the years ended June 30, 2015 and 2014, 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

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>2015</u>	<u>2014</u>
Funds held for agencies, beginning of year	\$ 2,845,268	\$ 2,507,985
Additions:		
Contributions	30,769	45,300
Investment income	56,924	56,588
Net unrealized and realized gains	29,086	322,175
Interfund transfers, net	-	-
Total additions	<u>116,779</u>	<u>424,063</u>
Deductions:		
Distributions - grants	91,727	55,832
Administrative fees	30,494	29,120
Investment expenses	2,013	1,828
Total deductions	<u>124,234</u>	<u>86,780</u>
Balance in agency funds, end of year	<u>\$ 2,837,813</u>	<u>\$ 2,845,268</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 \$63,350 and \$80,195 in 2015 and 2014, respectively.