

New Mexico Community Foundation

FINANCIAL STATEMENTS

December 31, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

Board of Directors
New Mexico Community Foundation

We have audited the accompanying financial statements of the New Mexico Community Foundation (the Foundation), a not-for-profit organization, which comprise the statements of financial position as of December 31, 2014 and 2013 (as restated), and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2014 and 2013 (as restated), and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

June 25, 2015


Pulakos CPAs, PC

New Mexico Community Foundation
STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

| <u>Assets</u> | <u>2014</u> | <u>2013</u> <u>(As Restated)</u> |
|---|---------------|-------------------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 847,831 | \$ 1,276,931 |
| Restricted cash | 907,146 | 1,568,400 |
| Unconditional promises to give, net | 4,970 | - |
| Accounts receivable, net | 17,539 | 12,200 |
| Total current assets | 1,777,486 | 2,857,531 |
| Investments | 24,023,741 | 22,760,439 |
| Property and equipment, net | 8,916 | 15,726 |
| Charitable remainder unitrusts receivable | 415,486 | 417,788 |
| Unimproved land | 8,000 | 8,000 |
| Total assets | \$ 26,233,629 | \$ 26,059,484 |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities | | |
| Accounts payable | \$ 96,340 | \$ 75,022 |
| Accrued expenses | 35,607 | 33,145 |
| Accrued compensated absences | 17,676 | 27,230 |
| Grants payable | 12,500 | 48,400 |
| Fiscal sponsorships | 796,446 | 1,088,760 |
| Total current liabilities | 958,569 | 1,272,557 |
| Agency funds | 6,297,915 | 6,009,206 |
| Total liabilities | 7,256,484 | 7,281,763 |
| Net assets | | |
| Unrestricted | 106,141 | 450,677 |
| Temporarily restricted | 7,085,583 | 6,375,672 |
| Permanently restricted | 11,784,973 | 11,951,372 |
| Total net assets | 18,976,697 | 18,777,721 |
| Total liabilities and net assets | \$ 26,233,181 | \$ 26,059,484 |

New Mexico Community Foundation

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Public support and revenues | | | | |
| Contributions (net of agency and fiscal sponsorships of \$1,093,904) | \$ 206,854 | \$ 2,585,917 | \$ 132,621 | \$ 2,925,392 |
| Federal revenue (net of fiscal sponsorships of \$201,721) | - | 330,368 | - | 330,368 |
| Management fees | 346,322 | - | - | 346,322 |
| Interest and dividends (net of agency of \$87,923) | 18 | 214,677 | - | 214,695 |
| Net realized and unrealized gains (net of agency of \$59,799) | (245) | 81,106 | - | 80,861 |
| Present value adjustment to contributions | - | - | (2,302) | (2,302) |
| Net assets released from restriction | 2,804,236 | (2,501,933) | (302,303) | - |
| | <u>3,357,185</u> | <u>710,135</u> | <u>(171,984)</u> | <u>3,895,336</u> |
| Miscellaneous income (expense) | 2,312 | (224) | 5,585 | 7,673 |
| | <u>3,359,497</u> | <u>709,911</u> | <u>(166,399)</u> | <u>3,903,009</u> |
| Expenses | | | | |
| Grants (net of agency and fiscal sponsorships of \$114,028) | 1,463,231 | - | - | 1,463,231 |
| Program and fund expense (net of agency of \$45,887) | 1,290,334 | - | - | 1,290,334 |
| Supporting services: | | | | |
| Management and general (net of fiscal sponsorships of \$1,287,037) | 716,641 | - | - | 716,641 |
| Fundraising | 233,827 | - | - | 233,827 |
| | <u>3,704,033</u> | <u>-</u> | <u>-</u> | <u>3,704,033</u> |
| Change in net assets | (344,536) | 709,911 | (166,399) | 198,976 |
| Net assets, beginning of year (as restated) | 450,677 | 6,375,672 | 11,951,372 | 18,777,721 |
| Net assets, end of year | <u>\$ 106,141</u> | <u>\$ 7,085,583</u> | <u>\$ 11,784,973</u> | <u>\$ 18,976,697</u> |

New Mexico Community Foundation

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2013

(As Restated)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------|
| Public support and revenues | | | | |
| Contributions (net of agency and fiscal sponsorships of \$1,201,236) (as restated) | \$ 381,038 | \$ 2,023,531 | \$ 73,943 | \$ 2,478,512 |
| Federal revenue (net of fiscal sponsorships federal of \$652,284) | - | 269,558 | - | 269,558 |
| Management fees (as restated) | 332,066 | - | - | 332,066 |
| Interest and dividends (net of agency of \$52,953) | - | 272,521 | - | 272,521 |
| Net realized and unrealized gains (net of agency of \$541,878) | 339 | 1,490,181 | - | 1,490,520 |
| Present value adjustment to contributions | - | - | 55,574 | 55,574 |
| Net assets released from restriction (as restated) | 2,996,938 | (2,931,707) | (65,231) | - |
| Total public support and revenue | 3,710,381 | 1,124,084 | 64,286 | 4,898,751 |
| Miscellaneous income | (484) | 27,621 | - | 27,137 |
| Total revenue | 3,709,897 | 1,151,705 | 64,286 | 4,925,888 |
| Expenses | | | | |
| Grants (net of agency and fiscal sponsorships of \$481,382) (as restated) | 1,532,479 | - | - | 1,532,479 |
| Program and fund expense (net of agency of \$35,122) (as restated) | 1,281,146 | - | - | 1,281,146 |
| Supporting services: | | | | |
| Management and general (net of fiscal sponsorships of \$727,740) | 799,251 | - | - | 799,251 |
| Fundraising | 163,452 | - | - | 163,452 |
| Total expenses | 3,776,328 | - | - | 3,776,328 |
| Change in net assets | (66,431) | 1,151,705 | 64,286 | 1,149,560 |
| Net assets, beginning of year (as restated) | 517,108 | 5,223,967 | 11,887,086 | 17,628,161 |
| Net assets, end of year (as restated) | \$ 450,677 | \$ 6,375,672 | \$ 11,951,372 | \$ 18,777,721 |

New Mexico Community Foundation

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> <u>(As Restated)</u> |
|---|---------------------|-------------------------------------|
| Operating activities | | |
| Change in net assets | \$ 198,976 | \$ 1,149,560 |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities: | | |
| Depreciation | 6,810 | 5,427 |
| Bad debt expense | - | 147,721 |
| Net realized and unrealized gain on investments | (123,170) | (1,490,520) |
| Charitable remainder annuity trusts and gift annuities | 2,302 | (55,574) |
| Changes in operating assets and liabilities | | |
| Unconditional promises to give | (4,970) | 40,693 |
| Accounts receivable | (5,339) | (12,200) |
| Prepaid expenses | - | 9,464 |
| Accounts payable and accrued liabilities | 14,226 | 68,650 |
| Grants payable | (35,900) | (40,750) |
| Fiscal sponsorships and agency funds | (273,144) | 451,730 |
| Net cash (used) provided by operating activities | <u>(220,209)</u> | <u>274,201</u> |
| Investing activities | | |
| Proceeds from sale of investments | 2,188,464 | 3,524,839 |
| Purchase of investments | (3,059,057) | (4,353,750) |
| Purchases of property and equipment | - | (18,500) |
| Net cash used by investing activities | <u>(870,593)</u> | <u>(847,411)</u> |
| Net change in cash and cash equivalents | (1,090,802) | (573,210) |
| Cash and cash equivalents, beginning of year (including restricted cash) | <u>2,845,331</u> | <u>3,418,541</u> |
| Cash and cash equivalents, end of year (including restricted cash) | <u>\$ 1,754,529</u> | <u>\$ 2,845,331</u> |

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

New Mexico Community Foundation (the Foundation) is a New Mexico not-for-profit organization located in Santa Fe, New Mexico. The Foundation is a statewide philanthropic institution that works to preserve and create resources for communities across the State while supporting a quality of life that reflects and honors their diverse values, traditions and aspirations. Through its work, the Foundation seeks solutions to complex challenges through the engagement of the people and the communities closest to them, including individuals from diverse backgrounds and all levels of society. To fulfill this mission, the Foundation accepts contributions and grants from individuals, corporations and foundations.

The Foundation awards grants to organizations through a number of established funds and special program initiatives.

Activity within the Donor Advised and Designated Funds includes: (1) funds that address a wide range of interests (arts, environment, social justice, health, education, economic sustainability) from which the donor makes grant recommendations; (2) community-advised funds, advised by a community group; and (3) designated funds to support New Mexico non-for-profit organizations.

The Foundation serves as a fiscal sponsor for a number of charitable community-based projects.

Basis of Accounting and Presentation

The Foundation reports 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those estimates and assumptions affect the reported revenues and expenses. Actual results could differ from these estimates.

Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents. For purposes of the statements of cash flows, the Foundation considers all unrestricted and temporarily restricted cash accounts to be cash equivalents. The balances maintained in the individual bank accounts may, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounts Receivable

Management reviews the collectability of its receivable and, if necessary, records an allowance for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are the primary bases for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. No interest is charged on past due accounts. The allowance for doubtful accounts was zero as of December 31, 2014 and 2013, respectively.

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values. Alternative investments are carried at their net realizable value. Unrealized and realized gains and losses on investments are reported in the statements of activities and changes in net assets.

Property and Equipment

Property and equipment is recorded at cost or estimated fair value at date of donation. Depreciation is provided on a straight-line basis over the estimate useful lives of the assets. The Foundation capitalizes items over \$500 with an estimate useful life greater than one year. Depreciation expense was \$6,810 and \$5,427 in 2014 and 2013, respectively.

Fiscal Sponsorships and Agency Funds

Contributions are not recognized as revenue when the Foundation functions in the capacity of an intermediary, trustee or agent. In these situations contributions are recognized as a liability. The related assets are considered restricted by the Foundation.

Net Assets

Unrestricted net assets represent unrestricted contributions received from donors. They also arise from the expirations of existing temporary restrictions, or from revenues received in the course of on-going operations.

Temporarily restricted net assets are resources received from donor contributions and reinvested earnings on the related investments, which are designated to be expended for a specific purpose or within a specified time. Distributions are made pursuant to donor's requests.

Permanently restricted net assets are subjected to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the use of all or part of the income earned on related investments of unrestricted purposes.

When restrictions are met in the same period as the contribution is received, the contribution and the expense are recorded as unrestricted.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Foundation records unconditional promises to give as revenue in the period that the unconditional promise to give is received. Unconditional promises to give that are expected to be collected in the next fiscal year are classified as current and unconditional promises to give that are expected to be collected in years following are classified as long-term. The present value of unconditional promises to give approximates their recorded value of \$4,970 and zero as of December 31, 2014 and 2013, respectively. Management reviews the collectability of its receivable and, if necessary, records an allowance for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are the primary bases for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. The total unconditional promises to give balance has been reduced by an allowance for estimated uncollectible unconditional promises to give of zero as of December 31, 2014 and 2013.

Contributions

The Foundation reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as permanently restricted. When a donor restriction expires (when the stipulated purpose restriction is fulfilled), temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donated Goods and Services

Donated goods are recorded as contributions at their estimated fair values at the date of donation. The donations are recognized as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. The amounts are then charged to expense of the respective program or initiative. No amounts have been reflected in the financial statements for donated services. The Foundation generally pays for services requiring specific expertise.

Income and Appreciation (Depreciation) Allocation Methodology

It is the Foundation's policy to pool all individual endowment investment accounts, and to pool charitable remainder annuity trusts. Investment income and net realized and unrealized gains (losses) on these investments are allocated to each account based on each account's percentage share of its respective pool.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Administrative Fees

Administrative fees for investment management and oversight are charged to endowments and are presented in the accompanying financial statements as a release from temporarily restricted to unrestricted net assets. Administrative fees earned by the Foundation were \$346,322 and \$332,066 in 2014 and 2013, respectively.

Grants Awarded

Grants awarded by the Foundation are recognized as an expense and recorded as liabilities upon ratification and approval by the Foundation's Board of Directors.

Donated Marketable Securities

Donated marketable securities are sold as soon as possible and recorded as contributions at their sales value at the date of sale.

Allocation of Functional Expenses

Direct expenses are charged directly to program, management or fundraising activities based on specific activities. Indirect expenses are allocated to program management and fundraising activities based on the estimated time devoted to each category.

Fair Value Measurements

Accounting Standards Codification Topic 820 establishes 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 and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that the Foundation has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

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

The asset's 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.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The Foundation is a not-for-profit New Mexico organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

The Foundation has adopted accounting principles generally accepted in the United States of America, as they relate to uncertain tax positions for the years ended December 31, 2014 and 2013. Any interest and penalties recognized associated with a tax position would be classified as current in the Foundation's financial statements. No interest or penalties were recorded in 2014 or 2013.

Currently, the Foundation's 2011, 2012, and 2013 tax years are open and subject to examination by the Internal Revenue Service and New Mexico Taxation and Revenue Department. However, the Foundation is not currently under audit, nor has the Foundation been contacted by any of these jurisdictions. Based on the evaluation of the Foundation's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain income taxes has been recorded for the years ended December 31, 2014 and 2013.

Financial Instruments

The carrying amounts of cash, receivables, payables, and accrued liabilities and other obligations approximate fair value due to the short-term nature of these instruments.

Advertising

The Foundation expenses advertising costs as they are incurred. Total advertising costs were \$1,756 and \$3,784 in 2014 and 2013, respectively.

Reclassifications

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

Subsequent Events

The Foundation has evaluated all events occurring subsequent to December 31, 2014 through June 25, 2015, which is the date that the financial statements were issued, and believes that any events occurring during this period requiring either recognition or disclosure are included in the accompanying financial statements.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 2 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2014 and 2013:

| | <u>2014</u> | <u>2012</u> |
|-----------------------------------|------------------|------------------|
| Furniture, fixtures and equipment | \$ 135,167 | \$ 135,167 |
| Accumulated depreciation | <u>(126,251)</u> | <u>(119,441)</u> |
| Total property and equipment | <u>\$ 8,916</u> | <u>\$ 15,726</u> |

NOTE 3 – INVESTMENTS

Investments – December 31, 2013

| | | |
|--|----------------|----------------|
| Equity securities | \$ 15,089,840 | |
| Fixed income securities | 3,319,257 | |
| Money market accounts | 2,342,033 | |
| Mutual funds | 1,028,698 | |
| Alternative investment | <u>980,611</u> | |
| Total investments at December 31, 2013 | | \$ 22,760,439 |
| Additions to investments | | 3,367,068 |
| Withdrawals from investments | | (2,284,985) |
| Investment manager fees | | (263,525) |
| Reinvested dividends and interest | | 261,772 |
| Net realized and unrealized loss | | <u>182,972</u> |

Investments – December 31, 2014

| | | |
|--|----------------|----------------------|
| Equity securities | 15,185,961 | |
| Money market accounts | 3,387,778 | |
| Fixed income securities | 3,384,506 | |
| Mutual funds | 1,198,773 | |
| Alternative investment | <u>866,723</u> | |
| Total investments at December 31, 2014 | | <u>\$ 24,023,741</u> |

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 4 – FAIR VALUE MEASUREMENT

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2014:

| Description | Total | Level 1 | Level 2 | Level 3 |
|--|----------------------|----------------------|-------------------|-------------------|
| Equity securities | \$ 15,185,961 | \$ 15,185,961 | \$ - | \$ - |
| Money market accounts | 3,387,778 | 3,387,778 | - | - |
| Fixed income securities | 3,384,506 | 3,384,506 | - | - |
| Mutual funds | 1,198,773 | 1,198,773 | - | - |
| Alternative investment | 866,723 | - | - | 866,723 |
| Charitable remainder unitrusts receivable | 415,486 | - | 415,486 | - |
| | <u>\$ 24,439,227</u> | <u>\$ 23,157,018</u> | <u>\$ 415,486</u> | <u>\$ 866,723</u> |

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2013:

| Description | Total | Level 1 | Level 2 | Level 3 |
|--|----------------------|----------------------|-------------------|-------------------|
| Equity securities | \$ 15,089,840 | \$ 15,089,840 | \$ - | \$ - |
| Fixed income securities | 3,319,257 | 3,319,257 | - | - |
| Money market accounts | 2,342,033 | 2,342,033 | - | - |
| Mutual funds | 1,028,698 | 1,028,698 | - | - |
| Alternative investment | 980,611 | - | - | 980,611 |
| Charitable remainder unitrusts receivable | 417,788 | - | 417,788 | - |
| | <u>\$ 23,178,227</u> | <u>\$ 21,779,828</u> | <u>\$ 417,788</u> | <u>\$ 980,611</u> |

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2014.

Equity securities, fixed income securities, money market accounts and mutual funds: Valued at the net asset value (NAV) of the shares held by the Foundation at the end of the year.

Alternative investments: Fair value determined using net realizable value as determined in good faith by the investment fund manager at the end of the year.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

Remainder Trust Assets: Fair value determined using net asset value of quoted prices of securities held in active markets at year end, as well as the present values of future cash flows, based on the Foundation's ownership percentage of the fair market value of the remainder trust assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Level 3 Investments

The following tables present the Foundation's activities for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013:

Foundation activity follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------|-------------------|-------------------|
| Beginning balances | \$ 980,611 | \$ 992,703 |
| Cash invested | 3,755 | 3,809 |
| Distributions | (147,061) | (78,616) |
| Gain on investment | 44,784 | 63,057 |
| Fees | <u>(15,366)</u> | <u>(342)</u> |
| Ending balances | <u>\$ 866,723</u> | <u>\$ 980,611</u> |

NOTE 5 – CHARITABLE REMAINDER TRUSTS

The Foundation was the trustee of two irrevocable remainder trusts that were invested in the pooled investments of the Foundation. During 2012, the trusts were transferred outside of the Foundation, and the Foundation is no longer named trustee. The Foundation is still named beneficiary, and as such the trusts remain an asset. The fair market value of the trust is discounted using Internal Revenue Code Section 7520(a) rate of 4.2% and 7.2% as of December 31, 2003 and 1997 (the discount rate as of the date of receipt of the irrevocable trust), respectively. The discounted combined value of the trusts is \$415,486 and \$417,788 as of December 31, 2014 and 2013, respectively.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 6 – ENDOWMENTS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to the Foundation. The State of New Mexico adopted UPMIFA effective July 1, 2009. The Foundation's Board of Trustees has determined that substantially all of the Foundation's net assets meet the definition of endowment funds under UPMIFA.

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowments while seeking to maintain the purchasing power of the endowments.

In determining the prudent amount to distribute in a given year, the Foundation considers the donor's intent that the fund continue in perpetuity, the purpose of the fund as stated in the fund agreement, and relevant economic factors. The Foundation's current spending policy is to distribute a percentage of the rolling three-year average of the fair market value of the endowments, as determined each year by the Board of Directors.

The investment policies establish a return objective through diversification of asset classes. The current long-term return objective is the rate of inflation plus spending, net of investment fees. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns may be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Changes in Endowment Net Assets

The composition of the Foundation's endowments by net asset class and a reconciliation of beginning and ending balances, are reflected in the accompanying Statement of Activities and Changes in Net Assets.

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 6 – ENDOWMENTS – CONTINUED

The following is a summary of the endowment funds for 2014:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of the year | \$ 2,661,188 | \$ 11,533,584 | \$ 14,194,772 |
| Contributions | - | 138,206 | 138,206 |
| Investment returns | | | |
| Investment income | 173,009 | - | 173,009 |
| Net appreciation (realized and unrealized) | 125,897 | - | 125,897 |
| Total investment returns | 298,906 | - | 298,906 |
| Released from permanent restriction | 302,303 | (302,303) | - |
| Grants issued | (479,830) | - | (479,830) |
| Fees | (183,064) | - | (183,064) |
| Reclass endowment funds | (373,309) | - | (373,309) |
| Endowment net assets, end of the year | <u>\$ 2,226,194</u> | <u>\$ 11,369,487</u> | <u>\$ 13,595,681</u> |

The following is a summary of the endowment funds as for 2013:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of the year | \$ 1,997,996 | \$ 11,524,872 | \$ 13,522,868 |
| Contributions | - | 73,943 | 73,943 |
| Investment returns | | | |
| Investment income | 130,194 | - | 130,194 |
| Net appreciation (realized and unrealized) | 1,436,924 | - | 1,436,924 |
| Total investment returns | 1,567,118 | - | 1,567,118 |
| Released from permanent restriction | (168,798) | (75,464) | (244,262) |
| Grants issued | (647,039) | - | (647,039) |
| Fees | (88,089) | - | (88,089) |
| Reclass endowment funds | - | 10,233 | 10,233 |
| Endowment net assets, end of the year | <u>\$ 2,661,188</u> | <u>\$ 11,533,584</u> | <u>\$ 14,194,772</u> |

New Mexico Community Foundation

NOTES TO FINANCIAL STATEMENTS

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NOTE 7 – FISCAL SPONSORSHIPS

The Foundation performs fiscal sponsorship and/or administrative services under written agreements that generally include receipt of funds from various sources, and disbursement of such funds based upon written requests, for which the Foundation charges a fee.

Liabilities created as project/organization funds are received by the Foundation. These liabilities are satisfied as the Foundation distributes the funds on behalf of the project/organization. Assets are created when the Foundation distributes funds to the projects/organizations prior to receipt of the related cash from promises to give pledged to the Foundation. The following is a summary of the fiscal sponsorship funds:

| | <u>2014</u> | <u>2013</u> <u>(as restated)</u> |
|--|-------------------|-------------------------------------|
| Fiscal sponsorships, beginning of year | \$ 1,088,760 | \$ 884,790 |
| Contributions | 983,088 | 1,148,755 |
| Other increases | 42,818 | 144,290 |
| Distributions and expenditures | (1,262,234) | (1,008,989) |
| Fees | <u>(55,986)</u> | <u>(80,086)</u> |
| Fiscal sponsorships, end of year | <u>\$ 796,446</u> | <u>\$ 1,088,760</u> |

NOTE 8 – AGENCY FUNDS

Agency funds are those which are held by the Foundation on behalf of unrelated not-for-profit organizations. The following is a summary of the agency funds:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|---------------------|---------------------|
| Agency funds, beginning of year | \$ 6,009,206 | \$ 5,025,313 |
| Contributions | 269,719 | 704,765 |
| Net investment earnings | 147,722 | 594,831 |
| Distributions | (82,938) | (280,581) |
| Fees | <u>(45,794)</u> | <u>(35,122)</u> |
| Agency funds, end of year | <u>\$ 6,297,915</u> | <u>\$ 6,009,206</u> |

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NOTE 9 – NET ASSETS

Temporarily restricted net assets are primarily restricted for use in specific program areas as determined by the donor. Temporarily restricted net assets were released from restriction by the expiration of time and use in accordance with donor purpose.

Permanently restricted net assets were released from restriction as the result of a donor request in 2014 and 2013.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Leases

The Foundation leases office space in Santa Fe, New Mexico through an operating lease. This lease provides for monthly rent ranging from \$3,679 to \$3,790 in 2014, escalating annually. The lease expires September 2015 with an option to renew for two additional terms of three years each. The Foundation also leases office equipment through an operating lease. The lease provides for monthly rent of \$841 and expires in January 2019.

Future minimum payments required under operating leases are as follows:

Fiscal year ending December 31:

| | | |
|----------------------|----|---------------|
| 2015 | \$ | 44,200 |
| 2016 | | 10,092 |
| 2017 | | 10,092 |
| 2018 | | <u>10,092</u> |
| Total lease payments | \$ | <u>74,476</u> |

The Foundation incurred rental expenses totaling \$69,991 and \$53,855 for the years ended December 31, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 11 – RESTATEMENT OF PRIOR YEAR

Management has determined that certain fiscal sponsorships should not be reflected as transactions where NMCF is acting as an agent on behalf of the project/organization. Additionally, it was determined that certain management fees were reported in the incorrect fiscal year. The accompanying 2013 financial statements have therefore been restated to reflect adjustments to previously reported balances as follows:

| | <u>As Previously Reported</u> | <u>Adjustment</u> | <u>As Restated</u> |
|--|-----------------------------------|-------------------|--------------------|
| Fiscal sponsorship liability | \$ 1,287,662 | \$ (198,902) | \$ 1,088,760 |
| Agency funds liability | 6,044,328 | (35,122) | 6,009,206 |
| Temporarily restricted contributions | 1,467,495 | 556,036 | 2,023,531 |
| Unrestricted Management fee income | 341,428 | (9,362) | 332,066 |
| Grant expense | 1,360,168 | 172,311 | 1,532,479 |
| Program and fund expense | 1,029,095 | 252,051 | 1,281,146 |
| Unrestricted net assets released from restriction | 2,484,394 | 512,544 | 2,996,938 |
| Temporarily restricted net assets released from restriction | (2,419,163) | (512,544) | (2,931,707) |
| Net assets, unrestricted | | | |
| January 1, 2013 | 475,636 | 41,472 | 517,108 |
| December 31, 2013 | 330,385 | 120,292 | 450,677 |
| Net assets, temporarily restricted | | | |
| January 1, 2013 | 5,153,727 | 70,240 | 5,223,967 |
| December 31, 2013 | 6,261,940 | 113,732 | 6,375,672 |
| Total net assets | | | |
| January 1, 2013 | 17,516,449 | 111,712 | 17,628,161 |
| December 31, 2013 | 18,543,697 | 234,024 | 18,777,721 |