

**THE COMMUNITY FOUNDATION OF
SOUTHERN NEW MEXICO AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
The Community Foundation of Southern New Mexico

We have audited the accompanying consolidated statement of financial position of The Community Foundation of Southern New Mexico (a nonprofit organization) and the Healthcare Foundation of Southern New Mexico (affiliate) as of December 31, 2009, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of The Community Foundation of Southern New Mexico's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Community Foundation of Southern New Mexico and Affiliate as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gibson, Ruddock, Patterson LLC

El Paso, Texas
May 5, 2010

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

ASSETS

Current assets	
Cash	\$ 447,006
Contribution receivable-current portion	6,950
Grant receivable	17,726
Accounts receivable	155,877
Land held for investment	215,000
Other assets	<u>6,802</u>
Total current assets	<u>849,361</u>
Property and equipment, net	4,108,455
Contribution receivable-long term	22,129
Cash surrender value	82,943
Cash restricted for endowments	143,160
Investments	4,347,075
Beneficial interest in remainder trust	249,284
Fine art	<u>197,668</u>
Total other assets	<u>9,150,714</u>
Total assets	<u><u>\$ 10,000,075</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 12,585
Accrued expenses	11,065
Custodial accounts	56,177
Due to First Step Center	<u>126,922</u>
Total current liabilities	<u>206,749</u>
Endowments held for agencies	<u>376,541</u>
Unrestricted	6,279,727
Temporarily restricted	836,598
Permanently restricted	<u>2,300,460</u>
Net assets	<u>9,416,785</u>
Total liabilities and net assets	<u><u>\$ 10,000,075</u></u>

See accompanying notes to financial statements.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Public support				
Contributions	\$ 60,871	\$ 80,263	\$ 162,108	\$ 303,242
Contributed land		140,000	-	140,000
In kind donations	435,286	-	-	435,286
Grants	-	109,732	-	109,732
	<u>496,157</u>	<u>329,995</u>	<u>162,108</u>	<u>988,260</u>
Revenues				
Special events	23,975	-	-	23,975
Net investment income	150,652	535,876	-	686,528
Unrealized loss on trusts	-	(1,421)	-	(1,421)
Unrealized gain on insurance policies	6,289	-	-	6,289
Realized loss on art sale	(14,500)	-	-	(14,500)
Management fee income	45,583	-	-	45,583
	<u>211,999</u>	<u>534,455</u>	<u>-</u>	<u>746,454</u>
Total support and revenues	708,156	864,450	162,108	1,734,714
Net assets released from restrictions	199,258	(199,258)	-	-
Total public support and revenues	<u>907,414</u>	<u>665,192</u>	<u>162,108</u>	<u>1,734,714</u>
Expenses				
Program	865,396	-	-	865,396
Fund raising	100,054	-	-	100,054
Administrative	74,206	-	-	74,206
Total expenses	<u>1,039,656</u>	<u>-</u>	<u>-</u>	<u>1,039,656</u>
Change in net assets	(132,242)	665,192	162,108	695,058
Net assets beginning of the year	6,460,553	769,778	1,563,861	8,794,192
Prior period adjustments	<u>(48,584)</u>	<u>(598,372)</u>	<u>574,491</u>	<u>(72,465)</u>
Net assets, end of year	<u>\$ 6,279,727</u>	<u>\$ 836,598</u>	<u>\$ 2,300,460</u>	<u>\$ 9,416,785</u>

See accompanying notes to financial statements

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009

	Program	Administrative	Fund raising	Total
Salaries	\$ 87,998	\$ 25,737	\$ 52,829	\$ 166,564
Payroll taxes	7,146	1,945	3,993	13,084
Las Companeras	49,513	-	-	49,513
Estate Planning Institute	-	-	15,244	15,244
Distributions	24,298	-	-	24,298
Grants	60,699	-	-	60,699
Scholarships	24,451	-	-	24,451
Travel and conferences	166	-	-	166
Supplies	6,562	2,654	5,892	15,108
Occupancy	10,071	4,556	9,352	23,979
Professional fees	4,886	10,410	4,537	19,833
Contract labor	58,199	-	-	58,199
Telephone	1,947	881	1,808	4,636
Postage printing and publications	2,635	1,192	2,446	6,273
Miscellaneous	5,553	7,388	2,870	15,811
Rental and maintenance	340	154	316	810
Insurance	9,147	-	-	9,147
Advertising	-	7,020	-	7,020
Public information	10,696	-	-	10,696
Mammography	3,897	-	-	3,897
Administrative	-	9,036	-	9,036
Donation	404,999	-	-	404,999
Annuity	-	2,859	-	2,859
Total expenses before depreciation	773,203	73,832	99,287	946,322
Depreciation	92,193	374	767	93,334
Total expenses	\$ 865,396	\$ 74,206	\$ 100,054	\$ 1,039,656

See accompanying notes to financial statements.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

Cash flows from operating activities	
Increase (decrease) in net assets	\$ 695,058
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	93,334
Contributed Land	(140,000)
Loss on sale of art	14,500
Realized loss on sale of investments	362,681
Unrealized loss on investments	(950,761)
Increase in cash surrender value	(6,732)
(Increase) decrease in	
Pledges receivable	(8,913)
Earnings receivable	5,476
Grant receivable	(17,726)
Cash restricted for endowments	(143,160)
Other assets	(2,690)
Beneficial interest in trusts	1,421
Endowments held for agencies	105,040
Accounts payable and accrued liabilities	6,535
Custodial accounts	6,994
Due to First Step Center	5,345
Net cash provided by operating activities	<u>26,402</u>
Cash flows from investing activities	
Purchase of property and equipment	(10,306)
Proceeds from sale of art	500
Purchases net of sales investment activity	<u>(207,290)</u>
Net cash provided by (used for) investing activities	<u>(217,096)</u>
Net increase (decrease) in cash	(190,694)
Beginning cash	<u>637,700</u>
Ending cash	<u>\$ 447,006</u>

See accompanying notes to financial statements.

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities- The Community Foundation of Southern New Mexico (Foundation) is a nonprofit 501(c)(3) 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.

The Healthcare Foundation of Southern New Mexico (Affiliate) is a nonprofit 501(c)(3) corporation whose purposes are:

- 1 To operate as a supporting organization exclusively for the benefit of and to carry out the purposes of the Community Foundation of Southern New Mexico
- 2 To receive and administer property acquired by gift, grant, purchase or otherwise primarily seek and secure commitments to improve community health, support quality patient care and promote healthier standards of living in southern New Mexico.
- 3 To make grants or other payments to the Community Foundation of Southern New Mexico.
- 4 At all times and within such purposes, to operate exclusively for charitable, educational and scientific purposes, within the meaning of section 501 (c)3 of the Code.

Principles of Consolidation - In accordance with SOP 94-3, the consolidated financial statements include the financial position, statement of activities, functional expenses and cash flows of the Foundation and that of its affiliate, the Healthcare Foundation of Southern New Mexico.

The board of directors of the both foundations are elected by the board of directors of the Community Foundation of Southern New Mexico. Because the board of directors of the Foundation has management control over the board of the affiliate, their financials are consolidated. All material inter-company accounts and transactions have been eliminated in the consolidated financial statements

Method of Accounting - These financial statements have been prepared using the accrual basis of accounting.

Financial Statement Presentation - The financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its *Statement of Financial Accounting Standards* (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made" and No. 117, "Financial Statements of Not-for-profit Organizations." SFAS No. 116 generally requires that unconditional contributions, pledged or received, be recognized as revenue in the period received. Not-for-profit organizations must distinguish between contributions received that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets,

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization unless the Board exercises its variance power privilege.

The endowment agreements call for the setting up of a fund that will be a permanently endowed fund of the Foundation. Each year, the Foundation on a recommendation from the Investment Committee will set aside a certain percentage of the fund or the net income from the prior year for that fund and use for the purposes set out in the agreement. The balance of the principal and any accumulated income will remain permanently invested and will not be invaded for any reason.

Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Use of Estimates - Preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and judgements. Accordingly, actual results could differ from those estimates.

Revenue Recognition - The Foundation receives main sources of revenue are contributions, investment income and special events. The Affiliate's main revenue sources are from investment income, and contributions. It also receives income by acting as the fiscal agent for various entities.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Allowance for Doubtful Accounts - No allowance for bad debts is maintained as accounts are written off when they are determined to be uncollectible. Generally accepted accounting principles require that an allowance for uncollectible accounts be maintained in lieu of the direct charge-off method. However, in this case management has determined that such an allowance would be immaterial with respect to the financial statements taken as a whole.

Investments - The Foundation follows SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." SFAS No. 124 requires that investments with readily determinable fair values, as defined, be reported in the statement of financial position at fair value with any realized or unrealized gains and losses reported in the statement of activities and changes in net assets.

Property and Equipment - Furniture and equipment is recorded at acquisition cost. Donated assets are reflected as contributions at their estimated value on the date of receipt. Capital expenditures and donated depreciable assets generally in excess of \$500 and with an expected useful life of greater than one year are capitalized and depreciated using straight-line rates over the estimated useful lives of the assets acquired. Capital expenditures less than \$500 are generally expensed when purchased.

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs - Advertising costs are expenses as incurred. For the year ended December 31, 2009 the Foundation incurred \$7,020 in advertising costs.

In Kind Donations - Donated goods and services are reported as donations when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills and are provided by individuals possessing those skills. Donated services in 2009 amounted to \$30,287, of which \$20,000 was for the office space, \$4,700 of auditing fees, \$3,253 of software and \$2,334 for special events.

The Affiliate allows the 1st Step Center to use its building for free. As a result, in kind donation of \$404,999 and in kind donation expense of \$404,999 has been recorded on the books. That amount is believed to be the fair market value of the rental income.

Functional Expenses - Direct expenses of a particular program are charged to that program while indirect expenses are allocated to the various programs based upon either time spent or occupancy space utilized by each program.

2. CONTRIBUTIONS RECEIVABLE

These unconditional promises to give are to be received by the Foundation and are deemed to be fully collectible by management.

2010	\$ 6,950
2011	6,000
2012	6,775
2013	5,354
2014	4,000
Total contributions receivable	<u>\$ 29,079</u>

3. INVESTMENTS

Investments as of December 31, 2009 are summarized as follows:

	Market Value	Cost
Government and agency obligations	\$ 959,427	\$ 928,517
Equities	2,653,351	2,391,713
Mutual funds	734,297	787,078
Total	<u>\$ 4,347,075</u>	<u>\$ 4,107,308</u>

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

3. INVESTMENTS (Continued)

Net Investment income is summarized as follows:

Dividends and Interest	\$ 180,734
Realized loss on sale of securities	(362,681)
Unrealized loss on securities	950,761
Investment expense, broker	(35,205)
Foreign taxes paid	(12,046)
Endowment expense, foundation	<u>(35,035)</u>
Total	<u>\$ 686,528</u>

4. PROPERTY AND EQUIPMENT

The following is a summary of the changes in property and equipment for the year ended December 31, 2008:

Asset Cost	Balance 12/31/08	Additions	Disposals	Balance 12/31/09	Useful Lives
Land and improvements	\$ 1,125,638	\$ -	\$ -	\$ 1,125,638	15 years
Building	3,427,883	-	-	3,427,883	39 years
Furniture and equipment	<u>18,775</u>	<u>10,306</u>	<u>-</u>	<u>29,081</u>	<u>3 - 7 years</u>
	<u>4,572,296</u>	<u>10,306</u>	<u>-</u>	<u>4,582,602</u>	
<u>Accumulated Depreciation</u>					
Furniture and equipment	<u>380,813</u>	<u>93,334</u>	<u>-</u>	<u>474,147</u>	
	<u>380,813</u>	<u>93,334</u>	<u>-</u>	<u>474,147</u>	
Building and equipment, net of depreciation	<u>\$ 4,191,483</u>	<u>\$ (83,028)</u>	<u>\$ -</u>	<u>\$ 4,108,455</u>	

Depreciation expense recorded during the year amounted to \$93,334.

5. INCOME TAX STATUS

The Internal Revenue Service has determined that the Foundation and its affiliate are both not-for-profit organizations exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Accordingly, no tax liability has been included in the accompanying financial statements. The affiliate is a supporting organization of the Foundation.

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

6. CASH SURRENDER VALUE

The Foundation is the owner of a \$25,000 life insurance policy. The cash surrender value, net of a loan taken out by the insured, is \$12,259 as of December 31, 2009. The affiliate is the owner of eight life insurance policies with cash surrender values of \$70,684. Total value as December 31, 2009 is \$82,943.

7. LAND HELD FOR INVESTMENT

In August 1999, the Affiliate received a donation of real estate with an appraised value of \$75,000. The donors requested that the proceeds from the sale of the property be added to the endowment fund.

In 2009, the Foundation received two tracts of land with an estimate value of \$140,000. The Foundation agreed to not sell the tracts of land for less than \$70,000 each for two years.

8. ACCOUNTS RECEIVABLE

The Foundation paid for the development of the road where the 1st Step building is located. The Foundation will be reimbursed a portion of its costs from the sale of each lot that will be using the road. The original receivable balance was \$323,003 but after receiving payments the balance as of December 31, 2009 was \$155,877. There were seven unsold lots as of December 31, 2009.

9. FINE ART

Donated fine art (painting, prints, photographs) received are recorded at fair market value at time of donation. These assets are presented as other assets as they are not for sale at the present time. The carrying amount is based upon the donor's estimated fair market value or acquisition cost.

10. 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. The trusts do not provide for a permanent restriction so the beneficial interest is to be shown as temporarily restricted until the terms of the trust have been met. When the terms of the trusts have been met, the remainder interest will revert to the Foundation and at such time be recorded as unrestricted support.

The Trust formed in 1994, has assets with a fair market value of \$89,038 as of December 31, 2009. The assets are investment in fixed income securities, corporate bonds and notes, mutual funds and equities.

The Trust formed in 1998, has assets with a fair market value of \$160,246 as of December 31, 2009. The assets consist of cash, notes and loans receivable and accounts receivable.

In 2009, the change in the value of the split interest agreements resulted in a decrease of \$1,421.

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

11. LEASE COMMITMENTS

The Foundation is obligated under terms of the following rental and/or lease agreements:

Copy machine - The Foundation had an operating lease for a copy machine. The lease expired in 2009 and is now month to month. The minimum monthly payment is \$221.

Storage lease - The Foundation leases storage space on a month to month lease for \$70 per month.

Rental expense for 2009 was \$3,979. This does not include the donated office space with a value of approximately \$20,000.

12. ENDOWMENTS HELD FOR AGENCIES

Several non profit agencies have donated money to the Foundation to set up endowments naming themselves as beneficiaries. In accordance with SFAS 136, the Foundation has recorded those donations as liabilities. The agency endowment agreements grant variance power the Foundation's Board of Directors and stipulate the Foundation owns the endowment funds. Donations to those endowments from someone other than the non profit 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.

13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets at December 31, 2009 are available for the following purposes:

Endowment earnings	\$ 440,262
Charitable remainder trusts	249,284
Land	140,000
Drug Free Communities grant	<u>7,052</u>
Total	<u>\$ 836,598</u>

Permanently restricted net assets at December 31, 2009 are available for the following purposes:

Endowments	<u>\$ 2,300,460</u>
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(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS (Continued)

Net assets released from donor restrictions during 2009 by incurring expenses satisfying the restricted purpose as follows:

Drug free communities grant	\$ 102,680
Healthcare programs	54,764
Agency distributions	24,298
Scholarships	<u>17,516</u>
Total released from restriction	<u>\$ 199,258</u>

14. RELATED PARTY TRANSACTIONS

The employer of one Board member donates the office space used by the Foundation. The estimated fair market value of the donated rent is \$20,000 per year.

A board member works for the accounting firm that prepares the Foundation's payroll and payroll reports.

The Board of Directors is aware of the above mentioned transactions and believes all transactions with Board members are "arm's length" transactions.

15. CONCENTRATION OF CREDIT RISK

The cash balances of the Foundation may from time to time exceed the FDIC insurance but the Foundation has not incurred any losses and management feels the risk would be minimal.

16. BOARD DESIGNATION

As of December 31, 2009, the Board has designated \$448,322 of unrestricted net assets for the following purposes:

1 st Step Center	\$ 280,901
Healthcare	82,970
Building maintenance	67,105
Residency program	13,027
Breast Cancer	<u>4,319</u>
Total	<u>\$ 448,322</u>

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

17. RETIREMENT PLAN

In 2007, the Foundation adopted a 401(k) plan. The Plan covers substantially all eligible employees over the age of 21 and who have at least 1 year of service and work a minimum 1,000 hours with the Foundation. Employee contributions are voluntary and are based on specific percentages of compensation, which may not exceed maximum amounts established by the Internal Revenue Code. The Company will match 3% of the employee contribution. In 2009, the Foundation terminated the plan.

18. INVESTMENTS-DONOR-DESIGNATED ENDOWMENTS

The Organization's endowment consists of approximately 165 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

The Board of Trustees of the Organization has required 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 Organization 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 Organization. The Organization 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 Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 3%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

18. INVESTMENTS-DONOR-DESIGNATED ENDOWMENTS (Continued)

Spending Policy. The Organization has a policy of appropriating for distribution each year 3% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually, which is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 440,262	\$ 2,225,460	\$ 2,665,722
Board-designated endowment funds	1,258,989	-	-	1,258,989
Total funds	<u>\$ 1,258,989</u>	<u>\$ 440,262</u>	<u>\$ 2,225,460</u>	<u>\$ 3,924,711</u>

Changes in endowment net assets as of December 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 1,218,189	\$ -	\$ 1,470,028	\$ 2,688,217
Prior pledges not included	-	-	18,833	18,833
Prior period adjustments	(139,146)	(58,966)	574,491	376,379
Contributions	-	39,718	162,108	201,826
Investment income	37,274	67,082	-	104,356
Net appreciation (depreciation)	231,263	710,832	-	942,095
Realized loss	(88,591)	(220,641)	-	(309,232)
Amounts appropriated for expenditure	-	(97,763)	-	(97,763)
Endowment net assets, end of year	<u>\$ 1,258,989</u>	<u>\$ 440,262</u>	<u>\$ 2,225,460</u>	<u>\$ 3,924,711</u>

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

19. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2009 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
December 31, 2009				
Investments	\$ 4,347,075	\$ 4,347,075	\$ -	\$ -
Beneficial Interest in Charitable Remainder Trusts	249,284	-	-	249,284
Property Held for investment	215,000	-	215,000	-
Total	<u>\$ 4,811,359</u>	<u>\$ 4,347,075</u>	<u>\$ 215,000</u>	<u>\$ 249,284</u>

Asset measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Remainder Trust
January 1, 2009	\$ 250,705
Unrealized loss	<u>(1,421)</u>
December 31, 2009	<u>\$ 249,284</u>

Financial assets valued using level 1 are based upon unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for the beneficial interest in the charitable remainder trust (level 3) is estimated fair market value.

20. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to correct the beginning balances of the permanently restricted, temporarily restricted and unrestricted net assets. The adjustment was necessary because in the prior year, unrealized and realized losses were allocated to the permanently restricted net assets and they should not have been.

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

20. PRIOR PERIOD ADJUSTMENTS (Continued)

Also, the Board of Directors determined that one of the temporary endowments should have been classified as a liability. The result was an increase of \$72,465 in due to First Step Center and the corresponding decrease to net assets.

21. COMMITMENTS AND CONTINGENCIES

In 2009, the Community Foundation of Southern New Mexico accepted a donation of two tracts of land. The Foundation agreed not to sell the land for less than \$70,000 per tract of land over the next two years.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Community Foundation of Southern New Mexico and Affiliate

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of The Community Foundation of Southern New Mexico and Affiliate for the year ended December 31, 2009, which are presented in the preceding section of this report. The supplementary information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the audit procedures applied in the examination of the basic financial statements. In our opinion, the supplementary information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Gibson, Ruddock, Patterson LLC

El Paso, Texas
May 5, 2010

COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO
CONSOLIDATING WORKSHEET
DECEMBER 31, 2009

	CFSNM	HCFSNM	Combined Balance	Eliminations	Consolidated Balance
<u>ASSETS</u>					
CASH	351,272	95,734	447,006		447,006
CONTRIBUTION RECEIVABLE, CURRENT	4,950	2,000	6,950		6,950
GRANT RECEIVABLE	17,726	0	17,726		17,726
ACCOUNTS RECEIVABLE	0	155,877	155,877		155,877
LAND HELD FOR INVESTMENT	140,000	75,000	215,000		215,000
DUE FROM RELATED PARTY	3,626	0	3,626	(3,626)	0
OTHER ASSETS	6,802	0	6,802		6,802
	524,376	328,611	852,987	(3,626)	849,361
INVESTMENTS	1,124,804	3,222,271	4,347,075		4,347,075
CONTRIBUTION RECEIVABLE, LONG TERM	22,129		22,129		22,129
CASH RESTRICTED FOR ENDOWMENTS	55,217	87,943	143,160		143,160
BUILDING AND EQUIPMENT, NET	10,102	4,098,353	4,108,455		4,108,455
CASH SURRENDER VALUE	12,259	70,684	82,943		82,943
FINE ART	0	197,668	197,668		197,668
BENEFICIAL INTEREST IN REMAINDER TRUST	0	249,284	249,284		249,284
	1,224,511	7,926,203	9,150,714	0	9,150,714
	1,748,887	8,254,814	10,003,701	(3,626)	10,000,075

LIABILITIES & NET ASSETS

ACCOUNTS PAYABLE	7,782	4,803	12,585		12,585
ACCRUED EXPENSES	11,065	0	11,065		11,065
DUE TO FIRST STEP CENTER	0	126,922	126,922		126,922
DUE TO RELATED PARTY	0	3,626	3,626	(3,626)	0
CUSTODIAL ACCOUNTS	56,177	0	56,177		56,177
ENDOWMENTS HELD FOR AGENCIES	376,541	0	376,541		376,541
	451,565	135,351	586,916	(3,626)	583,290
UNRESTRICTED NET ASSETS	413,909	5,865,818	6,279,727		6,279,727
TEMPORARILY RESTRICTED NET ASSETS	258,416	578,182	836,598		836,598
PERMANENTLY RESTRICTED NET ASSETS	624,997	1,675,463	2,300,460		2,300,460
	1,297,322	8,119,463	9,416,785	0	9,416,785
	1,748,887	8,254,814	10,003,701	(3,626)	10,000,075

COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO
CONSOLIDATING WORKSHEET
DECEMBER 31, 2009

	CFSNM	HCFSNM	Combined Balance	Eliminations	Consolidated Balance
SUPPORT AND REVENUES					
CONTRIBUTIONS	387,896	10,667	398,563	(95,321)	303,242
CONTRIBUTIONS NON CASH	140,000	0	140,000		140,000
IN KIND DONATIONS	28,787	406,499	435,286		435,286
GRANTS	109,732	0	109,732		109,732
SPECIAL EVENTS	23,975	0	23,975		23,975
NET INVESTMENT INCOME	159,144	527,384	686,528		686,528
MANAGEMENT FEE INCOME	20,741	24,842	45,583		45,583
REALIZED LOSS ON ART SALE	0	(14,500)	(14,500)		(14,500)
UNREALIZED LOSS ON REMAINDER TRUSTS	0	(1,421)	(1,421)		(1,421)
UNREALIZED GAIN ON INSURANCE POLICIES	0	6,289	6,289		6,289
TOTAL INCOME	870,275	959,760	1,830,035	(95,321)	1,734,714
FUNCTIONAL EXPENSES					
SALARIES	166,564	0	166,564		166,564
PAYROLL TAXES	13,084	0	13,084		13,084
LAS COMPANERAS	0	49,513	49,513		49,513
GRANTS	36,356	58,641	94,997	(10,000)	84,997
SCHOLARSHIPS	17,516	6,935	24,451		24,451
TRAVEL AND CONFERENCES	166	0	166		166
SUPPLIES	15,108	0	15,108		15,108
OCCUPANCY	23,979	0	23,979		23,979
PROFESSIONAL FEES	11,633	8,200	19,833		19,833
CONTRACT LABOR	58,199	0	58,199		58,199
TELEPHONE	4,636	0	4,636		4,636
POSTAGE, PRINTING	6,273	0	6,273		6,273
MISCELLANEOUS	15,811	0	15,811		15,811
RENTAL AND MAINTENANCE	810	0	810		810
ESTATE PLANNING INSTITUTE	15,244	0	15,244		15,244
PUBLIC INFORMATION	10,696	0	10,696		10,696
INSURANCE	0	9,147	9,147		9,147
ADVERTISING	7,020	0	7,020		7,020
MAMOGRAPHY	0	3,897	3,897		3,897
SUPPORTING ORGANIZATION FEE	0	85,321	85,321	(85,321)	0
ADMINISTRATIVE	0	9,036	9,036		9,036
DONATION	0	404,999	404,999		404,999
ANNUITY	0	2,859	2,859		2,859
DEPRECIATION	1,967	91,367	93,334		93,334
TOTAL FUNCTIONAL EXPENSES	405,062	729,915	1,134,977	(95,321)	1,039,656
CHANGE IN NET ASSETS	465,213	229,845	695,058	0	695,058
BEGINNING NET ASSETS	832,109	7,962,083	8,794,192		8,794,192
PRIOR PERIOD ADJUSTMENT	0	(72,465)	(72,465)		(72,465)
ENDING NET ASSETS	1,297,322	8,119,463	9,416,785	0	9,416,785