



Princeton Area
COMMUNITY FOUNDATION

Financial Statements

December 31, 2017 and 2016

With Independent Auditors' Report

Princeton Area Community Foundation, Inc.
December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Princeton Area Community Foundation, Inc. (the "Community Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Community Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Community Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



June 14, 2018

Princeton Area Community Foundation, Inc.
Statements of Financial Position
December 31, 2017 and 2016

| | 2017 | 2016 |
|--|---------------------------|---------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 28,755,337 | \$ 26,988,498 |
| Contributions receivable | 793,972 | 2,193,655 |
| Investments | 145,869,496 | 113,984,632 |
| Prepaid expenses | 37,566 | 31,512 |
| Beneficial interest in split interest agreements | 239,405 | 207,544 |
| Deposits | 10,125 | 10,125 |
| Property and equipment, net | <u>14,022</u> | <u>25,225</u> |
| Total assets | <u>\$ 175,719,923</u> | <u>\$ 143,441,191</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 116,639 | \$ 47,764 |
| Grants and scholarships payable | 1,365,802 | 1,048,979 |
| Deferred rent | 10,216 | 21,864 |
| Funds held for others | <u>35,377,016</u> | <u>30,248,159</u> |
| Total liabilities | 36,869,673 | 31,366,766 |
| Net assets | | |
| Unrestricted | | |
| Board designated long-term grant funds | 44,361,653 | 39,931,124 |
| Other grant funds | 88,218,908 | 65,976,237 |
| Operating funds | <u>5,760,284</u> | <u>5,369,520</u> |
| | 138,340,845 | 111,276,881 |
| Temporarily restricted | <u>509,405</u> | <u>797,544</u> |
| Total net assets | <u>138,850,250</u> | <u>112,074,425</u> |
| | <u>\$ 175,719,923</u> | <u>\$ 143,441,191</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, 2017 and 2016

| | 2017 | | | 2016 | | |
|--|-----------------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Support and revenues | | | | | | |
| Contributions | \$ 29,809,287 | \$ 45,000 | \$ 29,854,287 | \$ 24,817,727 | \$ 590,000 | \$ 25,407,727 |
| Investment income | 16,426,424 | -- | 16,426,424 | 8,927,394 | -- | 8,927,394 |
| Other income | 226,032 | -- | 226,032 | 203,037 | -- | 203,037 |
| Change in value of split interest agreements | (6,700) | 31,861 | 25,161 | (3,400) | 10,252 | 6,852 |
| Net assets released from restrictions | <u>365,000</u> | <u>(365,000)</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| | 46,820,043 | (288,139) | 46,531,904 | 33,944,758 | 600,252 | 34,545,010 |
| Allocations and expenses | | | | | | |
| Program services | 18,504,072 | -- | 18,504,072 | 13,773,251 | -- | 13,773,251 |
| Management and general | 612,519 | -- | 612,519 | 686,393 | -- | 686,393 |
| Fundraising | <u>639,488</u> | <u>--</u> | <u>639,488</u> | <u>189,086</u> | <u>--</u> | <u>189,086</u> |
| | <u>19,756,079</u> | <u>--</u> | <u>19,756,079</u> | <u>14,648,730</u> | <u>--</u> | <u>14,648,730</u> |
| Changes in net assets | 27,063,964 | (288,139) | 26,775,825 | 19,296,028 | 600,252 | 19,896,280 |
| Net assets, beginning of year | <u>111,276,881</u> | <u>797,544</u> | <u>112,074,425</u> | <u>91,980,853</u> | <u>197,292</u> | <u>92,178,145</u> |
| Net assets, end of year | <u>\$ 138,340,845</u> | <u>\$ 509,405</u> | <u>\$ 138,850,250</u> | <u>\$ 111,276,881</u> | <u>\$ 797,544</u> | <u>\$ 112,074,425</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, 2017 and 2016

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Cash flows from operating activities | | |
| Changes in net assets | \$ 26,775,825 | \$ 19,896,280 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Unrealized gains on investments | (7,648,712) | (8,253,256) |
| Realized (gains) losses on sale of investments | (2,313,292) | 2,506,679 |
| Partnership income | (9,372,911) | (4,757,158) |
| Change in value of split interest agreements | (31,861) | (10,252) |
| Depreciation expense | 11,203 | 11,090 |
| Changes in assets and liabilities | | |
| Contributions receivable | 1,399,683 | 1,423,081 |
| Prepaid expenses | (6,054) | 5,683 |
| Accounts payable and accrued expenses | 68,875 | (11,817) |
| Grants and scholarships payable | 316,823 | 472,705 |
| Custodial funds | -- | (90,989) |
| Deferred rent | (11,648) | (10,560) |
| Net cash provided by operating activities | <u>9,187,931</u> | <u>11,181,486</u> |
| Cash flows from investing activities | | |
| Property and equipment additions | -- | (6,355) |
| Funds held for others - net additions | 5,128,857 | 1,846,356 |
| Sale of investments | 15,561,560 | 18,548,703 |
| Purchase of investments | <u>(28,111,509)</u> | <u>(25,161,720)</u> |
| Net cash used by investing activities | <u>(7,421,092)</u> | <u>(4,773,016)</u> |
| Net change in cash and cash equivalents | 1,766,839 | 6,408,470 |
| Cash and cash equivalents | | |
| Beginning of year | <u>26,988,498</u> | <u>20,580,028</u> |
| End of year | <u>\$ 28,755,337</u> | <u>\$ 26,988,498</u> |

Supplemental disclosure of cash flow information

There were no amounts paid for interest or income taxes for the years ended December 31, 2017 or 2016.

Princeton Area Community Foundation, Inc.
Statements of Functional Expenses
Years Ended December 31, 2017 and 2016

| | 2017 | | | | 2016 | | | |
|-------------------------------------|----------------------|------------------------|-------------------|----------------------|----------------------|------------------------|-------------------|----------------------|
| | Program Services | Supporting Services | | Total | Program Services | Supporting Services | | Total |
| | | Management and General | Fundraising | | | Management and General | Fundraising | |
| Grant expense | \$ 17,774,823 | \$ -- | \$ -- | \$ 17,774,823 | \$ 13,153,604 | \$ -- | \$ -- | \$ 13,153,604 |
| Salaries and wages | 492,596 | 323,561 | 390,726 | 1,206,883 | 405,575 | 401,017 | 82,504 | 889,096 |
| Employee benefits and payroll taxes | 102,819 | 67,535 | 81,556 | 251,910 | 76,328 | 78,514 | 15,529 | 170,371 |
| Professional services | -- | 79,344 | -- | 79,344 | -- | 78,828 | -- | 78,828 |
| Occupancy | 37,647 | 26,833 | 29,862 | 94,342 | 44,734 | 41,068 | 8,495 | 94,297 |
| Insurance | 3,948 | 2,593 | 3,131 | 9,672 | 4,203 | 3,589 | 798 | 8,590 |
| Information technology | 41,783 | 27,446 | 33,142 | 102,371 | 18,507 | 15,805 | 3,515 | 37,827 |
| Travel | 5,231 | 3,437 | 4,149 | 12,817 | 5,309 | 4,534 | 1,008 | 10,851 |
| Office expense | 13,471 | 43,104 | 10,865 | 67,440 | 29,138 | 38,364 | 5,533 | 73,035 |
| Marketing | -- | 13,477 | 26,593 | 40,070 | -- | 10,567 | 14,992 | 25,559 |
| Membership dues and subscriptions | 7,330 | 4,814 | 5,814 | 17,958 | 8,726 | 7,453 | 1,657 | 17,836 |
| Training, conferences and events | 19,852 | 17,371 | 50,023 | 87,246 | 21,701 | 2,020 | 54,025 | 77,746 |
| Depreciation | 4,572 | 3,004 | 3,627 | 11,203 | 5,426 | 4,634 | 1,030 | 11,090 |
| | <u>\$ 18,504,072</u> | <u>\$ 612,519</u> | <u>\$ 639,488</u> | <u>\$ 19,756,079</u> | <u>\$ 13,773,251</u> | <u>\$ 686,393</u> | <u>\$ 189,086</u> | <u>\$ 14,648,730</u> |

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

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

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 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. Significant sources of revenue are received from contributions and investment income. The Community Foundation accepts funds from unrelated nonprofit organizations who desire to have the Community Foundation provide efficient investment management, programmatic expertise, and technical assistance.

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, 2017 and 2016, 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.

Grant Expense

Grant expense is recognized in the period the grant is awarded, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as grant payable in the period in which the grantee substantially meets the terms of the conditions. Grants and scholarships payable that are expected to be paid in more than one year are discounted to present value at 5 percent.

Program Services

The Community Foundation is an active grantmaker through its own discretionary, competitive grant programs, as well as, 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 low-income communities. The Community Foundation’s grantmaking touches many programmatic areas including education, basic services, health, arts and culture, housing, the environment, historic preservation, civil rights, and animal welfare.

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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 and grant-seeking best practices. 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 to expand its educational offerings.

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.

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, 2017 and 2016.

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 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. Most of these investments are established as limited partnerships which 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 or on the tax basis of the limited partnership. Those investments that are traded in the United States or on foreign exchanges are valued based on current traded value.

Estimates of fair value for certain investments have been used for those investments that are not readily traded. The investments in limited partnerships include some which allow for limited or no rights of redemption until the termination of the partnership. These limited partnerships, whose financial statements are prepared in accordance with US GAAP, are generally valued at the net asset value provided by the manager of such investments.

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

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.

Foreign Currency

Investment securities denominated in foreign currencies are translated into United States dollars at the statement of financial position date. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into United States dollars on the respective dates of such transactions. Realized gains and losses and changes in unrealized gains and losses resulting from changes in foreign exchange rates are included in investment income in the statements of activities and changes in net assets.

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. Grants distributed were \$17,774,823 and \$13,153,604 for the years ended December 31, 2017 and 2016, respectively, from all funds within the Community Foundation. Fees earned for investment management services of \$215,349 and \$195,642 for the years ended December 31, 2017 and 2016, respectively are recorded in other income on the statements of activities and changes in net assets.

The total net return, which includes interest and dividend payments plus net capital appreciation (depreciation) earned by the pooled investments, is allocated to the funds based on a daily average balance, relative to the pool.

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.

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. Costs incurred for leasehold improvements are amortized over the extended term of the lease which expires in 2018; the improvement allowance received has been treated as deferred rent and is amortized as a reduction of periodic rent expense over the extended term of the lease.

Funds Held for Others

The Community Foundation receives and distributes assets under certain agency and intermediary arrangements. When the Community Foundation accepts a deposit 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. Upon written request, 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. Timing of liquidations is determined by the Community Foundation to ensure no adverse impact on the performance of the investment pool.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including contributions receivable, and accounts payable and accrued expenses approximate fair value because of the relatively short maturity of these instruments. Custodial funds and funds held for others approximate fair value as they are adjusted regularly to reflect the change in fair value of the associated investments. Grants and scholarships payable approximate fair value as the long term grants and scholarships payables are discounted using a market rate of interest.

Valuation 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.

Concentration of Credit Risks

Financial Instruments

Financial instruments which potentially subject the Community Foundation to concentrations of credit risk are cash and cash equivalents, investments, contributions and contributions receivable. The Community Foundation places cash and its investments in high quality securities with several financial and investment institutions which helps 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 of \$250,000.

Contribution Revenue

Approximately 52 percent and 37 percent of total contributions were from three and two donors for the years ended December 31, 2017 and 2016, respectively. Contributions receivable are received from a wide donor base which limits the concentration of credit risk.

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Notes to Financial Statements
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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 or state income taxes. However, revenue earned on activities which are unrelated to the Community Foundation's exempt purpose is taxable. The Community Foundation had no unrelated business taxable income assessed in 2017 and 2016.

The Community Foundation follows the pronouncement related to accounting for uncertainty in income taxes and there were no uncertain tax positions at December 31, 2017 and 2016. In addition, no income tax related penalties or interest have been recorded for the years ended December 31, 2017 and 2016.

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. The value of alternative investments includes estimates of fair value for instruments that are not publicly traded, which is a significant estimate. It is reasonably possible that these estimates could change in the near future.

New Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14 – Not-for-profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 (the "ASU"), underwater endowment funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions, as is the current practice.

In addition, the ASU eliminates the accounting policy election to release donor-imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. In addition to the above disclosures, the ASU changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. Management is evaluating the impact the ASU will have on its financial statements.

3. RECURRING FAIR VALUE MEASUREMENTS

The Community Foundation values assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible (Level 1). To the extent that such market prices are not available, the Community Foundation values 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 (Level 2). In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Community Foundation develops measurement criteria based on the best information available (Level 3).

Princeton Area Community Foundation, Inc.
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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, 2017 and 2016, along with the basis for the determination of fair value:

| | 2017 | | | |
|--|-----------------------|--|--|--|
| | Total | Quoted Prices in Active Markets (Level 1) | Observable Measurement Criteria (Level 2) | Unobservable Measurement Criteria (Level 3) |
| Investments | | | | |
| Domestic equity | | | | |
| Consumer discretionary | \$ 427,720 | \$ 427,720 | \$ -- | \$ -- |
| Consumer staples | 1,390,090 | 1,390,090 | -- | -- |
| Energy | 96,237 | 96,237 | -- | -- |
| Financials | 4,800,430 | 4,800,430 | -- | -- |
| Healthcare | 2,448,698 | 2,448,698 | -- | -- |
| Industrial | 620,194 | 620,194 | -- | -- |
| Information technology | 4,801,158 | 4,801,158 | -- | -- |
| Materials | 171,088 | 171,088 | -- | -- |
| Emerging markets | 13,979,312 | 13,979,312 | -- | -- |
| Real assets | 9,448,224 | 9,448,224 | -- | -- |
| Mutual fund - fixed assets | 9,995,157 | 9,995,157 | -- | -- |
| Alternative investments | | | | |
| Multi-strategy (a) | 19,344,672 | -- | -- | 19,344,672 |
| Multi-strategy (b) | 11,440,783 | -- | -- | 11,440,783 |
| Multi-strategy (c) | 39,508 | -- | -- | 39,508 |
| Multi-strategy (d) | 1,759,455 | -- | -- | 1,759,455 |
| Multi-strategy (e) | 2,013,900 | -- | -- | 2,013,900 |
| Multi-strategy (o) | 5,000,000 | -- | -- | 5,000,000 |
| Long/short strategy (f) | 5,035,109 | -- | -- | 5,035,109 |
| Equity funds (g) | 16,036,744 | -- | -- | 16,036,744 |
| Equity funds (h) | 7,258,826 | -- | -- | 7,258,826 |
| Real assets (i) | 3,336,486 | -- | -- | 3,336,486 |
| Equity funds (k) | 9,507,045 | -- | -- | 9,507,045 |
| Real assets (l) | 1,751,683 | -- | -- | 1,751,683 |
| Real assets (m) | 289,422 | -- | -- | 289,422 |
| | 130,991,941 | 48,178,308 | -- | 82,813,633 |
| Privately held stock | 23,857 | -- | -- | 23,857 |
| | 131,015,798 | \$ 48,178,308 | \$ -- | \$ 82,837,490 |
| Investments measured at NAV (j, n) | 14,853,698 | | | |
| Total investments | <u>\$ 145,869,496</u> | | | |
| Beneficial interest in split interest agreements | <u>\$ 239,405</u> | <u>\$ --</u> | <u>\$ 239,405</u> | <u>\$ --</u> |

Princeton Area Community Foundation, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

| | 2016 | | | |
|--|-----------------------|--|--|--|
| | Total | Quoted Prices in Active Markets (Level 1) | Observable Measurement Criteria (Level 2) | Unobservable Measurement Criteria (Level 3) |
| Investments | | | | |
| Domestic equity | | | | |
| Consumer discretionary | \$ 447,393 | \$ 447,393 | \$ -- | \$ -- |
| Consumer staples | 1,433,315 | 1,433,315 | -- | -- |
| Energy | 107,706 | 107,706 | -- | -- |
| Financials | 306,547 | 306,547 | -- | -- |
| Healthcare | 1,681,867 | 1,681,867 | -- | -- |
| Industrial | 762,225 | 762,225 | -- | -- |
| Information technology | 3,396,874 | 3,396,874 | -- | -- |
| Materials | 149,131 | 149,131 | -- | -- |
| Emerging markets | 10,573,974 | 10,573,974 | -- | -- |
| Real assets | 7,360,173 | 7,360,173 | -- | -- |
| Mutual fund - fixed assets | 10,092,271 | 10,092,271 | -- | -- |
| Alternative investments | | | | |
| Multi-strategy (a) | 17,559,373 | -- | -- | 17,559,373 |
| Multi-strategy (b) | 11,122,914 | -- | -- | 11,122,914 |
| Multi-strategy (c) | 124,957 | -- | -- | 124,957 |
| Multi-strategy (d) | 1,853,340 | -- | -- | 1,853,340 |
| Multi-strategy (e) | 1,446,009 | -- | -- | 1,446,009 |
| Long/short strategy (f) | 4,933,658 | -- | -- | 4,933,658 |
| Equity funds (g) | 10,236,976 | -- | -- | 10,236,976 |
| Equity funds (h) | 6,629,223 | -- | -- | 6,629,223 |
| Real assets (i) | 2,140,505 | -- | -- | 2,140,505 |
| Equity funds (k) | 7,715,170 | -- | -- | 7,715,170 |
| Real assets (l) | 805,007 | -- | -- | 805,007 |
| Real assets (m) | 23,671 | -- | -- | 23,671 |
| | <u>100,902,279</u> | <u>36,311,476</u> | <u>--</u> | <u>64,590,803</u> |
| Privately held stock | <u>30,557</u> | <u>--</u> | <u>--</u> | <u>30,557</u> |
| | <u>100,932,836</u> | <u>36,311,476</u> | <u>--</u> | <u>64,621,360</u> |
| Investments measured at NAV (j, n) | <u>13,051,796</u> | | | |
| Total investments | <u>\$ 113,984,632</u> | | | |
| Beneficial interest in split interest agreements | <u>\$ 207,544</u> | <u>\$ --</u> | <u>\$ 207,544</u> | <u>\$ --</u> |

The following table presents the unfunded commitments, redemption frequency and notice period for investments in entities that calculate fair value using net asset value per share or its equivalent at December 31, 2017:

| Strategies | # of Funds | 2017 Amount | 2016 Amount | Unfunded Commitment | Redemption Commitment | Redemption Notice Period |
|------------------|---------------|----------------------|----------------------|------------------------|--------------------------|-----------------------------|
| Equity funds (n) | 1 | \$ 6,741,473 | \$ 6,312,156 | \$ -- | None | 25% 30 days, 75% five years |
| Equity funds (j) | 1 | <u>8,112,225</u> | <u>6,739,640</u> | \$ -- | None | None |
| | | <u>\$ 14,853,698</u> | <u>\$ 13,051,796</u> | | | |

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- 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 will continue until December 31, 2025 and may elect to extend the term to a date no later than March 31, 2026. 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 will terminate on December 31, 2028, unless terminated earlier. Redemptions may be made at December 31 with 90-day notice. Redemptions pertaining to extraordinary circumstances may also be permitted at the discretion of the General Partner.
- c) This fund's purpose is to seek long-term capital appreciation and/or current income by primarily making equity and equity-related and debt and debt-related investments in companies, partnerships, limited liability companies or other entities. This partnership will terminate on November 1, 2018, unless otherwise extended or terminated pursuant to the terms of the Partnership Agreement. 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.
- d) This fund invests in a wide range of public and private companies across a variety of industries. The fund seeks long-term capital appreciation, the pursuit of which may also generate current income, while minimizing risk of loss. 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, 2021, unless otherwise extended or terminated pursuant to the terms of the Partnership Agreement.
- e) This fund invests in a wide range of asset classes, including but not limited to equity or debt securities of, or interest in, public or private companies, trade claims, derivatives, direct or indirect interests in real estate, investments in partnerships managed by others and litigations. This fund's objective is to seek long-term capital appreciation, the pursuit of which may also generate current income, while minimizing risk of loss. The Partnership will terminate on July 1, 2025, unless otherwise extended or terminated pursuant to the terms of the Partnership Agreement. The commitment period is scheduled to terminate on July 1, 2019. 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.
- f) This fund's objective is to achieve capital appreciation, primarily through the purchase and sale of equity and debt securities, put and call options, and other financial instruments. 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 will terminate on December 31, 2050. Redemptions may be made semi-annually at June 30 and December 31 with 60-day notice.

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- g) 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 which was 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.
- h) This fund's investment objective is long-term capital appreciation by pursuing a fundamentally-driven approach to life sciences investing. The partnership takes large, concentrated positions in the securities of life sciences companies with the potential for significant value creation over the long term. Given its large, concentrated and relatively long-term investment strategy, the partnership expects its returns to be volatile. Upon 90 days written notice to the partnership, prior to the applicable anniversary date, each Limited Partner has the right to request the withdrawal of a percentage of the balance in its capital account, as of the close of business on each anniversary date up to a maximum withdrawal percentage.
- i) This real asset fund targets income-producing, but mismanaged properties in strong markets. Working with local operating partners to reposition the properties to boost their values. The fund utilizes modest leverage at the property level (60-65 percent) to minimize risk, and will also limit investments in non-income producing land and hospitality assets (which carry higher risk). The commitment can be called over 3 years starting in 2014, with the fund having a total life of 10 years (including the investment period).
- j) The fund's objective is to generate returns for shareholders by investing in companies that are trading substantially below their intrinsic value and supporting management-led positive change to catalyze the fund's public market value to that intrinsic value. Shares may be redeemed on any redemption date at the request of the shareholder. Redemption day means the first business day in January, April, July and October and any such other day or days as the Director may from time to time determine.
- k) This fund was formed as a Limited Partnership in 2006 with an investment objective to achieve substantial capital appreciation. The partnership is permitted to invest in many types of securities including domestic and foreign equities, fixed income securities, and derivatives but it primarily invests in domestic equities. The investment's liquidity window is quarterly with sixty days written notice. If a withdrawal is greater than 33 percent of the account in any twelve month period, it is subject to a 4 percent withdrawal fee.
- l) This fund was organized for the purpose of seeking 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. In January 2015, the investment advisor announced it was downsizing and would close the fund. The manager focused efforts in 2015 on an orderly liquidation and wind-down of the fund. Subsequently, in 2016 investors were given the option to elect to remain invested in the Fund.

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- m) This fund is a closed-end private equity fund that commenced operations on December 22, 2015. The objective of the partnership is to invest in real estate properties and real estate related assets for capital appreciation and current income. The partnership shall continue until June 5, 2026 or until it is sooner dissolved pursuant to the partnership agreement. Limited Partners generally may not sell, transfer or pledge their interests except with the consent of the General Partner. Limited Partners generally may not withdraw from the fund.
- n) This fund seeks to achieve its investment objective by taking long positions in equity and debt securities as well as certain derivatives with a focus on European companies of all sizes and capitalizations. The fund emphasizes intensive fundamental research to identify undervalued companies which are misunderstood by the market. 25 percent of the investment can be redeemed monthly. The remaining 75 percent is only allowed a full redemption in 5 years, although in the interim period 10 percent of the share class can be redeemed each year.
- o) 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. Withdrawals of up to 1/6th of assets permitted on a quarterly basis (with 45 days notice), subject to no more than 1/6th withdrawn in any six-month period. If investors submit a full redemption request, capital is returned over at most two years.

The following is a summary of activity for the years ended December 31, 2017 and 2016 for assets (liabilities) measured at fair value based on unobservable measure criteria:

| | Alternative Investments | | | | |
|---|--------------------------------|----------------------------|----------------------|---------------------|-----------------------------|
| | Multi-Strategy | Long/Short Strategy | Equity Fund | Real Assets | Privately Held Stock |
| Balance, January 1, 2016 | \$ 22,321,995 | \$ 4,497,408 | \$ 19,171,763 | \$ 1,721,221 | \$ 60,557 |
| Realized and unrealized gains (losses) included in earnings | 2,969,257 | 436,250 | 1,428,968 | 581,717 | (3,400) |
| Purchases | 7,174,723 | -- | 9,123,772 | 453,552 | -- |
| Sales | (359,382) | -- | -- | (618,500) | (26,600) |
| Transfers | -- | -- | (5,143,134) | 831,193 | -- |
| Balance, December 31, 2016 | 32,106,593 | 4,933,658 | 24,581,369 | 2,969,183 | 30,557 |
| Realized and unrealized gains (losses) included in earnings | 2,371,230 | 101,451 | 5,721,246 | 1,181,869 | (6,700) |
| Purchases | 5,577,477 | -- | 2,500,000 | 1,493,899 | -- |
| Sales | (456,982) | -- | -- | (267,360) | -- |
| Transfers | -- | -- | -- | -- | -- |
| Balance, December 31, 2017 | <u>\$ 39,598,318</u> | <u>\$ 5,035,109</u> | <u>\$ 32,802,615</u> | <u>\$ 5,377,591</u> | <u>\$ 23,857</u> |

All investments categorized in Level 3 within the fair value hierarchy have fair values based on unobservable but non-qualitative inputs. Such investments include financial instruments for which the determination of fair value is determined by third party pricing information without adjustment and financial instruments for which fair value is determined by net asset value.

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Investment return was comprised of the following:

| | 2017 | 2016 |
|--|----------------------|---------------------|
| Dividend and interest income | \$ 1,740,654 | \$ 1,169,654 |
| Net realized and unrealized gains on investments | 9,949,142 | 5,732,115 |
| Partnership income | 9,372,911 | 4,757,158 |
| Asset management fees | (10,943) | (5,982) |
| Realized gains on contributed stock | 12,862 | 14,462 |
| Earnings, fees and gains shared with funds held for others | (4,662,499) | (2,751,405) |
| Interest income on money market accounts | 24,297 | 11,392 |
| Total investment return | <u>\$ 16,426,424</u> | <u>\$ 8,927,394</u> |

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2017 | 2016 |
|--------------------------------|------------------|------------------|
| Furniture and office equipment | \$ 75,551 | \$ 75,551 |
| Leashold improvements | 63,318 | 63,318 |
| Less: Accumulated depreciation | <u>(124,847)</u> | <u>(113,644)</u> |
| | <u>\$ 14,022</u> | <u>\$ 25,225</u> |

Depreciation expense was \$11,203 and \$11,090 for the years ended December 31, 2017 and 2016, respectively.

5. BENEFICIAL INTEREST IN SPLIT INTEREST AGREEMENTS

The Community Foundation is the irrevocable beneficiary of two charitable remainder trusts. Upon establishment 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 adjusted to the market value with a corresponding offset to unrealized gain or loss. These trusts for 2017 and 2016 were valued at \$239,405 and \$207,544, respectively.

6. EMPLOYEE BENEFIT PLAN

The Community Foundation maintains a salary reduction 403(b)(7) benefit plan, and a tax deferred annuity plan, which includes all full time employees (collectively "the Plans"). The Plans allow 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 Plans provide for a discretionary employer contribution. In 2017 and 2016, the Community Foundation made discretionary contributions of \$62,240 and \$36,079, respectively, which are included in employee benefits and payroll taxes on the statements of financial position.

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7. COMMITMENTS AND CONTINGENCIES

Operating Leases

During November 2007, the Community Foundation extended its non-cancelable lease agreement for office space through March 2019. 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:

| Year | Amount |
|------|------------------|
| 2018 | \$ 75,492 |
| 2019 | 18,873 |
| | <u>\$ 94,365</u> |

Capital Commitments

The Community Foundation has commitments of approximately \$12,923,000 under subscription agreements to fund capital calls of private equity limited partnerships as of December 31, 2017.

8. RELATED PARTY TRANSACTIONS

The Board of Trustees consists of 23 voting members. During the years ended December 31, 2017 and 2016, contributions from these trustees and members of the Community Foundation's staff was approximately \$381,000 and \$288,000, respectively.

9. NET ASSETS

Unrestricted

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

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Board designated long-term grant funds – assets held by the Community Foundation for long-term grantmaking; subject to limited annual distributions | \$ 44,361,653 | \$ 39,931,124 |
| Other grant funds – assets held by the Community Foundation for grantmaking not subject to a limited annual distribution | 88,218,908 | 65,976,237 |
| Operating funds – assets in support of the Community Foundation operations | <u>5,760,284</u> | <u>5,369,520</u> |
| Total unrestricted net assets | <u>\$ 138,340,845</u> | <u>\$ 111,276,881</u> |

Temporarily Restricted

Temporarily restricted net assets at December 31, consisted of:

| | | |
|--|-------------------|-------------------|
| Time restrictions | | |
| Pledge receivable (included in contributions receivable) | \$ 270,000 | \$ 590,000 |
| Beneficial interest in split interest agreements | <u>239,405</u> | <u>207,544</u> |
| | <u>\$ 509,405</u> | <u>\$ 797,544</u> |

10. 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 board designated endowment net assets for the years ended December 31:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Endowment net assets, beginning of year | \$ 39,931,124 | \$ 37,386,642 |
| Investment return | | |
| Investment income | 481,768 | 360,301 |
| Realized gains (losses) | 661,968 | (779,757) |
| Unrealized gains | <u>4,947,184</u> | <u>4,085,209</u> |
| | 46,022,044 | 41,052,395 |
| Contributions received | 214,468 | 717,196 |
| Interfund transfers | (678,321) | (841,030) |
| Appropriated for expenditure | <u>(1,196,538)</u> | <u>(997,437)</u> |
| | <u>\$ 44,361,653</u> | <u>\$ 39,931,124</u> |

11. SUBSEQUENT EVENTS

The Community Foundation has evaluated subsequent events occurring after the statement of financial position date through the date of June 14, 2018, 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.