

The Telluride Foundation

Financial Statements
December 31, 2005 and 2004

DRAFT
For Discussion Purposes Only

The Telluride Foundation
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December 31, 2005 and 2004

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Report of Independent Auditors

To the Board of Directors of
The Telluride Foundation

In our opinion, the accompanying balance sheets and the related statements of activities, functional expenses and cash flows present fairly, in all material respects, the financial position of The Telluride Foundation (the “Foundation”) at December 31, 2005 and 2004, and the changes in its net assets, functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Denver, Colorado
June 1, 2006

The Telluride Foundation
Balance Sheets
December 31, 2005 and 2004

	2005	2004
Assets		
Cash and cash equivalents	\$ 843,619	\$ 337,077
Investments (Note 3)	2,857,401	2,397,264
Accounts receivable	2,096	250
Pledges and grants receivable, net of discount (Note 4)	2,432,568	2,044,127
Other assets	17,491	33,717
Note receivable (Note 5)	-	-
Property and equipment, net (Note 6)	26,822	31,407
	<u>6,179,997</u>	<u>4,843,842</u>
Total assets	<u>\$ 6,179,997</u>	<u>\$ 4,843,842</u>
Liabilities and Net Assets		
Accounts payable	\$ 874,416	\$ 722,452
Accrued liabilities	28,986	29,231
Agency payable (Note 12)	103,606	-
Deferred income	-	4,860
Charitable gift annuity (Note 7)	118,071	129,980
	<u>1,125,079</u>	<u>886,523</u>
Total liabilities	<u>1,125,079</u>	<u>886,523</u>
Commitments and contingencies (Note 8)		
Net assets		
Unrestricted	2,113,023	1,883,416
Temporarily restricted (Note 9)	2,941,895	2,073,903
	<u>5,054,918</u>	<u>3,957,319</u>
Total net assets	<u>5,054,918</u>	<u>3,957,319</u>
Total liabilities and net assets	<u>\$ 6,179,997</u>	<u>\$ 4,843,842</u>

The accompanying notes are an integral part of these financial statements.

The Telluride Foundation
Statement of Activities
Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
Revenue, contributions and support			
Individual contributions (Note 10)	\$ 632,104	\$ 2,856,571	\$ 3,488,675
In-kind contributions	118,130	-	118,130
Dividend, interest and other income	153,639	-	153,639
Total revenue, contributions and support	<u>903,873</u>	<u>2,856,571</u>	<u>3,760,444</u>
Net assets released from restrictions			
Satisfaction of activity restrictions	1,988,579	(1,988,579)	-
Total net assets released from restrictions	<u>1,988,579</u>	<u>(1,988,579)</u>	<u>-</u>
Expenses			
Program services			
Grants and assistance programs	2,115,613	-	2,115,613
Education and consulting	179,985	-	179,985
Total program services	<u>2,295,598</u>	<u>-</u>	<u>2,295,598</u>
Support services			
Development	277,288	-	277,288
General and administrative	137,963	-	137,963
Total support services	<u>415,251</u>	<u>-</u>	<u>415,251</u>
Total expenses	<u>2,710,849</u>	<u>-</u>	<u>2,710,849</u>
Realized and unrealized investment gains/(losses)	48,004	-	48,004
Change in net assets	229,607	867,992	1,097,599
Net assets, beginning of year	<u>1,883,416</u>	<u>2,073,903</u>	<u>3,957,319</u>
Net assets, end of year	<u>\$ 2,113,023</u>	<u>\$ 2,941,895</u>	<u>\$ 5,054,918</u>

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The Telluride Foundation
Statement of Activities
Year Ended December 31, 2004

	Unrestricted	Temporarily Restricted	Total
Revenue, contributions and support			
Individual contributions (Note 10)	\$ 864,186	\$ 1,645,448	\$ 2,509,634
In-kind contributions	107,566	-	107,566
Dividend, interest and other income	78,756	-	78,756
Total revenue, contributions and support	<u>1,050,508</u>	<u>1,645,448</u>	<u>2,695,956</u>
Net assets released from restrictions			
Satisfaction of activity restrictions	<u>1,682,972</u>	<u>(1,682,972)</u>	<u>-</u>
Total net assets released from restrictions	1,682,972	(1,682,972)	-
Expenses			
Program services			
Grants and assistance programs	1,454,879	-	1,454,879
Education and consulting	<u>119,237</u>	<u>-</u>	<u>119,237</u>
Total program services	1,574,116	-	1,574,116
Support services			
Development	215,445	-	215,445
General and administrative	<u>142,309</u>	<u>-</u>	<u>142,309</u>
Total support services	<u>357,754</u>	<u>-</u>	<u>357,754</u>
Total expenses	1,931,870	-	1,931,870
Realized and unrealized investment gains/(losses)	<u>49,571</u>	<u>(12,630)</u>	<u>36,941</u>
Change in net assets	851,181	(50,154)	801,027
Net assets, beginning of year	<u>1,032,235</u>	<u>2,124,057</u>	<u>3,156,292</u>
Net assets, end of year	<u>\$ 1,883,416</u>	<u>\$ 2,073,903</u>	<u>\$ 3,957,319</u>

The accompanying notes are an integral part of these financial statements.

The Telluride Foundation
Statement of Functional Expenses
Year Ended December 31, 2005

	Program Services		Support Services		Total Expenses
	Grants and Assistance Programs	Education and Consulting	Development	General and Administrative	
Expenses					
Salaries	\$ 78,292	\$ 39,146	\$ 48,932	\$ 29,359	\$ 195,729
Employee benefits	18,585	9,293	11,616	6,970	46,464
Payroll taxes	5,475	2,737	3,422	2,053	13,687
Professional fees and services	68,448	298	447	38,852	108,045
Supplies	2,927	2,330	746	448	6,451
Telephone	1,749	874	1,093	656	4,372
Computer expense	2,522	1,262	1,577	947	6,308
Postage and shipping	925	462	694	231	2,312
Office and occupancy	8,957	4,479	6,718	2,239	22,393
Printing and publication	9,028	4,514	6,771	4,757	25,070
Travel	6,900	3,450	5,175	1,725	17,250
Advertising	556	4,397	556	-	5,509
Bank charges and investment fees	-	-	15,841	3,686	19,527
Bad debt expense	-	-	-	40,000	40,000
Miscellaneous	7,339	20,861	1,605	1,401	31,206
Awards and grants to charitable organizations	1,901,103	-	-	-	1,901,103
Fund-raising expense - contributed	-	29,532	115,362	-	144,894
Insurance	-	-	-	3,583	3,583
Special events and promotions	-	54,946	54,946	-	109,892
Membership dues and subscriptions	273	137	203	106	719
Depreciation and amortization	2,534	1,267	1,584	950	6,335
Total expenses	\$ 2,115,613	\$ 179,985	\$ 277,288	\$ 137,963	\$ 2,710,849

The accompanying notes are an integral part of these financial statements.

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The Telluride Foundation
Statement of Functional Expenses
Year Ended December 31, 2004

	Program Services		Support Services		Total Expenses
	Grants and Assistance Programs	Education and Consulting	Development	General and Administrative	
Expenses					
Salaries	\$ 78,590	\$ 39,295	\$ 49,119	\$ 29,471	\$ 196,475
Employee benefits	12,255	6,127	7,659	4,596	30,637
Payroll taxes	6,091	3,046	3,807	2,284	15,228
Professional fees and services	36,009	327	772	51,478	88,586
Supplies	2,542	1,271	1,589	953	6,355
Telephone	2,487	1,244	1,555	933	6,219
Computer expense	5,860	2,930	3,663	2,198	14,651
Postage and shipping	1,134	567	851	284	2,836
Office and occupancy	8,810	4,405	6,607	2,202	22,024
Printing and publication	3,480	1,740	2,610	17,232	25,062
Travel	6,950	3,475	5,212	1,737	17,374
Advertising	697	2,409	697	-	3,803
Bank charges and investment fees	-	-	5,306	2,368	7,674
Bad debt expense	-	-	-	18,800	18,800
Miscellaneous	13,839	12,509	1,696	2,495	30,539
Awards and grants to charitable organizations	1,272,996	-	-	-	1,272,996
Fund-raising expense - contributed	-	26,891	110,865	-	137,756
Insurance	-	-	-	4,084	4,084
Special events and promotions	-	11,432	11,432	-	22,864
Membership dues and subscriptions	349	174	261	148	932
Depreciation and amortization	2,790	1,395	1,744	1,046	6,975
Total expenses	\$ 1,454,879	\$ 119,237	\$ 215,445	\$ 142,309	\$ 1,931,870

The accompanying notes are an integral part of these financial statements.

The Telluride Foundation
Statements of Cash Flows
Years Ended December 31, 005 and 2004

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	\$ 1,097,599	\$ 801,027
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	40,000	18,800
Unrealized (gain)/loss on investments	(48,004)	(52,379)
(Gain) loss on sale of assets	(982)	-
Depreciation on property and equipment	6,335	6,975
Amortization of pledges and grants receivable discount	100,526	(84,374)
Change in operating assets and liabilities		
Receivables	(530,813)	(328,162)
Other assets	16,227	(22,413)
Accounts payable	255,570	204,542
Accrued liabilities	(245)	6,349
Charitable gift annuity	(11,909)	129,980
Note receivable	-	10,000
Deferred income	(4,860)	4,510
Net cash provided by operating activities	<u>919,444</u>	<u>694,855</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	3,243,318	930,817
Purchases of investments	(3,655,452)	(1,845,828)
Purchases of property and equipment	(1,750)	(21,007)
Proceeds from sale of property and equipment	982	
Net cash used in investing activities	<u>(412,902)</u>	<u>(936,018)</u>
Net decrease in cash and cash equivalents	506,542	(241,163)
Cash and cash equivalents at beginning of year	<u>337,077</u>	<u>578,240</u>
Cash and cash equivalents at end of year	<u>\$ 843,619</u>	<u>\$ 337,077</u>

The accompanying notes are an integral part of these financial statements.

The Telluride Foundation

Notes to Financial Statements

December 31, 2005 and 2004

1. Organization

The Telluride Foundation (the “Foundation”) was incorporated on August 3, 2000 in Colorado as a not-for-profit corporation. The Foundation is committed to enriching the human experience in the region by fostering private giving, strengthening service providers, and conducting events that celebrate our community. To this end, the Foundation provides leadership in philanthropy, serves as a responsible steward for entrusted funds and promotes understanding and respect for diversity.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which require that management 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 receipts and disbursements during the reporting period. Actual results could differ from initial estimates. In the opinion of the Foundation’s management, such differences would not be significant.

Cash and Cash Equivalents

The Foundation considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of certificates of deposit, and corporate or municipal bonds.

Short-term and Long-term Investments

The investment portfolios of all funds are carried at fair value at December 31, 2005 and 2004. Interest and dividend income is presented net of investment advisory fees of \$12,884 and \$3,479 for the years ended December 31, 2005 and 2004, respectively. Total earnings on unrestricted and temporarily restricted investments are credited to unrestricted net assets unless otherwise designated by the donor.

Pledges and Grants Receivable

The Foundation reports unconditional promises to give that are expected to be collected within one year at the net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises to give are received. Outstanding promises to give were discounted by \$250,932 and \$169,661 at December 31, 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, the Foundation recorded a bad debt expense associated with the pledges and grants receivable of \$40,000 and \$18,800, respectively.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation, and are depreciated using the straight-line method over the estimated useful lives of the respective assets, generally three to seven years.

In-kind Contributions

In-kind contributions are reflected as contributions at their estimated fair values when received or when an unconditional pledge to contribute has been made.

The Telluride Foundation

Notes to Financial Statements

December 31, 2005 and 2004

Awards and Grants

The Foundation makes awards and grants for community, education and children's organizations in the Telluride and surrounding counties. The minimum amount for which the Foundation is obligated is recorded upon the board of directors' approval. At December 31, 2005 and 2004, \$860,623 and \$578,232, respectively, of unconditional community grants promised to give was included in accounts payable on the Balance Sheets.

Accounting for Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted support. Unconditional promises to give without a stipulated due date or for which the Foundation has met all conditions precedent to receipt of the contribution prior to the Foundation's year end are classified as unrestricted net assets.

A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statements of Activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs attributable to program services and expenses associated with fundraising have been summarized in the accompanying Statements of Functional Expenses. Accordingly, certain general and administrative costs have been allocated among the programs benefited based primarily on evaluations of employees' time incurred on each program.

Advertising Costs

All advertising and promotion costs are expensed as incurred. Advertising costs totaled \$5,509 and \$3,803 for the years ended December 31, 2005 and 2004, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

The Telluride Foundation
Notes to Financial Statements
December 31, 2005 and 2004

3. Short-term and Long-term Investments

Investments at December 31, 2005 and 2004 and the related investment income for the years ended December 31, 2005 and 2004 for the Foundation consisted of the following:

	Interest and Dividends	Net Realized/ Unrealized Gains/(Loss)	Fair Value
December 31, 2005			
Corporate bonds	\$ 20,301	\$ (18,983)	\$ -
Financial instruments	3,728	(6,978)	-
Mutual funds	60,169	96,932	2,207,491
Stocks and equities	457	(8,947)	-
U.S. government and government agency obligations	14,153	(14,020)	544,378
Certificates of deposits	1,758	-	105,532
Total	<u>\$ 100,566</u>	<u>\$ 48,004</u>	<u>\$ 2,857,401</u>
December 31, 2004			
Corporate bonds	\$ 24,058	\$ (15,796)	\$ 585,179
Financial instruments	1,563	9,750	335,260
Mutual funds	9,926	12,510	323,831
Stocks and equities	138	32,071	132,775
U.S. government and government agency obligations	15,442	(1,594)	814,118
Certificates of deposits	3,823	-	206,101
Total	<u>\$ 54,950</u>	<u>\$ 36,941</u>	<u>\$ 2,397,264</u>

4. Pledges and Grants Receivable

Pledges and grants receivable consisted of the following unconditional promises to give at December 31:

	2005	2004
In one year or less	\$ 1,200,875	\$ 1,084,788
Between one and five years	<u>1,482,625</u>	<u>1,129,000</u>
Unconditional promises to give before unamortized discount	2,683,500	2,213,788
Less: Unamortized discount	<u>(250,932)</u>	<u>(169,661)</u>
Total	<u>\$ 2,432,568</u>	<u>\$ 2,044,127</u>

The Foundation was a recipient of an unconditional, one-time grant of \$365,000 during the year ended December 31, 2005. The grant is payable over five years. As of December 31, 2005, the Foundation had a grant receivable of \$296,206, net of discount.

The Telluride Foundation
Notes to Financial Statements
December 31, 2005 and 2004

5. Note Receivable

In April 2003, the Foundation entered into a no interest Loan Agreement (the "Loan") with the Telluride Mountain Village Convention and Visitor Bureau ("TMCVB") for start-up costs associated with TellurideTicket.com. The Loan was repaid during 2004 based upon the profits distributed to TMCVB from its subcontractor and profits generated by TMCVB in operating Telluride Tickets.

6. Property and Equipment

At December 31, 2005 and 2004, property and equipment held by the Foundation is as follows:

	2005	2004
Computer and software	\$ 25,522	\$ 23,773
Furniture, fixtures and equipment	30,037	30,036
	<u>55,559</u>	<u>53,809</u>
Less: Accumulated depreciation	<u>(28,737)</u>	<u>(22,402)</u>
	<u>\$ 26,822</u>	<u>\$ 31,407</u>

7. Charitable Gift Annuity

During 2004, the Foundation entered into an arrangement with a donor whereby the donor contributed assets to the Foundation in the amount of \$317,550 in exchange for the Foundation's requirement to pay an annuity over a specified period of time. Accordingly, the Foundation has recorded as a liability on the Balance Sheet the present value of the payments of \$118,071 and \$129,980 as of December 31, 2005 and 2004, respectively.

8. Commitments and Contingencies

The Foundation occupies office space under a non-cancelable operating lease, which expires in May 2006. Rental expense under the leases for the years ended December 31, 2005 and 2004 was \$18,963 and \$18,306, respectively.

Future minimum lease payments at December 31, 2005 are as follows:

2006	<u>11,557</u>
Total minimum lease payments	<u>\$ 11,557</u>

9. Temporarily Restricted Net Assets

At December 31, 2005 and 2004, temporarily restricted net assets of \$2,941,895 and \$2,073,903, respectively, have been restricted due to time restrictions and donor imposed restrictions. Temporarily restricted net assets are released from restriction based the lapse of time or upon their disbursements to various organizations and events within the Telluride community.

The Telluride Foundation
Notes to Financial Statements
December 31, 2005 and 2004

10. Related Party Transactions

The Foundation has recorded donations of \$536,000 and \$538,391 from related parties for the year ended December 31, 2005 and 2004, respectively. The Foundation received the donations through arms length transactions.

11. Tax Status

The Foundation is a nonprofit voluntary charitable organization, exempt from income tax under Section 501(a) of the U.S. Internal Revenue Code and the state of Colorado provisions. The Foundation has been classified by the Internal Revenue Service as an organization that is not a private foundation and has been designated as a publicly supported organization.

12. Agency Agreement

In September 2005, the Foundation entered into an agreement with an unaffiliated not-for-profit organization whereby the Foundation agreed to maintain a fund on behalf of the unaffiliated organization for an administrative fee of 0.75% per year. As of December 31, 2005 the Foundation had a fund balance of \$103,606 recorded within investments and as agency payable. Income on the fund is recorded as an increase to investments and agency payable.