

**THE COMMUNITY FOUNDATION
OF SOUTHERN NEW MEXICO**

Financial Statements
and
Independent Auditors' Report

For the Years Ended
December 31, 2019 and 2018

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SCHLENKER & CANTWELL, P.A.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Community Foundation of Southern New Mexico
Las Cruces, New Mexico

We have audited the accompanying financial statements of The Community Foundation of Southern New Mexico (a nonprofit corporation) which comprise the statements of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 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 of 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 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.

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 Community Foundation of Southern New Mexico as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements and Report on Summarized Comparative Information

The financial statements of The Community Foundation of Southern New Mexico as of December 31, 2018, were audited by other auditors whose report, dated November 13, 2019, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter – Uncertainty Related to the COVID-19 Outbreak

As discussed in Note 16 to the financial statements, the State of New Mexico has issued a stay-at-home order affecting The Community Foundation of Southern New Mexico as a result of the COVID-19 outbreak. The extent to which the outbreak may impact The Community Foundation of Southern New Mexico will depend on future developments, which are highly uncertain and cannot be predicted. Our opinion is not modified with respect to this matter.

Schlenker & Cantwell, P.A.

SCHLENKER & CANTWELL, P.A.
Certified Public Accountants

July 29, 2020
Albuquerque, New Mexico

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Statements of Financial Position

December 31, 2019 and 2018

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 647,715	\$ 1,347,800
Grants, pledges, and accounts receivable	234,527	3,346
Prepaid expenses	4,926	1,000
Building held for sale	950,000	-
Total current assets	<u>1,837,168</u>	<u>1,352,146</u>
Property and equipment, net	811	1,409
Accounts receivable, net of current	98,583	98,583
Cash surrender value of life insurance	55,799	54,267
Investments	14,751,026	12,071,011
Beneficial interest in remainder trusts	114,628	115,084
Fine art	42,221	42,221
Total assets	<u><u>\$ 16,900,236</u></u>	<u><u>\$ 13,734,721</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 28,683	\$ 11,178
Accrued payroll and related expenses	11,019	15,782
Total current liabilities	<u>39,702</u>	<u>26,960</u>
Agency obligations	<u>1,465,966</u>	<u>936,961</u>
Total liabilities	1,505,668	963,921
Net assets		
Without donor restrictions		
Undesignated	1,173,511	1,137,981
Board designated	6,566,350	4,020,292
Total net assets without donor restrictions	<u>7,739,861</u>	<u>5,158,273</u>
With donor restrictions		
Restricted for time or purpose	100,000	164,841
Restricted in perpetuity	7,554,707	7,447,686
Total net assets with donor restrictions	<u>7,654,707</u>	<u>7,612,527</u>
Total net assets	<u>15,394,568</u>	<u>12,770,800</u>
Total liabilities and net assets	<u><u>\$ 16,900,236</u></u>	<u><u>\$ 13,734,721</u></u>

See independent auditors' report and notes to the financial statements

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grants	\$ 80,008	\$ 325,322	\$ 405,330
In-kind donations	950,000	-	950,000
Special events	88,913	-	88,913
Investment income, net	1,092,613	1,354,987	2,447,600
Management fees	238,533	-	238,533
Other income	19,066	-	19,066
Present value adjustment for beneficial interest in remainder trusts	456	-	456
Net assets released from restrictions	1,638,129	(1,638,129)	-
Total revenue and support	4,107,718	42,180	4,149,898
Expenses			
Program services	1,333,003	-	1,333,003
Management and general	123,696	-	123,696
Fundraising	69,431	-	69,431
Total expenses	1,526,130	-	1,526,130
Changes in net assets	2,581,588	42,180	2,623,768
Net assets, beginning of year	5,158,273	7,612,527	12,770,800
Net assets, end of year	<u>\$ 7,739,861</u>	<u>\$ 7,654,707</u>	<u>\$ 15,394,568</u>

See independent auditors' report and notes to the financial statements

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grants	\$ 222,604	\$ 152,847	\$ 375,451
In-kind donations	60,445	-	60,445
Special events	164,335	-	164,335
Investment loss, net	(204,983)	(412,251)	(617,234)
Management fees	192,990	-	192,990
Other income	11,986	-	11,986
Present value adjustment for beneficial interest in remainder trusts	(1,886)	-	(1,886)
Net assets released from restrictions	401,595	(401,595)	-
Total revenue and support	847,086	(660,999)	186,087
Expenses			
Program services	1,129,545	-	1,129,545
Management and general	156,579	-	156,579
Fundraising	73,784	-	73,784
Total expenses	1,359,908	-	1,359,908
Changes in net assets	(512,822)	(660,999)	(1,173,821)
Net assets, beginning of year	5,671,095	8,273,526	13,944,621
Net assets, end of year	<u>\$ 5,158,273</u>	<u>\$ 7,612,527</u>	<u>\$ 12,770,800</u>

See independent auditors' report and notes to the financial statements

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Statement of Functional Expenses

For the Year Ended December 31, 2019

(with comparative totals For the Year Ended December 31, 2018)

	Program Services	Management and General	Fundraising	2019 Totals	2018 Totals
Personnel expenses:					
Salaries and wages	\$ 153,577	\$ 30,311	\$ 18,187	\$ 202,075	\$ 215,062
Payroll taxes	13,131	2,592	1,555	17,278	16,177
Total personnel expenses	166,708	32,903	19,742	219,353	231,239
Distributions and scholarships	814,519	-	-	814,519	497,063
Professional fees	200,675	39,607	23,764	264,046	232,857
Community events	39,145	-	4,350	43,495	169,480
Contract labor	23,009	33,629	2,360	58,998	63,509
Insurance	12,840	2,534	1,520	16,894	36,601
Occupancy	21,444	4,233	2,540	28,217	30,983
Advertising and marketing	12,061	2,381	1,428	15,870	20,309
Rental and maintenance	15,340	3,027	1,817	20,184	33,959
Conferences and meetings	1,415	279	168	1,862	2,130
Printing and postage	2,380	470	282	3,132	6,620
Supplies	1,979	391	234	2,604	8,060
Office expenses	14,428	2,848	1,709	18,985	16,783
Fees and charges	2,581	509	306	3,396	3,350
Taxes, other	-	-	-	-	886
Travel	830	164	98	1,092	469
Donor development	-	-	8,681	8,681	-
Education and development	3,195	631	378	4,204	4,299
Total expenses before depreciation	1,332,549	123,606	69,377	1,525,532	1,358,597
Depreciation	454	90	54	598	1,311
Total expenses	<u>\$ 1,333,003</u>	<u>\$ 123,696</u>	<u>\$ 69,431</u>	<u>\$ 1,526,130</u>	<u>\$ 1,359,908</u>

See independent auditors' report and notes to the financial statements

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Statements of Cash Flows
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Changes in net assets	\$ 2,623,768	\$ (1,173,821)
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation	598	1,311
Realized and unrealized (gain) loss on investments, net	(2,447,600)	617,234
Present value adjustment of beneficial interest in remainder trust	-	-
	456	1,886
Impairment of assets held-for-sale	-	62,400
Donated property	(950,000)	-
(Increase) decrease in operating assets:		
Grants, pledges, and accounts receivable	(231,181)	741,120
Prepaid expenses	(3,926)	(50)
Cash surrender value of life insurance	(1,532)	(1,165)
Fine art	-	83,617
Increase (decrease) in operating liabilities:		
Accounts payable	17,505	(4,589)
Accrued payroll and related expenses	(4,763)	742
Agency obligations	529,005	(5,449)
Net cash (used) provided by operating activities	<u>(467,670)</u>	<u>323,236</u>
Cash flows from investing activities		
Purchases of investments	(1,781,496)	(3,664,886)
Proceeds from sale of investments	511,830	948,432
Withdrawals from investments, net	1,037,251	-
Proceeds from sale of property and equipment	-	2,448,393
Net cash used by investing activities	<u>(232,415)</u>	<u>(268,061)</u>
Net (decrease) increase in cash	(700,085)	55,175
Cash and cash equivalents, beginning of year	<u>1,347,800</u>	<u>1,292,625</u>
Cash and cash equivalents, end of year	<u>\$ 647,715</u>	<u>\$ 1,347,800</u>

See independent auditors' report and notes to the financial statements

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 1 - NATURE OF FOUNDATION

The Community Foundation of Southern New Mexico (the Foundation) is a nonprofit corporation whose mission is to improve the quality of life by building, managing, and distributing charitable gifts to benefit all citizens of Southern New Mexico.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Accordingly, certain revenues are recognized when earned rather than when received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

Basis of Presentation

The Foundation's financial statements are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) 2016-14, *Not-for-Profit Entities, Presenting Financial Statements*. Under ASC 2016-14, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. In addition, the Foundation is required to present a statement of cash flows and statement of functional expenses.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. These reclassifications have no impact on the Foundation's changes in net assets.

Use of 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 amounts 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. Actual results could differ from those estimates and assumptions. Major estimates of the Foundation include depreciable lives and estimated residual value of property and equipment.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

The Foundation maintains its cash balances in various financial institutions located in Albuquerque, New Mexico. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times the Foundation's cash balances have exceeded federally insured limits. There were no uninsured balances as of December 31, 2019 and 2018. Management does not consider there to be significant risk from uninsured balances.

Financial Instruments

The carrying amounts of cash, receivables, other assets, payables, and other liabilities approximate fair value due to the short maturity periods of these instruments.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The guidance requires the Foundation to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

ASU 2014-19 requires organizations to exercise more judgment and recognize revenue using a five-step process. The Foundation adopted the requirements of the new guidance retrospectively to all periods presented in this report. Adoption of the new guidance did not result in significant changes to the accounting policies for revenue recognition, receivables, and deferred revenues since most of the Foundation's revenue sources are not included in the scope of ASU 2014-19.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly-liquid investments with original maturity dates of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Cash Restricted for Endowments

Cash restricted for endowments is held in investment accounts with the explicit purpose of fulfilling obligations of donor-restricted endowments.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants, Pledges, and Accounts Receivable

Receivables consist of grants, pledges, and accounts receivable. Accounts receivable consist of amounts due for the development of the road where the First Step building is located. The Foundation is to be reimbursed a portion of its costs from the sale of each lot that will be using the road. Accounts receivable were \$124,916 and \$125,762 as of December 31, 2019 and 2018, respectively. There were six unsold lots as of December 31, 2019 and 2018. The developer is paying the re-paving costs of one lot over 15 years.

Management reviews the collectability of its receivables and records a reserve for its estimate of uncollectible accounts. Historical bad debts 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 allowance for doubtful accounts was \$23,834 and \$23,833 as of December 31, 2019 and 2018, respectively.

Unconditional and Conditional Promises to Give

Contributions received, including unconditional promises to give, are recognized at fair value as revenues in the period received. Additionally, contributions received are recorded as with or without donor restrictions, depending on the existence and nature of any donor restrictions. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

Investments in equity securities with readily-determinable fair values and all investments in debt securities are measured at fair values in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law. If restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized, the investment income is reported as without donor restrictions. The Foundation operates under an investment policy that is reviewed annually by an investment committee and approved by the Board of Directors.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Purchased or donated property in excess of \$1,000 is capitalized. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to forty years.

Impairment of Long-Lived Assets

The Foundation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There was no impairment of long-lived assets as of December 31, 2019 and 2018.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Support

Contributions and grants received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Support (continued)

When a restriction expires (that is, when a stipulated restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donated Materials and Services

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specified purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated services are recognized as contributions in accordance with FASB ASC 958-605 Revenue Recognition, if the services (a) create or enhance non-financial assets or (b) require specialized skills, performed by people with those skills, which would otherwise be purchased by the Foundation. No amounts have been recorded in the financial statements as they do not meet the criteria for recognition.

Functional Expense Allocation

Expenses and support services that can be identified with a specific program are allocated directly according to their natural expenditure classification. Common costs are allocated among the classifications benefited based upon estimated usage.

Advertising

The Foundation expenses advertising costs as incurred. Advertising expense was \$15,870 and \$20,309 for the years ended December 31, 2019 and 2018, respectively.

Income Taxes

The Foundation is tax-exempt under section 501(c)(3) of the Internal Revenue Code. The Foundation has adopted accounting principles generally accepted in the United States of America as they relate to uncertain tax positions for the year ended December 31, 2019, and has evaluated its tax positions taken for all open tax years.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Currently, the 2016, 2017, and 2018 tax years are open and subject to examination by the U.S. Internal Revenue Service. However, the Foundation is not currently under audit nor has the Foundation been contacted by this jurisdiction. Management believes that the activities of the Foundation are within their tax-exempt purpose, and that there are no uncertain tax positions.

NOTE 3 - INVESTMENTS

The cost, fair value, and unrealized appreciation of investments as of December 31, 2019 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Mutual funds	\$ 8,091,816	\$ 9,369,719	\$ 1,277,903
Fixed income	4,935,070	5,097,438	162,368
Cash equivalent funds	283,869	283,869	-
Total investments	<u>\$ 13,310,755</u>	<u>\$ 14,751,026</u>	<u>\$ 1,440,271</u>

Investment income consists of the following for the year ended December 31, 2019:

Dividends and interest income	\$ 375,718
Realized gains	88,197
Unrealized gains	<u>2,008,752</u>
Total investment gains	2,472,667
Investment fees	<u>(25,067)</u>
Net investment income	<u>\$ 2,447,600</u>

The cost, fair value, and unrealized depreciation of investments as of December 31, 2018 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Depreciation</u>
Mutual funds	\$ 11,698,314	\$ 10,759,237	\$ (939,077)
Cash equivalent funds	1,317,226	1,311,774	(5,452)
Total investments	<u>\$ 13,015,540</u>	<u>\$ 12,071,011</u>	<u>\$ (944,529)</u>

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 3 - INVESTMENTS (continued)

Investment loss consists of the following for the year ended December 31, 2018:

Dividends and interest income	\$	291,154
Realized gains		45,187
Unrealized losses		<u>(924,099)</u>
Total investment losses		(587,758)
Investment fees		<u>(29,476)</u>
Net investment loss	\$	<u><u>(617,234)</u></u>

NOTE 4 - FAIR VALUE MEASUREMENT

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. The 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 4 - FAIR VALUE MEASUREMENT (continued)

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.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2019 and 2018:

Fixed income and mutual funds: Valued at the net asset value for shares held by the Foundation as of year-end as determined by quoted market prices.

Beneficial interest in remainder trusts: Valued at the present value of expected beneficial remainder interest using a discount rate of 5-7% determined at the date of the gifts.

Land held-for-sale: Valued at fair market value of donated price, adjusted for assessments as determined by management based on the value of similar comparable properties net of estimated costs to sell.

Building held-for-sale: Valued at fair market value of the asset based on the sale.

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.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2019:

Description	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 9,369,719	\$ -	\$ -	\$ 9,369,719
Fixed income	5,097,438	-	-	5,097,438
Cash equivalent funds	283,869	-	-	283,869
Beneficial interest in remainder trusts	-	-	114,628	114,628
Total fair market value	<u>\$ 14,751,026</u>	<u>\$ -</u>	<u>\$ 114,628</u>	<u>\$ 14,865,654</u>

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 4 - FAIR VALUE MEASUREMENT (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 10,759,237	\$ -	\$ -	\$ 10,759,237
Cash equivalent funds	1,311,774	-	-	1,311,774
Beneficial interest in remainder trusts	-	-	115,084	115,084
Total fair market value	<u>\$ 12,071,011</u>	<u>\$ -</u>	<u>\$ 115,084</u>	<u>\$ 12,186,095</u>

Level 3 Investments

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 115,084	\$ 116,970
Present value adjustment	<u>(456)</u>	<u>(1,886)</u>
Balance, end of year	<u>\$ 114,628</u>	<u>\$ 115,084</u>

NOTE 5 - BENEFICIAL INTEREST IN REMAINDER TRUSTS

The Foundation has a beneficial interest in two irrevocable charitable remainder trusts. The Foundation is not the trustee of either trust. Until the terms of the trusts have been met, the beneficial interest is to be recognized as with donor restrictions. The change in the value of the split-interest agreements resulted in a decrease of \$456 in 2019 and a decrease of \$1,886 in 2018.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 1,702	\$ 4,903
Total property and equipment	1,702	4,903
Accumulated depreciation	(891)	(3,494)
Property and equipment, net	<u>\$ 811</u>	<u>\$ 1,409</u>

Depreciation expense was \$598 and \$1,311 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7 - CASH SURRENDER VALUE OF LIFE INSURANCE

The Foundation is the owner of four life insurance policies. Total cash surrender value is \$55,799 and \$54,267 as of December 31, 2019 and 2018, respectively.

NOTE 8 - FINE ART

Donated fine art received is recorded at fair market value at the time of donation. These assets are presented as other assets as they are not for sale at the present time.

NOTE 9 - ENDOWMENTS

The Foundation's endowment funds include both donor-restricted and Board designated assets. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions include monies designated for endowment purposes pursuant to the Board of Director's resolution and monies that have been appropriated for expenditures but are retained in the investment portfolio to earn better returns.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 9 - ENDOWMENTS (continued)

Endowment Net Assets Composition by Type of Fund as of December 31, 2019:

	<u>Board Designated</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,554,707	\$ 7,554,707
Board designated endowment funds	6,566,350	-	6,566,350
Total	<u>\$ 6,566,350</u>	<u>\$ 7,554,707</u>	<u>\$ 14,121,057</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019:

	<u>Board Designated</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,020,292	\$ 7,332,602	\$ 11,352,894
Investment return:			
Net appreciation (realized and unrealized)	1,011,232	1,354,987	2,366,219
Total investment return	5,031,524	8,687,589	13,719,113
Appropriation of endowment assets for expenditure	(52,411)	(632,849)	(685,260)
Other changes:			
Contributions	75,877	325,322	401,199
Interfund transfers	1,511,360	(825,355)	686,005
Endowment net assets, end of year	<u>\$ 6,566,350</u>	<u>\$ 7,554,707</u>	<u>\$ 14,121,057</u>

Endowment Net Assets Composition by Type of Fund as of December 31, 2018:

	<u>Board Designated</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,332,602	\$ 7,332,602
Board designated endowment funds	4,020,292	-	4,020,292
Total	<u>\$ 4,020,292</u>	<u>\$ 7,332,602</u>	<u>\$ 11,352,894</u>

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 9 - ENDOWMENTS (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018:

	<u>Board Designated</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,862,902	\$ 7,359,508	\$ 9,222,410
Investment return:			
Net depreciation (realized and unrealized)	<u>(178,531)</u>	<u>(394,454)</u>	<u>(572,985)</u>
Total investment return	1,684,371	6,965,054	8,649,425
Appropriation of endowment assets for expenditure	(74,107)	(324,790)	(398,897)
Other changes:			
Contributions	32,166	120,682	152,848
Interfund transfers	<u>2,377,862</u>	<u>571,656</u>	<u>2,949,518</u>
Endowment net assets, end of year	<u>\$ 4,020,292</u>	<u>\$ 7,332,602</u>	<u>\$ 11,352,894</u>

Interpretation of Relevant Law

The Foundation complies with the New Mexico Uniform Prudent Management of Institutional Funds Act (UPMIFA) and has adopted its statement of investment policy in accordance with UPMIFA. The Foundation classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted for time or purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence.

The Foundation considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the 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/depreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 9 - ENDOWMENTS (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include Board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed consumer price index (CPI) plus 4%, net of expenses, while assuming a moderate level of investment risk. The Foundation recognizes the need to accept the inherent risks of various investments, including the diminution of principal during periodic market fluctuations. The Foundation will assess the portfolio as a whole in measuring risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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 continues 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 an amount as determined each year by the Board of Directors.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund in perpetuity. In accordance with accounting principles generally accepted in the United States of America, the deficiencies are reported as net assets without donor restrictions. There were no such deficiencies as of December 31, 2019 and 2018.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Nets assets with donor restrictions restricted for time or purpose are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Special projects and contributions and grants	\$ 100,000	\$ 164,841
Total net assets restricted for time or purpose	<u>\$ 100,000</u>	<u>\$ 164,841</u>

Net assets with donor restrictions restricted in perpetuity are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Subject to endowment spending policy and appropriation	\$ 7,440,079	\$ 7,332,602
Subject to endowment spending policy after a specified period of time (charitable remainder unitrust)	<u>114,628</u>	<u>115,084</u>
Total net assets restricted in perpetuity	<u>\$ 7,554,707</u>	<u>\$ 7,447,686</u>

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Nets assets released from restrictions consist of the following for the year ended December 31:

	<u>2019</u>	<u>2018</u>
Subject to endowment spending policy and appropriation	\$ 1,638,129	\$ 401,595
Total net assets released from donor restrictions	<u>\$ 1,638,129</u>	<u>\$ 401,595</u>

NOTE 12 - COMMITMENTS

Leases

The Foundation leases various storage space and pieces of office equipment under operating lease arrangements that expire in December 2022. The Foundation executed an operating lease agreement for their office space with monthly payments of \$2,200 that expired in June 2019; it is now month to month. Rental expense related to the operating leases totaled \$28,217 and \$30,983 for the years ended December 31, 2019 and 2018, respectively.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 12 - COMMITMENTS (continued)

Leases (continued)

The future minimum lease payments are as follows for the years ended December 31:

2020	\$	2,784
2021		2,784
2022		<u>2,784</u>
Total	\$	<u><u>8,352</u></u>

NOTE 13 - RELATED PARTY TRANSACTIONS

A Board member provides marketing services to the Foundation. The amounts paid for the years ended December 31, 2019 and 2018 were approximately \$1,142 and \$8,000, respectively.

NOTE 14 - AGENCY OBLIGATIONS

The Foundation accepts assets from foundations who have common goals and objectives as the Foundation. The Foundation agrees to manage assets in accordance with each individual foundation's directives. These receipts are recognized as an agency obligation and not as revenue.

In exchange for the Foundation's oversight of the investments and distributions, the Foundation receives a negotiated administrative fee.

Additionally, several nonprofit agencies have donated money to the Foundation to set up endowments naming themselves as beneficiaries. In accordance with accounting principles generally accepted in the United States of America, the Foundation has recorded the balances of these funds as liabilities. The agency endowment agreements grant variance power to the Foundation's Board of Trustees and stipulate the Foundation owns the endowment funds. Donations to those endowments from someone other than the nonprofit agency itself are treated as contribution revenue of the Foundation. Earnings of the agency portion increase the liability and distributions to the agency decrease the liability. In exchange for the Foundation's oversight of the investments and distributions, the Foundation receives a negotiated administrative fee.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 15 - LIQUIDITY AND AVAILABILITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions and such support represented approximately 25% and 33% of annual program funding in 2019 and 2018, respectively, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

As part of the Foundation's liquidity management, it ensures its financial assets are available as its general expenditures, liabilities and other obligations come due. As of December 31, 2019 and 2018, the Foundation had a working capital of approximately \$1,797,466 and \$1,325,186 and average days cash on hand of 155 days and 362 days, respectively.

The Foundation manages its cash available to meet general expenditures following two guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that obligations and commitments that support missions fulfillment will continue to be met, ensuring the sustainability of the Foundation.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

Notes to the Financial Statements

December 31, 2019 and 2018

NOTE 15 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets as of year end:		
Cash and cash equivalents	\$ 647,715	\$ 1,347,800
Investments	14,751,026	12,071,011
Accounts receivable	<u>333,110</u>	<u>101,929</u>
Total financial assets	15,731,851	13,520,740
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(7,654,707)	(7,612,527)
Net assets without donor restrictions - board designated	(6,566,350)	(4,020,292)
Plus net assets with purpose restrictions expected to be met within one year	<u>100,000</u>	<u>1,638,129</u>
Total financial assets available for general expenditures within one year	<u>\$ 1,610,794</u>	<u>\$ 3,526,050</u>

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 29, 2020, the date the financial statements were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended December 31, 2019.

In December 2019, the World Health Organization declared the outbreak from the novel strain of coronavirus to constitute a “Public Health Emergency of International Concern”. The outbreak has resulted in a disruption of supply chains, production, and sales across a broad range of industries. The extent of the impact on the Foundation’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, donors, employees, and vendors, all of which are uncertain and cannot be predicted. The extent to which the outbreak may impact the Foundation’s financial condition and results of operations is uncertain.

In May 2020, the building held for sale was sold in a lease option purchase agreement. A down payment of \$160,000 was made and rent of \$3,148 is paid per month for the following 14 months with a lump sum due after that.