

Princeton Area Community Foundation

connecting people who care
with causes that matter
across central new jersey

PRINCETON AREA COMMUNITY FOUNDATION, INC.

Financial Statements

December 31, 2007 and 2006

With Independent Auditors' Report

Princeton Area Community Foundation, Inc.
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December 31, 2007 and 2006

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Independent Auditors' Report

To the Board of Trustees,
Princeton Area Community Foundation, Inc.:

We have audited the accompanying statements of financial position of the Princeton Area Community Foundation, Inc. (A New Jersey Not-For-Profit Corporation) as of December 31, 2007 and 2006, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 audits provide 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 Princeton Area Community Foundation, Inc. as of December 31, 2007 and 2006, 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.

WithumSmith+Brown, PC

May 29, 2008

Princeton Area Community Foundation, Inc.
Statements of Financial Position
December 31, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 2,148,847	\$ 2,456,899
Contributions receivable	111,006	347,599
Investments	51,756,373	44,998,323
Prepaid expenses	14,965	15,580
Split interest agreements	853,218	885,154
Cash surrender value of life insurance	125,067	103,462
Deposits	10,125	8,250
Property and equipment, net	<u>9,375</u>	<u>13,455</u>
	<u>\$ 55,028,976</u>	<u>\$ 48,828,722</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 28,189	\$ 28,316
Grants payable	2,495	370,204
Funds held for others	<u>2,201,888</u>	<u>563,856</u>
Total liabilities	2,232,572	962,376
Net assets		
Unrestricted		
Board designated long-term grant funds	29,309,338	27,007,976
Other grant funds	20,749,628	18,100,296
Operating funds	<u>1,884,220</u>	<u>1,872,920</u>
	51,943,186	46,981,192
Temporarily restricted	<u>853,218</u>	<u>885,154</u>
Total net assets	<u>52,796,404</u>	<u>47,866,346</u>
	<u>\$ 55,028,976</u>	<u>\$ 48,828,722</u>

The Notes to Financial Statements are an integral part of these statements.

Princeton Area Community Foundation, Inc.
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenues						
Contributions	\$ 3,507,313	\$ --	\$ 3,507,313	\$ 3,066,567	\$ --	\$ 3,066,567
Investment income	4,834,448	--	4,834,448	5,703,770	--	5,703,770
Other income	11,833	--	11,833	9,263	--	9,263
Special events	70,210	--	70,210	--	--	--
Change in value of split interest agreements	30,834	(31,936)	(1,102)	20,252	231,463	251,715
Total support and revenues	<u>8,454,638</u>	<u>(31,936)</u>	<u>8,422,702</u>	<u>8,799,852</u>	<u>231,463</u>	<u>9,031,315</u>
Net assets released due to satisfaction of purpose restrictions	--	--	--	1,005,000	(1,005,000)	--
	<u>8,454,638</u>	<u>(31,936)</u>	<u>8,422,702</u>	<u>9,804,852</u>	<u>(773,537)</u>	<u>9,031,315</u>
Allocations and expenses						
Program services	3,117,369	--	3,117,369	2,866,811	--	2,866,811
Management and general	240,268	--	240,268	209,543	--	209,543
Fundraising	135,007	--	135,007	110,930	--	110,930
Total allocations and expenses	<u>3,492,644</u>	<u>--</u>	<u>3,492,644</u>	<u>3,187,284</u>	<u>--</u>	<u>3,187,284</u>
Changes in net assets	4,961,994	(31,936)	4,930,058	6,617,568	(773,537)	5,844,031
Net assets, beginning of year	<u>46,981,192</u>	<u>885,154</u>	<u>47,866,346</u>	<u>40,363,624</u>	<u>1,658,691</u>	<u>42,022,315</u>
Net assets, end of year	<u>\$ 51,943,186</u>	<u>\$ 853,218</u>	<u>\$ 52,796,404</u>	<u>\$ 46,981,192</u>	<u>\$ 885,154</u>	<u>\$ 47,866,346</u>

The Notes to Financial Statements are an integral part of these statements.

Princeton Area Community Foundation, Inc.
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Changes in net assets	\$ 4,930,058	\$ 5,844,031
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Unrealized gain on investment	(976,296)	(3,219,473)
Realized gain on sale of investments	(1,478,311)	(1,021,250)
Loss on disposal of assets	2,855	425
Change in value of on split interest agreements	1,102	(251,715)
Depreciation	4,025	7,432
Changes in assets and liabilities		
Contributions receivable	245,822	2,176,906
Prepaid expenses	615	(15,580)
Deposits	(1,875)	--
Accounts payable and accrued expenses	(127)	26,442
Grants payable	(367,709)	(228,260)
Funds held for others	<u>1,638,032</u>	<u>168,169</u>
Net cash provided by operating activities	3,998,191	3,487,127
Cash flows from investing activities		
Property and equipment additions	(2,800)	(4,994)
Liquidation of split interest agreement	--	1,000,000
Sale of investments	4,974,428	3,496,109
Purchase of investments	<u>(9,277,871)</u>	<u>(8,873,501)</u>
Net cash used by investing activities	<u>(4,306,243)</u>	<u>(4,382,386)</u>
Net decrease in cash and cash equivalents	(308,052)	(895,259)
Cash and cash equivalents		
Beginning of year	<u>2,456,899</u>	<u>3,352,158</u>
End of year	<u>\$ 2,148,847</u>	<u>\$ 2,456,899</u>

Supplemental disclosures

There were no amounts paid for interest or income taxes
for the years ended December 31, 2007 and 2006.

The Notes to Financial Statements are an integral part of these statements.

Princeton Area Community Foundation, Inc.
Statements of Functional Expenses
Years Ended December 31, 2007 and 2006

	2007				2006			
	Program Services	Supporting Services Management and General	Fundraising	Total	Program Services	Supporting Services Management and General	Fundraising	Total
Grant expense	\$ 2,727,987	\$ --	\$ --	\$ 2,727,987	\$ 2,508,780	\$ --	\$ --	\$ 2,508,780
Salaries and wages	245,421	150,999	60,869	457,289	233,051	133,926	56,080	423,057
Employee benefits and payroll taxes	51,067	28,170	12,795	92,032	50,298	26,976	11,612	88,886
Professional services	7,491	11,237	--	18,728	10,179	15,268	--	25,447
Rent	41,647	22,961	10,360	74,968	38,866	20,568	8,932	68,366
Filing fees	--	--	400	400	--	--	424	424
Insurance	2,809	1,549	699	5,057	958	508	220	1,686
Repairs and maintenance	8,523	7,555	2,120	18,198	5,130	3,141	1,179	9,450
Telephone	1,170	646	291	2,107	1,093	579	251	1,923
Postage	2,772	1,528	690	4,990	2,708	1,433	622	4,763
Office supplies	3,389	1,866	843	6,098	2,828	1,496	650	4,974
Marketing	--	9,881	22,387	32,268	--	--	28,260	28,260
Special event direct costs	--	--	21,685	21,685	--	--	--	--
Membership dues and subscriptions	16,786	--	--	16,786	3,717	1,967	854	6,538
Training and conferences	5,570	3,071	1,385	10,026	4,149	2,195	954	7,298
Depreciation	2,737	805	483	4,025	5,054	1,486	892	7,432
	<u>\$ 3,117,369</u>	<u>\$ 240,268</u>	<u>\$ 135,007</u>	<u>\$ 3,492,644</u>	<u>\$ 2,866,811</u>	<u>\$ 209,543</u>	<u>\$ 110,930</u>	<u>\$ 3,187,284</u>

The Notes to Financial Statements are an integral part of these statements.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

1. Nature of Organization

Princeton Area Community Foundation, Inc. ("PACF") is a New Jersey not-for-profit corporation, located in Mercer County, organized and incorporated in 1991. Its primary purpose is to encourage philanthropy as an important community value and activity. PACF is primarily a philanthropic fund which supports charitable giving through education, grant making, and by creating a network of donors, professional advisors and not-for-profit organizations to increase and improve the effectiveness of giving in the region. PACF also holds custodial funds in a management capacity, where the funds are managed and held for the account owner's benefit.

2. Summary of Significant Accounting Policies

Basis of Presentation

Financial reporting by not-for-profit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. For the years ended December 31, 2007 and 2006, PACF had accounting transactions in two net asset categories. The unrestricted net asset category represents net assets that are not subject to donor imposed restrictions and the temporarily restricted net asset category which represents net assets that are subject to donor imposed time or purpose restrictions.

Revenue and Support Recognition

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and changes in net assets as net assets released from restrictions. However, restricted contributions whose restrictions expire or are otherwise satisfied within the period of receipt are reported as unrestricted revenues in the statements of activities and changes in net assets. Unrestricted contributions are recognized as revenue when they are received or unconditionally pledged. The variance power provision contained in PACF's governing documents further provides that, absent contrary directions given in the transferring instrument regarding the use of principal, all or part of the principal of any fund may be used subject to certain conditions, including approval of the Board of Trustees. Therefore, such contributions are reported as unrestricted net assets.

Donated Services

PACF receives donated services from unpaid volunteers, officers and directors which support fundraising, administrative and program efforts. The value of all donated services is not included in these financial statements as they do not meet the criteria for recognition. PACF received approximately 1,000 hours of donated services during each of the years ended December 31, 2007 and 2006.

Cash and Cash Equivalents

For purposes of the statements of cash flows, PACF considers all money market funds and certificates of deposit with a maturity date of three months or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable values, and all investments in debt securities are measured at fair value in the statements of financial position. PACF has invested funds in an alternative investment. The investment has been established as a limited partnership but is not traded on any public exchange or market. The alternative investment invests in various investment vehicles, including publicly traded equities and bonds traded in the United States and internationally, privately held companies, and closely held limited partnerships and investment companies. Those investments that are traded in the United States or on foreign exchanges are valued based on current traded value. Investments in privately held or closely held companies are valued at the net value based on audited or unaudited financial statements. Estimates of fair value for certain investments have been used for valuing those underlying investments that are not readily traded. Donated investments are recorded at the fair value at the date of receipt. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income or loss is restricted by the

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

donor or the law. Except for those funds which have specifically identified investments associated with them, the majority of the investments are held in pooled funds at PACF. Each fund is assigned a certain unit value and its ownership interest is based on the allocation of the fair value of the fund's units to the total fair value of the investment pool. The pool is revalued monthly and income and gains or losses are allocated to each fund based on its units.

Distributions of Investment Returns

PACF's policy for annual distributions from Board designated long-term grant funds is calculated at an annual amount equal to approximately 5 percent (4 percent grants, 1 percent fees) of the average trailing eight-quarter market values of each fund. Other donor funds make grants in varying amounts annually. For the years ended December 31, 2007 and 2006, \$2,727,987 and \$2,508,780 was distributed from all donor funds, respectively.

The total net return, which includes interest and dividend payments plus net capital appreciation earned by the pooled investments, net of the operating expenses and distributions, is applied to each fund at the end of each month.

New funds or additional contributions to an existing fund that have been at PACF for less than one year will not make a full distribution. A prorata calculation is used based on the date of receipt of the contribution. The calculation for the distributions for funds that have been at PACF for more than one year but less than two years is based on the dates the contribution was received and the ending market values for each quarter.

Property and Equipment

Property and equipment is recorded at cost, except for donated items, which are recorded at fair value on the date of donation. Improvements are capitalized, while repairs and maintenance expenditures are expensed in the statements of activities and changes in net assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method which ranges from 3 to 10 years.

Donated furniture and equipment is recorded as restricted support when donors stipulate how long the assets must be used. In the absence of such stipulations, contributions of furniture and equipment are recorded as unrestricted support.

Income Taxes

PACF is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in these financial statements.

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 certain reported amounts and disclosures. Significant estimates include the fair value of the split interest agreements, which are subject to change based on the life expectancy of the donors. The value of alternative investments includes estimates of fair value for instruments that are not publicly traded. It is reasonably possible that these estimates could change in the near future.

Allocation of Expenses

Expenses are allocated among program services, management and general and fundraising using the direct cost method, historical percentages or other reasonable basis consistent with the benefit derived by each program. Program services include grantmaking, and all activities that facilitate philanthropy in the central New Jersey region, including education, and the creation and maintenance of networks, among donors, nonprofits and professional advisors.

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Notes to Financial Statements
December 31, 2007 and 2006

Concentration of Credit Risks

Financial instruments which potentially subject PACF to concentrations of credit risk are cash and cash equivalents, investments and contributions receivable. PACF places cash and its investments in high quality securities with several financial and investment institutions which help to limit PACF's exposure to concentrations of credit risk. However, PACF is subject to the inherent risks associated with market fluctuations which it attempts to minimize by holding a diversified portfolio. Cash balances at financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At December 31, 2007 and 2006 and at various times during the years, PACF had cash balances which exceeded the insured limit.

Contributions receivable are received from a wide donor base which limits the concentration of credit risk.

Funds Held for Others

PACF receives and distributes assets under certain agency and intermediary arrangements. When PACF accepts a contribution from a not-for-profit organization ("NPO") to establish a fund that specifies itself or its affiliate as the beneficiary of that fund, PACF accounts for the transfer of such assets as a liability. The liability is established at the fair value of the funds received, adjusted for investment earnings and fees, gains and losses and net of any funds returned which is generally equivalent to the present value of future payments expected to be made to the NPOs. These funds are reflected as "Funds Held for Others" in the accompanying statements of financial position.

3. Investments

Investments, at December 31, consisted of the following:

	2007		2006	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Corporate bonds- mutual fund	\$ 11,843,483	\$ 11,918,821	\$ 11,258,068	\$ 11,133,978
Domestic equity	13,266,453	14,251,769	10,844,198	14,110,843
International equity	7,061,884	11,984,174	6,312,382	9,511,613
Limited partnerships	10,500,000	13,538,982	8,500,000	10,202,496
Other	<u>24,940</u>	<u>62,627</u>	<u>358</u>	<u>39,393</u>
	<u>\$ 42,696,760</u>	<u>\$ 51,756,373</u>	<u>\$ 36,915,006</u>	<u>\$ 44,998,323</u>

The total annual return on investments based on average fair market value was approximately 11.1 percent and 14.6 percent for the years ended December 31, 2007 and 2006, respectively. Investment income for the purpose of annual return is calculated as follows:

	2007	2006
Dividend and interest income	\$ 2,537,562	\$ 1,490,111
Net realized and unrealized gains and losses on investments	2,454,607	4,240,525
Asset management fees	(46,198)	(51,734)
Realized (losses) gains on contributed stock	(151,339)	198
Earnings, fees and gains shared with Funds held for Others	(64,318)	(59,833)
Interest income on money market accounts	<u>104,134</u>	<u>84,503</u>
Total investment return	<u>\$ 4,834,448</u>	<u>\$ 5,703,770</u>

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	2007	2006
Furniture and office equipment	\$ 43,666	\$ 48,561
Leasehold Improvements	2,800	--
Accumulated depreciation	<u>(37,091)</u>	<u>(35,106)</u>
	<u>\$ 9,375</u>	<u>\$ 13,455</u>

Depreciation expense was \$4,025 and \$7,432 at December 31, 2007 and 2006, respectively.

5. Split Interest Agreements

Split interest agreements consist of the following. PACF is the irrevocable beneficiary of three charitable remainder trusts. PACF's interest is recorded as a contribution at its net present value of \$710,874 and \$742,810 at 2007 and 2006, respectively based on actuarially determined life expectancies and discounted at a risk free rate of return of 5 percent determined at the respective dates of the original contributions.

PACF also received a one-third interest in a retained life estate in a personal residence. PACF's interest was recorded as a contribution at its net present value of \$142,344 for both years based on actuarially determined life expectancies and discounted at a risk free rate of return of 5 percent as determined at the date of the original contribution.

6. Commitments and Contingencies

Operating Leases

During November 2007, PACF extended its non-cancelable lease agreement for office space through September 2013. There is one additional five year renewal option under the terms of the agreement. The lease requires monthly payments of approximately \$5,175 per month, subject to certain escalations.

The following is a schedule of the future minimum lease payments as of December 31:

December 31,	Amount
2008	\$ 56,025
2009	62,565
2010	64,440
2011	66,360
2012 and thereafter	120,750

7. Employee Benefit Plan

PACF maintains a salary reduction benefit plan (403)(b)(7), which includes all full time employees. The plan allows employees to defer up to the statutory maximums of their salary on a pre-tax basis. PACF does not match the employee's contributions. The plan provides for a discretionary contribution. In 2007 and 2006 the discretionary contributions for full time employees totaled \$29,850 and \$36,205, respectively.

8. Related Party Transactions

The Board of Trustees consists of 21 voting members. During the years ended December 31, 2007 and 2006 contributions from these trustees and members of PACF's staff totaled \$236,495 and \$228,458, respectively.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

9. Net Assets

Unrestricted

Unrestricted net assets consisted of contributions to donor funds that are available to be granted for charitable and educational purposes including:

	2007	2006
Board designated long-term grant funds – assets held by PACF for long-term grantmaking; subject to limited annual distributions	\$ 29,309,338	\$ 27,007,976
Other grant funds – assets held by PACF for grantmaking not subject to a limited annual distribution	20,749,628	18,100,296
Operating funds – assets in support of PACF operations	<u>1,884,220</u>	<u>1,872,920</u>
Total unrestricted net assets	<u>\$ 51,943,186</u>	<u>\$ 46,981,192</u>

Temporarily Restricted

Temporarily restricted net assets at December 31, consisted of:

Beneficial interest in split interest agreements	<u>\$ 853,218</u>	<u>\$ 855,154</u>
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10. Other Matters

As part of the negotiation of the new operating lease for office space, the landlord has provided an improvement allowance of up to \$67,500 in leasehold improvement costs incurred by PACF on or before March 31, 2014. During March 2008, the build out of offices was completed and construction costs totaled approximately \$61,800. In April 2008, PACF received reimbursement from the landlord for these costs. Costs incurred for the build out will be recorded as a leasehold improvement and amortized over the extended term of the lease; the improvement allowance received will be treated as deferred rent and will be amortized as a reduction of periodic rent expense over the extended term of the lease.

Certain amounts at December 31, 2006 have been reclassified to conform with the presentation at December 31, 2007. The reclassifications had no effect on total reported revenue and expenses.