
NATIVE ARTS & CULTURES FOUNDATION

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

and

Supplementary Financial Information

with

Independent Auditors' Reports

NATIVE ARTS & CULTURES FOUNDATION

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Independent Auditors' Report

The Board of Directors
Native Arts & Cultures Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Native Arts & Cultures Foundation (NACF or the Foundation) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 reasonable basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Native Arts & Cultures Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

March 14, 2013

NATIVE ARTS & CULTURES FOUNDATION

Statements of Financial Position

December 31,	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 494,438	\$ 551,777
Grants receivable	-	533,000
Other receivable	1,664	-
Prepaid expenses and deposits	27,387	22,742
Total current assets	523,489	1,107,519
Furniture and equipment	39,748	25,391
Less accumulated depreciation	11,265	8,931
Net furniture and equipment	28,483	16,460
Investments <i>(Note 4)</i>	10,475,185	10,185,944
Total assets	\$ 11,027,157	\$ 11,309,923
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 27,695	\$ 6,944
Grants payable	245,400	171,154
Accrued payroll liabilities	713	5,230
Total current liabilities	273,808	183,328
Deferred rent <i>(Note 5)</i>	3,810	-
Total liabilities	277,618	183,328
Commitments <i>(Note 5)</i>		
Net assets:		
Unrestricted:		
Undesignated	4,622	202,433
Board-designated <i>(Note 7)</i>	1,165,727	1,132,726
Total unrestricted	1,170,349	1,335,159
Temporarily restricted <i>(Note 6)</i>	579,190	791,436
Permanently restricted <i>(Notes 7 and 8)</i>	9,000,000	9,000,000
Total net assets	10,749,539	11,126,595
Total liabilities and net assets	\$ 11,027,157	\$ 11,309,923

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

NATIVE ARTS & CULTURES FOUNDATION

Statements of Activities and Changes in Net Assets

Years Ended December 31,

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses) and other support:								
Grants	\$ 55,000	\$ 30,000	\$ -	\$ 85,000	\$ 9,472	\$ 100,000	\$ -	\$ 109,472
Contributions	25,205	-	-	25,205	30,291	-	-	30,291
Tribal government	13,965	-	-	13,965	1,500	-	-	1,500
Special event income, net of expenses of \$102,463 for 2012	29,853	-	-	29,853	-	-	-	-
Investment return <i>(Note 3)</i>	59,668	869,931	-	929,599	(29,806)	217,188	-	187,382
In-kind contributions	456	-	-	456	14,447	-	-	14,447
Other income	20	-	-	20	-	-	-	-
Loss on disposal of furniture and equipment	(1,527)	-	-	(1,527)	-	-	-	-
Net assets released from restrictions <i>(Note 6)</i>	1,112,177	(1,112,177)	-	-	1,599,443	(1,599,443)	-	-
Total revenues, gains (losses) and other support	1,294,817	(212,246)	-	1,082,571	1,625,347	(1,282,255)	-	343,092
Functional expenses:								
Program services	1,107,215	-	-	1,107,215	1,263,860	-	-	1,263,860
Management and general	236,600	-	-	236,600	356,609	-	-	356,609
Fundraising	115,812	-	-	115,812	116,588	-	-	116,588
Total expenses	1,459,627	-	-	1,459,627	1,737,057	-	-	1,737,057
Decrease in net assets	(164,810)	(212,246)	-	(377,056)	(111,710)	(1,282,255)	-	(1,393,965)
Net assets, beginning of year	1,335,159	791,436	9,000,000	11,126,595	1,446,869	2,073,691	9,000,000	12,520,560
Net assets, end of year	\$ 1,170,349	\$ 579,190	\$ 9,000,000	\$ 10,749,539	\$ 1,335,159	\$ 791,436	\$ 9,000,000	\$ 11,126,595

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

NATIVE ARTS & CULTURES FOUNDATION

Statements of Cash Flows

Years Ended December 31,	2012	2011
Cash flows from operating activities:		
Decrease in net assets	\$ (377,056)	\$ (1,393,965)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	6,130	4,521
Loss on disposal of furniture and equipment	1,527	-
Realized and unrealized (gain) loss on investments	(716,810)	170,295
(Increase) decrease in assets:		
Grants receivable	533,000	620,000
Other receivable	(1,664)	-
Prepaid expenses and deposits	(4,645)	(8,595)
Increase (decrease) in liabilities:		
Accounts payable	20,751	(20,211)
Grants payable	74,246	110,722
Accrued payroll liabilities	(4,517)	5,230
Deferred rent	3,810	-
Net cash used by operating activities	(465,228)	(512,003)
Cash flows from investing activities:		
Proceeds from sale of investments	4,711,161	4,706,438
Purchases of investments	(4,283,592)	(4,173,024)
Proceeds from sale of furniture and equipment	3,900	-
Purchases of furniture and equipment	(23,580)	(5,615)
Net cash provided by investing activities	407,889	527,799
Net increase (decrease) in cash and cash equivalents	(57,339)	15,796
Cash and cash equivalents, beginning of year	551,777	535,981
Cash and cash equivalents, end of year	\$ 494,438	\$ 551,777

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

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization - The Native Arts & Cultures Foundation (NACF or the Foundation) was established to promote the revitalization, appreciation, and perpetuation of Native arts and cultures in all sectors of society through philanthropy and partnership, ensuring a path that benefits present and future generations of indigenous peoples in America. The Foundation is the first national philanthropic foundation dedicated exclusively to Native arts and cultures. Through grant-making, partnerships, and convenings, NACF will focus on strengthening the Native arts and cultures field, indigenous artists and communities.

Summary of Significant Accounting Policies

Basis of Presentation - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted* - Resources over which the Board of Directors has discretionary control and are not subject to donor imposed restrictions. Designated amounts represent those revenues the Board has set aside for a particular purpose.
- *Temporarily restricted* - Those resources subject to donor imposed restrictions that will be satisfied by actions of the Foundation or passage of time.
- *Permanently restricted* - Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. The donors of these resources permitted the Foundation to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

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.

Estimates are used in the financial statements for, among other things, the determination of any allowance for uncollectible receivables, the useful lives of furniture and equipment for calculating depreciation expense, and the valuation of investments classified as Level 3.

Cash and Cash Equivalents - The Foundation considers money market funds, financial instruments, and certificates of deposit with an original maturity date of 90 days or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts, which at times may exceed federally insured limits.

Grants Receivable - Grants receivable are recognized upon notification of the award by the grantor. Grants receivable as of December 31, 2011, are due within one year and are considered fully collectible.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Organization and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Furniture and Equipment - Furniture and equipment are recorded at cost, if purchased, and at fair value, if donated. The Foundation depreciates furniture and equipment over estimated useful lives ranging from 3 to 7 years using the straight-line method of depreciation.

Investments - Investments consist of mutual funds, an annuity, and a hedge fund which are carried at fair value. The investments are classified as long-term as they pertain to donor-restricted and Board-designated endowments.

Revenue Recognition - Contributions, including unconditional promises to give, are recognized, as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give (pledges) are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met.

During 2010, the Foundation received a \$225,000 conditional promise to give over a three-year period to fund salary and associated expenses for a new Development Director position. As of December 31, 2012, the Foundation has recognized \$183,000 of this contribution, leaving a conditional promise to give of \$42,000 to be received and recognized once certain additional matching funds are raised from new or existing sources.

Income Taxes - The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Foundation is not classified as a private foundation.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions and provide guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe the Foundation has any uncertain tax positions. The Foundation files informational returns. Generally, these returns are subject to examination by income tax authorities for three years from the filing of a return. As such, the returns for the years ended December 31, 2009, 2010, and 2011 are currently subject to examination. The Foundation has not paid any interest or penalties related to its income tax positions. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

1. Nature of Organization and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Functional Allocation of Expenses - Salaries and related expenses are allocated based on estimates of time spent on programs. Other expenses, not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

2. Concentrations

Grants receivable at December 31, 2011 are from two grantors.

A single grantor accounted for approximately 59 percent and 92 percent of total grant revenues during the years ended December 31, 2012 and 2011, respectively.

3. Investment Return

Investment return consists of the following:

	2012	2011
Interest and dividends	\$ 263,851	\$ 412,333
Net realized and unrealized gain (loss)	716,810	(170,295)
Investment management fees	<u>(51,062)</u>	<u>(54,656)</u>
Net investment return	<u>\$ 929,599</u>	<u>\$ 187,382</u>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

4. Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 and the valuation methodologies used for assets are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair value is based on significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

4. Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis at December 31:

2012	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity	\$ 3,026,825	\$ -	\$ -	\$ 3,026,825
International equity	2,529,889	-	-	2,529,889
Fixed income	2,392,933	-	-	2,392,933
Money market	2,401	-	-	2,401
Annuity	-	1,009,024	-	1,009,024
Hedge fund	-	-	1,514,113	1,514,113
	<u>\$ 7,952,048</u>	<u>\$ 1,009,024</u>	<u>\$ 1,514,113</u>	<u>\$ 10,475,185</u>
2011				
Mutual funds:				
Domestic equity	\$ 2,045,233	\$ -	\$ -	\$ 2,045,233
International equity	1,584,085	-	-	1,584,085
Fixed income	4,117,977	-	-	4,117,977
Money market	7,235	-	-	7,235
Annuity	-	1,052,893	-	1,052,893
Hedge fund	-	-	1,378,521	1,378,521
	<u>\$ 7,754,530</u>	<u>\$ 1,052,893</u>	<u>\$ 1,378,521</u>	<u>\$ 10,185,944</u>

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the net asset value of shares held by the Foundation at year end, and are classified as Level 1.

Annuity: Recorded at fair value provided primarily by the insurance company and is based on pricing models that incorporate available trade, bid and other market information.

Hedge fund: Valued at net asset value of shares held by the Foundation at year end. The underlying investments of the hedge fund are measured by management of the hedge fund using a variety of valuation methods including Level 1, Level 2, and Level 3 inputs. As such, this asset is classified as Level 3.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

4. Fair Value Measurements - Continued

A summary of the fair value measurements using unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Balance, beginning of year	\$ 1,378,521	\$ 1,330,416
Realized and unrealized gains	146,477	63,279
Fees paid	<u>(10,885)</u>	<u>(15,174)</u>
Balance, end of year	<u><u>\$ 1,514,113</u></u>	<u><u>\$ 1,378,521</u></u>

5. Commitments

The Foundation leases its office facilities under a long-term, non-cancelable operating lease agreement which expires February, 2018, and includes an option for NACF to terminate the lease in February, 2016 for \$31,226. The lease provides for increases in future minimum annual rental payments. The Foundation records rent expense using the straight-line method over the life of the lease. Accordingly, a deferred rent liability of \$3,810 has been recorded at December 31, 2012.

The Foundation also leases a copier under a long-term, non-cancelable operating lease agreement which expires April, 2013. The lease is secured with a \$10,000 letter of credit, which is collateralized by a certificate of deposit held at the same financial institution.

Total rent expense was \$40,519 and \$39,009 for 2012 and 2011, respectively.

The following is a schedule by year of future minimum rental payments required by the operating lease agreements:

Years Ending December 31,	Amount
2013	\$ 40,870
2014	49,200
2015	50,670
2016	52,186
2017	53,740
Thereafter	<u>9,000</u>
	<u><u>\$ 255,666</u></u>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2012	2011
Time restriction	\$ -	\$ 533,000
Purpose restriction	-	99,177
Unappropriated endowment earnings	579,190	159,259
	<u>\$ 579,190</u>	<u>\$ 791,436</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or lapse of time restrictions.

	2012	2011
Time restriction	\$ 563,000	\$ 1,120,000
Purpose restriction	99,177	75,823
Appropriation of endowment earnings	450,000	403,620
	<u>\$ 1,112,177</u>	<u>\$ 1,599,443</u>

7. Endowment and Permanently Restricted Net Assets

Net assets of the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring 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 Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

7. Endowment and Permanently Restricted Net Assets - Continued

Donor-restricted endowment funds are co-mingled with overall investments of the Foundation and are subject to the investment policies of the Foundation with an overall goal of long-term capital appreciation with preservation of capital. The strategy of the Foundation is to maintain a balanced, diversified portfolio with specific asset allocation targets. To manage risk, the investment policy also limits the types of investments the Foundation can hold.

The Foundation has adopted a spending policy which allows management to appropriate 5 percent of the average market value of the endowment investments as of year end of the previous three years.

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

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 579,190	\$ 9,000,000	\$ 9,579,190
Board-designated endowment funds	<u>1,165,727</u>	<u>-</u>	<u>-</u>	<u>1,165,727</u>
	<u>\$ 1,165,727</u>	<u>\$ 579,190</u>	<u>\$ 9,000,000</u>	<u>\$ 10,744,917</u>
2011				
Donor-restricted endowment funds	\$ -	\$ 159,259	\$ 9,000,000	\$ 9,159,259
Board-designated endowment funds	<u>1,132,726</u>	<u>-</u>	<u>-</u>	<u>1,132,726</u>
	<u>\$ 1,132,726</u>	<u>\$ 159,259</u>	<u>\$ 9,000,000</u>	<u>\$ 10,291,985</u>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

7. Endowment and Permanently Restricted Net Assets - Continued

Changes in endowment net assets for the years ended December 31, 2012 and 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	\$ 1,225,278	\$ 345,691	\$ 9,000,000	\$10,570,969
Investment return:				
Realized income	65,138	530,570	-	595,708
Unrealized loss	<u>(42,734)</u>	<u>(313,382)</u>	<u>-</u>	<u>(356,116)</u>
Net investment gain	22,404	217,188	-	239,592
Investment management fees	(54,656)	-	-	(54,656)
Appropriation of endowment earnings for expenditure	<u>(60,300)</u>	<u>(403,620)</u>	<u>-</u>	<u>(463,920)</u>
Endowment net assets, December 31, 2011	1,132,726	159,259	9,000,000	10,291,985
Investment return:				
Realized income	41,006	344,801	-	385,807
Unrealized gain	<u>68,057</u>	<u>525,130</u>	<u>-</u>	<u>593,187</u>
Net investment gain	109,063	869,931	-	978,994
Investment management fees	(51,062)	-	-	(51,062)
Release from Board designation	(25,000)	-	-	(25,000)
Appropriation of endowment earnings for expenditure	<u>-</u>	<u>(450,000)</u>	<u>-</u>	<u>(450,000)</u>
Endowment net assets, December 31, 2012	<u>\$ 1,165,727</u>	<u>\$ 579,190</u>	<u>\$ 9,000,000</u>	<u>\$10,744,917</u>

NATIVE ARTS & CULTURES FOUNDATION

Notes to Financial Statements - Continued

8. Subsequent Events

Management has evaluated subsequent events through March 14, 2013, the date the financial statements were available for issue.

In January 2013, a donor notified the Foundation it had released all restrictions associated with a \$5 million permanently restricted contribution made in 2008. As such, in 2013, this amount will be reclassified from the Foundation's permanently restricted endowment to its unrestricted net asset class.

NATIVE ARTS & CULTURES FOUNDATION

Supplementary Financial Information

Independent Auditors' Report on Supplementary Financial Information

The Board of Directors
Native Arts & Cultures Foundation

We have audited the financial statements of the Native Arts & Cultures Foundation as of and for the years ended December 31, 2012 and 2011, and our report thereon dated March 14, 2013, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hoffman, Stewart & Schmidt, P.C.

March 14, 2013

NATIVE ARTS & CULTURES FOUNDATION

Schedules of Expenses

Years Ended December 31,	2012	2011
Grantmaking programs	\$ 452,950	\$ 530,287
Salaries and wages	567,253	483,867
Payroll taxes and benefits	79,002	61,654
Office and operations	129,783	187,428
Professional contracts	14,440	165,014
Communications and external relation:	95,863	136,332
Travel	112,792	167,489
Equipment	1,414	465
Depreciation	6,130	4,521
Total expenses	<u>\$ 1,459,627</u>	<u>\$ 1,737,057</u>