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INDEPENDENT AUDITOR'S REPORT

October 14, 2008

Board of Directors  
Community Foundation Serving Southwest Colorado  
Grand Junction, Colorado

I have audited the accompanying statement of financial position of the Community Foundation Serving Southwest Colorado (a nonprofit organization) as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Community Foundation Serving Southwest Colorado as of December 31, 2007 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.

*Mary Brenes CPA*

Community Foundation Serving Southwest Colorado, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2007

ASSETS

Cash and cash equivalents	\$ 753,129
Investments at fair value, Note B	<u>1,127,337</u>

Total assets	\$ <u>1,880,466</u>
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LIABILITIES

Agency funds	\$ 762,051
Total liabilities	<u>762,051</u>

NET ASSETS

Unrestricted net assets	1,118,415
Total net assets	<u>1,118,415</u>

Total liabilities and net assets	\$ <u>1,880,466</u>
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The accompanying notes are an integral part of this statement.

Community Foundation Serving Southwest Colorado

STATEMENT OF ACTIVITIES

Year ended December 31, 2007

	<u>Unrestricted</u>
Revenue, Gains and Support	
Contributions	\$ 277,350
Investment income	28,512
Agency account fees	<u>11,108</u>
	316,970
	Total revenue, gains and support
Expenses	
Grants	181,587
Program related expenses:	
Grant making expenses	<u>10,147</u>
	191,734
Supporting services:	
Management and general	25,366
Fundraising	<u>15,219</u>
	40,585
	<u>232,319</u>
	Total expenses
	84,651
	Change in net assets
Net assets at beginning of year	<u>1,033,764</u>
Net assets at end of year	<u>\$ 1,118,415</u>

The accompanying notes are an integral part of this statement.

Community Foundation Serving Southwest Colorado

STATEMENT OF CASH FLOWS

Year ended December 31, 2007

Cash flows from operating activities:	
Change in net assets	\$ 84,651
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Realized gains	(50,829)
Unrealized losses	80,926
Inkind contributions	(10,097)
	<u>20,000</u>
Net cash provided (used) by operating activities	104,651
Cash flow from investing activities:	
Purchase of investments	(164,572)
Increases to agency funds	86,365
	<u>(78,207)</u>
Net cash provided (used) by investing activities	(78,207)
Net increase (decrease) in cash	26,444
Cash at beginning of year	<u>726,686</u>
Cash at end of year	<u>\$ 753,130</u>
Noncash investing and financing activities	
Contributions of services	\$ 10,097
Unrealized loss on investments	(80,926)

The accompanying notes are an integral part of this statement.

Community Foundation Serving Southwest Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Organization and Nature of Activities

The Community Foundation Serving Southwest Colorado (the Foundation) was founded in 1998 to promote philanthropy throughout southwestern Colorado. The Foundation's support comes primarily from individual donor contributions and grants.

The Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

2. Basis Accounting and Presentation

Financial statement presentation follows the guidance of The Financial Accounting Standards Board in its Statements of Financial Accounting Standards (SFAF) No. 116 and No. 117. Under these standards, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are reported as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. The standards also provide that if the governing body of an organization has the right to remove a donor restriction, the contributions should be classified as unrestricted net assets. The Foundation receives contributions from donors with advise regarding distribution of the assets and the earnings therefrom. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose if, in the sole judgment of the Foundation's board of trustees, such restrictions or conditions become unnecessary, undesirable, impractical, or inconsistent with the charitable needs of the community. As a result, the financial statements classify all net assets, except unconditional promises to give, as unrestricted. Unconditional promises to give are classified as temporarily restricted net assets as the funds have not yet been received and therefore cannot be used.

Revenues other than those increasing unconditional promises to give are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulation or by law. Contributions, including unconditional promises to give are recognized as revenues in the period received.

3. 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.

Community Foundation Serving Southwest Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

4. 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.

5. Investments

Investments are composed of mutual funds invested in debt and equity securities and are carried at fair value.

6. Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The value of contributed services meeting the above requirements for recognition in the financial statements was \$10,097 for the year ended December 31, 2007. Contributed services were comprised of accounting services.

7. Agency Funds

The Foundation applies Statement of Financial Accounting Standards No. 136 which specifically requires that if a not-for-profit organization established a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency funds. For financial reporting purposes, contributions to agency funds in the amount of \$140,265 are not reported in the contributions of the Foundation.

**NOTE B – INVESTMENTS**

Investments as of December 31, 2007 are summarized as follows:

	Fair Value
Mutual funds	<u>\$ 1,127,338</u>

Community Foundation Serving Southwest Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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**NOTE B – INVESTMENTS– CONTINUED**

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2007:

Interest and dividends	\$ 58,610
Realized gains	67,130
Unrealized losses	<u>(80,926)</u>
Total investment return	44,814
Less investment return of Agency funds	<u>(16,302)</u>
Investment income reported	<u><u>28,512</u></u>

**NOTE C – MAJOR DONORS**

The Foundation received 45% of current year contributions from three donors.

**NOTE D – SUBSEQUENT EVENTS**

Due to the volatility of the financial markets since mid September 2008 the Foundation's investments have substantially decreased in market value. The same type and number of shares held by the Foundation would have a market value of \$758,091 as of October 14, 2008.



October 14, 2008

To the Board of Directors and Management  
Community Foundation Serving Southwest Colorado

In planning and performing my audit of the financial statements of the Community Foundation Serving Southwest Colorado as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the Community Foundation Serving Southwest Colorado's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the following deficiencies to be significant deficiencies in internal control.

- Although the Executive Director reviews the bank deposit slips and deposit information this review is not documented. The review of this material should be documented by the Director's initials and date of the review.
- The Foundation should obtain and retain written or email approval of grants to be made from donor advised funds.
- When acting as fiscal agent for another entity the Foundation should obtain documentation, preferably via an invoice, of all disbursements made for the entity.

Other recommendations and comments:

1. As the Foundation has limited staff I recommend that all grants of \$5,000 or more require Board approval.
2. Procedures for the processing receipts and disbursements should be put in writing.
3. The Foundation should ensure that awarding of scholarships meets current IRS requirements.
4. The entity should prepare a written disaster recovery plan that addresses financial information recovery as well as restoration of important documents.
5. All staff members handling funds should be insured or bonded.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Mary Brenes, CPA



**Mary Brenes CPA**  
**AUDIT, ACCOUNTING AND CONSULTING SERVICES**

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November 14, 2008

To the Board of Directors  
Community Foundation Serving Southwest Colorado

I have audited the financial statements of the Community Foundation Serving Southwest Colorado for the year ended December 31, 2007, and have issued my report thereon dated October 14, 2008. Professional standards require that I provide you with the following information related to my audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Community Foundation Serving Southwest Colorado are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. I noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The entity did not engage in any sensitive estimate affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the subsequent event disclosure, Note D, regarding the change in the market value of investments held by the Foundation. The market values of the investments held were obtained from closing market prices on the date of the audit report.

**Difficulties Encountered in Performing the Audit**

I encountered no significant difficulties in dealing with management in performing and completing my audit.

**Corrected and Uncorrected Misstatements**

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. These misstatements involved the reclassification of assets, liabilities, revenues and expenditures relating to the Agency Funds.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

#### Management Representations

I have requested certain representations from management that are included in the management representation letter dated October 14, 2008.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of Board of Directors and management of the Community Foundation Serving Southwest Colorado and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Mary Brenes".

Mary Brenes, CPA