

**MIDLAND AREA COMMUNITY FOUNDATION  
MIDLAND, MICHIGAN**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**MIDLAND AREA COMMUNITY FOUNDATION**

**TABLE OF CONTENTS**

---

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Financial Statements</b>	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5-14

**Independent Auditors' Report**

To the Board of Trustees  
Midland Area Community Foundation  
Midland, Michigan

We have audited the accompanying statements of financial position of Midland Area Community Foundation as of December 31, 2008, and the related statements of activities, and cash flows for the year 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 audit. The financial statements of Midland Area Community Foundation as of December 31, 2007, were audited by other auditors whose report dated April 25, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 Midland Area Community Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Burnside & Lang, P.C.*

Midland, Michigan  
March 16, 2009

**MIDLAND AREA COMMUNITY FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,408,020	\$ 3,678,875
Investments	39,266,070	59,524,525
Pledges receivable, net	406,900	905,960
Other assets	19,295	18,040
Parks and improvements	668,647	668,647
Office facility and equipment, net	842,363	391,199
	<b>\$ 47,611,295</b>	<b>\$ 65,187,246</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 42,913	\$ 22,380
Grants payable	91,249	180,549
Deferred revenue - Access to Recreation grant	242,023	215,387
Restricted organizational funds	1,024,167	1,494,542
	<b>1,400,352</b>	<b>1,912,858</b>
<b>Net assets</b>		
Unrestricted	44,804,043	61,368,428
Temporarily restricted	406,900	905,960
Permanently restricted	1,000,000	1,000,000
	<b>46,210,943</b>	<b>63,274,388</b>
<b>Total net assets</b>	<b>46,210,943</b>	<b>63,274,388</b>
<b>Total liabilities and net assets</b>	<b>\$ 47,611,295</b>	<b>\$ 65,187,246</b>

The accompanying notes are an integral part of the financial statements.

**MIDLAND AREA COMMUNITY FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains (losses)								
Contributions and pledges	\$ 1,525,350	\$ 122,282	\$ -	\$ 1,647,632	\$ 2,133,413	\$ 23,000	\$ -	\$ 2,156,413
Investment income (loss)	(15,867,722)	-	-	(15,867,722)	4,372,892	-	-	4,372,892
Other	39,878	-	-	39,878	112,391	-	-	112,391
Net assets released from restrictions	621,342	(621,342)	-	-	625,389	(625,389)	-	-
<b>Net revenues and gains (losses)</b>	<b>(13,681,152)</b>	<b>(499,060)</b>	<b>-</b>	<b>(14,180,212)</b>	<b>7,244,085</b>	<b>(602,389)</b>	<b>-</b>	<b>6,641,696</b>
<b>Expenses</b>								
Program expenses								
Grant awards	1,357,739	-	-	1,357,739	1,561,750	-	-	1,561,750
Other program expenses	997,683	-	-	997,683	1,093,445	-	-	1,093,445
Management and general	406,932	-	-	406,932	484,150	-	-	484,150
Fundraising	120,879	-	-	120,879	104,732	-	-	104,732
<b>Total expenses</b>	<b>2,883,233</b>	<b>-</b>	<b>-</b>	<b>2,883,233</b>	<b>3,244,077</b>	<b>-</b>	<b>-</b>	<b>3,244,077</b>
<b>Increase (decrease) in net assets</b>	<b>(16,564,385)</b>	<b>(499,060)</b>	<b>-</b>	<b>(17,063,445)</b>	<b>4,000,008</b>	<b>(602,389)</b>	<b>-</b>	<b>3,397,619</b>
<b>Net assets, beginning of year</b>	<b>61,368,428</b>	<b>905,960</b>	<b>1,000,000</b>	<b>63,274,388</b>	<b>57,368,420</b>	<b>1,508,349</b>	<b>1,000,000</b>	<b>59,876,769</b>
<b>Net assets, end of year</b>	<b>\$44,804,043</b>	<b>\$ 406,900</b>	<b>\$ 1,000,000</b>	<b>\$46,210,943</b>	<b>\$61,368,428</b>	<b>\$ 905,960</b>	<b>\$ 1,000,000</b>	<b>\$63,274,388</b>

The accompanying notes are an integral part of the financial statements.

**MIDLAND AREA COMMUNITY FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets	\$ (17,063,445)	\$ 3,397,619
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation	22,734	9,710
Loss on disposal of property and equipment	28,772	-
Net depreciation (appreciation) in fair value of investments	18,391,633	(1,066,927)
Changes in operating assets and liabilities which provided (used) cash		
Pledges receivable	499,060	602,389
Other assets	(1,255)	9,700
Accounts payable	20,533	(4,902)
Grants payable	(89,300)	17,700
Deferred revenue - Access to Recreation grant	26,636	55,387
Restricted organizational funds	(470,375)	69,510
<b>Net cash provided by operating activities</b>	<u><b>1,364,993</b></u>	<u><b>3,090,186</b></u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of equipment	15,000	-
Purchases of property and equipment	(517,670)	(344,993)
Proceeds from sales/redemptions of investment securities	10,425,967	13,413,644
Purchases of investment securities	(8,559,145)	(15,881,838)
<b>Net cash provided by (used in) investing activities</b>	<u><b>1,364,152</b></u>	<u><b>(2,813,187)</b></u>
<b>Net increase in cash and cash equivalents</b>	<b>2,729,145</b>	<b>276,999</b>
<b>Cash and cash equivalents, beginning of year</b>	<u><b>3,678,875</b></u>	<u><b>3,401,876</b></u>
<b>Cash and cash equivalents, end of year</b>	<u><u><b>\$ 6,408,020</b></u></u>	<u><u><b>\$ 3,678,875</b></u></u>

The accompanying notes are an integral part of the financial statements.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 1 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES**

Midland Area Community Foundation (the “Foundation”) is organized as a nonprofit community foundation for the purpose of promoting and enabling community-wide philanthropic giving to enrich and improve the lives of residents throughout the Michigan counties of Midland, Clare and Gladwin. In fulfilling this mission, the Foundation receives and administers gifts and bequests that are used to meet various needs. The Foundation receives most of its contributions from individuals, public and private foundations, and businesses in Midland County. During the year ended December 31, 2008, contributions from one donor represented approximately thirty percent (30%) of total contribution revenue.

The Foundation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The Foundation has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and contributions to it are tax deductible by donors within the limitations prescribed by the Code. Also, the Foundation is a Michigan certified community foundation; as such, certain contributions to the Foundation entitle the donor to a state tax credit in addition to the deduction allowed for federal income tax purposes.

The Foundation is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments that potentially subject the Foundation to credit risk consist principally of cash, investments and pledges receivable. The Foundation’s cash is deposited with high-credit-quality financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year and at year-end, they are, in the opinion of management, subject to minimal risk.

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting and Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As required by generally accepted accounting principles, net assets, including endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The bylaws of the Foundation include a variance provision that allows the Board of Trustees of the Foundation to vary the use of substantially all contributions received.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Accounting and Presentation (continued)

The Board of Trustees strives to honor a donor's charitable intent, unless in their sole judgment that intent becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served by the Foundation. Based on this variance provision, all assets of the Foundation have been classified as unrestricted with the exception of unconditional pledges receivable classified as temporarily restricted and the portion of the Kellogg Youth Fund deemed permanently restricted to be held in perpetuity by donor stipulations.

Fair Value Measurements

On January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, "*Fair Value Measurements*," (SFAS 157), which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements.

In February 2008, FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157* was issued. This FSP delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, to fiscal years beginning after November 15, 2008; the Foundation elected to adopt the provisions of this FSP. In October 2008, FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, was issued. This FSP clarifies the application of SFAS 157 in a market that is not active and is effective for the Foundation for the year ended December 31, 2008. SFAS 157 (as amended) applies whenever other financial reporting standards require (or permit) assets or liabilities to be measured at fair value and, therefore, does not expand the use of fair value in any new circumstances.

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. SFAS 157 (as amended) clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 (as amended) requires fair value measurements to be separately disclosed by level within the fair value hierarchy.

For assets and liabilities recorded at fair value, it is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value Measurements (continued)

In cases where the market for a financial asset or liability is not active, the Foundation includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are, accordingly, based primarily on estimates and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. The initial adoption of SFAS No. 157 did not have any impact on the Foundation's financial position or operations. Fair value measurements as of December 31, 2008, are discussed further under Note 11.

Accrual Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits held in checking accounts and money market funds.

Investments

The Foundation's investments during the years ended December 31, 2008 and 2007, included certificates of deposit, U. S. Government agencies obligations, corporate bonds, common stocks, fixed income mutual funds, hedge funds, and a bank loan fund.

The Foundation reports investments in marketable securities at their fair values in the statements of financial position. Unrealized gains and losses are included in investment income (loss) in the accompanying statements of activities.

Pledges Receivable

The Foundation reports unconditional pledges received as revenue in the period received. Pledges receivable are recorded at net realized value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Fair value represents the present value of estimated future cash flows from unconditional promises to give discounted using an interest rate of 4.25 percent. Uncollectible promises to give are expected to be insignificant.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Parks and Improvements

Parks and improvements consist of the Overlook Park and related improvements recorded at estimated fair value at the date of donation plus any improvements.

Office Facility and Equipment and Depreciation

The office facility and equipment are stated at cost, if purchased and at estimated fair value at date of donation. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Depreciation is computed on the straight-line method and is based on expected useful lives ranging from 3 to 40 years. The Foundation capitalizes all equipment purchased with a useful life exceeding one year and cost greater than \$500.

Restricted Organizational Funds

Restricted organizational funds are recorded as liabilities and consist of amounts received from other not-for-profit organizations that specify the donor organization or a related organization as the beneficiary. Investment earnings or losses on the amounts received and distributions paid to the beneficiary organization are recorded as increases and decreases, respectively, to the liability.

Contributions

Generally, contributions, including unconditional pledges to give, are recorded at fair value when received. Contributions of services, fixed assets, and other non-monetary contributions are recorded at the donor's estimated fair value. All current contributions are considered unrestricted.

Functional Classification of Expenses

The Foundation reports its expenses on the statement of activities into functional classifications based on direct identification, time studies and floor space. Each category is defined as follows:

Program Expenses

Program expenses include grant awards and other significant program expenses. Program expenses also include in-kind and other expenses incurred by such programs as the Santa House project, River Days project, Midland County Youth Action Council project, Midland County Gang and Violence Prevention Partnership project, and Scholarship project.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

Management and General

Management and general expenses include those expenses associated with the management of the Foundation.

Fundraising Expenses

Fundraising expenses include those expenses associated with promoting and raising funds for the Foundation.

Grant Awards

Grants are recorded as expenses when approved by the Foundation's Board of Directors. Grant awards are presented on the financial statements net of grant refunds.

**NOTE 3 - INVESTMENTS**

The following summarizes the cost basis and fair value (carrying value) of investments as of December 31, 2008 and 2007.

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Certificates of deposit	\$ -	\$ -	\$ 1,610,553	\$ 1,610,553
U.S. Governmental agencies obligations	-	-	1,643,010	1,627,428
Corporate bonds	-	-	1,191,965	1,202,980
Fixed income mutual funds	9,383,817	6,161,427	11,298,085	11,420,299
Common stocks	-	-	4,068,707	4,830,494
Equity mutual funds	31,676,064	30,223,908	26,584,584	35,251,671
Hedge funds	2,500,000	2,074,016	2,500,000	2,512,524
Bank loan fund	970,000	806,719	970,000	1,068,576
<b>Total</b>	<b><u>\$44,529,881</u></b>	<b><u>\$39,266,070</u></b>	<b><u>\$49,866,904</u></b>	<b><u>\$59,524,525</u></b>

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 3 – INVESTMENTS (continued)**

Investment income (loss) for the years ended December 31, consisted of the following:

	<u>2008</u>	<u>2007</u>
Interest, dividends and distributions	\$ 2,112,150	\$ 3,337,878
Net (depreciation) appreciation in fair value	<u>(18,391,633)</u>	<u>1,146,335</u>
Net investment income (loss)	(16,279,483)	4,484,213
Less amounts allocated to restricted organizational funds	<u>411,761</u>	<u>(111,321)</u>
<b>Total</b>	<b><u>\$(15,867,722)</u></b>	<b><u>\$ 4,372,892</u></b>

The Foundation paid bank trustee and investment management fees of \$39,861 and \$30,949, respectively, in 2008 and \$59,670 and \$32,307, respectively, in 2007.

**NOTE 4 - PLEDGES RECEIVABLE**

Pledges receivable (unconditional promises to give) at December 31, 2008 and 2007, consisted of unconditional promises to give and an assignment of patent rights. At December 31, 2008, approximately 26% of pledges receivable is from a local non profit organization and approximately 71% percent is from the assignment of patent rights. At December 31, 2007, approximately 54% of pledges receivable is from two private foundations and approximately 40% percent is from the assignment of patent rights.

The pledges receivable at December 31, 2008 and 2007, are expected to be collected as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 197,500	\$ 622,742
Receivable in one to five years	<u>240,000</u>	<u>331,200</u>
	437,500	953,942
Less discount to net present value	<u>30,600</u>	<u>47,982</u>
<b>Net pledges receivable</b>	<b><u>\$ 406,900</u></b>	<b><u>\$ 905,960</u></b>

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 4 - PLEDGES RECEIVABLE (continued)**

Patent Rights

During 2005, a contributor assigned patent rights to the Foundation, which expire in August 2012. The value of the patent rights, which is included in pledges receivable, is calculated based on the present value of the estimated amount of the semi-annual payments to be received discounted at 4.25%. At December 31, 2008, the estimated net present value is approximately \$289,400.

Conditional Promises to Give

The Foundation received a conditional grant from Midwest Community Foundation Ventures (MCFV) under the access to recreation initiative funded by the W.K. Kellogg Foundation to complete projects creating universal access to recreation for people of all abilities. The grant period is December 1, 2006 - March 31, 2010. The Foundation must fully achieve certain provisions contained in the grant agreement before the grant can be collected. Those provisions include incurring expenditures for recreational projects, obtaining matching grants totaling \$200,000 for recreational projects, and obtaining matching grants totaling \$120,000 for the establishment of an endowment fund. The Foundation has identified specific projects to be funded with the grant proceeds and, as of December 31, 2008, approximately \$70,000 of expense has been incurred for those projects. As of December 31, 2008, the Foundation has received matching grants for recreational projects totaling \$95,000 and grants to establish an endowment fund totaling \$86,100. Unspent grant funds received in advance under the grant agreement and matching contributions for projects are recognized as deferred revenue. The Foundation has not recognized matching grants for the endowment fund since 100 percent of the matching contributions must be obtained before the grant proceeds will be received.

**NOTE 5 – OFFICE FACILITY AND EQUIPMENT**

Office facility and equipment as of December 31, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 65,000	\$ 65,000
Building and improvements	688,868	313,256
Office furniture and fixtures	108,996	47,594
Office equipment	41,992	40,776
Computer software	<u>32,845</u>	<u>31,897</u>
Total cost	937,701	498,523
Less accumulated depreciation	<u>95,338</u>	<u>107,324</u>
<b>Property and equipment, net</b>	<b><u>\$ 842,363</u></b>	<b><u>\$ 391,199</u></b>

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 6 - LEASES**

The Foundation leased office facilities until June of 2008, when operations were moved to its currently owned facility. During the year ended December 31, 2007, the terms of the lease agreements required monthly payments of \$2,220 plus semi-annual payments for reimbursement of real estate taxes and insurance premiums. Effective January 11, 2008, the Foundation terminated the lease of its office facility in downtown Midland and leased temporary facilities under a month-to-month rental agreement. The monthly rental amount under the temporary lease was \$3,000.

The Foundations also leases space for one of its projects. The project space lease runs until August 2013 with eight successive five year renewal periods. The lease calls for single annual payments of \$3,500. Payments for the project lease are recorded as project expense.

Rent expense for the years ended December 31, 2008 and 2007, totaled \$22,734 and \$28,248, respectively.

**NOTE 7 – DEFERRED REVENUE – ACCESS TO RECREATION GRANT**

Deferred revenue consists of unspent grant funds received in advance from the Council of Michigan Foundations for projects that will contribute to creating universal access to recreation for people of all abilities. Additional information is provided in Note 4.

**NOTE 8 - LETTER OF CREDIT**

During 2005, the Foundation provided a letter of credit of approximately \$370,000 related to the Entranceways project. The letter of credit expires during December 2009.

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

Because of the inherent time restrictions of pledges receivable, these amounts are reported as temporarily restricted net assets. The amounts “released from restrictions” represent the amounts of pledges receivable collected.

**NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS**

The Foundation has interpreted the Michigan Uniform Management of Institutional Funds Act (“MUMIF) as requiring preservation of the fair value of the original gift, as of the gift date, of donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets a) the original value of the gifts and grants to permanent endowments b) the original value of subsequent gifts to the permanent endowments, and c) accumulations to the permanent endowments in accordance with the applicable donor or grantor gift instrument. The Foundation has determined that a portion of the Kellogg Youth Fund is permanently restricted.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS (continued)**

A schedule of the Kellogg Youth Fund net asset composition as of December 31, 2008 and 2007, and changes during the year ended December 31, 2008, follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, December 31, 2007	\$ 1,108,742	\$ 1,000,000	\$2,108,742
Contributions	238	-	238
Investment income:			
Interest and dividends	46,953	-	46,953
Net (depreciation) of investments	(619,686)	-	(619,686)
Appropriation for expenditure	(63,880)	-	(63,880)
<b>Balance, December 31, 2008</b>	<b><u>\$ 472,367</u></b>	<b><u>\$ 1,000,000</u></b>	<b><u>\$1,472,367</u></b>

The fair value of the Foundation assets at December 31, 2008 and 2007, associated with the endowment portion of this fund exceeded the level required by the donor or MUMIF to be retained as a fund of perpetual duration.

**NOTE 11 – FAIR VALUE**

The Foundation utilizes fair value measurements to record fair value adjustments of certain assets and liabilities and to determine fair value disclosures. The Foundation values deposits in money market mutual funds, its investment portfolio, and pledges receivable expected to be collected in over one year, including the assignment of patent rights, at fair value on a recurring basis.

Fair Value Hierarchy

Under SFAS 157, the Foundation groups assets and liabilities at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

**MIDLAND AREA COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 11 – FAIR VALUE (continued)**

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

Investment securities

Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based on quoted market prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, publically traded mutual funds, and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities in active markets. Securities classified as Level 3 include securities in less liquid markets, including illiquid markets in some instances. The Foundation had no securities classified as Level 3 at December 31, 2008.

Pledges receivable

Pledges receivable, including patent rights, are recorded at fair value if expected to be collected in more than one year. Fair value represents the present value of estimated future cash flows. The fair value of the patent rights is calculated based on the present value of the estimated amount of the semi-annual payments to be received discounted at 4.25%.

Fair value measurements for money market funds reported as cash equivalents, the investment portfolio, and patent rights receivable, measured at fair value on a recurring basis, were as follows at December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 6,104,387	\$ -	\$ -	\$ 6,104,387
Investment securities	39,266,070	-	-	39,266,070
Patent rights	-	-	289,400	289,400
<b>Total</b>	<b>\$ 45,370,457</b>	<b>\$ -</b>	<b>\$ 289,400</b>	<b>\$45,659,857</b>