

Princeton Area **Community** **Foundation**

Financial Statements

December 31, 2010 and 2009

With Independent Auditors' Report

Princeton Area Community Foundation, Inc.
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December 31, 2010 and 2009

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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, 2010 and 2009, 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 Community Foundation'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, 2010 and 2009 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 20, 2011

Princeton Area Community Foundation, Inc.
Statements of Financial Position
December 31, 2010 and 2009

| | 2010 | 2009 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 11,150,092 | \$ 6,587,320 |
| Contributions receivable | 370,739 | 10,774 |
| Investments | 58,197,611 | 52,980,778 |
| Prepaid expenses | 16,908 | 15,947 |
| Beneficial interest in split interest agreements | 691,314 | 630,010 |
| Cash surrender value of life insurance | 193,902 | 170,631 |
| Deposits | 10,125 | 10,125 |
| Property and equipment, net | <u>54,519</u> | <u>56,479</u> |
| | <u>\$ 70,685,210</u> | <u>\$ 60,462,064</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 18,849 | \$ 17,308 |
| Deferred rent | 62,725 | 63,404 |
| Funds held for others | <u>10,305,037</u> | <u>8,329,579</u> |
| Total liabilities | 10,386,611 | 8,410,291 |
| Net assets | | |
| Unrestricted | | |
| Board designated long-term grant funds | 30,676,455 | 28,074,753 |
| Other grant funds | 26,614,943 | 21,557,263 |
| Operating funds | <u>2,265,887</u> | <u>1,789,747</u> |
| | 59,557,285 | 51,421,763 |
| Temporarily restricted | <u>741,314</u> | <u>630,010</u> |
| Total net assets | <u>60,298,599</u> | <u>52,051,773</u> |
| | <u>\$ 70,685,210</u> | <u>\$ 60,462,064</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, 2010 and 2009

| | 2010 | | | 2009 | | |
|--|----------------------|------------------------|----------------------|----------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Support and revenues | | | | | | |
| Contributions | \$ 6,948,093 | \$ 50,000 | \$ 6,998,093 | \$ 5,727,619 | \$ -- | \$ 5,727,619 |
| Investment income | 5,098,456 | -- | 5,098,456 | 8,006,986 | -- | 8,006,986 |
| Other income | 64,573 | -- | 64,573 | 69,371 | -- | 69,371 |
| Change in value of split interest agreements | 23,390 | 61,304 | 84,694 | 24,885 | 24,959 | 49,844 |
| | <u>12,134,512</u> | <u>111,304</u> | <u>12,245,816</u> | <u>13,828,861</u> | <u>24,959</u> | <u>13,853,820</u> |
| Allocations and expenses | | | | | | |
| Program services | 3,573,828 | -- | 3,573,828 | 3,353,117 | -- | 3,353,117 |
| Management and general | 337,630 | -- | 337,630 | 318,897 | -- | 318,897 |
| Fundraising | 87,532 | -- | 87,532 | 98,964 | -- | 98,964 |
| | <u>3,998,990</u> | <u>--</u> | <u>3,998,990</u> | <u>3,770,978</u> | <u>--</u> | <u>3,770,978</u> |
| Changes in net assets | 8,135,522 | 111,304 | 8,246,826 | 10,057,883 | 24,959 | 10,082,842 |
| Net assets, beginning of year | <u>51,421,763</u> | <u>630,010</u> | <u>52,051,773</u> | <u>41,363,880</u> | <u>605,051</u> | <u>41,968,931</u> |
| Net assets, end of year | <u>\$ 59,557,285</u> | <u>\$ 741,314</u> | <u>\$ 60,298,599</u> | <u>\$ 51,421,763</u> | <u>\$ 630,010</u> | <u>\$ 52,051,773</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, 2010 and 2009

| | 2010 | 2009 |
|--|----------------------|---------------------|
| Cash flows from operating activities | | |
| Changes in net assets | \$ 8,246,826 | \$ 10,082,842 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Unrealized gain on investment | (4,699,653) | (7,614,295) |
| Realized loss (gain) on sale of investments | 57,000 | (79,437) |
| Change in value of split interest agreements | (61,304) | (24,959) |
| Change in value of cash surrender value of life insurance | (23,271) | (22,978) |
| Depreciation expense | 9,186 | 7,101 |
| Changes in assets and liabilities | | |
| Contributions receivable | (359,965) | 169,256 |
| Prepaid expenses | (961) | 2,582 |
| Accounts payable and accrued expenses | 1,541 | 2,375 |
| Grants payable | -- | (141) |
| Deferred rent | (679) | 3,107 |
| Funds held for others | <u>1,975,458</u> | <u>1,972,170</u> |
| Net cash provided by operating activities | 5,144,178 | 4,497,623 |
| Cash flows from investing activities | | |
| Property and equipment additions | (7,226) | -- |
| Sale of investments | 6,905,761 | 4,035,966 |
| Purchase of investments | <u>(7,479,941)</u> | <u>(6,570,713)</u> |
| Net cash used by investing activities | <u>(581,406)</u> | <u>(2,534,747)</u> |
| Net increase in cash and cash equivalents | 4,562,772 | 1,962,876 |
| Cash and cash equivalents | | |
| Beginning of year | <u>6,587,320</u> | <u>4,624,444</u> |
| End of year | <u>\$ 11,150,092</u> | <u>\$ 6,587,320</u> |

Supplemental disclosure of cash flow information

There were no amounts paid for interest or income taxes
for the years ended December 31, 2010 or 2009.

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, 2010 and 2009

| | 2010 | | | | 2009 | | | |
|-------------------------------------|---------------------|--|------------------|---------------------|---------------------|--|------------------|---------------------|
| | Program Services | Supporting Services Management and General | Fundraising | Total | Program Services | Supporting Services Management and General | Fundraising | Total |
| Grant expense | \$ 3,158,412 | \$ -- | \$ -- | \$ 3,158,412 | \$ 2,917,181 | \$ -- | \$ -- | \$ 2,917,181 |
| Salaries and wages | 252,167 | 199,796 | 53,835 | 505,798 | 264,123 | 193,084 | 59,647 | 516,854 |
| Employee benefits and payroll taxes | 51,848 | 47,934 | 10,420 | 110,202 | 50,223 | 41,112 | 11,675 | 103,010 |
| Professional services | -- | 22,127 | -- | 22,127 | 5,065 | 19,435 | -- | 24,500 |
| Occupancy | 43,064 | 33,501 | 10,185 | 86,750 | 43,295 | 35,146 | 9,979 | 88,420 |
| Insurance | 3,471 | 1,590 | 497 | 5,558 | 1,944 | 1,538 | 448 | 3,930 |
| Information technology | 5,543 | 4,195 | 2,218 | 11,956 | 3,115 | 2,463 | 5,538 | 11,116 |
| Travel | 695 | 526 | 164 | 1,385 | 277 | 218 | 64 | 559 |
| Office expense | 11,198 | 11,053 | 2,511 | 24,762 | 27,901 | 10,383 | 2,513 | 40,797 |
| Marketing | 1,000 | 8,005 | 1,737 | 10,742 | -- | 8,206 | 6,969 | 15,175 |
| Membership dues and subscriptions | 6,149 | 4,654 | 1,454 | 12,257 | 5,297 | 4,190 | 1,221 | 10,708 |
| Training, conferences and events | 35,673 | 762 | 3,420 | 39,855 | 31,183 | 344 | 100 | 31,627 |
| Depreciation | 4,608 | 3,487 | 1,091 | 9,186 | 3,513 | 2,778 | 810 | 7,101 |
| | <u>\$ 3,573,828</u> | <u>\$ 337,630</u> | <u>\$ 87,532</u> | <u>\$ 3,998,990</u> | <u>\$ 3,353,117</u> | <u>\$ 318,897</u> | <u>\$ 98,964</u> | <u>\$ 3,770,978</u> |

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

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

1. Nature of Organization

Princeton Area Community Foundation, Inc. ("the Community Foundation") 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. The Community Foundation 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. The Community Foundation also holds custodial funds in a management capacity, where the funds are managed and held for the fund holder'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, 2010 and 2009, the Community Foundation 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 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 the Community Foundation'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.

Program Services

The Community Foundation is an active grantmaker through two competitive grant programs, Greater Mercer Grants and the Fund for Women & Girls, and grantmaking from donor-advised, designated, nonprofit, and field-of-interest funds. Its primary focus is central New Jersey, but grants from donor-advised funds are made regionally and nationally as well. Competitive grants address the needs of low-income people in greater Mercer County, provide operating support for nonprofits working with low-income people, and provide support for work to build the social capital of the region. The Community Foundation's grantmaking touches many programmatic areas including education, basic services, health, arts & culture, housing, the environment, historic preservation, civil rights, and animal welfare. The Community Foundation also administers over a dozen scholarship funds which grant scholarships and awards through competitive processes to support college study by local students; and to honor achievement in the arts, music, graphic design, and community service.

The Community Foundation actively engages its donors, grantees, and the professional advisors in the region to encourage charitable giving broadly, and to build over time a community-wide commitment to philanthropy. It sponsors seminars and workshops on topics such as endowment-building, good governance, grant-seeking best practices, risk management, and investing in hard times. The Community Foundation positions itself as a resource to the region and regularly responds to requests for information and guidance. In addition, the Community Foundation partners with other organizations such as the Council of NJ Grantmakers, the Gift Planning Council of NJ, and the Support Center for Nonprofit Management to expand its educational offerings.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Donated Services

The Community Foundation receives donated services from unpaid volunteers, officers and trustees 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. The Community Foundation received approximately 1,000 hours of donated services during each of the years ended December 31, 2010 and 2009.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Community Foundation considers all money market funds and certificates of deposit with a maturity date of three months or less at the time of acquisition 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. The Community Foundation 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 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 the Community Foundation. 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

The Community Foundation'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, 2010 and 2009, \$3,158,412 and \$2,917,181, 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 the Community Foundation for less than one year will not make a full distribution. A pro rata calculation is used based on the date of receipt of the contribution. The calculation for the distributions for funds that have been at the Community Foundation 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.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Donated property 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

Costs incurred for leasehold improvements are amortized over the extended term of the lease which expires in 2013; 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

The Community Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly the financial statements do not reflect a provision for Federal income taxes. The Community Foundation adopted the pronouncement related to accounting for uncertainty in income taxes effective January 1, 2009 and there were no uncertain tax positions at the date of adoption or at December 31, 2010 and 2009. There are no open tax years prior to 2007. In addition, no income tax related penalties or interest have been recorded for the years ended December 31, 2010 and 2009.

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 the Community Foundation to concentrations of credit risk are cash and cash equivalents, investments and contributions receivable. The Community Foundation places cash and its investments in high quality securities with several financial and investment institutions which helps to limit the Community Foundation's exposure to concentrations of credit risk. However, the Community Foundation 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"). From time to time, the Community Foundation may have cash balances which exceed the insured limit. Contributions receivable are received from a wide donor base which limits the concentration of credit risk.

Funds Held for Others

The Community Foundation receives and distributes assets under certain agency and intermediary arrangements. When the Community Foundation 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, the Community Foundation 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.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Valuation of Long-Lived Assets

In accordance with the accounting pronouncement on impairment or disposal of long-lived assets the Community Foundation 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 impairment charge was required for the periods presented in these financial statements.

3. Investments

Investments, at December 31, consisted of the following:

| | 2010 | | 2009 | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Market Value | Cost | Market Value |
| Corporate bonds-mutual fund | \$ 12,459,010 | \$ 12,366,239 | \$ 11,843,524 | \$ 11,505,900 |
| Domestic equity | 12,546,230 | 12,113,096 | 16,618,302 | 15,121,774 |
| International equity | 11,487,831 | 10,650,020 | 13,128,008 | 10,703,432 |
| Limited partnerships | 18,748,976 | 23,046,350 | 13,206,153 | 15,627,885 |
| Other | 21,906 | 21,906 | 21,787 | 21,787 |
| | <u>\$ 55,263,953</u> | <u>\$ 58,197,611</u> | <u>\$ 54,817,774</u> | <u>\$ 52,980,778</u> |

The total annual return on investments based on average fair market value was approximately 10.41 percent and 20.22 percent for the years ended December 31, 2010 and 2009, respectively. Investment income for the purpose of annual return is calculated as follows:

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Dividend and interest income | \$ 1,334,712 | \$ 1,522,259 |
| Net realized and unrealized gains on investments | 4,646,582 | 7,696,887 |
| Asset management fees | (5,098) | (5,246) |
| Realized losses on contributed stock | (3,929) | (3,155) |
| Earnings, fees and gains shared with funds held for others | (886,675) | (1,221,679) |
| Interest income on money market accounts | 12,864 | 17,920 |
| Total investment return | <u>\$ 5,098,456</u> | <u>\$ 8,006,986</u> |

4. Property and Equipment

Property and equipment consisted of the following at December 31:

| | 2010 | 2009 |
|--------------------------------|------------------|------------------|
| Furniture and office equipment | \$ 50,457 | \$ 43,666 |
| Leasehold Improvements | 61,843 | 61,843 |
| Accumulated depreciation | (57,781) | (49,030) |
| | <u>\$ 54,519</u> | <u>\$ 56,479</u> |

Depreciation expense was \$9,186 and \$7,101 at December 31, 2010 and 2009, respectively.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

5. Recurring Fair Value Measurements

The Community Foundation has provided fair value disclosure information for relevant assets and liabilities in these financial statements which have been accounted for at fair value on a recurring basis as of December 31, 2010 and 2009, along with the basis for the determination of fair value:

| | 2010 | | | |
|--|----------------------|--|--|--|
| | Total | Quoted Prices in Active Markets | Observable Measurement Criteria | Unobservable Measurement Criteria |
| Investments: | | | | |
| Money market, cash | \$ 10,850,535 | \$ 10,850,535 | \$ -- | \$ -- |
| Mutual funds | | | | |
| Fixed income | | | | |
| U.S. government AAA bond rating | 12,366,239 | 12,366,239 | -- | -- |
| Domestic equity | | | | |
| Consumer discretionary | 1,235,536 | 1,235,536 | -- | -- |
| Consumer staples | 2,386,280 | 2,386,280 | -- | -- |
| Healthcare | 3,173,631 | 3,173,631 | -- | -- |
| Information technology | 3,149,405 | 3,149,405 | -- | -- |
| Other | 2,168,244 | 2,168,244 | -- | -- |
| International developed equity | 3,786,476 | 3,786,476 | -- | -- |
| International emerging equity | 6,863,544 | 6,863,544 | -- | -- |
| Alternative investments | | | | |
| Multi-strategy (a) | 6,807,674 | -- | -- | 6,807,674 |
| Multi-strategy (b) | 6,665,257 | -- | -- | 6,665,257 |
| Multi-strategy (c) | 305,697 | -- | -- | 305,697 |
| Long/short strategy (d) | 3,261,746 | -- | -- | 3,261,746 |
| Equity funds (e) | 6,000,000 | -- | -- | 6,000,000 |
| | <u>69,020,264</u> | <u>45,979,890</u> | <u>--</u> | <u>23,040,374</u> |
| Beneficial interest in split interest agreements | 691,314 | -- | 691,314 | -- |
| Privately held stock | 27,882 | -- | -- | 27,882 |
| | <u>\$ 69,739,460</u> | <u>\$ 45,979,890</u> | <u>\$ 691,314</u> | <u>\$ 23,068,256</u> |
| | | | | |
| | 2009 | | | |
| | Total | Quoted Prices in Active Markets | Observable Measurement Criteria | Unobservable Measurement Criteria |
| Investments: | | | | |
| Money market, cash | \$ 6,328,219 | \$ 6,328,219 | \$ -- | \$ -- |
| Mutual funds | | | | |
| Fixed income | 11,505,900 | 11,505,900 | -- | -- |
| Domestic equity | 15,121,774 | 15,121,774 | -- | -- |
| International developed equity | 5,005,958 | 5,005,958 | -- | -- |
| International emerging equity | 5,697,474 | 5,697,474 | -- | -- |
| Alternative investments | 15,621,732 | -- | -- | 15,621,732 |
| | <u>59,281,057</u> | <u>43,659,325</u> | <u>--</u> | <u>15,621,732</u> |
| Beneficial interest in split interest agreements | 630,010 | -- | 630,010 | -- |
| Privately held stock | 27,940 | -- | -- | 27,940 |
| | <u>\$ 59,939,007</u> | <u>\$ 43,659,325</u> | <u>\$ 630,010</u> | <u>\$ 15,649,672</u> |

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
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For applicable assets and liabilities subject to this pronouncement, the Community Foundation 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, the Community Foundation 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, the Community Foundation will develop measurement criteria based on the best information available.

The Community Foundation uses the Net Asset Value (“NAV”) to determine the fair value of all the underlying investments in funds which do not have readily determinable fair value. The following table lists investments by class and investment strategy as of December 31, 2010:

| Strategies | #of Funds | Valuation | Unfunded Commitment | Redemption Commitment | Redemption Notice Period |
|---------------------------------|------------------|---------------------|----------------------------|------------------------------|---------------------------------|
| Alternative Investments: | | | | | |
| Multi-strategy (a) | 1 | \$ 6,807,674 | | None | 45 days |
| Multi-strategy (b) | 1 | 6,665,257 | | None | 90 days*-see below |
| Multi-strategy (c) | 1 | 305,697 | \$ 757,000 | None | N/A*-see below |
| Long/short strategy (d) | 1 | 3,261,746 | | None | 60 days |
| Equity funds (e) | 1 | <u>6,000,000</u> | | None | 30 days*-see below |
| | 5 | <u>\$23,040,374</u> | <u>\$ 757,000</u> | | |

- a) This fund pursues multiple investment strategies on an opportunistic basis, which includes credit investments, value investments, merger arbitrage, real estate-related investments, and direct investments. Each investment is evaluated independently on a fundamental basis. This fund invests globally, focusing on developed and emerging markets alike. Investments are made in public and private debt and equity securities, and direct investments in private companies and real estate. The partnership has a remaining legal life span of 15 years. Redemptions may be made at December 31 with 45-day notice or at any time with consent of the General Partner.
- b) This fund invests in a wide range of public and private companies across a variety of industries. It has a long-term, value-based investment focus, with a preference for opportunities that allow investment alongside successful management teams with an owner-operator orientation. This partnership has a remaining legal life span of 18 years. Redemptions may be made at December 31 with 90-day notice excluding \$1 million which is subject to a lock-up period ending January 2012. Redemptions pertaining to extraordinary circumstances may also be permitted at the discretion of the General Partner.
- c) This fund invests in a wide range of public and private companies across a variety of industries. It has a long-term, value-based investment focus, with a preference for opportunities that allow investment alongside successful management teams with an owner-operator orientation. This partnership has a remaining legal life span of 8 years. There is no provision for redemptions and distributions will be made at the end of the partnership term or earlier as determined by the General Partner. Generally, proceeds from sales of individual portfolio holdings tend to be distributed soon after the sale. The final date for capital calls is June 30, 2011.
- d) This fund takes advantage of long and short term market opportunities. Its primary focus and greatest strength is its fundamental equity research. They intend for “long” investments to remain in the portfolio for significant periods of time and do not look for short-term trading positions. On the “short” side they look for triggers that may cause valuations to decrease. This partnership has a remaining legal life span of 40 years. Redemptions may be made semi-annually at June 30 and December 31 with 60-day notice.

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- e) This fund focuses on long-only funds investing in primarily common stock equity and equity-related securities based on bottom-up, fundamental analysis. The partnership's legal life span is perpetual and subject to (i) the determination by the General Partner that the partnership should be dissolved or (ii) the termination, bankruptcy, insolvency or dissolution of the General Partner. Redemptions may be made with 30-day notice prior to the end of initial commitment period on December 31, 2013. At the end of this initial commitment period, shares are automatically locked-up for a new 3-year commitment period if not converted to another class at that time.

The following is a summary of activity for the years ended December 31, 2010 and 2009 for assets (liabilities) measured at fair value based on unobservable measure criteria:

| | 2010 | | | |
|--|--------------------------------|----------------------------|-----------------------------|-----------------------------|
| | Alternative Investments | | | |
| | Multi-Strategy | Long/Short Strategy | Equity Fund | Privately Held Stock |
| Balance, January 1, 2010 | \$ 12,711,019 | \$ 2,910,713 | \$ -- | \$ 27,940 |
| Realized and unrealized gains included in earnings | 1,524,609 | 351,033 | | (58) |
| Purchases | 119,000 | -- | 6,000,000 | -- |
| Sales | (828,726) | -- | -- | -- |
| Income | 252,726 | -- | -- | -- |
| Balance, December 31, 2010 | <u>\$ 13,778,628</u> | <u>\$ 3,261,746</u> | <u>\$ 6,000,000</u> | <u>\$ 27,882</u> |
| | 2009 | | | |
| | Alternative Investments | | | |
| | Multi-Strategy | Long/Short Strategy | Privately Held Stock | |
| Balance, January 1, 2009 | \$ 8,540,342 | \$ 2,732,384 | \$ 66,641 | |
| Realized and unrealized gains included in earnings | 2,970,677 | 178,329 | 1,285 | |
| Purchases | 1,049,770 | -- | -- | |
| Sales | -- | -- | (40,744) | |
| Income | 150,230 | -- | 758 | |
| Balance, December 31, 2009 | <u>\$ 12,711,019</u> | <u>\$ 2,910,713</u> | <u>\$ 27,940</u> | |

6. Beneficial Interest in Split Interest Agreements

The Community Foundation is the irrevocable beneficiary of three charitable remainder trusts. Upon receipt of the trusts, the Community Foundation's interest is recorded as a contribution at its net present value based on the estimated life expectancy of the donors and discounted at a risk free rate of return determined at the respective dates of the original contributions. The portion of the trust attributable to the future interest of the Community Foundation is recorded in the statements of activities and changes in net assets as a temporarily restricted contribution in the period the trust is established. Assets held in split interest agreements are recorded at fair value in the Community Foundation's statements of financial position. Subsequent to the receipt of such trusts, the Community Foundation'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 2010 and 2009 were valued at \$530,151 and \$493,897, respectively.

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The Community Foundation also received a one-third interest in a retained life estate in a personal residence. The Community Foundation's interest was recorded as a contribution at its net present value for the years ended December 31, 2010 and 2009 and was valued at \$161,163 and \$136,113, respectively based on estimated life expectancies and discounted at a risk free rate of return of 5 percent as determined at the date of the original contribution.

7. Commitments and Contingencies

Operating Leases

During November 2007, the Community Foundation 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 |
|--------------|-----------|
| 2011 | \$ 66,360 |
| 2012 | 68,325 |
| 2013 | 52,425 |

8. Employee Benefit Plan

The Community Foundation maintains a salary reduction (403)(b)(7) benefit plan, ("the Plan"), 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. The Community Foundation does not match the employee's contributions. The Plan provides for a discretionary contribution. In 2010 and 2009 the discretionary contributions for full time employees totaled \$24,947 and \$25,216, respectively.

9. Related Party Transactions

The Board of Trustees consists of 25 voting members. During the years ended December 31, 2010 and 2009 contributions from these trustees and members of the Community Foundation's staff totaled \$140,121 and \$1,084,139, respectively.

10. Net Assets

Unrestricted

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

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Board designated long-term grant funds – assets held by the Community Foundation for long-term grantmaking; subject to limited annual distributions | \$ 30,676,455 | \$ 28,074,753 |
| Other grant funds – assets held by the Community Foundation for grantmaking not subject to a limited annual distribution | 26,614,943 | 21,557,263 |
| Operating funds – assets in support of the Community Foundation operations | <u>2,265,887</u> | <u>1,789,747</u> |
| Total unrestricted net assets | <u>\$ 59,557,285</u> | <u>\$ 51,421,763</u> |

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Temporarily Restricted

Temporarily restricted net assets at December 31, consisted of:

| | | |
|--|-------------------|-------------------|
| Time restrictions | \$ 50,000 | \$ -- |
| Beneficial interest in split interest agreements | 691,314 | 630,010 |
| Total temporarily restricted net assets | <u>\$ 741,314</u> | <u>\$ 630,010</u> |

11. Endowment Funds

Interpretation of Relevant Law

The Board of Trustees of the Community Foundation 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, the Community Foundation 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 Community Foundation
- (7) The investment policies of the Community Foundation

Return Objectives and Risk Parameters

The Community Foundation 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, the Community Foundation 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). The Community Foundation 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

The Community Foundation 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, the Community Foundation considered the long-term expected return on its assets. This is consistent with the Community Foundation'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.

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The following table provides information regarding the change in endowment net assets for the years ended December 31:

| | Unrestricted | |
|--|----------------------|----------------------|
| | 2010 | 2009 |
| Endowment net assets, beginning of year | \$ 28,074,753 | \$ 23,464,780 |
| Investment return | | |
| Investment income | 641,223 | 790,580 |
| Realized (loss) gain | (29,132) | 42,377 |
| Unrealized gain | 2,216,683 | 3,951,391 |
| | <u>30,903,527</u> | <u>28,249,128</u> |
| Contributions received | 735,074 | 805,507 |
| Interfund transfers | 4,000 | 44,250 |
| Appropriated for expenditure | (966,146) | (1,024,132) |
| | <u>\$ 30,676,455</u> | <u>\$ 28,074,753</u> |

12. Subsequent Events

The Community Foundation has evaluated subsequent events occurring after the statement of financial position date through the date of May 20, 2011 which is the date the financial statements were available to be issued. Based on this evaluation, the Community Foundation has determined that no subsequent events have occurred which require disclosure in or adjustment to the financial statements.