

**THE COMMUNITY FOUNDATION OF  
SOUTHERN NEW MEXICO**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**



**GIBSON RUDDOCK PATTERSON LLC**  
certified public accountants

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**THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

**C O N T E N T S**

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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 financial statements of The Community Foundation of Southern New Mexico (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities, functional expenses 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.

### *Auditor's 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Gibson Rudderick Patterson LLC*

El Paso, Texas

April 16, 2013

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# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
Current assets		
Cash	\$ 373,251	\$ 341,504
Pledges receivable-current portion	7,399	4,260
Grant receivable	30,481	26,000
Accounts receivable	3,346	3,346
Land held for investment	165,000	195,000
Other assets	187	500
Total current assets	<u>579,664</u>	<u>570,610</u>
Capital assets, net	3,907,653	4,023,802
Pledges receivable-long term	11,000	5,050
Accounts receivable -long term	145,839	149,185
Cash surrender value	93,690	93,679
Cash restricted for endowments	57,398	53,091
Investments	8,650,514	5,059,207
Beneficial interest in remainder trusts	254,246	251,517
Fine art	202,668	202,668
Total other assets	<u>13,323,008</u>	<u>9,838,199</u>
Total assets	<u>\$ 13,902,672</u>	<u>\$ 10,408,809</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 33,488	\$ 1,617
Accrued expenses	8,067	19,679
Custodial accounts	43,044	101,988
Due to First Step Center	174,038	169,812
Total current liabilities	<u>258,637</u>	<u>293,096</u>
Endowments held for agencies	<u>422,696</u>	<u>407,968</u>
Unrestricted	6,493,548	6,293,779
Temporarily restricted	1,558,483	931,853
Permanently restricted	5,169,308	2,482,113
Net assets	<u>13,221,339</u>	<u>9,707,745</u>
Total liabilities and net assets	<u>\$ 13,902,672</u>	<u>\$ 10,408,809</u>

See accompanying notes to financial statements.

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Public support				
Contributions	\$ 69,696	\$ 402,948	\$ 2,665,476	\$ 3,138,120
In kind donations	413,333	-	-	413,333
Grants	-	664,356	-	664,356
	483,029	1,067,304	2,665,476	4,215,809
Revenues				
Special events	77,513	-	-	77,513
Net investment income	157,036	821,783	21,719	1,000,538
Loss on sale of assets	(14,619)	-	-	(14,619)
Unrealized gain on trusts	-	2,729	-	2,729
Unrealized gain on insurance policies	11	-	-	11
Management fee income	28,791	-	-	28,791
	248,732	824,512	21,719	1,094,963
Total support and revenues	731,761	1,891,816	2,687,195	5,310,772
Net assets released from restrictions	1,265,186	(1,265,186)	-	-
Total public support and revenues	1,996,947	626,630	2,687,195	5,310,772
Expenses				
Program	1,622,306	-	-	1,622,306
Administrative	72,116	-	-	72,116
Fundraising	102,756	-	-	102,756
Total expenses	1,797,178	-	-	1,797,178
Change in net assets	199,769	626,630	2,687,195	3,513,594
Net assets beginning of the year	6,293,779	931,853	2,482,113	9,707,745
Net assets, end of year	\$ 6,493,548	\$ 1,558,483	\$ 5,169,308	\$ 13,221,339

See accompanying notes to financial statements.



**THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues</b>				
Public support				
Contributions	\$ 46,655	\$ 68,141	\$ 32,033	\$ 146,829
In kind donations	429,417	-	-	429,417
Grants	-	595,613	-	595,613
	<u>476,072</u>	<u>663,754</u>	<u>32,033</u>	<u>1,171,859</u>
<b>Revenues</b>				
Special events	33,181	-	-	33,181
Net investment income	21,345	(260,540)	15,856	(223,339)
Unrealized loss on trusts	-	(8,382)	-	(8,382)
Unrealized gain on insurance policies	4,355	-	-	4,355
Management fee income	9,524	-	-	9,524
	<u>68,405</u>	<u>(268,922)</u>	<u>15,856</u>	<u>(184,661)</u>
Total support and revenues	544,477	394,832	47,889	987,198
Net assets released from restrictions	892,544	(892,544)	-	-
Total public support and revenues	1,437,021	(497,712)	47,889	987,198
<b>Expenses</b>				
Program	1,170,823	-	-	1,170,823
Administrative	78,901	-	-	78,901
Fundraising	90,862	-	-	90,862
Total expenses	<u>1,340,586</u>	<u>-</u>	<u>-</u>	<u>1,340,586</u>
Change in net assets	96,435	(497,712)	47,889	(353,388)
Net assets beginning of the year	<u>6,197,344</u>	<u>1,429,565</u>	<u>2,434,224</u>	<u>10,061,133</u>
Net assets, end of year	<u>\$ 6,293,779</u>	<u>\$ 931,853</u>	<u>\$ 2,482,113</u>	<u>\$ 9,707,745</u>

See accompanying notes to financial statements.

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012

	Program	Administrative	Fund raising	Total
Salaries	\$ 217,533	\$ 44,557	\$ 45,012	\$ 307,102
Payroll taxes	22,758	1,860	1,993	26,611
Distributions	538,340	-	-	538,340
Scholarships	22,750	-	-	22,750
Travel and conferences	11,720	5,384	3,188	20,292
Supplies	18,788	3,705	3,969	26,462
Occupancy	8,237	1,260	27,741	37,238
Community events	3,415	-	-	3,415
Professional fees	7,998	2,532	2,713	13,243
Contract labor	156,921	-	-	156,921
Telephone	3,693	728	780	5,201
Postage printing and publications	1,707	316	9,161	11,184
Miscellaneous	6,293	2,582	1,330	10,205
Rental and maintenance	10,512	2,073	2,221	14,806
Insurance	9,487	1,094	1,172	11,753
Advertising and marketing	12,162	2,398	2,569	17,129
Public information	46,303	-	-	46,303
Mammography	4,354	-	-	4,354
Donation	405,000	-	-	405,000
Annuity	-	2,720	-	2,720
Total expenses before depreciation	1,507,971	71,209	101,849	1,681,029
Depreciation	114,335	907	907	116,149
Total expenses	\$ 1,622,306	\$ 72,116	\$ 102,756	\$ 1,797,178

See accompanying notes to financial statements.



# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011

	Program	Administrative	Fund raising	Total
Salaries	\$ 190,998	\$ 43,911	\$ 44,837	\$ 279,746
Payroll taxes	18,316	1,926	1,926	22,168
Distributions	138,559	-	-	138,559
Grants	1,525	-	-	1,525
Scholarships	32,474	-	-	32,474
Travel and conferences	12,735	8,549	4,525	25,809
Supplies	19,459	1,266	1,266	21,991
Occupancy	17,074	2,856	12,410	32,340
Community events	10,126	-	-	10,126
Professional fees	12,944	2,994	2,994	18,932
Contract labor	95,845	-	-	95,845
Telephone	7,631	818	818	9,267
Postage printing and publications	6,647	1,564	13,952	22,163
Miscellaneous	5,608	1,609	1,933	9,150
Rental and maintenance	30,022	2,566	2,566	35,154
Insurance	4,369	4,884	928	10,181
Advertising and marketing	6,254	2,542	2,011	10,807
Public information	43,162	-	-	43,162
Mammography	4,627	-	-	4,627
Data collection	7,950	-	-	7,950
Donation	405,000	-	-	405,000
Annuity	-	2,720	-	2,720
Total expenses before depreciation	1,071,325	78,205	90,166	1,239,696
Depreciation	99,498	696	696	100,890
Total expenses	\$ 1,170,823	\$ 78,901	\$ 90,862	\$ 1,340,586

See accompanying notes to financial statements.

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 3,513,594	\$ (353,388)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	116,149	100,890
Loss on sale of assets	14,619	-
Realized (gain) loss on sale of investments	(3,161)	(100,428)
Unrealized (gain) loss on investments	(679,614)	455,156
Increase in cash surrender value	(11)	(4,712)
(Increase) decrease in		
Pledges receivable	(9,089)	10,979
Accounts receivable	3,346	-
Grant receivable	(4,481)	(7,317)
Cash restricted for endowments	(4,307)	93,900
Other assets	313	3,209
Beneficial interest in trusts	(2,729)	8,382
Endowments held for agencies	14,728	8,600
Accounts payable	31,871	(44,324)
Accrued expenses	(11,612)	9,427
Custodial accounts	(58,944)	20,388
Due to First Step Center	4,226	12,157
Net cash provided by operating activities	<u>2,924,898</u>	<u>212,919</u>
Cash flows from investing activities		
Purchase of property and equipment	-	(107,496)
Proceeds from sale of assets	15,381	-
Purchases net of sales investment activity	<u>(2,908,532)</u>	<u>(431,543)</u>
Net cash provided by (used for) investing activities	<u>(2,893,151)</u>	<u>(539,039)</u>
Net increase (decrease) in cash	31,747	(326,120)
Beginning cash	<u>341,504</u>	<u>667,624</u>
Ending cash	<u>\$ 373,251</u>	<u>\$ 341,504</u>

See accompanying notes to financial statements.

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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### 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.

In August 2010, the Healthcare Foundation of Southern New Mexico board of directors approved merging with the Community Foundation of Southern New Mexico and transferred all of its assets and liabilities to CFSNM. As of December 31, 2010, there were just a few assets left in Healthcare's name. Those remaining assets were officially transferred in 2011. Healthcare did not receive any revenue nor did it incur any expenses in 2011.

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

(Continued)

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 FASB ASC topic of "Fair Value of Investments." It 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 \$1,000 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.

**Advertising Costs** - Advertising costs are expenses as incurred. For the years ended December 31, 2012 and 2011 the Foundation incurred \$ 17,129 and \$10,267, respectively, 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 2012 amounted to \$8,333, of which \$8,333 was for the office space. Donated services in 2011 amounted to \$24,417, of which \$20,000 was for the office space, \$4,322 for advertising and \$95 for special events.

The Affiliate allows the 1<sup>st</sup> Step Center to use its building for \$1 per year. As a result, in kind donation of \$405,000 and in kind donation expense of \$405,000 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.

(Continued)

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

### 2. CONTRIBUTIONS RECEIVABLE

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

2013	\$	3,200
2014		2,000
2015		3,000
2016		4,000
2017		2,000
Total contributions receivable	\$	<u>14,200</u>

### 3. INVESTMENTS

Investments as of December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>
Equities	\$ 1,140,988	\$ 1,081,056	\$ 1,850,678	\$ 1,817,503
Mutual funds	7,509,526	7,050,887	3,208,528	3,217,073
Total	<u>\$ 8,650,514</u>	<u>\$ 8,131,943</u>	<u>\$ 5,059,206</u>	<u>\$ 5,034,576</u>

Net Investment income is summarized as follows:

	<u>2012</u>	<u>2011</u>
Dividends and Interest	\$ 395,150	\$ 220,987
Realized gain (loss) on sale of securities	3,311	100,428
Unrealized gain (loss) on securities	676,873	(455,156)
Investment expense, broker	(26,671)	(41,296)
Foreign taxes paid	-	(9,184)
Endowment expense, foundation	(48,125)	(39,118)
Total	<u>\$ 1,000,538</u>	<u>\$ (223,339)</u>

(Continued)

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

### 4. CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended December 31, 2012:

Asset Cost	Balance 12/31/11	Additions	Disposals	Balance 12/31/12	Useful Lives
Land and improvements	\$ 1,125,638	\$ -	\$ -	\$ 1,125,638	15 years
Building	3,427,883	-	-	3,427,883	39 years
Medical equipment	107,496	-	-	107,496	5 years
Furniture and equipment	24,541	-	-	24,541	3 - 7 years
	<u>4,685,558</u>	<u>-</u>	<u>-</u>	<u>4,685,558</u>	
<u>Accumulated Depreciation</u>					
Accumulated depreciation	661,756	116,149	-	777,905	
	<u>661,756</u>	<u>116,149</u>	<u>-</u>	<u>777,905</u>	
Capital assets, net of depreciation	<u>\$ 4,023,802</u>	<u>\$ (116,149)</u>	<u>\$ -</u>	<u>\$ 3,907,653</u>	

Depreciation expense recorded during 2012 and 2011 amounted to \$116,149 and \$100,890, respectively.

### 5. INCOME TAX STATUS

The Internal Revenue Service has determined that the Foundation is a 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 Foundation is subject to federal income tax on any unrelated business taxable income, but it did not have any taxable income for the years ended December 31, 2012 and 2011. Accordingly, no provision for income taxes has been recorded.

The Foundation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

### 6. CASH SURRENDER VALUE

The Foundation is the owner of nine life insurance policies. Total cash surrender value, net of any loans, as December 31, 2012 and 2011 is \$93,690 and \$93,679, respectively.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012 AND 2011**

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**7. LAND HELD FOR INVESTMENT**

In 2010, the Foundation received two parcels of real estate, one with an estimated fair market value of \$30,000 and the other with a fair market value of \$25,000. The Foundation agreed to not sell the land for less than the \$30,000 and \$25,000, respectively, over the next two years. In 2012, the Foundation sold the land originally estimated to be worth \$30,000 for \$17,000.

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 1<sup>st</sup> 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, 2012 and 2011 was \$149,185 and \$152,531, respectively. There were six unsold lots as of December 31, 2012 and six as of December 31, 2011. The developer is paying the repaving costs of one lot over 15 years.

**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 \$110,157 as of December 31, 2012 and \$101,824 as of December 31, 2011. The assets are invested 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 \$144,089 as of December 31, 2012 and \$149,693 as of December 31, 2011. The assets consist of cash, notes and loans receivable and accounts receivable.

The change in the value of the split interest agreements resulted in a increase of \$2,729 in 2012 and an increase of \$8,382 in 2011.

(Continued)



# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

### 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 2012 and 2011 was \$3,492 and \$3,492 respectively. 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 FASB ASC, the Foundation has recorded those donations as liabilities. The agency endowment agreements grant variance power to 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, 2012 and 2011 are available for the following purposes:

	2012	2011
Endowment earnings	\$ 636,727	\$ 388,383
Charitable remainder trusts	254,246	251,517
Land	165,000	195,000
Special project and contributions	407,948	-
McCune	46,818	-
Walmart grant	19,639	27,198
Kellogg Foundation	28,105	49,755
Funds to be determined	-	20,000
Total	<u>\$ 1,558,483</u>	<u>\$ 931,853</u>

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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

Permanently restricted net assets at December 31, 2012 and 2011 are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Endowments	<u>\$ 5,169,308</u>	<u>\$ 2,482,113</u>

Net assets released from donor restrictions during 2012 and 2011 by incurring expenses satisfying the restricted purpose as follows:

	<u>2012</u>	<u>2011</u>
Drug free communities grant	\$ 130,233	\$ 173,213
Community programs	374,050	217,141
Agency distributions	395,068	138,559
Scholarships	22,750	32,474
Land	30,000	-
Equipment	-	117,183
Adolescent services	313,085	213,974
Total released from restriction	<u>\$ 1,265,186</u>	<u>\$ 892,544</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. At December 31, 2012, the uninsured amount was \$157,150.

(Continued)

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

### 16. BOARD DESIGNATION

As of December 31, 2012 and 2011, the Board has designated \$601,232 and \$579,902, respectively, of unrestricted net assets for the following purposes:

	2012	2011
1 <sup>st</sup> Step Center	\$ 310,287	\$ 297,729
Healthcare	86,993	85,696
Building maintenance	143,524	138,059
Residency program	14,105	13,895
Empowering women	29,393	28,093
Literacy	10,379	9,976
Breast Cancer	6,551	6,454
Total	\$ 601,232	\$ 579,902

### 17. 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.

(Continued)

# THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

### 17. INVESTMENTS-DONOR-DESIGNATED ENDOWMENTS (Continued)

*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.

*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, 2012 and 2011 is as follows:

<b>2012</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 636,727	\$ 5,169,308	\$ 5,806,035
Board-designated endowment funds	1,554,940	-	-	1,554,940
Total funds	<u>\$ 1,554,940</u>	<u>\$ 636,727</u>	<u>\$ 5,169,308</u>	<u>\$ 7,360,975</u>
<b>2011</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 388,383	\$ 2,482,113	\$ 2,870,496
Board-designated endowment funds	1,504,151	-	-	1,504,151
Total funds	<u>\$ 1,504,151</u>	<u>\$ 388,383</u>	<u>\$ 2,482,113</u>	<u>\$ 4,374,647</u>

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012 AND 2011**

**17. INVESTMENTS-DONOR-DESIGNATED ENDOWMENTS (Continued)**

Changes in endowment net assets as of December 31, 2012 and 2011 are as follows:

<b>2012</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total Net Endowment Assets</b>
Endowment net assets, beginning of year	\$ 1,504,151	\$ 388,383	\$ 2,482,113	\$ 4,374,647
Contributions	-	-	2,665,476	2,665,476
Investment income	50,789	215,841	21,719	288,349
Net appreciation (depreciation)	-	602,781	-	602,781
Realized gain	-	3,161	-	3,161
Amounts appropriated for expenditure	-	(573,439)	-	(573,439)
Endowment net assets, end of year	<u>\$ 1,554,940</u>	<u>\$ 636,727</u>	<u>\$ 5,169,308</u>	<u>\$ 7,360,975</u>

<b>2011</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total Net Endowment Assets</b>
Endowment net assets, beginning of year	\$ 1,496,826	\$ 859,668	\$ 2,434,224	\$ 4,790,718
Contributions	7,070	-	32,033	39,103
Investment income	205	52,053	15,856	68,114
Net appreciation (depreciation)	8,500	(387,184)	-	(378,684)
Realized gain	-	74,591	-	74,591
Amounts appropriated for expenditure	(8,450)	(210,745)	-	(219,195)
Endowment net assets, end of year	<u>\$ 1,504,151</u>	<u>\$ 388,383</u>	<u>\$ 2,482,113</u>	<u>\$ 4,374,647</u>

(Continued)

THE COMMUNITY FOUNDATION OF SOUTHERN NEW MEXICO AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

18. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2012 and 2011 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, 2012				
Investments	\$ 8,650,514	\$ 8,650,514	\$ -	\$ -
Beneficial Interest in Charitable Remainder Trusts	254,246	-	-	254,246
Property Held for investment	165,000	-	165,000	-
Total	\$ 9,069,760	\$ 8,650,514	\$ 165,000	\$ 254,246

	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, 2011				
Investments	\$ 5,059,207	\$ 5,059,207	\$ -	\$ -
Beneficial Interest in Charitable Remainder Trusts	-	-	-	251,517
Property Held for investment	-	-	195,000	-
Total	\$ 5,059,207	\$ 5,059,207	\$ 195,000	\$ 251,517

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

	Remainder Trust
January 1, 2011	\$ 259,899
Unrealized gain	(8,382)
December 31, 2011	\$ 251,517

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012 AND 2011**

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**18. FAIR VALUE MEASUREMENTS (Continued)**

	<u>Remainder Trust</u>
January 1, 2012	\$ 251,517
Unrealized gain	<u>2,729</u>
December 31, 2012	<u>\$ 254,246</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.

**19. COMMITMENTS AND CONTINGENCIES**

Revenue received from government grants are subject to audit by federal and state agencies. As a result of an audit, retroactive adjustments could be made that would require the Foundation to return a portion of the funds. Management believes that such audits would not have a material impact on the revenue received.

**20. SUBSEQUENT EVENTS**

Subsequent events were evaluated through April 16, 2013, which is the date the financial statements were available to be issued.