Maine Community Foundation and Supporting Organizations

Audited Consolidated Financial Statements

Year Ended December 31, 2008 With Comparative Information for the Year Ended December 31, 2007 With Independent Auditors' Report

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2008 With Comparative
Information for the Year Ended December 31, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Maine Community Foundation

We have audited the accompanying consolidated statement of financial position of Maine Community Foundation and its Supporting Organizations as of December 31, 2008, and the related consolidated 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 consolidated financial statements based on our audit. The prior year's summarized comparative information has been derived from the Foundation's 2007 financial statements and, in our report dated July 31, 2008, we expressed an unqualified opinion on those financial 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 consolidated financial position of Maine Community Foundation and its Supporting Organizations as of December 31, 2008, and the consolidated changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
September 21, 2009

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	2008	2007
ASSETS		
Investments (notes 3, 13 and 14)	$174,943,794	$230,728,329
Cash and cash equivalents (note 14)	4,433,331	3,460,186
Contribution receivable (note 5)	1,123,844	5,619,226
Prepaid expenses and other receivables (note 6)	367,904	2,364,795
Receivable from trusts	1,847,253	2,065,611
Loans receivable (note 4)	511,717	–
Cash surrender value of life insurance	85,189	77,585
Property and equipment, net (note 7)	478,775	435,684
Assets held for sale (note 8)	432,157	149,350
Total assets	$184,223,964	$244,900,766
LIABILITIES AND NET ASSETS		
Scholarships payable (note 9)	$ 1,208,620	$ –
Grants payable (note 10)	789,000	1,107,029
Accounts payable and accrued expenses	40,984	132,740
Income beneficiaries payable	2,042,500	1,740,464
Funds held as agency endowments	18,220,590	19,235,517
Total liabilities	22,301,694	22,215,750
Net assets:		
Unrestricted net assets	158,832,164	214,881,268
Temporarily restricted net assets (note 11)	3,090,106	7,803,748
	161,922,270	222,685,016
Total liabilities and net assets	$184,223,964	$244,900,766

See accompanying notes.

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31, 2008 With Comparative
Information for the Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	2008	2007
Revenue, gains and other support:				
Contributions	$ 20,083,941	$ 221,000	$ 20,304,941	$ 35,209,884
Less amounts received from agencies	(5,941,997)	–	(5,941,997)	(2,936,370)
Special events and other	34,921	–	34,921	25,639
Interest and dividend income	3,804,294	–	3,804,294	4,397,404
Less interest on amounts held for agencies	(367,302)	–	(367,302)	(337,034)
Net realized and unrealized (losses) gains on investments	(65,438,292)	–	(65,438,292)	24,382,922
Less loss (gain) on investments held for agencies	6,306,413	–	6,306,413	(1,943,075)
Remeasurement of charitable gift annuities	(591,866)	(353,753)	(945,619)	11,713
Administrative revenue from amounts held for agencies	184,356	–	184,356	144,047
	(41,925,532)	(132,753)	(42,058,285)	58,955,130
Net assets released resulting from satisfaction of restrictions	4,580,889	(4,580,889)	–	–
Total revenue, gains and other support	(37,344,643)	(4,713,642)	(42,058,285)	58,955,130
Grants and expenses:				
Grants and program initiatives	15,685,713	–	15,685,713	16,218,149
Less amounts granted to agencies	(838,921)	–	(838,921)	(705,505)
Prior year grants canceled or returned	(64,651)	–	(64,651)	(69,468)
Administrative expenses:				
Program service	1,564,305	–	1,564,305	1,446,506
Management and general (note 12)	777,235	–	777,235	657,055
Fundraising	914,554	–	914,554	736,687
Investment management fees	732,122	–	732,122	497,060
Less management fees on amounts held for agencies	(65,896)	–	(65,896)	(36,426)
Total grants and expenses	18,704,461	–	18,704,461	18,744,058
(Decrease) increase in net assets	(56,049,104)	(4,713,642)	(60,762,746)	40,211,072
Net assets at beginning of year	214,881,268	7,803,748	222,685,016	182,473,944
Net assets at end of year	$158,832,164	$ 3,090,106	$161,922,270	$222,685,016

See accompanying notes.

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2008 With Comparative
Information for the Year Ended December 31, 2007

	2008	2007
Cash flow from operating activities:		
(Decrease) increase in net assets:	$ (60,762,746)	$ 40,211,072
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	28,689	23,187
Net unrealized and realized investment losses (gains)	65,438,292	(24,382,922)
Increase in value of life insurance policy	(7,604)	(15,856)
Increase in other noncash contributions	(282,807)	(149,350)
Decrease (increase) in contribution receivable	4,495,382	(3,985,928)
Decrease (increase) in prepaid expenses and other receivables	1,996,891	(2,181,357)
Decrease (increase) in receivable from trusts	218,358	(347,751)
Increase in scholarships payable	1,208,620	–
Decrease in grants payable	(318,029)	(492,971)
(Decrease) increase in accounts payable and accrued expenses	(91,756)	56,759
Increase in income beneficiaries payable	302,036	69,084
(Decrease) increase in funds held as agency endowments	(1,014,927)	4,500,502
Net cash provided by operating activities	11,210,399	13,304,469
Cash flows from investing activities:		
Purchase of investments	(100,155,780)	(122,987,792)
Proceeds from sale of investments	90,502,023	111,111,703
Origination of loans	(511,717)	–
Purchases of equipment	(71,780)	(33,727)
Net cash used by investing activities	(10,237,254)	(11,909,816)
Net increase in cash and cash equivalents	973,145	1,394,653
Cash and cash equivalents at beginning of year	3,460,186	2,065,533
Cash and cash equivalents at end of year	$ 4,433,331	$ 3,460,186

See accompanying notes.

1. Description of Organization

The consolidated financial statements of the Maine Community Foundation (MaineCF) include all accounts of MaineCF and its supporting organizations, the Maine Community Supporting Foundation and the Edward H. Daveis Benevolent Fund (collectively, the Foundation). MaineCF exercises significant control over the supporting organizations. Accordingly, consolidated financial statements are presented which include the Foundation and its supporting organizations. All significant balances and transactions between the entities have been eliminated in the consolidation.

MaineCF is a nonprofit community foundation that works with charitably minded citizens to strengthen Maine communities by building permanent charitable funds, connecting donors to organizations and programs they care about, making effective grants and providing leadership to address community issues.

Maine Community Supporting Foundation provides support to MaineCF by receiving gifts of real estate.

The Edward H. Daveis Benevolent Fund became a supporting organization in December 2007. Its purpose is to serve charitable organizations in the greater Portland, Maine area.

2. Summary of Significant Accounting Policies

Investments

Investment securities are stated at fair value. The fair value of debt securities and marketable equity securities are based on quoted market prices. The fair value of nonmarketable securities for which quoted market prices are not available are determined from information supplied by the fund managers based on the quoted market values of the underlying investments. The Foundation carries alternative investments at estimated fair value as determined by management based upon valuations provided by the respective fund managers or general partners. Gains and losses on investments are computed on a specific identification basis. Investment income is allocated to the various funds within the unrestricted and temporarily restricted fund groups based on fair value of the investments and the restrictions or lack thereof on the investment income.

Investments are administered by investment agents chosen by the Foundation's Board of Directors. The investment agents report the assigned values and market values of the investments and are responsible for custody and investment management under supervision of the Board of Directors.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents includes all highly liquid investments with an initial maturity of three months or less, except for those cash equivalents that are held as part of the investment portfolio.

2. Summary of Significant Accounting Policies (Continued)

Contributions Receivable

Unconditional promises to give are recorded as contributions in the year the promise is received. Unconditional promises to give that are expected to be received in future periods are discounted using a risk-free rate applicable to the years in which the promises are received. Amortization of the discount is recorded as contribution revenue. An allowance for uncollectible contributions receivable is provided as deemed necessary by management based on a review of the underlying pledges. Amounts are charged off when deemed uncollectible.

Receivable From Trusts

The Foundation is the beneficiary of certain trusts. In cases where the Foundation does not act as trustee, the Foundation has recorded an asset at the present value of the estimated revenue to be received from the trusts.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value determined at the date of donation, less accumulated depreciation. The Foundation's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures that do not extend the lives of the related assets. Depreciation is provided by the straight-line method in a manner which is intended to amortize the cost of the assets over their estimated useful life.

Income Beneficiaries Payable

The Foundation has recorded a liability for the amount due to income beneficiaries of pooled income funds and charitable gift annuities when the Foundation acts as trustee. For charitable gift annuities, the present value of the estimated future payments to be distributed during the beneficiaries' expected life is recorded as a liability using a discount rate of 5% and 7% for the years ended December 31, 2008 and 2007.

Funds Held as Agency Endowments

Statement of Financial Accounting Standards No. 136 (SFAS No. 136), *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. SFAS No. 136 specifically requires that, if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, that community foundation must account for the transfer of such assets as a liability rather than as a contribution. The Foundation refers to such funds as agency endowments.

2. Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

In August 2008, the Financial Accounting Standards Board (FASB) issued Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FAS 117-1)*. FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. FAS 117-1 also improves disclosures about an organization's endowment funds whether or not the organization is subject to Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

In July 2006, The National Conference of Commissioners on Uniform State Laws approved the UPMIFA. In 2009 the State of Maine passed a version of UPMIFA. The Maine UPMIFA law is effective on July 1, 2009. Until that time the current law, Uniform Management of Institution Funds Act (UMIFA), remains in effect. The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's contributions are received subject to the terms of the Governing Documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. The Foundation is currently assessing the impact that adoption of UPMIFA in 2009 may have on its net asset classification.

Under the terms of the Governing Documents, the Board of Directors has the ability to distribute as much of the corpus of any separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The Foundation considers contributions to be restricted if they are received with donor stipulations that restrict the use or the timing of expending the donated assets. Accordingly, all such contributions are reported as temporarily or permanently restricted. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation had no permanently restricted net assets at December 31, 2008. Gains and losses on the investment of these assets are classified as temporarily restricted in accordance with the Uniform Management of Institutional Funds Act, as amended, by the State of Maine. Investment income subject to restrictions is classified as temporarily restricted until the period in which the funds are spent, at which time temporarily restricted assets are released to unrestricted assets. Such transfers are reported in the statements of activities as net assets released resulting from satisfaction of restriction.

2. Summary of Significant Accounting Policies (Continued)

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to organizations, scholarships and other programs supported by the Foundation while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current investment objective is to achieve a minimum real (adjusted for inflation) total return, net of investment management and administrative fees, of 5% over a rolling three- to five-year period. The Foundation recognizes that this goal may be easily achieved in some periods but much harder to achieve in other periods.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation has established a policy portfolio with a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives.

The spending policy calculates the amount of money distributed annually from the Foundation's various endowed funds. The annual distribution is used for grantmaking. The current spending policy is to distribute an amount equal to 5% of the average fund balance measured over a 12 quarter period ending September 30 each year. The Foundation expects the current spending policy to allow its endowment assets to grow at a minimum of the average rate of inflation (historically between 2% to 3%) annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets over time.

For endowed funds that are below their historic gift value (the original value of all endowed gifts into the fund) as of the September 30 measurement date, the spending rate in the next calendar year will be limited to a maximum of the real income (interest, dividend, rents and royalties) received over the prior 12 months.

Investment Fees

The Foundation invests in several commingled funds and limited partnerships. Most of these funds and partnerships report income net of fees and the Foundation follows the same practice. As a result, some of the fees paid to investment managers are reflected as a reduction of investment income.

Income Taxes

The Foundation and its supporting organizations, Maine Community Supporting Foundation and the Edward H. Daveis Benevolent Fund, are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation pays unrelated business income taxes on income from investment partnerships.

2. Summary of Significant Accounting Policies (Continued)

Functional Expenses

Expenses are allocated to both programs and support services. Salaries and wages are allocated based on estimates of time spent by the members of the staff. All other expenses are charged to each functional area based on direct expenditures incurred or based on allocation of staff time by functional area.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of retained earnings. Additional disclosures about the amounts of such liabilities will be required also. The Foundation presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Foundation has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises, such as the Foundation, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Foundation will be required to adopt FIN 48 in its 2009 annual financial statements. Management is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations and currently does not believe that adoption will have a material effect on the Foundation's consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. FASB Statement No. 159 permits entities that elect the fair value provisions of FASB Statement No. 157 to choose to measure many financial instruments and certain other items at fair value. FASB Statement No. 159 is effective for years beginning after November 15, 2007. FASB Statement No. 159 became effective January 1, 2008 for the Foundation. FASB Statement No. 159 allows voluntary elections, however, the Foundation did not elect to apply the fair value option to its financial assets or liabilities.

3. Investments

The major categories of investments, at fair value, at December 31 are as follows:

	2008		2007	
Domestic equity	$ 43,968,191	25%	$ 68,332,558	30%
Global equity (excluding U.S.)	38,694,932	22	55,405,535	24
Total equity	82,663,123	47	123,738,093	54
Fixed income	28,163,933	16	36,785,047	16
Marketable alternatives	41,247,817	24	45,197,707	20
Nonmarketable alternatives	6,394,188	4	5,171,877	2
Real assets	10,550,568	6	12,142,668	5
Cash equivalents	5,924,165	3	7,692,937	3
	$174,943,794	100%	$230,728,329	100%

Equity Investments

The purpose of the equity allocation (broadly defined to include domestic stocks and foreign stocks) is to provide appreciation of principal that more than offsets inflation over the long run. It is recognized that pursuit of this objective could entail the assumption of greater return variability and risk within individual asset classes. However, the diversification benefits of combining various equity components should enhance the overall portfolio risk-return profile. U.S. equity managers are permitted to invest in publicly traded equity securities, both U.S. and non-U.S., and, where appropriate, fixed income securities as equity substitutes. Non-U.S. managers are permitted to hold equity securities traded in non-U.S. developed and emerging markets.

Fixed Income Investments

The purpose of the fixed income allocation is to provide a hedge against deflation, to increase current income relative to an all-equity fund, and to reduce overall volatility of the fund. The purpose of including opportunistic fixed income assets such as, but not limited to, inflation-linked bonds, global and high yield securities in the portfolio is to enhance the overall risk-return characteristics of the fund.

Marketable Alternative Investments

The role of marketable alternative (MALT) investments, often referred to as "hedge funds," is to increase portfolio diversification through offering sources of return that are not generally correlated with traditional equity and fixed income markets. The object of marketable alternative investments provide relatively consistent returns and principal protection in significantly down equity markets, while reducing overall volatility of the portfolio. Investments in the MALT program may take the form of direct investment in a limited partnership of a single manager or fund-of-funds manager. MALT managers may engage in the use of derivatives (options/futures/forwards) as part of their investment strategy. MALT investments are generally less liquid than their traditional equity counterparts. MALT managers have entry/exit terms and capital lockup periods that range from monthly to five years from the date of the original investment.

3. Investments (Continued)

Nonmarketable Alternative Investments

The purpose of "nonmarketable alternative" assets such as, but not limited to, venture capital and private equity securities investments is to provide increased return potential and to reduce overall volatility of the portfolio through greater diversification. These investments can be made either in the form of direct investment, partnerships, fund-of-funds or with an investment manager. These assets are less liquid and require a longer investment horizon. Most require a multi-year commitment of capital for a minimum of ten years.

Real Assets

Real assets may include more liquid investments, such as inflation-linked bonds, real estate securities and commodity futures, in addition to nonmarketable investments in real estate, oil and gas producing properties, and timberland, either directly or through funds-of-funds. Investment in real assets is through direct ownership or investment in financial assets which are related to or strongly influenced by the value of the tangible asset.

At December 31, 2008, MaineCF has commitments totaling $22.6 million to invest additional funds in alternative investments over the next five years. The timing of investment of these funds is dependent on the investment manager and market opportunities.

The principal components of investment income consist of the following at December 31:

	2008	2007
Interest and dividend income	$ 3,804,294	$ 4,397,404
Net realized and unrealized gains/(losses)	(65,438,292)	24,382,922
Return on investments	$(61,633,998)	$28,780,326

At December 31, 2008, a bond index fund represented approximately 10% of investments.

4. Loans Receivable

Loans receivable relate to investments made to the Foundation's philanthropic programs and are anticipated to have a less than market return. At December 31, 2008, loans receivable consist of unsecured loans to two nonprofit organizations in support of their charitable mission. Repayment of principal and any accrued interest is due at maturity. These loans mature in 2011.

5. Contribution Receivable

MaineCF was named a remainderman in an estate. The estate is in the process of liquidation and proceeds of $4,495,382 were received April 2008. Additional proceeds of $602,192 were received March and April 2009. The balance is expected to be paid in 2009. The balance due the Foundation was $1,123,844 and $5,619,226, respectively, at December 31, 2008 and 2007.

6. Prepaid Expenses and Other Receivables

At December 31, 2007, prepaid expenses and other receivables includes a receivable of $2,168,607 from the Edward H. Daveis Benevolent Fund which became a supporting organization of MaineCF in 2007. The proceeds of this receivable were received in January 2008.

7. Property and Equipment

Property and equipment consists of the following at December 31:

	2008	2007
Building and building improvements	$ 454,541	$ 429,552
Land	71,000	71,000
Furniture and office equipment	128,504	81,713
Computer equipment	36,547	36,547
Vehicles	22,243	22,243
Art	6,200	6,200
	719,035	647,255
Less accumulated depreciation	(240,260)	(211,571)
	$ 478,775	$ 435,684

8. Assets Held for Sale

Assets held for sale consist of art collections donated to the Foundation. It is the intention of the Foundation to sell the pieces in these collections. The art is recorded at appraised value net of projected selling costs. Assets held for sale at December 31, 2008 and 2007 are $432,157 and $149,350, respectively.

9. Scholarships Payable

Scholarships awarded in 2008 totaling $1,208,620 were payable as of December 31, 2008. The scholarship payments were made in January 2009. In 2007, scholarships awarded in 2007 were paid prior to December 31, 2007.

10. Grants Payable

Grants to nonprofit organizations were committed to by the Board of Directors at the recommendation of advisors to donor advised funds as follows:

	2008	2007
$2,000,000 grant commitment; $400,000 payable each year over a five-year period starting in 2006:		
Original commitment	$ 2,000,000	$2,000,000
Less amount paid to date	(1,200,000)	(800,000)
	800,000	1,200,000
$20,000 grant commitment; $5,000 payable each year over a four-year period starting in 2008:		
Original commitment	20,000	20,000
Less amount paid to date	(5,000)	–
	15,000	20,000
$15,000 grant commitment; $5,000 payable each year over a three-year period starting in 2009:		
Original commitment	15,000	–
Total grants payable, December 31	830,000	1,220,000
Less adjustment for present value	(41,000)	(112,971)
Present value of grants payable, December 31	$ 789,000	$1,107,029

11. Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2008	2007
Remainder interest from split-interest agreements and bequests	$1,966,262	$2,184,522
Other gifts restricted by time	1,123,844	5,619,226
	$3,090,106	$7,803,748

12. Retirement Plans

On January 1, 2008, the Foundation established a 401(k) plan which covers all employees. New employees are eligible to participate in the plan starting with the first pay period of the month following employment. No minimum hours of service are required. The Foundation's contribution to the 401(k) plan in 2008 was 7% of each employee's compensation and totaled $112,742. Employees may elect to contribute a percentage of their compensation up to the maximum amount allowed by the Internal Revenue Code.

Prior to 2008, the Foundation sponsored a 403(b) plan which covered all employees. Eligible employees could elect to contribute to the plan a percentage of their compensation up to the maximum amount allowed by the Internal Revenue Code. There was no employer match to the employee contributions to the 403(b) plan. The Foundation also maintained a simplified employee pension (SEP) plan under which it made contributions to SEP-IRAs for each eligible employee. All employees with at least one year of service who performed at least 100 hours of service during the plan year were eligible to participate in the SEP plan. Only employer contributions were allowed into this plan and employees are 100% vested in their SEP-IRA. The Foundation's contribution to the SEP plan was discretionary and was based on a percentage of each eligible employee's compensation. In 2007, the percentage contributed by the Foundation was 6% of each eligible employee's compensation. The SEP plan expense totaled $74,470 for the year ended December 31, 2007. Both the 403(b) plan and the SEP plan were terminated December 31, 2007.

13. Fair Value Measurements

In accordance with SFAS 157, *Fair Value Measurements*, the Foundation classifies its investments into Level 1, which refers to investments traded in an active market; Level 2, which refers to investments not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to investments not traded in an active market and for which no significant observable market inputs are available. Generally, Level 3 investments are valued based upon information provided by fund managers or general partners, including audited financial statements of the investment funds. The levels relate to valuation only and do not necessarily indicate a measure of risk. As required by SFAS 157, at December 31, 2008, the Foundation's investments were classified as follows, based on fair values:

	Level 1	Level 2	Level 3	Total
Domestic equity	$28,583,608	$15,384,583	$ –	$ 43,968,191
Global equity (excluding U.S.)	23,613,919	14,602,613	478,400	38,694,932
Fixed income	10,092,711	18,071,222	–	28,163,933
Marketable alternatives	–	–	41,247,817	41,247,817
Nonmarketable alternatives	–	–	6,394,188	6,394,188
Real assets	–	5,347,590	5,202,978	10,550,568
Cash equivalents	5,924,165	–	–	5,924,165
Total investments	$68,214,403	$53,406,008	$53,323,383	$174,943,794

13. Fair Value Measurements (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Equity	Marketable Alternatives	Non-Marketable Alternatives	Real Assets	Total
Beginning balance	$ –	$45,105,764	$5,170,381	$ 3,543,767	$53,819,912
Total gains or losses (realized/unrealized) recognized in statement of activities	(521,600)	(6,857,947)	(646,410)	(1,752,967)	(9,778,924)
Purchases, issuances and settlements	1,000,000	3,000,000	1,870,217	3,412,178	9,282,395
Ending balance	$ 478,400	$41,247,817	$6,394,188	$ 5,202,978	$53,323,383
Amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (521,600)	$(6,857,947)	$ (646,410)	$(1,763,798)	$(9,789,755)

There have been no changes during the year in the Foundation's valuation methodologies.

The following methods and assumptions were used by the Foundation in estimating the fair value of other financial instruments:

Cash and cash equivalents: The carrying amounts approximate their fair values.

Loans receivable: There is no market for loans receivable and fair value is not determinable. The Foundation carries loans at amortized cost.

Contribution receivable, other receivables, scholarships payable, accounts payable and accrued expenses: The carrying amounts approximate their respective fair values due to the short maturities of these financial instruments.

Receivable from trusts: The carrying value is based on the present value of estimated future cash flows from the trusts.

13. Fair Value Measurements (Continued)

Cash surrender value of life insurance: The carrying value approximates fair value.

Grants payable: The carrying value is based on the present value of the future payments of the grants.

Income beneficiaries payable: The carrying value is based on the present value of future payments to beneficiaries based on their expected lives.

14. Concentration of Credit Risk

The Foundation maintains cash and cash equivalents with several broker-dealers. Accounts at each broker-dealer are insured by the SIPC up to $500,000. At December 31, 2008, approximately $7.5 million of the Foundation's cash and cash equivalent balances were held in uninsured money market funds at a AA+ (Standard & Poor's) credit rated financial institution.