

**PUTNAM COUNTY COMMUNITY
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the
Putnam County Community Foundation, Inc.
Greencastle, Indiana

We have audited the accompanying statements of financial position of the Putnam County Community Foundation, Inc., as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the 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 the Putnam County Community Foundation, Inc., as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, Putnam County Community Foundation, Inc. adopted FASB Staff Position 117-1 in 2008 by restating its 2007 financial statements included herein.

Blue & Co., LLC

May 15, 2009

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007 As Restated
Cash	\$ 387,036	\$ 367,118
Certificates of deposit	380,704	306,055
Investments	12,245,205	16,378,637
Pledges receivable	497,375	15,652
Other receivables	21,198	30,290
Prepaid expenses	5,400	8,087
Property and equipment, net	113,624	110,474
Property held for sale	64,200	89,300
Beneficial interest in charitable remainder trusts	223,132	297,175
Restricted cash	9,086	60,858
Restricted investments	1,854,386	3,405,748
	<u>\$ 15,801,346</u>	<u>\$ 21,069,394</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 5,580	\$ 275
Accrued payroll	11,138	4,955
Gift annuities payable	36,984	27,710
Due to partnership affiliates	51,887	45,330
Custodial funds	1,863,472	3,466,606
Long-term debt	52,900	57,857
Total liabilities	<u>2,021,961</u>	<u>3,602,733</u>

Net assets

Unrestricted:		
Operating	406,245	510,768
Board designated	65,902	99,153
Total unrestricted net assets	<u>472,147</u>	<u>609,921</u>
Temporarily restricted	13,099,185	16,648,687
Permanently restricted	208,053	208,053
Total net assets	<u>13,779,385</u>	<u>17,466,661</u>
	<u>\$ 15,801,346</u>	<u>\$ 21,069,394</u>

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2008 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2007)

	2008			2007 As Restated	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues					
Contributions and grants	\$ 15,900	\$ 792,463	\$ -0-	\$ 808,363	\$ 613,263
Investment return, net	(12,048)	(3,731,821)	-0-	(3,743,869)	1,176,378
Administrative fees	269,108	-0-	-0-	269,108	276,499
Change in value of split interest agreements	-0-	(77,500)	-0-	(77,500)	6,902
Other revenues	11,292	41,952	-0-	53,244	37,328
Net assets released from restrictions	574,596	(574,596)	-0-	-0-	-0-
Total support and revenues	858,848	(3,549,502)	-0-	(2,690,654)	2,110,370
Expenses					
Grants	315,153	-0-	-0-	315,153	411,231
Administrative fees	231,357	-0-	-0-	231,357	246,626
Salaries and wages	182,055	-0-	-0-	182,055	165,342
Payroll taxes and benefits	23,332	-0-	-0-	23,332	20,651
Insurance	10,093	-0-	-0-	10,093	12,854
Advertising	24,251	-0-	-0-	24,251	13,347
Office supplies	4,126	-0-	-0-	4,126	4,088
Printing and copying	50,104	-0-	-0-	50,104	24,330
Postage and shipping	3,466	-0-	-0-	3,466	4,099
Dues and subscriptions	3,961	-0-	-0-	3,961	3,969
Travel and education	3,615	-0-	-0-	3,615	2,544
Repairs and maintenance	6,840	-0-	-0-	6,840	4,506
Legal and accounting	26,507	-0-	-0-	26,507	26,235
Consulting fees	30,393	-0-	-0-	30,393	17,479
Telephone	3,385	-0-	-0-	3,385	3,011
Depreciation	19,023	-0-	-0-	19,023	9,136
Computer expenses	14,498	-0-	-0-	14,498	32,538
Rent	12,240	-0-	-0-	12,240	11,915
Interest expense	1,834	-0-	-0-	1,834	1,996
Utilities	5,957	-0-	-0-	5,957	5,049
Event expenses	21,863	-0-	-0-	21,863	19,385
Miscellaneous	2,569	-0-	-0-	2,569	2,762
Total expenses	996,622	-0-	-0-	996,622	1,043,093
Change in net assets	(137,774)	(3,549,502)	-0-	(3,687,276)	1,067,277
Net assets, beginning of year	609,921	16,648,687	208,053	17,466,661	16,399,384
Net assets, end of year	\$ 472,147	\$ 13,099,185	\$ 208,053	\$ 13,779,385	\$ 17,466,661

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2007 (AS RESTATED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Contributions and grants	\$ 16,720	\$ 596,543	\$ -0-	\$ 613,263
Investment return, net	32,367	1,144,011	-0-	1,176,378
Administrative fees	276,499	-0-	-0-	276,499
Change in value of split interest agreements	-0-	6,902	-0-	6,902
Other revenues	13,551	23,777	-0-	37,328
Net assets released from restrictions	<u>672,210</u>	<u>(672,210)</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	1,011,347	1,099,023	-0-	2,110,370
Expenses				
Grants	411,231	-0-	-0-	411,231
Administrative fees	246,626	-0-	-0-	246,626
Salaries and wages	165,342	-0-	-0-	165,342
Payroll taxes and benefits	20,651	-0-	-0-	20,651
Insurance	12,854	-0-	-0-	12,854
Advertising	13,347	-0-	-0-	13,347
Office supplies	4,088	-0-	-0-	4,088
Printing and copying	24,330	-0-	-0-	24,330
Postage and shipping	4,099	-0-	-0-	4,099
Dues and subscriptions	3,969	-0-	-0-	3,969
Travel and education	2,544	-0-	-0-	2,544
Repairs and maintenance	4,506	-0-	-0-	4,506
Legal and accounting	26,235	-0-	-0-	26,235
Consulting fees	17,479	-0-	-0-	17,479
Telephone	3,011	-0-	-0-	3,011
Depreciation	9,136	-0-	-0-	9,136
Computer expenses	32,538	-0-	-0-	32,538
Rent	11,915	-0-	-0-	11,915
Interest expense	1,996	-0-	-0-	1,996
Utilities	5,049	-0-	-0-	5,049
Event expenses	19,385	-0-	-0-	19,385
Miscellaneous	<u>2,762</u>	<u>-0-</u>	<u>-0-</u>	<u>2,762</u>
Total expenses	<u>1,043,093</u>	<u>-0-</u>	<u>-0-</u>	<u>1,043,093</u>
Change in net assets	<u>\$ (31,746)</u>	<u>\$ 1,099,023</u>	<u>\$ -0-</u>	<u>\$ 1,067,277</u>
Net assets, beginning of year				
As previously reported	\$ 14,020,720	\$ 961,185	\$ 208,053	\$ 15,189,958
Effect of restatement	<u>(13,379,053)</u>	<u>14,588,479</u>	<u>-0-</u>	<u>1,209,426</u>
As restated	641,667	15,549,664	208,053	16,399,384
Change in net assets	<u>(31,746)</u>	<u>1,099,023</u>	<u>-0-</u>	<u>1,067,277</u>
Net assets, end of year	<u>\$ 609,921</u>	<u>\$ 16,648,687</u>	<u>\$ 208,053</u>	<u>\$ 17,466,661</u>

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007 As Restated
Operating activities		
Change in net assets	\$ (3,687,276)	\$ 1,067,277
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	19,023	9,136
Gain from sale of property held for sale	(13,960)	-0-
Net realized and unrealized losses (gains) on investments	4,321,734	(674,378)
Change in value of split-interest agreements	77,500	(6,902)
Changes in assets and liabilities:		
Pledges receivable	(481,723)	448
Other receivables	9,092	(1,809)
Prepaid expenses	2,687	982
Restricted cash	51,772	91,527
Restricted investments	1,551,362	(380,665)
Accounts payable	5,305	(19,797)
Accrued payroll	6,183	(903)
Gift annuities payable	5,817	(4,551)
Due to partnership affiliates	6,557	(999)
Custodial funds	(1,603,134)	289,138
Net cash flows from operating activities	270,939	368,504
Investing activities		
Purchases of property and equipment	(22,173)	(29,603)
Purchases of certificates of deposit	(380,704)	(306,055)
Maturities of certificates of deposit	306,055	341,117
Change in investments	(188,302)	(209,625)
Proceeds from sale of property held for sale	39,060	-0-
Net cash flows from investing activities	(246,064)	(204,166)
Financing activities		
Payments on long-term debt	(4,957)	(4,795)
Net change in cash	19,918	159,543
Cash, beginning of year	367,118	207,575
Cash, end of year	\$ 387,036	\$ 367,118
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 1,834	\$ 1,996
Supplemental disclosures of non-cash investing activity		
Increase in investments due to receipt of trust assets	\$ -0-	\$ 1,302,384

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Putnam County Community Foundation, Inc. (the "Foundation") was incorporated as a not-for-profit entity in 1985. The mission of the Foundation is to partner with those who give to enrich life and strengthen community for this and future generations.

Management's Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

Basis of Presentation

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and primarily made up of the Foundation's operating fund and administrative endowment. The Foundation maintains unrestricted funds as follows:

Operating – used to fund current operations of the Foundation

Board Designated Funds – used to fund future operations of the Foundation as designated by the Board

Temporarily restricted net assets – Net assets not yet appropriated for expenditure by the Foundation's Board of Directors in accordance with their spending policy or that have donor-imposed restrictions relating to a stipulated purpose or a specified time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished or amounts have been allocated for expenditure by the Board of Directors, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Included in this classification are endowment funds that are subject to the restrictions of gift instruments requiring that the principal be maintained in perpetuity and invested for the purpose of producing present and future income.

Cash

Cash consists primarily of money market investments and excludes amounts held by the Foundation's fund manager and included in investments.

Investments and Investment Return

The Foundation carries its investments at fair market value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the Statements of Activities in the period in which such changes occur.

Interest and dividend income and net unrealized and realized gains and losses on investments are recognized as unrestricted or temporarily restricted based upon the existence or absence of donor-imposed restrictions or the related fund classification in accordance with the Foundation's spending policy.

Property and Equipment

Property and equipment, including expenditures that substantially increase the useful lives of existing assets, are recorded at cost except for donations, which are recorded at the fair market value at the date of the donation. Costs of ordinary maintenance and repairs are expensed as incurred.

The property and equipment of the Foundation are being depreciated over their estimated useful lives ranging from three to ten years using the straight-line method.

Property Held for Sale

Property held for sale consists of land and artwork donated to the Foundation. The Foundation actively sells pieces of the artwork throughout the year.

Restricted Cash and Investments

Restricted cash and investments consist of monies received from organizations that have named themselves as the beneficiary of the income from funds they established for their own benefit. These amounts are also reported as custodial funds payable at December 31, 2008 and 2007.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Support, Revenues and Expense Recognition

Contributions, which include unconditional promises to give (pledges receivable), are recognized as revenues in the period the contribution is received or the promise is made.

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

All other support and revenue is recorded when earned.

Administrative Fees

Administrative fees are expensed from the funds to support the operations of the Foundation. Administrative fees from all funds are reflected as revenue on the Statement of Activities. The administrative fees from custodial funds (agency endowments and pass-through funds) are not included as expenses on the Statement of Activities because they are included in the change in custodial funds.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The Foundation serves as a vehicle for residents of Putnam County to donate to various organizations and projects in the county. Expenses related to providing this service for the years ended December 31, 2008 and 2007 are classified as follows:

	<u>2008</u>	<u>2007</u>
Development of Putnam County	\$ 642,521	\$ 732,089
Fundraising	252,563	204,342
General and administrative expenses	<u>101,538</u>	<u>106,662</u>
	<u>\$ 996,622</u>	<u>\$ 1,043,093</u>

Income Taxes

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 501(a) of the Code.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Accounting For Uncertainty In Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally accepted accounting principles for recognition, measurement, presentation, and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Foundation has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Foundation evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

2. ADOPTION OF ACCOUNTING STANDARD

In 2008, the FASB issued FASB Staff Position (FSP) 117-1, Endowments of Not-for-Profit Organizations, which affects non-profit organizations that have board designated or donor restricted endowments. The Foundation has adopted the FSP as of January 1, 2008 and has restated its 2007 financial statements as of and for the year ended December 31, 2007 as prescribed in the implementation guidance of the FSP. The reclassification of net assets from unrestricted to temporarily restricted at January 1, 2007 was \$13,379,053.

In conjunction with the adoption of the FSP, the Foundation also modified its interpretation of the classification of certain funds previously classified as custodial funds. The Foundation also restated its 2007 financial statements for this matter increasing the previously reported change in net assets by \$163,980 and the opening temporarily restricted net assets at January 1, 2007 by \$1,209,426.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

3. CERTIFICATES OF DEPOSIT

Certificates of deposit consist of the following at December 31, 2008 and 2007:

2008			2007		
Amount	Maturity	Interest Rate	Amount	Maturity	Interest Rate
\$ 50,783	6/16/2009	3.15%	\$ 107,599	6/15/2008	5.10%
25,453	8/19/2009	3.65%	105,566	1/31/2008	5.07%
75,540	7/11/2009	3.45%	50,000	3/6/2008	5.24%
76,515	6/18/2009	4.07%	<u>42,890</u>	5/1/2008	5.24%
50,893	2/19/2009	3.35%			
50,527	9/10/2009	3.51%	<u>\$ 306,055</u>		
25,498	12/15/2010	4.01%			
<u>25,495</u>	7/16/2009	4.00%			
<u>\$ 380,704</u>					

4. INVESTMENTS

Investments (including restricted investments) at December 31, 2008 and 2007 consist of the following:

	2008	2007
Cash and money market funds	\$ 460,330	\$ 276,931
Corporate bonds	682,859	863,394
Government bonds	2,095,877	2,104,732
Domestic fixed income mutual funds	2,256,857	2,263,244
Domestic equity mutual funds	6,683,658	10,901,575
Foreign equity mutual funds	1,799,443	3,182,327
Real estate investment trust fund	<u>120,567</u>	<u>192,182</u>
	<u>\$ 14,099,591</u>	<u>\$ 19,784,385</u>

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

The following schedule summarizes the investment return, excluding investment return on investments related to custodial funds, and its classification in the Statements of Activities:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 605,987	\$ 539,888
Realized gains	36,591	768,325
Unrealized depreciation	(4,358,325)	(93,947)
Investment fees	<u>(28,122)</u>	<u>(37,888)</u>
	<u>\$ (3,743,869)</u>	<u>\$ 1,176,378</u>

The following schedule summarizes the investment return on investments related to custodial funds (see Note 11):

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 195,817	\$ 217,805
Realized gains	7,339	56,525
Unrealized depreciation	(1,635,578)	(649)
Investment fees	<u>(9,991)</u>	<u>(9,055)</u>
	<u>\$ (1,442,413)</u>	<u>\$ 264,626</u>

5. RISKS AND UNCERTAINTIES

The Foundation holds investments (Note 4). Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, the Foundation adopted FASB Statement No. 157 (FAS 157), *Fair Value Measurements (as amended)*, which provides a comprehensive framework for measuring fair value and expands required disclosures concerning fair value measurements. Specifically, FAS 157 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The adoption of FAS 157 did not have a material impact on the Foundation's financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

FAS 157 defines levels within the hierarchy of inputs as follows:

- Level 1 – Unadjusted quoted prices for identical assets and liabilities in active markets
- Level 2 – Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the assets or liability, either directly or indirectly.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table sets forth financial assets measured at fair value in the Statement of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2008:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Certificates of deposit	\$ 380,704	\$ -0-	\$ 380,704
Investments	12,245,205	12,245,205	-0-
Property held for sale	64,200	-0-	64,200
Beneficial interest in charitable remainder trusts	223,132	-0-	223,132
Restricted investments	1,854,386	1,854,386	-0-
Liabilities:			
Gift annuities payable	36,984	-0-	36,984

The fair value of certificates of deposit approximates their cost. Fair values for investments and restricted investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of property held for sale approximates the fair market value as of the date it was donated. Fair value for the beneficial interest in charitable remainder trusts is determined by calculating the present value of the annuity using published life expectancy tables with a discount rate ranging between 6.4 percent and 9.6 percent. Fair value for the gift annuities payable is determined by calculating the present value of future payments to beneficiaries using published life expectancy tables with a discount rate ranging between 3.4 percent to 9.4 percent.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

7. PLEDGES RECEIVABLE

Unconditional pledges receivable consist of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Amounts due in:		
Less than one year	\$ 295,594	\$ 15,652
One to five years	<u>201,781</u>	<u>-0-</u>
	<u>\$ 497,375</u>	<u>\$ 15,652</u>

Pledges receivable have not been discounted.

Management estimates an allowance for doubtful pledges receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Foundation's donors. No allowance for doubtful pledges receivable was determined to be necessary at December 31, 2008 and 2007.

8. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Building and improvements	\$ 129,345	\$ 106,345
Furniture and fixtures	33,940	33,940
Computer equipment	<u>47,373</u>	<u>65,043</u>
	210,658	205,328
Less accumulated depreciation	<u>97,034</u>	<u>94,854</u>
	<u>\$ 113,624</u>	<u>\$ 110,474</u>

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

9. CHARITABLE TRUSTS

The Foundation has been named the full or partial beneficiary of several charitable remainder trusts in which the Foundation is not the trustee. Upon termination of the trusts on the donors' deaths, the applicable remainder of the trust will revert to the Foundation. The trust agreements stipulate that a certain portion of the trusts' assets are to be paid out each year to third party beneficiaries named by the donors. The Foundation's interest under these trusts was \$223,132 and \$297,175 at December 31, 2008 and 2007, respectively. In calculating the present value of the amount to be received upon termination of the trusts, the discount rates used ranged from 6.4 percent to 9.6 percent. The date of the termination of the trusts was determined based on the applicable mortality tables. The change in the present value of the amounts expected to be received under these charitable trusts was \$(74,043) and \$10,322 for the years ended December 31, 2008 and 2007, respectively. As the Foundation is not the trustee of these trusts, the fair market value of the trust assets has not been recorded in the Statements of Financial Position at December 31, 2008 and 2007.

10. GIFT ANNUITIES PAYABLE

The Foundation has three charitable gift annuities, under which the Foundation received \$75,000 and is required to make annual payments to the donors in amounts ranging from \$650 to \$2,400 for the remainder of the donors' lifetimes. The Foundation has one deferred charitable gift annuity under which the Foundation received \$20,000 and will begin annual payments of \$1,340 in 2023. Upon the death of the specified persons, the remaining amount of the gifts are to be used by the Foundation for unrestricted purposes. The Foundation has recognized a liability for the present value of the amount expected to be paid to the third-party beneficiaries at December 31, 2008 and 2007. The liability was calculated based on the life expectancy of the beneficiary of each annuity, derived from the applicable one life or joint-life and last survivor annuity expected return multiples. The present value was calculated using discount rates ranging from 4.2 percent to 9.4 percent on single-life or joint-life annuities. The present value of amounts expected to be paid to the third party beneficiaries was \$36,984 and \$27,710 at December 31, 2008 and 2007, respectively. The change in the present value of the amounts expected to be paid under these gift annuities was \$(3,457) and \$(3,420) for the years ended December 31, 2008 and 2007, respectively.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

11. CUSTODIAL FUNDS

Custodial funds represents contributions placed on deposit with the Foundation by other 501(c)(3) organizations based on their individual board resolutions. The Foundation accounts for these transfers as a liability in accordance with Statement of Financial Accounting Standards No. 136. Income is added to these funds periodically in accordance with the Foundation's investment allocation policies. Contributions by, investment return credits for, and distributions to those organizations are reflected as adjustments to the liability account and are not reflected in the Statements of Activities. Following is a progression of custodial funds during 2008 and 2007:

	2008	2007 As Restated
Custodial funds, beginning balance	\$ 3,466,606	\$ 3,177,468
Contributions and grants	78,809	241,054
Investment return, net	(1,442,413)	264,626
Administrative fees	(37,055)	(28,254)
Grant payments	(131,552)	(85,549)
Other expenses	(70,923)	(102,739)
Custodial funds, ending balance	<u>\$ 1,863,472</u>	<u>\$ 3,466,606</u>

12. LONG-TERM DEBT

Long-term debt consists of a real estate mortgage on the Partnership Center payable to a bank that matures in January 2018. Monthly payments are \$566, which includes principal and interest at 3.3% annually.

Maturities of long-term debt subsequent to December 31, 2008 are as follows:

<u>Year</u>	
2009	\$ 5,122
2010	5,293
2011	5,471
2012	5,654
2013	5,844
Thereafter	<u>25,516</u>
	<u>\$ 52,900</u>

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Time restrictions related to:		
Charitable trusts	\$ 223,132	\$ 297,175
Pledges receivable	201,781	-0-
Designated purpose restrictions related to:		
Sustaining Resource Development	-0-	78,730
Endowment funds not yet appropriated for expenditure	<u>12,674,272</u>	<u>16,272,782</u>
	<u>\$ 13,099,185</u>	<u>\$ 16,648,687</u>

Permanently restricted net assets of \$208,053 are restricted to support scholarships to Putnam County residents.

14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended December 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
Designated purpose restrictions related to:		
Sustaining Resource Development	\$ 78,730	\$ 109,889
Endowment funds appropriated for expenditure	<u>495,866</u>	<u>562,321</u>
	<u>\$ 574,596</u>	<u>\$ 672,210</u>

15. ENDOWMENT

The majority of the Foundation's funds consists of endowed funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

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The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring endowment funds to be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (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 Foundation
- (7) The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must use for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

The Foundation has a policy of appropriating for distribution each year 4.5 percent of its endowment funds' average fair value over the prior 12 quarters through September 30 of the fiscal year preceding the fiscal year in which the distribution is planned, or a lesser percentage as voted upon annually by the Board of Directors. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Endowment funds by net asset type at December 31, 2008 and 2007 were as follows:

	2008		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 65,902	\$ -0-	\$ -0-
Donor Restricted Funds	<u>-0-</u>	<u>13,099,185</u>	<u>208,053</u>
	<u>\$ 65,902</u>	<u>\$ 13,099,185</u>	<u>\$ 208,053</u>
	2007		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 99,153	\$ -0-	\$ -0-
Donor Restricted Funds	<u>-0-</u>	<u>16,648,687</u>	<u>208,053</u>
	<u>\$ 99,153</u>	<u>\$ 16,648,687</u>	<u>\$ 208,053</u>

Changes in net assets related to endowment funds for the years ending December 31, 2008 and 2007 were as follows:

	2008		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 99,153	\$ 16,648,687	\$ 208,053
Contributions and other revenues	2,405	756,915	-0-
Investment return, net	(29,291)	(3,731,821)	-0-
Appropriation of endowment assets for expenditure	<u>(6,365)</u>	<u>(574,596)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ 65,902</u>	<u>\$ 13,099,185</u>	<u>\$ 208,053</u>
	2007		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 95,589	\$ 15,549,664	\$ 208,053
Contributions and other revenues	2,284	627,222	-0-
Investment return, net	7,468	1,144,011	-0-
Appropriation of endowment assets for expenditure	<u>(6,188)</u>	<u>(672,210)</u>	<u>-0-</u>
Endowment net assets, end of year	<u>\$ 99,153</u>	<u>\$ 16,648,687</u>	<u>\$ 208,053</u>

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

16. RELATED PARTY TRANSACTIONS

The Foundation has an agreement with two other organizations that share office space within the building the Foundation owns. Under the agreement, each organization pays rent in proportion to space utilized and expenses shared. A portion of this rent is held by the Foundation and will be paid back to each organization in proportion to payments made upon termination of the lease. The total amount owed at December 31, 2008 and 2007 was \$51,887 and \$45,330, respectively, and has been recorded as due to partnership affiliates in the Statements of Financial Position.

17. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments are managed by several investment firms. Such balances exceed the Securities Investor Protection Corporation insured limits of up to \$500,000.

18. LINE OF CREDIT

The Foundation has available a margin line of credit through Edward Jones. At December 31, 2008, there was approximately \$742,000 available on the line and no outstanding borrowings. The line is collateralized by investments and bears interest at 4.75%.