

**FOOTHILLS COMMUNITY FOUNDATION, INC.**

**AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**



# Warfield & Company CPAs

A Professional Corporation

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The Foothills Community Foundation, Inc.

We have audited the accompanying statements of financial position of the Foothills Community Foundation, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foothills Community Foundation Inc. as of June 30, 2006 and 2005, 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.

Warfield & Company, CPA's

*Warfield & Company, CPA's*

Scottsdale, AZ  
October 20, 2006

**FOOTHILLS COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30,**

	2006	2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 499,498	\$ 110,939
Accounts receivable	0	3,389
Grant receivable	35,000	0
Prepaid expenses	14,040	9,260
Endowment investments	152,740	50,000
Vehicle, equipment, and leasehold improvements, net	59,169	58,626
<b>TOTAL ASSETS</b>	<b>\$ 760,447</b>	<b>\$ 232,214</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 4,788	\$ 4,312
Deferred revenue	0	300
<b>TOTAL LIABILITIES</b>	<b>4,788</b>	<b>4,612</b>
<b>NET ASSETS</b>		
Unrestricted	210,764	227,602
Temporarily restricted	544,895	0
<b>TOTAL NET ASSETS</b>	<b>755,659</b>	<b>227,602</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 760,447</b>	<b>\$ 232,214</b>

See auditors' report and accompanying notes to financial statements

**FOOTHILLS COMMUNITY FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30,**

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 155,951	\$ 550,840	\$ 706,791	\$ 110,172
Grants	14,000	115,652	129,652	76,411
Memberships	109,309	0	109,309	157,453
Special events	9,282	181,653	190,935	170,293
Program revenues	187,035	0	187,035	185,916
Investment return	6,268	0	6,268	3,066
Net assets released from restrictions	303,250	(303,250)	0	0
<b>TOTAL SUPPORT AND REVENUE</b>	<b>785,095</b>	<b>544,895</b>	<b>1,329,990</b>	<b>703,311</b>
<b>EXPENSES</b>				
Program services				
Community services	16,429	0	16,429	39,800
Foothills Caring Corps	176,212	0	176,212	170,506
Culture-other	29,629	0	29,629	25,561
Desert Foothills Theater	189,023	0	189,023	231,579
Education	106,616	0	106,616	104,798
Total Program Services	517,909	0	517,909	572,244
Special event costs of direct benefit to donors	69,503	0	69,503	0
Support services				
Management and administration	207,278	0	207,278	183,855
Fund-raising	7,243	0	7,243	20,948
Total support services	214,521	0	214,521	204,803
<b>TOTAL EXPENSES</b>	<b>801,933</b>	<b>0</b>	<b>801,933</b>	<b>777,047</b>
<b>CHANGES IN NET ASSETS</b>	<b>(16,838)</b>	<b>544,895</b>	<b>528,057</b>	<b>(73,736)</b>
<b>NET ASSETS, beginning of year</b>	<b>227,602</b>	<b>0</b>	<b>227,602</b>	<b>206,625</b>
Mergers				
Foothills Caring Corps				20,198
Public Education Partnership				74,515
<b>NET ASSETS, end of year</b>	<b>\$ 210,764</b>	<b>\$ 544,895</b>	<b>\$ 755,659</b>	<b>\$ 227,602</b>

See auditors' report and accompanying notes to financial statements

**FOOTHILLS COMMUNITY FOUNDATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,**

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 528,057	\$ (73,736)
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation	18,493	14,055
Unrealized gains and earnings on endowment funds, net of investment fees	(2,740)	0
Loss on disposal of assets	103	0
Changes in assets and liabilities:		
Accounts receivable	3,389	(3,389)
Grants receivable	(35,000)	0
Prepaid expenses	(4,780)	(5,307)
Accounts payable	476	4,312
Deferred revenue	(300)	(14,711)
<b>NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES</b>	<b>507,698</b>	<b>(78,776)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of vehicle, equipment and leasehold improvements	(19,139)	(56,130)
Purchase of endowment investments	(100,000)	(50,000)
<b>NET CASH (USED BY) INVESTING ACTIVITIES</b>	<b>(119,139)</b>	<b>(106,130)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contribution from Public Education Partnership	0	74,514
Contribution from Foothills Caring Corp	0	20,198
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>0</b>	<b>94,712</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>388,559</b>	<b>(90,194)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>110,939</b>	<b>201,133</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 499,498</b>	<b>\$ 110,939</b>

See auditors' report and accompanying notes to financial statements

FOOTHILLS COMMUNITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

NOTE 1– NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT POLICIES

Nature of Activities

The Foothills Community Foundation, Inc. (“the Foundation”) was incorporated in Arizona on January 27, 1986 as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The mission of the Foundation is to enhance the quality of life of the Desert Foothills community.

The Foundation has four key area of focus: supporting educational opportunities, developing the performing and visual arts, providing programs and services to address social needs, and assisting in community service. The Foundation relies principally on community volunteer efforts and community financial support to accomplish its goals.

The Foundation engages in the following major activities:

Community Services: Support of the Foothills Caring Corps (since July 2004) which provides transportation, needed social contacts and quality of life assistance to homebound individuals; Domestic Violence Education and Assistance (DVEA); Meals-on-Wheels; Holiday Projects; and continued participation in the development of a YMCA and Community Center.

Culture: Includes the Desert Foothills Theatre with a season of three to four quality productions; Foothills Film Society; MindQuest; Visual Arts; and the Cave Creek Christmas Pageant.

Education: Support of the Public Education Partnership (since January 2005) which includes the Desert Foothills Community Education programs, Artist in Residency, Young Citizen’s Awards, Midnight Madness & Latch Free Program, and Grad Night Live.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, prepayments, payables and other liabilities. Recognition of prepaid contributions is deferred until the applicable year.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. 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, temporarily restricted assets, and permanently restricted assets. The Foundation has no permanently restricted net assets as of June 30, 2006.

FOOTHILLS COMMUNITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2006

NOTE 1 CONTINUED.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Vehicle, Equipment and Leasehold Improvements

It is the Foundation's policy to capitalize property and equipment over \$1,000. Vehicle, equipment and leasehold improvements are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight line method over the related assets estimated useful lives and is allocated to program services or support services based on the use of the asset.

Revenue and Support Recognition

Donor contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Donor-restricted contributions are reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets are released from restrictions.

A major portion of the Foundation's functions is conducted by unpaid volunteer officers and committees. The value of this contributed time is not reflected in the accompanying financial statements because the valuation of volunteers' time does not meet the criteria for recognition under SFAS No. 116, Accounting for Contributions Received and Contributions Made.

Donations-In-Kind

Material donations-in-kind services or items received by the Foundation are recorded as income along with a corresponding charge to expense or capitalized cost. There were no material in-kind donations during the year ending June 30, 2006.

FOOTHILLS COMMUNITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2006

NOTE 1 CONTINUED.

Functional Allocation of Expense

The costs of providing the various programs and other activities have been summarized on a functional basis on the statement of activities. Accordingly, certain costs have been allocated to the appropriate program. Support services costs are incurred to administer the various Foundation's projects and programs as a whole. Currently, management does not believe the time and cost to allocate these support services expenses to the various programs is a productive use of the Foundation resources.

Advertising Costs

The Foundation expenses advertising costs as incurred. Advertising and promotion expense for the year ended June 30, 2006 was \$77,557 and \$61,107 for 2005.

Income Taxes

The Foundation is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3) and Arizona Revised Statutes §43-1201. In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Internal Revenue Code §509(a).

NOTE 2 – ENDOWMENT INVESTMENTS

During June 2005 the Foundation established two endowment funds to provide long term support to the Foundation's programs, activities, and general operations. Such funds are known as the Foothills Community Foundation Educational Endowment Fund and the Foothills Community Foundation Endowment Fund. The Foundation entered into two agreements with the Arizona Community Foundation (ACF), whereby ACF will hold and invest the assets of these funds. A balance of \$25,000 was transferred to ACF for each fund on June 22, 2005 with an additional \$100,000 contributed in June 2006 and \$300,000 contributed in July 2006, after year end. The endowment investments are reported at the fair market value of the fund as provided by the Arizona Community Foundation. The Foundation has taken no distributions as of yet from these funds.

FOOTHILLS COMMUNITY FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2006

NOTE 2 CONTINUED.

Transactions for the year ended June 30, 2006 are as follows:

<u>EDUCATION ENDOWMENT</u>	<u>BALANCE</u>	<u>INTEREST INCOME</u>	<u>UNREALIZED GAIN</u>	<u>FEES</u>
Beginning balance 6/30/05	\$ 25,000			
Additional investment	100,000			
Total interest earned	536	\$ 536		
Total unrealized gain	1,336		\$ 1,336	
Administrative fees	(500)			\$ (500)
<b>Balance 6/30/06</b>	<b><u>126,372</u></b>	<b><u>536</u></b>	<b><u>1,336</u></b>	<b><u>(500)</u></b>
<u>GENERAL ENDOWMENT</u>				
Beginning balance 6/30/05	25,000			
Total interest earned	528	528		
Total unrealized gain	1,340		1,340	
Administrative fees	(500)			(500)
<b>Balance 6/30/06</b>	<b><u>26,369</u></b>	<b><u>528</u></b>	<b><u>1,340</u></b>	<b><u>(500)</u></b>
<b>TOTALS</b>	<b><u>\$ 152,740</u></b>	<b><u>\$ 1,064</u></b>	<b><u>\$ 2,676</u></b>	<b><u>\$ (1,000)</u></b>

NOTE 3 – VEHICLE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS:

Vehicle, equipment and leasehold improvements at June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Mini bus	\$ 40,997	\$ 40,997
Computers and software	31,509	28,826
Theater equipment and storage	33,147	26,596
Office improvements	6,756	6,756
Office equipment	12,023	12,914
	<u>124,432</u>	<u>116,089</u>
Less accumulated depreciation	65,263	57,463
Net	<u>\$ 59,169</u>	<u>\$ 58,626</u>
Current year depreciation	<u>\$ 18,493</u>	<u>\$ 14,055</u>

FOOTHILLS COMMUNITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2006

NOTE 4 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006 the Foundation used Sonoran Network for its high speed internet provider. The Foundation also purchased equipment for use in the theatre and the film society from Home Automation Systems. A board member has an ownership interest in both of these companies. During the year ended June 30, 2006 the Foundation paid Sonoran Network and Home Automation Systems \$600 and \$7,266 respectively and \$600 and \$3,145 for 2005, respectively.

NOTE 5 – COMMITMENTS

As of June 30, 2006 and 2005 the Foundation had entered into various noncancelable operating lease agreements for the rental of real property space and office equipment. Minimum rentals on an annual basis are as follows:

Fiscal year ending June 30,	2007	\$ 21,860
	2008	16,244
	2009	4,136
	2010	<u>600</u>
	Total	<u>\$ 42,840</u>

Rent expense for the year ended June 30, 2006 was \$22,041.

The Foundation sub-leases on a month-to-month basis a portion of its office space to two other non-profit entities for \$600 per month with a 30 day termination notice.

NOTE 6 – DESERT FOOTHILLS YMCA AND COMMUNITY CENTER

In July 2005 the Foundation became one of two members of the Desert Foothills YMCA and Community Center, a corporation organized exclusively for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. The corporation intends to serve as a supporting organization for the Valley of the Sun YMCA and the Foundation by financing, acquiring, owning, building and making available for use real properties and facilities for use by the two members. Upon completion of construction of the facilities, the corporation will deliver the facilities for use and shall then dissolve.

As of October 2006, approximately \$4 million has been pledged by contributors for the project. A public appeal for contributions is scheduled to begin in November 2006 with groundbreaking in 2007 and completion in 2008.

The Foundation has no monetary or other commitments to the corporation or the newly constructed YMCA.

FOOTHILLS COMMUNITY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2006

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash in banks. The Foundation limits the amount of credit exposure to any one financial institution by not exceeding federal deposit insurance amounts. However, at June 30, 2006, accounts at one bank were over the federal deposit insurance amount by \$316,774 due to an accumulation of funds for a transfer to the education endowment fund after the end of the year.

NOTE 8 – TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following programs as of June 30, 2006:

Community services	\$ 7,211
Foothills Caring Corp	73,941
Education	<u>463,743</u>
Total	<u>\$544,895</u>

NOTE 9 – GRANT RECEIVABLE

Grant receivable of \$35,000 represents the funds receivable from St. Luke's Health Initiatives that was approved in June 2006. The funds were subsequently received after the end of the year.

NOTE 10 – PRIOR YEAR PROGRAM MERGERS

During June 2004 the Foundation entered into an agreement with the Foothills Caring Corps "FCC" (formerly known as Desert Foothills VICAP) to merge FCC as a new program of the Foundation effective July 2004. FCC is now a program under the community services division of the Foundation which continues its mission to provide transportation services to the homebound elderly and disabled in the Foothills Community. The Foundation received \$20,198 with this merger which increased the Foundation's net assets by the same amount.

Effective December 31, 2004 the Foundation merged with Public Education Partnership ("PEP"). PEP is now a program under the education division of the Foundation which continues to operate under its own name and to support educational activities. The Foundation received \$74,515 under this agreement which increased the Foundation's net assets by the same amount.

NOTE 11 – SUBSEQUENT EVENTS

In September 2006 the Executive Director resigned from the Foundation. In October, 2006 a new Executive Director was appointed. These events are not expected to have a financial impact on the Foundation's operations.