

Princeton Area Community Foundation

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

Financial Statements

December 31, 2008 and 2007

With Independent Auditors' Report

Princeton Area Community Foundation, Inc.
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December 31, 2008 and 2007

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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 Princeton Area Community Foundation, Inc. (A New Jersey Not-For-Profit Corporation) as of December 31, 2008 and 2007, 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 Princeton Area Community Foundation, Inc. as of December 31, 2008 and 2007, 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.

As described in Note 4, for the year ended December 31, 2008, Princeton Area Community Foundation, Inc. adopted Statement of Financial Accounting Standards Number 157, "Fair Value Measurements".

A handwritten signature in blue ink that reads "WithumSmith+Brown, PC". The signature is written in a cursive, flowing style.

June 10, 2009
New Brunswick, New Jersey

Princeton Area Community Foundation, Inc.
Statements of Financial Position
December 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 4,624,444	\$ 2,148,847
Contributions receivable	180,030	111,006
Investments	42,752,299	51,756,373
Prepaid expenses	18,529	14,965
Beneficial interest in split interest agreements	605,051	853,218
Cash surrender value of life insurance	147,653	125,067
Deposits	10,125	10,125
Property and equipment, net	<u>63,580</u>	<u>9,375</u>
	<u>\$ 48,401,711</u>	<u>\$ 55,028,976</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 14,933	\$ 28,189
Grants payable	141	2,495
Deferred rent	60,297	--
Funds held for others	<u>6,357,409</u>	<u>2,201,888</u>
Total liabilities	<u>6,432,780</u>	<u>2,232,572</u>
Net assets		
Unrestricted		
Board designated long-term grant funds	23,464,780	29,309,338
Other grant funds	16,387,406	20,749,628
Operating funds	<u>1,511,694</u>	<u>1,884,220</u>
	41,363,880	51,943,186
Temporarily restricted	<u>605,051</u>	<u>853,218</u>
Total net assets	<u>41,968,931</u>	<u>52,796,404</u>
	<u>\$ 48,401,711</u>	<u>\$ 55,028,976</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, 2008 and 2006

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenues						
Contributions	\$ 3,499,752	\$ --	\$ 3,499,752	\$ 3,507,313	\$ --	\$ 3,507,313
Investment (loss) income	(10,463,604)	--	(10,463,604)	4,834,448	--	4,834,448
Other income	32,817	--	32,817	11,833	--	11,833
Special events	--	--	--	70,210	--	70,210
Change in value of split interest agreements	22,860	(248,167)	(225,307)	30,834	(31,936)	(1,102)
Total support and revenues	(6,908,175)	(248,167)	(7,156,342)	8,454,638	(31,936)	8,422,702
Allocations and expenses						
Program services	3,267,449	--	3,267,449	3,102,665	--	3,102,665
Management and general	305,347	--	305,347	258,383	--	258,383
Fundraising	98,335	--	98,335	131,596	--	131,596
Total expenses	3,671,131	--	3,671,131	3,492,644	--	3,492,644
Changes in net assets	(10,579,306)	(248,167)	(10,827,473)	4,961,994	(31,936)	4,930,058
Net assets, beginning of year	51,943,186	853,218	52,796,404	46,981,192	885,154	47,866,346
Net assets, end of year	\$ 41,363,880	\$ 605,051	\$ 41,968,931	\$ 51,943,186	\$ 853,218	\$ 52,796,404

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, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Changes in net assets	\$ (10,827,473)	4,930,058
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Unrealized loss (gain) on investment	18,484,410	(976,296)
Realized gain on sale of investments	(4,498,172)	(1,478,311)
Loss on disposal of assets	--	2,855
Change in value of split interest agreements	225,307	1,102
Depreciation	4,838	4,025
Changes in assets and liabilities		
Contributions receivable	(69,024)	245,822
Prepaid expenses	(3,564)	615
Deposits	--	(1,875)
Accounts payable and accrued expenses	(13,256)	(127)
Grants payable	(2,354)	(367,709)
Deferred rent	60,297	--
Funds held for others	<u>4,155,521</u>	<u>1,638,032</u>
Net cash provided by operating activities	7,516,530	3,998,191
Cash flows from investing activities		
Property and equipment additions	(59,043)	(2,800)
Sale of investments	22,839,546	4,974,428
Purchase of investments	<u>(27,821,436)</u>	<u>(9,277,871)</u>
Net cash used by investing activities	<u>(5,040,933)</u>	<u>(4,306,243)</u>
Net increase (decrease) in cash and cash equivalents	2,475,597	(308,052)
Cash and cash equivalents		
Beginning of year	<u>2,148,847</u>	<u>2,456,899</u>
End of year	<u>\$ 4,624,444</u>	<u>\$ 2,148,847</u>

Supplemental disclosure of cash flow information

There were no amounts paid for interest or income taxes for the years ended December 31, 2008 or 2007.

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, 2008 and 2007

	2008				2007			
	Program Services	Supporting Services Management and General	Fundraising	Total	Program Services	Supporting Services Management and General	Fundraising	Total
Grant expense	\$ 2,780,187	\$ --	\$ --	\$ 2,780,187	\$ 2,619,447	\$ --	\$ --	\$ 2,619,447
Salaries and wages	248,896	174,976	56,834	480,706	245,421	150,999	60,869	457,289
Employee benefits and payroll taxes	50,919	37,283	12,818	101,020	51,067	28,170	12,795	92,032
Professional services	81,451	33,170	--	114,621	76,607	18,728	-	95,335
Occupancy	39,062	29,293	9,636	77,991	41,647	23,904	10,360	75,911
Insurance	2,048	1,488	505	4,041	2,285	1,261	568	4,114
Information technology	3,425	2,486	5,165	11,076	4,023	2,217	1,351	7,591
Travel	705	510	174	1,389	2,563	1,413	637	4,613
Office expense	10,021	11,102	2,472	23,595	12,498	8,944	3,109	24,551
Marketing	--	7,943	8,319	16,262	--	9,881	1,930	11,811
Special event direct costs	--	--	--	--	--	--	21,685	21,685
Membership dues and subscriptions	5,142	3,714	1,262	10,118	5,468	9,975	1,343	16,786
Training and conferences and events	34,800	1,602	545	36,947	35,036	1,658	16,393	53,087
Other expenses	8,340	--	--	8,340	4,367	--	--	4,367
Depreciation	2,453	1,780	605	4,838	2,236	1,233	556	4,025
	<u>\$ 3,267,449</u>	<u>\$ 305,347</u>	<u>\$ 98,335</u>	<u>\$ 3,671,131</u>	<u>\$ 3,102,665</u>	<u>\$ 258,383</u>	<u>\$ 131,596</u>	<u>\$ 3,492,644</u>

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

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007.

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 alternative investments. The investments are established as limited partnerships but are not traded on any public exchange or market. The alternative investments invest 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, 2008 and 2007

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, 2008 and 2007, \$2,780,187 and \$2,619,447, respectively was distributed as grants from all donor funds.

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 property and equipment are recorded as unrestricted support.

Leasehold Improvements

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 \$61,843. In April 2008, PACF received reimbursement from the landlord for these costs. Costs incurred for the build out have been recorded as a leasehold improvement and will be amortized over the extended term of the lease; the improvement allowance received has been treated as deferred rent and will be amortized as a reduction of periodic rent expense over the extended term of the lease.

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.

PACF, in accordance with Financial Accounting Standards Board ("FASB") Staff Position FIN 48-3, has deferred the application of FIN 48, "Accounting for Uncertainty in Income Taxes" until its first fiscal year beginning after December 15, 2008. PACF's accounting policy is to evaluate uncertain tax positions in accordance with FASB No. 5 "Accounting for Contingencies".

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

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.

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"). The insured limits during 2007 and through September 2008 were up to \$100,000 and up to \$250,000 subsequently. At December 31, 2008 and 2007 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 will account 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.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, contributions receivable, accounts payable and accrued expenses and grants payable approximate their fair values because of the relatively short maturity of these instruments.

Valuation of Long-Lived Assets

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"), PACF reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Management has determined that no assessment was required for the periods presented in these financial statements.

Reclassifications

Certain amounts at December 31, 2007 have been reclassified to conform to the presentation at December 31, 2008. The reclassifications had no effect on total reported revenue and expenses.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Investments

Investments, at December 31, consisted of the following:

	2008		2007	
	Cost	Market Value	Cost	Market Value
Corporate bonds-mutual fund	\$ 14,857,685	\$ 15,750,488	\$ 11,843,483	\$ 11,918,821
Domestic equity	14,363,359	9,872,253	13,266,453	14,251,769
International equity	10,913,500	5,790,191	7,061,884	11,984,174
Limited partnerships	12,047,466	11,313,246	10,524,940	13,564,843
Other	--	26,121	--	36,766
	<u>\$ 52,182,010</u>	<u>\$ 42,752,299</u>	<u>\$ 42,696,760</u>	<u>\$ 51,756,373</u>

The total annual return on investments based on average fair market value was approximately (20.54) percent and 11.05 percent for the years ended December 31, 2008 and 2007, respectively. Investment income for the purpose of annual return is calculated as follows:

Dividend and interest income	\$ 2,424,213	\$ 2,537,562
Net realized and unrealized gains and losses on investments	(13,983,943)	2,454,607
Asset management fees	(56,077)	(46,198)
Realized losses on contributed stock	(2,022)	(151,339)
Earnings, fees and gains shared with funds held for others	1,069,428	(64,318)
Interest income on money market accounts	84,797	104,134
Total investment return	<u>\$ (10,463,604)</u>	<u>\$ 4,834,448</u>

3. Recurring Fair Value Measurements

Pursuant to the requirements of SFAS 157, *Fair Value Measurements*, which is effective for years beginning after November 15, 2007, PACF has provided fair value disclosure information for relevant assets and liabilities in these financial statements. The following table summarizes assets which have been accounted for at fair value on a recurring basis as of December 31, 2008, along with the basis for the determination of fair value:

	Total	Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Corporate bonds-mutual fund	\$ 15,750,488	\$ 15,750,488	\$ --	\$ --
Domestic equity funds	9,872,253	9,872,253	--	--
International equity funds	5,790,191	5,790,191	--	--
Limited partnerships	11,313,246	5,434,946	2,897,285	2,981,015
Other	26,121	--	--	26,121
	<u>\$ 42,752,299</u>	<u>\$ 36,847,878</u>	<u>\$ 2,897,285</u>	<u>\$ 3,007,136</u>

Princeton Area Community Foundation, Inc.
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For applicable assets and liabilities subject to this pronouncement, PACF will value such assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible. To the extent that such market prices are not available, PACF will next attempt to value such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets and other corroborated factors. In the event that quoted market prices in active markets and other observable measurement criteria are not available, PACF will develop measurement criteria based on the best information available.

The following is a summary of activity for the year ended December 31, 2008 for assets (liabilities) measured at fair value based on unobservable measure criteria:

	Limited Partnerships	Other
Balance, beginning of year	\$ 3,987,389	\$ 36,766
Realized and unrealized losses included in earnings	(1,271,219)	275
Purchases and sales	262,669	(10,920)
Income	2,176	--
Balance, end of year	<u>\$ 2,981,015</u>	<u>\$ 26,121</u>

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	2008	2007
Furniture and office equipment	\$ 43,666	\$ 43,666
Leasehold Improvements	61,843	2,800
Accumulated depreciation	<u>(41,929)</u>	<u>(37,091)</u>
	<u>\$ 63,580</u>	<u>\$ 9,375</u>

Depreciation expense was \$4,838 and \$4,025 at December 31, 2008 and 2007, respectively.

5. Beneficial Interest in Split Interest Agreements

PACF is the irrevocable beneficiary of three charitable remainder trusts. Upon receipt of the trusts, PACF's interest is recorded as a contribution at its net present value based on actuarially determined life expectancies and discounted at a risk free rate of return determined at the respective dates of the original contributions. Subsequent to the receipt of such trusts, PACF's interest in these trusts is recorded by its net present value determined at market value on December 31. The difference between the original contribution and the market value on December 31 is recorded as an unrealized gain or loss. These trusts for 2008 and 2007 were valued at \$462,707 and \$710,874, respectively

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 in each of the years ended December 31, 2008 and 2007 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.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

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
2009	\$ 62,565
2010	64,440
2011	66,360
2012	68,325
2013	52,425

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 2008 and 2007 the discretionary contributions for full time employees totaled \$30,478 and \$29,850, respectively.

8. Related Party Transactions

The Board of Trustees consists of 18 voting members. During the years ended December 31, 2008 and 2007 contributions from these trustees and members of PACF's staff totaled \$94,025 and \$236,495, respectively.

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:

	2008	2007
Board designated long-term grant funds – assets held by PACF for long-term grantmaking; subject to limited annual distributions	\$ 23,464,780	\$ 29,309,338
Other grant funds – assets held by PACF for grantmaking not subject to a limited annual distribution	16,387,406	20,749,628
Operating funds – assets in support of PACF operations	<u>1,511,694</u>	<u>1,884,220</u>
Total unrestricted net assets	<u>\$ 41,363,880</u>	<u>\$ 51,943,186</u>

Temporarily Restricted

Temporarily restricted net assets at December 31, consisted of:

Beneficial interest in split interest agreements	<u>\$ 605,051</u>	<u>\$ 853,218</u>
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Princeton Area Community Foundation, Inc.
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Interpretation of Relevant Law

The Board of Trustees of PACF has designated that long-term assets be held in a manner consistent with the standard of prudence prescribed by state law. As a result of this interpretation, PACF considers the following factors in making a determination to distribute or accumulate long-term asset funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the long-term asset funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Return Objectives and Risk Parameters

Princeton Area Community Foundation, Inc. has adopted investment and spending policies for long-term assets that attempt to provide a predictable stream of funding to programs supported by its long-term assets while seeking to maintain the purchasing power of these assets. Under this policy, as approved by the Board of Trustees, long-term assets are invested in a manner that is intended to produce results that match or exceed a blended benchmark of domestic and international equities, corporate bonds and limited partnerships, while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Princeton Area Community Foundation, Inc. relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). PACF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Princeton Area Community Foundation, Inc. has a policy of distributing annually each year 5 percent of its long-term assets' average fair value over the prior ending eight quarters through the calendar year-end of the preceding fiscal year in which the distribution is planned. In establishing this policy, PACF considered the long-term expected return on its assets. This is consistent with PACF's objective to maintain the purchasing power of the long-term assets held, as well as to provide additional real growth through new gifts and investment return.

The following table provides information regarding the change in endowment net assets for the year ended 2008:

	<u>Unrestricted</u>
Endowment net assets, beginning of year	\$ 29,309,338
Investment return	
Investment income	1,278,011
Realized gain	2,361,291
Unrealized loss	<u>(9,870,383)</u>
	23,078,257
Contributions received	1,331,351
Interfund transfers	2,500
Appropriated for expenditure	<u>(947,328)</u>
	<u><u>\$ 23,464,780</u></u>

Princeton Area Community Foundation, Inc.
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10. Other

SFAS 159

Effective January 1, 2008, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159") allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. PACF did not elect to adopt the fair value option under this statement.

Donation of Art

PACF received a donation of artwork, consisting of 123 pieces from a recognized artist during 2008. The pieces are maintained for sale at the offices of PACF. The artwork was not appraised and the value of the donation is unknown, therefore there was no asset or revenue recorded at December 31, 2008 in the financial statements. Revenue will be recorded upon sale of the art.