

**PUTNAM COUNTY COMMUNITY
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

CPAs / ADVISORS



PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

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DECEMBER 31, 2011 AND 2010**

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Blue & Co., LLC / 106 Community Drive / Seymour, IN 47274
mon 812.522.8416 fax 812.523.8615 email blue@blueandco.com

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, 2011 and 2010, 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, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information related to custodial fund activity on pages 3 and 4 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Blue & Co., LLC

April 16, 2012

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Cash (Notes 2 and 5)	\$ 661,430	\$ 571,118
Investments (Notes 3, 4, 5, and 6):		
Unrestricted	15,271,787	15,807,342
Restricted	<u>3,157,612</u>	<u>3,236,850</u>
Total investments	18,429,399	19,044,192
Pledges receivable (Note 7)	71,958	104,711
Fees receivable	22,618	23,469
Other receivables	1,483	2,676
Prepaid expenses	4,618	4,777
Property and equipment, net (Note 8)	80,432	89,364
Property held for sale (Notes 6 and 9)	63,700	63,700
Beneficial interest in charitable remainder trusts (Notes 6 and 10)	<u>269,241</u>	<u>277,503</u>
	<u>\$ 19,604,879</u>	<u>\$ 20,181,510</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 2,655	\$ 6,338
Accrued payroll	17,714	18,967
Deferred revenue	125	5,000
Gift annuities payable (Notes 6 and 11)	75,160	74,121
Due to partnership affiliates (Note 12)	61,827	59,888
Custodial funds (Note 13)	3,157,612	3,236,850
Term debt (Note 14)	<u>38,346</u>	<u>42,768</u>
Total liabilities	3,353,439	3,443,932

Net assets (Notes 15 and 16)

Unrestricted:		
Operating	354,292	316,660
Board designated	<u>88,309</u>	<u>96,469</u>
Total unrestricted net assets	442,601	413,129
Temporarily restricted	15,600,786	16,116,396
Permanently restricted	<u>208,053</u>	<u>208,053</u>
Total net assets	<u>16,251,440</u>	<u>16,737,578</u>
	<u>\$ 19,604,879</u>	<u>\$ 20,181,510</u>

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2011

	Supplemental Information					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Custodial Fund Activity	Total
Support and revenues (Note 1)						
Contributions and grants	\$ 37,402	\$ 446,281	\$ -0-	\$ 483,683	\$ 107,935	\$ 591,618
Investment return, net (Note 4)	1,667	(204,167)	-0-	(202,500)	(39,386)	(241,886)
Change in value of split interest agreements (Notes 10 and 11)	-0-	(13,851)	-0-	(13,851)	-0-	(13,851)
Other revenues (Note 17)	7,500	37,775	-0-	45,275	-0-	45,275
Net assets released from restrictions (Note 15)	<u>527,758</u>	<u>(527,758)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total support and revenues	574,327	(261,720)	-0-	312,607	68,549	381,156
Expenses (Note 18)						
Grants	496,311	-0-	-0-	496,311	118,963	615,274
Other program expense	837	-0-	-0-	837	-0-	837
Personnel costs						
Salaries and wages	171,455	-0-	-0-	171,455	-0-	171,455
Payroll taxes and benefits	19,399	-0-	-0-	19,399	-0-	19,399
Insurance	6,463	-0-	-0-	6,463	-0-	6,463
Administrative and development costs						
Office supplies	3,187	-0-	-0-	3,187	-0-	3,187
Computer expenses	8,956	-0-	-0-	8,956	-0-	8,956
Printing and copying	20,158	-0-	-0-	20,158	-0-	20,158
Postage and shipping	4,372	-0-	-0-	4,372	-0-	4,372
Dues and subscriptions	4,457	-0-	-0-	4,457	-0-	4,457
Consulting fees	6,688	-0-	-0-	6,688	-0-	6,688
Insurance	1,895	-0-	-0-	1,895	-0-	1,895
Legal and accounting	25,802	-0-	-0-	25,802	-0-	25,802
Telephone	2,020	-0-	-0-	2,020	-0-	2,020
Miscellaneous	4,901	-0-	-0-	4,901	-0-	4,901
Advertising	1,713	-0-	-0-	1,713	-0-	1,713
Travel and education	2,367	-0-	-0-	2,367	-0-	2,367
Event expenses	9,090	-0-	-0-	9,090	-0-	9,090
Occupancy costs						
Rent	15,636	-0-	-0-	15,636	-0-	15,636
Depreciation (Note 8)	8,932	-0-	-0-	8,932	-0-	8,932
Repairs and maintenance	5,139	-0-	-0-	5,139	-0-	5,139
Utilities	6,340	-0-	-0-	6,340	-0-	6,340
Interest expense (Note 14)	<u>1,451</u>	<u>-0-</u>	<u>-0-</u>	<u>1,451</u>	<u>-0-</u>	<u>1,451</u>
Total expenses	827,569	-0-	-0-	827,569	118,963	946,532
Transfer of administrative fees (Note 19)	<u>282,714</u>	<u>(253,890)</u>	<u>-0-</u>	<u>28,824</u>	<u>(28,824)</u>	<u>-0-</u>
Change in net assets	<u>\$ 29,472</u>	<u>\$ (515,610)</u>	<u>\$ -0-</u>	<u>\$ (486,138)</u>	<u>\$ (79,238)</u>	<u>\$ (565,376)</u>

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Supplemental Information	
					Custodial Fund Activity	Total
Support and revenues (Note 1)						
Contributions and grants	\$ 42,664	\$ 484,529	\$ -0-	\$ 527,193	\$ 14,115	\$ 541,308
Investment return, net (Note 4)	17,936	1,694,090	-0-	1,712,026	348,073	2,060,099
Change in value of split interest agreements (Notes 10 and 11)	-0-	13,093	-0-	13,093	-0-	13,093
Other revenues (Note 17)	16,930	40,093	-0-	57,023	-0-	57,023
Net assets released from restrictions (Note 15)	512,873	(512,873)	-0-	-0-	-0-	-0-
Total support and revenues	590,403	1,718,932	-0-	2,309,335	362,188	2,671,523
Expenses (Note 18)						
Grants	493,350	-0-	-0-	493,350	107,337	600,687
Other program expense	689	-0-	-0-	689	-0-	689
Personnel costs						
Salaries and wages	173,572	-0-	-0-	173,572	-0-	173,572
Payroll taxes and benefits	20,189	-0-	-0-	20,189	-0-	20,189
Insurance	9,923	-0-	-0-	9,923	-0-	9,923
Administrative and development costs						
Office supplies	4,352	-0-	-0-	4,352	-0-	4,352
Computer expenses	9,792	-0-	-0-	9,792	-0-	9,792
Printing and copying	23,627	-0-	-0-	23,627	-0-	23,627
Postage and shipping	4,579	-0-	-0-	4,579	-0-	4,579
Dues and subscriptions	3,984	-0-	-0-	3,984	-0-	3,984
Consulting fees	8,071	-0-	-0-	8,071	-0-	8,071
Legal and accounting	23,877	-0-	-0-	23,877	-0-	23,877
Telephone	1,743	-0-	-0-	1,743	-0-	1,743
Miscellaneous	8,847	-0-	-0-	8,847	-0-	8,847
Advertising	1,635	-0-	-0-	1,635	-0-	1,635
Travel and education	1,314	-0-	-0-	1,314	-0-	1,314
Event expenses	20,935	-0-	-0-	20,935	-0-	20,935
Occupancy costs						
Rent	15,636	-0-	-0-	15,636	-0-	15,636
Depreciation (Note 8)	15,456	-0-	-0-	15,456	-0-	15,456
Repairs and maintenance	5,600	-0-	-0-	5,600	-0-	5,600
Utilities	6,383	-0-	-0-	6,383	-0-	6,383
Interest expense (Note 14)	1,527	-0-	-0-	1,527	-0-	1,527
Total expenses	855,081	-0-	-0-	855,081	107,337	962,418
Transfer of administrative fees (Note 19)	266,074	(239,832)	-0-	26,242	(26,242)	-0-
Change in net assets	\$ 1,396	\$ 1,479,100	\$ -0-	\$ 1,480,496	\$ 228,609	\$ 1,709,105

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, December 31, 2009	\$ 411,733	\$ 14,637,296	\$ 208,053	\$ 15,257,082
Change in net assets	<u>1,396</u>	<u>1,479,100</u>	<u>-0-</u>	<u>1,480,496</u>
Net assets, December 31, 2010	413,129	16,116,396	208,053	16,737,578
Change in net assets	<u>29,472</u>	<u>(515,610)</u>	<u>-0-</u>	<u>(486,138)</u>
Net assets, December 31, 2011	<u>\$ 442,601</u>	<u>\$ 15,600,786</u>	<u>\$ 208,053</u>	<u>\$ 16,251,440</u>

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Change in net assets	\$ (486,138)	\$ 1,480,496
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	8,932	15,456
Net realized and unrealized losses (gains) on investments	598,791	(1,349,961)
Interest and dividends received on investments	(435,126)	(399,152)
Change in value of split-interest agreements	13,851	(13,093)
Changes in assets and liabilities:		
Restricted investments	79,238	(228,609)
Pledges receivable	32,753	22,705
Fees receivable	851	(1,707)
Other receivables	1,193	(53)
Prepaid expenses	159	(819)
Accounts payable	(3,683)	(3,135)
Grants payable	-0-	(20,625)
Accrued payroll	(1,253)	(1,684)
Deferred revenue	(4,875)	(5,000)
Gift annuities payable	(4,550)	(4,550)
Due to partnership affiliates	1,939	6,753
Custodial funds	(79,238)	228,609
Net cash flows from operating activities	(277,156)	(274,369)
Investing activities		
Maturities of certificates of deposit	-0-	229,698
Purchase of investments	(2,935,696)	(3,719,051)
Proceeds from sales of investments	3,307,586	3,964,715
Proceeds from sale of property held for sale	-0-	500
Net cash flows from investing activities	371,890	475,862
Financing activities		
Payments on long-term debt	(4,422)	(5,264)
Net change in cash	90,312	196,229
Cash, beginning of year	571,118	374,889
Cash, end of year	\$ 661,430	\$ 571,118
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 1,451	\$ 1,527

See accompanying notes to financial statements.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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.

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.

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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Foundation is subject to

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

As such, the Foundation is generally exempt from income taxes. However, the Foundation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Subsequent Events

The Foundation has evaluated events or transactions occurring subsequent to the Statement of Financial Position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is April 16, 2012.

2. CASH

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

3. RESTRICTED INVESTMENTS

Restricted 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, 2011 and 2010.

4. INVESTMENTS AND INVESTMENT RETURN

The Foundation carries its investments at fair 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.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Investments (including restricted investments) at December 31, 2011 and 2010 consist of the following:

	2011	2010
Cash and money market funds	\$ 248,229	\$ 124,320
Corporate bonds		
Manufacturing	114,285	148,762
Banking	479,068	443,270
Retail	205,809	194,798
Energy	81,803	41,131
Technology	156,348	92,983
Food	41,398	72,692
Other	84,321	99,980
Government bonds		
Municipal securities	169,190	153,750
Treasury securities	248,863	235,395
Federal agency securities	1,094,606	1,381,020
Common stock		
Equity energy	833,140	777,127
Domestic fixed income mutual funds		
Intermediate-term bond	1,086,469	1,092,054
Currency	816,580	897,844
Inflation-protected bond	530,353	830,583
Domestic equity mutual funds		
Large growth	1,582,409	1,629,055
Large blend	2,684,244	2,680,778
Small blend	758,089	810,076
Large value	1,582,732	1,743,611
Small growth	784,378	873,381
Aggressive allocation	462,040	478,192
Commodities broad basket	291,598	608,656
Foreign fixed income mutual funds		
Non-traditional bond	622,184	473,611
World bond	396,012	-0-
Foreign equity mutual funds		
Large blend	1,481,660	1,714,582
Large value	319,132	366,336
Natural resources	293,003	-0-
World stock	404,977	510,556
Hedge fund	360,678	372,807
Real estate investment trust fund	215,801	196,842
	\$ 18,429,399	\$ 19,044,192

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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>2011</u>	<u>2010</u>
Interest and dividend income	\$ 435,126	\$ 399,152
Realized gains	14,867	152,790
Unrealized gains (losses)	(613,658)	1,197,171
Investment fees	<u>(38,835)</u>	<u>(37,087)</u>
	<u>\$ (202,500)</u>	<u>\$ 1,712,026</u>

The following schedule summarizes the investment return on investments related to custodial funds (see Note 13):

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 123,093	\$ 86,231
Realized gains	160,513	38,759
Unrealized gains (losses)	(313,905)	231,703
Investment fees	<u>(9,087)</u>	<u>(8,620)</u>
	<u>\$ (39,386)</u>	<u>\$ 348,073</u>

5. CONCENTRATIONS OF CREDIT RISK AND UNCERTAINTIES

The Foundation maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation at its current coverage levels. 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.

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.

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets that are measured at fair value are categorized according to a fair value hierarchy that prioritizes 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. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement. The hierarchy of inputs is 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 tables set forth financial assets and liabilities measured at fair value in the Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of December 31, 2011 and 2010:

	2011			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 15,271,787	\$ 14,911,109	\$ 360,678	\$ -0-
Restricted investments	3,157,612	3,157,612	-0-	-0-
Property held for sale	63,700	-0-	63,700	-0-
Beneficial interest in charitable remainder trusts	269,241	-0-	-0-	269,241
Liabilities:				
Gift annuities payable	75,160	-0-	-0-	75,160

	2010			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 15,807,342	\$ 15,434,535	\$ 372,807	\$ -0-
Restricted investments	3,236,850	3,236,850	-0-	-0-
Property held for sale	63,700	-0-	63,700	-0-
Beneficial interest in charitable remainder trusts	277,503	-0-	-0-	277,503
Liabilities:				
Gift annuities payable	74,121	-0-	-0-	74,121

Fair values for investments and restricted investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of the hedge fund is based on the net asset value of the fund

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

as determined by the reported valuations of underlying investment managers. The fair value of property held for sale approximates the fair 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 of 3.2 percent.

The investment objective of the hedge fund is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments and to provide capital appreciation with less volatility than that of the equity markets. The investment in the hedge fund may be redeemed at the net asset value on a quarterly basis. Advance written notice of 65 days is required to redeem these investments. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment, the net asset value of the fund may be significantly impacted and, consequently, the fair value of the Organization's interests in the fund. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Organization were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

The progression of beneficial interest in charitable remainder trusts during the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Beginning balance	\$ 277,503	\$ 248,767
Change in present value	(8,262)	28,736
Ending balance	\$ 269,241	\$ 277,503

The progression of gift annuities payable during the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Beginning balance	\$ 74,121	\$ 63,028
Payments	(4,550)	(4,550)
Change in present value	5,589	15,643
Ending balance	\$ 75,160	\$ 74,121

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

7. PLEDGES RECEIVABLE

Unconditional pledges receivable consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Amounts due in:		
Less than one year	\$ 51,846	\$ 53,208
One to five years	<u>20,112</u>	<u>51,503</u>
	<u>\$ 71,958</u>	<u>\$ 104,711</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, 2011 and 2010.

8. 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 fair 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.

A summary of property and equipment at December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Building and improvements	\$ 133,104	\$ 133,104
Furniture and fixtures	39,122	39,122
Computer equipment	<u>47,373</u>	<u>47,373</u>
	219,599	219,599
Less accumulated depreciation	<u>139,167</u>	<u>130,235</u>
	<u>\$ 80,432</u>	<u>\$ 89,364</u>

PUTNAM COUNTY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

9. 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.

10. 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 \$269,241 and \$277,503 at December 31, 2011 and 2010, 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 \$(8,262) and \$28,736 for the years ended December 31, 2011 and 2010, respectively. As the Foundation is not the trustee of these trusts, the fair value of the trust assets has not been recorded in the Statements of Financial Position at December 31, 2011 and 2010.

11. 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 three deferred charitable gift annuities under which the Foundation received \$60,000 and will begin annual payments ranging from of \$1,000 to \$1,400 beginning as early as 2014. Upon the death of the specified persons, the remaining amount of the gifts is to be used by the Foundation as specified in the respective agreements. 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, 2011 and 2010. 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 3.2 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 \$75,160 and \$74,121 at December 31, 2011 and 2010, respectively. The change in the present value of the amounts expected to be paid under these gift annuities was \$(5,589) and \$(15,643) for the years ended December 31, 2011 and 2010, respectively.

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12. DUE TO PARTNERSHIP AFFILIATES

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 retained by the Foundation and held as equity in the property for the other organizations. The total amount of equity at December 31, 2011 and 2010 was \$61,827 and \$59,888, respectively, and has been recorded as due to partnership affiliates in the Statements of Financial Position. On January 1, 2012, this agreement was terminated and the other organizations relinquished their equity in exchange for below market rate office space for the next twenty years.

13. CUSTODIAL FUNDS

Custodial funds represents contributions placed on deposit with the Foundation by other organizations based on their individual board resolutions. The Foundation accounts for these transfers as a liability in accordance with applicable accounting standards. 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 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Custodial funds, beginning balance	\$ 3,236,850	\$ 3,008,241
Contributions and grants	107,935	14,115
Investment return, net	(39,386)	348,073
Administrative fees	(28,824)	(26,242)
Grant payments	<u>(118,963)</u>	<u>(107,337)</u>
Custodial funds, ending balance	<u>\$ 3,157,612</u>	<u>\$ 3,236,850</u>

14. TERM DEBT

Term debt consists of a real estate mortgage on the Partnership Center payable to a bank that matures in December 2018. Monthly payments are \$513, which includes principal and interest at 3.3% annually. The mortgage is secured by the real estate and the Foundation's investment pool.

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Maturities of term debt subsequent to December 31, 2011 are as follows:

<u>Year</u>	
2012	\$ 4,962
2013	5,128
2014	5,300
2015	5,478
2016	5,661
Thereafter	<u>11,817</u>
	<u>\$ 38,346</u>

15. NET ASSETS

Net assets, support, investment return, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. While most gift instruments give the Foundation's Board of Directors the right to vary the terms of the gift, this only allows for a limited right of modification and does not relieve the restrictions imposed by the donor. 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 – 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.

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

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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.

Temporarily restricted net assets are restricted for the following purposes at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Time restrictions related to:		
Charitable trusts	\$ 269,241	\$ 277,503
Pledges receivable	20,112	51,503
Endowment funds not yet appropriated for expenditure	<u>15,311,433</u>	<u>15,787,390</u>
	<u>\$ 15,600,786</u>	<u>\$ 16,116,396</u>

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

Endowment funds appropriated for expenditure and released from donor restrictions during the years ended December 31, 2011 and 2010 are \$527,758 and \$512,873, respectively. Endowment funds appropriated for expenditure primarily consist of grants, as well as fees and other fund expenses.

16. 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 accounting principles generally accepted in the United States of America, 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.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

- (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.

Endowment funds by net asset type at December 31, 2011 and 2010 were as follows:

	2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 88,309	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	15,311,433	208,053
	\$ 88,309	\$ 15,311,433	\$ 208,053

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	2010		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Funds	\$ 96,469	\$ -0-	\$ -0-
Donor Restricted Funds	-0-	15,787,390	208,053
	\$ 96,469	\$ 15,787,390	\$ 208,053

Changes in net assets related to endowment funds for the years ending December 31, 2011 and 2010 were as follows:

	2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 96,469	\$ 15,787,390	\$ 208,053
Contributions and other revenues	-0-	484,056	-0-
Investment return, net	(1,252)	(178,365)	-0-
Transfer of administrative fees	167	(253,890)	-0-
Appropriation of endowment assets for expenditure	(7,075)	(527,758)	-0-
Endowment net assets, end of year	\$ 88,309	\$ 15,311,433	\$ 208,053

	2010		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 80,683	\$ 14,337,687	\$ 208,053
Contributions and other revenues	10,000	524,622	-0-
Investment return, net	12,222	1,677,786	-0-
Transfer of administrative fees	186	(239,832)	-0-
Appropriation of endowment assets for expenditure	(6,622)	(512,873)	-0-
Endowment net assets, end of year	\$ 96,469	\$ 15,787,390	\$ 208,053

17. OTHER REVENUES

The Foundation received other revenues during the years ended December 31, 2011 and 2010 as follows:

	2011	2010
Copy income	\$ 10,738	\$ 12,129
Rent income	26,261	27,564
Other income	8,276	17,330
	\$ 45,275	\$ 57,023

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18. 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. While the methods of allocation are considered appropriate, other methods could produce different results.

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, 2011 and 2010 are classified as follows:

	<u>2011</u>	<u>2010</u>
Development of Putnam County	\$ 580,400	\$ 592,265
Fundraising	102,702	118,936
General and administrative expenses	<u>144,467</u>	<u>143,880</u>
	<u>\$ 827,569</u>	<u>\$ 855,081</u>

19. ADMINISTRATIVE FEES

Administrative fees are expensed from the funds to support the operations of the Foundation. Administrative fees from all funds are reflected as a transfer on the Statements of Activities.

20. RELATED PARTY TRANSACTIONS

The Foundation received \$190,095 and \$103,675 in contributions from members of the Foundation's board of directors and staff during the years ended December 31, 2011 and 2010, respectively.