



Princeton Area
COMMUNITY FOUNDATION

Financial Statements

December 31, 2011 and 2010

With Independent Auditors' Report

Princeton Area Community Foundation, Inc.
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WithumSmith+Brown, PC
A Professional Corporation
Certified Public Accountants and Consultants

One Spring Street
New Brunswick, NJ 08901
732.828.1614 fax 732.828.5156

www.withum.com

Additional Offices in New Jersey, New York,
Pennsylvania, Maryland, Colorado and Florida

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, 2011 and 2010, 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, 2011 and 2010 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.

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

May 23, 2012

Princeton Area Community Foundation, Inc.
Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 14,748,444	\$ 11,150,092
Contributions receivable	766,807	370,739
Investments	59,503,067	58,197,611
Prepaid expenses	18,224	16,908
Beneficial interest in split interest agreements	646,692	691,314
Cash surrender value of life insurance	214,655	193,902
Deposits	10,125	10,125
Property and equipment, net	<u>55,628</u>	<u>54,519</u>
	<u>\$ 75,963,642</u>	<u>\$ 70,685,210</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 34,775	\$ 18,849
Grants and scholarships payable	219,075	--
Deferred rent	60,154	62,725
Funds held for others	<u>11,814,456</u>	<u>10,305,037</u>
Total liabilities	12,128,460	10,386,611
Net assets		
Unrestricted		
Board designated long-term grant funds	30,513,864	30,676,455
Other grant funds	28,753,882	26,614,943
Operating funds	<u>3,170,744</u>	<u>2,265,887</u>
	62,438,490	59,557,285
Temporarily restricted	<u>1,396,692</u>	<u>741,314</u>
Total net assets	<u>63,835,182</u>	<u>60,298,599</u>
	<u>\$ 75,963,642</u>	<u>\$ 70,685,210</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, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenues						
Contributions	\$ 7,505,639	\$ 750,000	\$ 8,255,639	\$ 6,948,093	\$ 50,000	\$ 6,998,093
Investment income	911,663	--	911,663	5,098,456	--	5,098,456
Other income	80,323	--	80,323	64,573	--	64,573
Special events, net of direct costs of \$33,235 and \$0 for 2011 and 2010, respectively	13,594	--	13,594	--	--	--
Change in value of split interest agreements	12,278	(44,622)	(32,344)	23,390	61,304	84,694
Net assets released from restrictions	50,000	(50,000)	--	--	--	--
	<u>8,573,497</u>	<u>655,378</u>	<u>9,228,875</u>	<u>12,134,512</u>	<u>111,304</u>	<u>12,245,816</u>
Allocations and expenses						
Program services	5,185,598	--	5,185,598	3,573,828	--	3,573,828
Management and general	411,550	--	411,550	337,630	--	337,630
Fundraising	95,144	--	95,144	87,532	--	87,532
	<u>5,692,292</u>	<u>--</u>	<u>5,692,292</u>	<u>3,998,990</u>	<u>--</u>	<u>3,998,990</u>
Changes in net assets	2,881,205	655,378	3,536,583	8,135,522	111,304	8,246,826
Net assets, beginning 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>
Net assets, end of year	<u>\$ 62,438,490</u>	<u>\$ 1,396,692</u>	<u>\$ 63,835,182</u>	<u>\$ 59,557,285</u>	<u>\$ 741,314</u>	<u>\$ 60,298,599</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, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Changes in net assets	\$ 3,536,583	\$ 8,246,826
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Unrealized loss (gain) on investments	1,261,818	(4,699,653)
Realized (gain) loss on sale of investments	(434,330)	57,000
Change in value of split interest agreements	44,622	(61,304)
Change in value of cash surrender value of life insurance	(20,753)	(23,271)
Depreciation expense	14,038	9,186
Changes in assets and liabilities		
Contributions receivable	(396,068)	(359,965)
Prepaid expenses	(1,316)	(961)
Accounts payable and accrued expenses	15,926	1,541
Grants payable	219,075	--
Deferred rent	(2,571)	(679)
Net cash provided by operating activities	<u>4,237,024</u>	<u>3,168,720</u>
Cash flows from investing activities		
Property and equipment additions	(15,147)	(7,226)
Funds held for others - net additions	1,509,419	1,975,458
Sale of investments	7,000,000	6,905,761
Purchase of investments	<u>(9,132,944)</u>	<u>(7,479,941)</u>
Net cash (used) provided by investing activities	<u>(638,672)</u>	<u>1,394,052</u>
Net increase in cash and cash equivalents	3,598,352	4,562,772
Cash and cash equivalents		
Beginning of year	<u>11,150,092</u>	<u>6,587,320</u>
End of year	<u>\$ 14,748,444</u>	<u>\$ 11,150,092</u>

Supplemental disclosure of cash flow information

There were no amounts paid for interest or income taxes
for the years ended December 31, 2011 or 2010.

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, 2011 and 2010

	2011				2010			
	Program Services	Supporting Services Management and General	Fundraising	Total	Program Services	Supporting Services Management and General	Fundraising	Total
Grant expense	\$ 4,589,988	\$ --	\$ --	\$ 4,589,988	\$ 3,158,412	\$ --	\$ --	\$ 3,158,412
Salaries and wages	263,781	260,560	53,810	578,151	252,167	199,796	53,835	505,798
Employee benefits and payroll taxes	54,850	53,725	10,689	119,264	51,848	47,934	10,420	110,202
Professional services	151,796	21,588	--	173,384	--	22,127	--	22,127
Occupancy	44,565	33,731	10,257	88,553	43,064	33,501	10,185	86,750
Insurance	2,132	1,614	504	4,250	3,471	1,590	497	5,558
Information technology	6,781	5,131	4,387	16,299	5,543	4,195	2,218	11,956
Travel	2,338	1,769	553	4,660	695	526	164	1,385
Office expense	16,770	15,448	3,934	36,152	11,198	11,053	2,511	24,762
Marketing	--	6,700	6,226	12,926	1,000	8,005	1,737	10,742
Membership dues and subscriptions	6,159	4,660	1,457	12,276	6,149	4,654	1,454	12,257
Training, conferences and events	39,395	1,295	1,661	42,351	35,673	762	3,420	39,855
Depreciation	7,043	5,329	1,666	14,038	4,608	3,487	1,091	9,186
	<u>\$ 5,185,598</u>	<u>\$ 411,550</u>	<u>\$ 95,144</u>	<u>\$ 5,692,292</u>	<u>\$ 3,573,828</u>	<u>\$ 337,630</u>	<u>\$ 87,532</u>	<u>\$ 3,998,990</u>

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

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010

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, 2011 and 2010.

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. Included as cash and cash equivalents are money market funds which are part of the fixed investment pool, which are intended for long term investment and a component of the investment portfolio of the Community Foundation.

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, 2011 and 2010, \$4,589,988 and \$3,158,412, 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.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

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. Depreciation is provided over the estimated useful lives of the assets using the straight-line method which ranges from 3 to 10 years.

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 follows the pronouncement related to accounting for uncertainty in income taxes and there were no uncertain tax positions at December 31, 2011 and 2010. There are no open tax years prior to 2008. In addition, no income tax related penalties or interest have been recorded for the years ended December 31, 2011 and 2010.

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. Full liquidations occur at the discretion of the Community Foundation, following the monthly reconciliation, or at the end of the following quarter when the portfolio is rebalanced.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

Fair Value of Financial Instruments

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

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. Such reclassification had no effect on the 2010 change in net assets.

3. Investments

Investments, at December 31, consisted of the following:

	2011		2010	
	Cost	Market Value	Cost	Market Value
Corporate bonds-mutual fund	\$ 6,412,562	\$ 6,563,915	\$ 12,459,010	\$ 12,366,239
Domestic equity	12,794,893	13,090,676	12,546,230	12,113,096
International equity	12,551,541	9,035,297	11,487,831	10,650,020
Limited partnerships	18,978,500	23,684,230	18,748,976	23,046,350
Real assets	7,000,000	7,035,218	--	--
Other	93,731	93,731	21,906	21,906
Total investments	<u>57,831,227</u>	<u>59,503,067</u>	<u>55,263,953</u>	<u>58,197,611</u>
Money market funds held in cash and cash equivalents for fixed fund investment pool	9,709,960	9,709,960	6,513,335	6,513,335
	<u>\$ 67,541,187</u>	<u>\$ 69,213,027</u>	<u>\$ 61,777,288</u>	<u>\$ 64,710,946</u>

The total annual return on investments based on average fair market value was approximately 2.12 percent and 10.41 percent for the years ended December 31, 2011 and 2010, respectively. Investment income for the purpose of annual return is calculated as follows:

	2011	2010
Dividend and interest income	\$ 1,858,654	\$ 1,334,712
Net realized and unrealized (losses) gains on investments	(836,818)	4,646,582
Asset management fees	(3,025)	(5,098)
Realized gain (loss) on contributed stock	9,330	(3,929)
Earnings, fees and gains shared with funds held for others	(135,143)	(886,675)
Interest income on money market accounts	18,665	12,864
Total investment return	<u>\$ 911,663</u>	<u>\$ 5,098,456</u>

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

4. Recurring Fair Value Measurements

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 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, 2011 and 2010, along with the basis for the determination of fair value:

	2011			
	Total	Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Investments:				
Mutual funds				
Fixed income				
U.S. government AA bond rating	\$ 6,563,915	\$ 6,563,915	\$ --	\$ --
Domestic equity				
Consumer discretionary	1,007,117	1,007,117	--	--
Consumer staples	2,828,266	2,828,266	--	--
Healthcare	3,410,837	3,410,837	--	--
Information technology	3,756,366	3,756,366	--	--
Energy	1,010,528	1,010,528	--	--
Other	1,077,562	1,077,562	--	--
International developed equity	3,351,368	3,351,368	--	--
International emerging equity	5,683,929	5,683,929	--	--
Alternative investments				
Multi-strategy (a)	6,920,000	--	--	6,920,000
Multi-strategy (b)	6,912,527	--	--	6,912,527
Multi-strategy (c)	313,851	--	--	313,851
Multi-strategy (d)	199,210	--	--	199,210
Long/short strategy (e)	3,417,596	--	--	3,417,596
Equity funds (f)	5,921,046	--	--	5,921,046
Real assets (g)	7,035,218	--	--	7,035,218
	<u>59,409,336</u>	<u>28,689,888</u>	<u>--</u>	<u>30,719,448</u>
Privately held stock	93,731	--	--	93,731
	<u>59,503,067</u>	<u>28,689,888</u>	<u>--</u>	<u>30,813,179</u>
Beneficial interest in split interest agreements	646,692	--	646,692	--
	<u>\$ 60,149,759</u>	<u>\$ 28,689,888</u>	<u>\$ 646,692</u>	<u>\$ 30,813,179</u>

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
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	2010			
	Total	Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Investments:				
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
Multi-strategy (d)	3,261,746	--	--	3,261,746
Equity funds (e)	6,000,000	--	--	6,000,000
	<u>58,169,729</u>	<u>35,129,355</u>	--	<u>23,040,374</u>
Privately held stock	<u>27,882</u>	--	--	<u>27,882</u>
	58,197,611	35,129,355	--	23,068,256
Beneficial interest in split interest agreements	691,314	--	691,314	--
	<u>\$ 58,888,925</u>	<u>\$ 35,129,355</u>	<u>\$ 691,314</u>	<u>\$ 23,068,256</u>

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, 2011:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Commitment	Redemption Notice Period
Alternative Investments:					
Multi-strategy (a)	1	\$ 6,920,000	\$ --	None	45 days
Multi-strategy (b)	1	6,912,527	--	None	90 days*- see below
Multi-strategy (c)	1	313,851	--	None	N/A* - see below
Multi-strategy (d)	1	199,210	1,800,000	None	N/A* - see below
Long/short strategy (e)	1	3,417,596	--	None	60 days
Equity funds (f)	1	5,921,046	--	None	30 days*- see below
Real assets (g)	1	<u>7,035,218</u>	--	None	90 days*- see below
	7	<u>\$ 30,719,448</u>	<u>\$ 1,800,000</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 14 years. Redemptions may be made at December 31 with 45-day notice or at any time with consent of the General Partner.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
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- 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 17 years. Redemptions may be made at December 31 with 90-day notice excluding \$1 million which is subject to a lock-up period which ended 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 7 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 commitment period terminated on July 1, 2011.
- d) 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 10 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 commitment period is scheduled to terminate on July 1, 2015.
- e) 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 39 years. Redemptions may be made semi-annually at June 30 and December 31 with 60-day notice.
- f) 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.
- g) This fund focuses on long-only funds investing in a diversified portfolio of equities of small and micro capitalization companies within the global metals and mining industries based on bottom-up, fundamental analysis. Redemptions may be made with 90-day notice prior to the redemption date after the initial "lock-up" period of one year. For complete redemption of funds, one-third the value of participating shares may be redeemed as of the initial redemption date, one-half of the remaining balance as of the following redemption date and the remaining balances as of the third consecutive redemption date.

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The following is a summary of activity for the years ended December 31, 2011 and 2010 for assets (liabilities) measured at fair value based on unobservable measure criteria:

	2011				
	Alternative Investments				Privately Held Stock
	Multi-Strategy	Long/Short Strategy	Equity Fund	Real Assets	
Balance, January 1, 2011	\$ 13,778,628	\$ 3,261,746	\$6,000,000	\$ --	\$ 27,882
Realized and unrealized gains (losses) included in earnings	331,460	155,850	(78,954)	35,218	(9,022)
Purchases	200,000	--	--	7,000,000	80,300
Sales	--	--	--	--	(5,429)
Income	35,500	--	--	--	--
Balance, December 31, 2011	<u>\$ 14,345,588</u>	<u>\$3,417,596</u>	<u>\$5,921,046</u>	<u>\$7,035,218</u>	<u>\$ 93,731</u>
	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 (losses) 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>	

5. 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 2011 and 2010 were valued at \$485,978 and \$530,151, respectively.

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, 2011 and 2010 and was valued at \$160,714 and \$161,163, 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.

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6. Property and Equipment

Property and equipment consisted of the following at December 31:

	2011	2010
Furniture and office equipment	\$ 54,076	\$ 50,457
Leashold improvements	63,318	61,843
Accumulated depreciation	<u>(61,766)</u>	<u>(57,781)</u>
	<u>\$ 55,628</u>	<u>\$ 54,519</u>

Depreciation expense was \$14,038 and \$9,186 for the years ended December 31, 2011 and 2010, respectively.

7. Commitments and Contingencies

Operating Leases

During November 2007, the Community Foundation extended its non-cancelable lease agreement for office space through September 2018. 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
2012	\$ 66,882
2013	68,718
2014	70,092
2015	71,493
2016	72,927
2017 and thereafter	131,004

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 2011 and 2010 the discretionary contributions for full time employees totaled \$25,820 and \$24,947, 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:

	2011	2010
Board designated long-term grant funds – assets held by the Community Foundation for long-term grantmaking; subject to limited annual distributions	\$ 30,513,864	\$ 30,676,455
Other grant funds – assets held by the Community Foundation for grantmaking not subject to a limited annual distribution	28,753,882	26,614,943
Operating funds – assets in support of the Community Foundation operations	<u>3,170,744</u>	<u>2,265,887</u>
Total unrestricted net assets	<u>\$ 62,438,490</u>	<u>\$ 59,557,285</u>

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Temporarily Restricted

Temporarily restricted net assets at December 31, consisted of:

Time restrictions	\$ 750,000	\$ 50,000
Beneficial interest in split interest agreements	646,692	691,314
Total temporarily restricted net assets	<u>\$ 1,396,692</u>	<u>\$ 741,314</u>

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:

	2011	2010
Endowment net assets, beginning of year	\$ 30,676,455	\$ 28,074,753
Investment return		
Investment income	794,434	641,223
Realized gain (loss)	197,153	(29,132)
Unrealized (loss) gain	(451,238)	2,216,683
	<u>31,216,804</u>	<u>30,903,527</u>
Contributions received	632,330	735,074
Interfund transfers	(6,500)	4,000
Appropriated for expenditure	(1,328,770)	(966,146)
	<u>\$ 30,513,864</u>	<u>\$ 30,676,455</u>

10. Related Party Transactions

The Board of Trustees consists of 21 voting members. During the years ended December 31, 2011 and 2010 contributions from these trustees and members of the Community Foundation's staff totaled \$99,267 and \$140,121, respectively.

11. Subsequent Events

The Community Foundation has evaluated subsequent events occurring after the statement of financial position date through the date of May 23, 2012 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.