

MIDLAND AREA COMMUNITY FOUNDATION
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Midland Area Community Foundation
Midland, Michigan

April 12, 2006

We have audited the accompanying statements of financial position of Midland Area Community Foundation as of December 31, 2005 and 2004, 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 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 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 Midland Area Community Foundation as of December 31, 2005 and 2004, 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.

Maner, Costerisan & Ellis, P.C.

**MIDLAND AREA COMMUNITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004**

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 2,825,946	\$ 4,888,108
Investments	49,461,776	42,240,862
Pledges receivable, net	2,756,053	4,572,144
Student loans receivable	34,682	51,552
Parks and improvements, less accumulated depreciation of \$32,881 and \$32,050 in 2005 and 2004, respectively	665,027	665,858
Furniture and equipment, less accumulated depreciation of \$105,885 and \$90,432 in 2005 and 2004, respectively	74,121	81,829
TOTAL ASSETS	\$ 55,817,605	\$ 52,500,353
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 112,772	\$ 4,402
Grants payable	290,034	172,456
Restricted organizational funds	1,269,094	1,118,089
TOTAL LIABILITIES	1,671,900	1,294,947
NET ASSETS:		
Unrestricted	50,389,652	45,633,262
Temporarily restricted	2,756,053	4,572,144
Permanently restricted	1,000,000	1,000,000
TOTAL NET ASSETS	54,145,705	51,205,406
TOTAL LIABILITIES AND NET ASSETS	\$ 55,817,605	\$ 52,500,353

See notes to financial statements.

**MIDLAND AREA COMMUNITY FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005			2004				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and gains:								
Contributions and pledges	\$ 1,999,741	\$ 990,411	\$	\$ 2,990,152	\$ 2,728,791	\$ 1,057,534	\$	\$ 3,786,325
Investment income	3,668,673			3,668,673	4,504,395			4,504,395
Other	142,841			142,841	34,662			34,662
Net assets released from restrictions	2,806,502	(2,806,502)			812,995	(812,995)		
Total unrestricted revenues and gains	8,617,757	(1,816,091)		6,801,666	8,080,843	244,539		8,325,382
Expenses:								
Program expenses:								
Grant awards	1,467,133			1,467,133	1,166,805			1,166,805
Other program expenses	1,704,848			1,704,848	496,764			496,764
Management and general	589,131			589,131	572,169			572,169
Fundraising	100,255			100,255	102,531			102,531
Total expenses	3,861,367			3,861,367	2,338,269			2,338,269
INCREASE IN NET ASSETS	4,756,390	(1,816,091)		2,940,299	5,742,574	244,539		5,987,113
NET ASSETS, beginning of year	45,633,262	4,572,144	1,000,000	51,205,406	39,890,688	4,327,605	1,000,000	45,218,293
NET ASSETS, end of year	\$ 50,389,652	\$ 2,756,053	\$ 1,000,000	\$ 54,145,705	\$ 45,633,262	\$ 4,572,144	\$ 1,000,000	\$ 51,205,406

See notes to financial statements.

**MIDLAND AREA COMMUNITY FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Increase in net assets	\$ 2,940,299	\$ 5,987,113
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	16,285	22,664
Net (appreciation) in fair value of investments	(1,687,825)	(3,125,355)
(Appreciation) in value of split-interest agreement		(41,404)
(Increase) decrease in operating assets:		
Student loans receivable	16,870	12,312
Pledges receivable	1,816,091	(244,539)
Proceeds receivable from sale of limited partnership interest		36,747
Increase (decrease) in operating liabilities:		
Accounts payable	108,370	(1,332)
Grants payable	117,578	(135,738)
Due to other organizations	151,005	159,965
	<u>3,478,673</u>	<u>2,670,433</u>
Cash flows from investing activities:		
Purchases of equipment	(7,746)	(11,227)
Proceeds from sales/redemptions of investment securities	3,288,115	9,592,526
Purchases of investment securities	(8,821,204)	(11,068,519)
	<u>(5,540,835)</u>	<u>(1,487,220)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,062,162)	1,183,213
CASH AND CASH EQUIVALENTS:		
Beginning of the year	<u>4,888,108</u>	<u>3,704,895</u>
End of the year	<u><u>\$ 2,825,946</u></u>	<u><u>\$ 4,888,108</u></u>

See notes to financial statements.

**MIDLAND AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - 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. 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. 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 one endowment fund whose assets are to be held in perpetuity.

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 carries 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 6 percent. Uncollectible promises to give are expected to be insignificant.

Property, Equipment and Depreciation

Property 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.

**MIDLAND AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Restricted Organizational Funds

Amounts received from other not-for-profit organizations that specify itself, or a related organization, as the beneficiary are recorded as liabilities. Investment earnings 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 the 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.

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 Board. Grant awards are presented on the financial statements net of grant refunds.

**MIDLAND AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES (Concluded)

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.

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.

Credit risk with respect to investments generally is limited because of the wide variety of companies and industries represented.

At December 31, 2005, approximately 64% of pledges receivable are from two private foundations and approximately 16% percent from the assignment of patent rights. At December 31, 2004, approximately 55% percent of pledges receivable are from one private foundation, approximately 21% from an estate, and approximately 11% percent from one charitable remainder trust.

**MIDLAND AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INVESTMENTS

The following summarizes the cost basis and fair value (carrying value) of investments of December 31, 2005 and 2004.

	2005		2004	
	Cost	Fair value	Cost	Fair value
Certificates of deposit	\$ 25,000	\$ 24,682	\$ 125,000	\$ 124,937
U.S. Governmental agencies obligations	2,041,633	1,963,587	2,621,332	2,606,038
Corporate bonds	1,138,334	1,113,504	1,166,198	1,168,276
Fixed income mutual funds	6,962,806	6,901,975	5,176,550	5,237,918
Common stocks	4,365,870	4,942,278	4,139,488	4,505,266
Equity mutual funds	26,502,525	33,531,591	22,954,804	28,598,427
Bank loan fund	970,000	984,159		
Total	<u>\$ 42,006,168</u>	<u>\$ 49,461,776</u>	<u>\$ 36,183,372</u>	<u>\$ 42,240,862</u>

Investment income for the year ended December 31 consists of the following:

	2005	2004
Interest, dividends and distributions	\$ 1,980,848	\$ 1,337,636
Net appreciation in fair value	1,687,825	3,125,355
Change in value of split-interest agreement		41,404
Total investment income	<u>\$ 3,668,673</u>	<u>\$ 4,504,395</u>

The Foundation paid bank trustee and investment management fees of \$53,564 and \$26,142, respectively in 2005 and \$41,634 and \$24,573, respectively in 2004.

**MIDLAND AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable (unconditional promises to give) at December 31 were as follows:

	2005	2004
Receivable in less than one year	\$ 898,705	\$ 1,656,979
Receivable in one to five years	2,196,264	3,448,937
	3,094,969	5,105,916
Less discount to net present value	338,916	533,772
Net pledges receivable	\$ 2,756,053	\$ 4,572,144

Patent Rights

During 2005, a contributor assigned patent rights, which expire in August 2012, to the Foundation. 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, 2005, the estimated net present value is approximately \$447,000.

Split-Interest Agreement

In 1998, a donor established a trust with a local bank naming the Foundation as the remainder beneficiary of a charitable remainder annuity trust. The trust provides for the payment of distributions to the grantor over the trust's term, which is seven years. At the end of the trust's term, June 30, 2005, the remaining assets were paid to the Foundation. Based on the trust's term and the use of a 6 percent discount rate, the present value of future benefits that the Foundation expected to receive was estimated to be \$483,137 at December 31, 2004 and was included in pledges receivable. Approximately \$498,000 was received in 2005.

**MIDLAND AREA COMMUNITY FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LEASES

The Foundation leases office space and space for one of its annual projects. The office lease term runs until April 2008 with an option to renew for one successive term of five years. The office lease calls for monthly payments of \$1,900 plus semi-annual payments for reimbursement of real estate taxes and insurance premiums. The project space lease runs until August 2008 with nine 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 2005 and 2004 totaled \$23,481 and \$22,800, respectively.

The minimum required lease payments are as follows:

Year ending December 31,	
2006	\$ 26,300
2007	26,300
2008	<u>7,600</u>
	<u>\$ 60,200</u>

NOTE 6 - 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" for the years ended December 31, 2005 and 2004 were the result of the pledges collected and received.

NOTE 7 - 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 December 2009.