

Audited Financial Statements

Great Lakes Center Foundation

*Years ended December 31, 2007 and 2006
with Report of Independent Auditors*



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

Board of Directors
Great Lakes Center Foundation
Bay City, Michigan

We have audited the accompanying statements of financial position of Great Lakes Center Foundation (Foundation), a not-for-profit organization, as of December 31, 2007 and 2006, 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.

As more fully described in Note 2, the Foundation has not consolidated a wholly-owned subsidiary. In our opinion, accounting principles generally accepted in the United States of America require the consolidation of all wholly-owned subsidiaries.

In our opinion, except for the effects of not consolidating a wholly-owned subsidiary as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Center Foundation as of December 31, 2007 and 2006, 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.

Andrews Hooper & Pavlik P.L.C.

Bay City, Michigan
May 8, 2008

Great Lakes Center Foundation

Statements of Financial Position

	December 31	
	2007	2006
Assets		
Cash and cash equivalents	\$ 5,264	\$ 610,033
Accounts receivable	23,831	-
Unconditional promises to give:		
Current	80,000	552,993
Restricted to long-term purposes	43,348	138,550
Notes receivable	3,342,100	640,000
Prepaid expenses	5,079	1,459
Interest receivable	-	78,764
Investment in properties	1,882,327	2,533,062
Investment in GLCF Holding, Inc.	900,100	-
Total assets	<u>\$6,282,049</u>	<u>\$4,554,861</u>
Liabilities and net assets		
Accounts payable	\$ 1,000	\$ 12,722
Long-term debt	1,028,020	-
Total liabilities	<u>1,029,020</u>	<u>12,722</u>
Net assets		
Unrestricted	5,209,681	4,403,589
Temporarily restricted	43,348	138,550
Total net assets	<u>5,253,029</u>	<u>4,542,139</u>
Total liabilities and net assets	<u>\$6,282,049</u>	<u>\$4,554,861</u>

See accompanying notes.

Great Lakes Center Foundation

Statements of Activities

Year ended December 31, 2007

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions	\$ 25,805		\$ 25,805
Grants - federal	628,912		628,912
Interest income	25,832		25,832
Rental income	74,330		74,330
Development fee income	214,479		214,479
Other income	10,000		10,000
Net assets released from restrictions	95,202	\$(95,202)	-
Total support and revenue	<u>1,074,560</u>	<u>(95,202)</u>	<u>979,358</u>
Expenses			
Program related expenses:			
Project expenses	209,217		209,217
Supporting services:			
General and administrative	59,251		59,251
Total expenses	<u>268,468</u>		<u>268,468</u>
Change in net assets	806,092	(95,202)	710,890
Net assets at beginning of year	4,403,589	138,550	4,542,139
Net assets at end of year	<u>\$5,209,681</u>	<u>\$ 43,348</u>	<u>\$5,253,029</u>

See accompanying notes.

Great Lakes Center Foundation

Statement of Activities

Year ended December 31, 2006

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions		\$ 52,129	\$ 52,129
Interest income	\$ 41,149		41,149
Rental income	80,365		80,365
Net assets released from restrictions:	584,993	(584,993)	-
Total support and revenue	706,507	(532,864)	173,643
Expenses			
Program related expenses:			
Project expenses	59,236		59,236
Supporting services:			
General and administrative	20		20
Total expenses	59,256		59,256
Change in net assets	647,251	(532,864)	114,387
Net assets at beginning of year	3,756,338	671,414	4,427,752
Net assets at end of year	<u>\$4,403,589</u>	<u>\$ 138,550</u>	<u>\$4,542,139</u>

See accompanying notes.

Great Lakes Center Foundation

Statements of Cash Flows

	Year ended December 31	
	2007	2006
Operating activities		
Change in net assets	\$ 710,890	\$ 114,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accounts receivable	(23,831)	-
Unconditional promises to give	568,195	507,871
Prepaid expenses	(3,620)	(669)
Interest receivable	78,764	(38,357)
Accounts payable	(11,722)	(4,842)
Net cash provided by operating activities	<u>1,318,676</u>	<u>578,390</u>
Investing activities		
Purchases of investment properties	(35,887)	(283,368)
Investment in GLCF Holding, Inc.	(213,478)	-
Net advances on notes receivable	(2,702,100)	-
Net cash used in investing activities	<u>(2,951,465)</u>	<u>(283,368)</u>
Financing activities		
Proceeds from issuance of long-term debt	2,690,000	-
Payments of long-term debt	(1,661,980)	-
Net cash provided by financing activities	<u>1,028,020</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(604,769)	295,022
Cash and cash equivalents at beginning of year	610,033	315,011
Cash and cash equivalents at end of year	<u>\$ 5,264</u>	<u>\$ 610,033</u>
Supplemental information		
Cash paid during the year for interest	\$ 119,373	-
Transfer of property to GLCF Holding, Inc.	686,622	-

See accompanying notes.

Great Lakes Center Foundation

Notes to Financial Statements

December 31, 2007

1. Nature of Operations and Significant Accounting Policies

The Great Lakes Center Foundation (Foundation) receives and administers funds for the acquisition and development of real estate in Bay County for the public welfare and betterment of the local community.

Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation distinguishes between contributions of unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The bylaws of the Foundation include a variance provision giving the Board of the Foundation the power to vary the use of funds if conditions, or a restriction expressed by a donor, would jeopardize the Foundation's tax exempt status or are inconsistent with the Foundation's bylaws. Based on these provisions, predominantly all contributions received by the Foundation are reported as unrestricted support. Unconditional promises to give with payment dates in future periods are reported as temporarily restricted support and reclassified as unrestricted once restrictions are met.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market accounts.

Investment in Properties

Investment in properties is carried at the lower of cost or market. Cost is determined based upon the purchase price and other capitalized costs. The miscellaneous costs to maintain the property are expensed as incurred.

Great Lakes Center Foundation

Notes to Financial Statements (continued)

1. Nature of Operations and Significant Accounting Policies (continued)

Contributions

Contributions, including unconditional promises to give, are recognized in the period received or when verifiable evidence that the promise was made exists. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other time-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions expected to be collected in less than one year are measured at net realizable value. Contributions expected to be collected in more than one year are discounted at an appropriate discount rate.

The allowance for uncollectible unconditional promises to give is determined based on management monitoring outstanding balances. If an amount becomes uncollectible, it is charged to operations in the period of uncollectibility. Management believes any realized loss in the outstanding balance would be immaterial.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

No amounts have been reflected in the financial statements for volunteer services as no objective basis is available to measure the value of such services. However, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific assistance programs and various committee assignments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about amounts reported in the financial statements and accompanying notes. Material estimates that are particularly susceptible to change relate to the determination of amounts recorded related to unconditional promises to give. Actual results could differ from those estimates.

Great Lakes Center Foundation

Notes to Financial Statements (continued)

1. Nature of Operations and Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Although the methods of allocation used are considered appropriate, other methods could be used that would produce a different amount.

Tax Status

The Internal Revenue Service has ruled that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

2. GAAP Departure

The Great Lakes Center Foundation is a 100% owner of GLCF Holding, Inc. The accounts of GLCF Holding, Inc. are not consolidated in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. The Foundation has included, in the consolidated statements of financial position, \$900,100 in an investment in GLCF Holding, Inc. This amount has not been adjusted for any activity within GLCF Holding, Inc.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and unconditional promises to give. The Foundation maintains cash balances in a financial institution located in Bay City, Michigan. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At times during the year, the Foundation had cash balances that exceeded the FDIC insurance limits.

One donor comprised approximately 77% of unconditional promises to give as of December 31, 2007 and four donors comprised approximately 87% of unconditional promises to give as of December 31, 2006.

4. Unconditional Promises to Give

Unconditional promises to give for the year ending December 31, net of allowance of \$-0-, consist of the following:

	<u>2007</u>	<u>2006</u>
Promises receivable	\$ 80,000	\$552,993
Promises receivable – restricted to long-term purposes	43,348	138,550
Total unconditional promises to give	<u>\$123,348</u>	<u>\$691,543</u>

Great Lakes Center Foundation

Notes to Financial Statements (continued)

4. Unconditional Promises to Give (continued)

Maturities of unconditional promises to give at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Amounts due in:		
Less than one year	\$ 80,000	\$574,000
One to five years	50,000	150,000
Less discount to net present value	(6,652)	(32,457)
Net unconditional promises to give	<u>\$123,348</u>	<u>\$691,543</u>

5. Notes Receivable

During 2002, Great Lakes sold property with a carrying value of \$703,217 for a \$640,000 note receivable. The note is interest free until six months after occupancy, then interest at 4% begins accruing. Interest only payments begin six months after occupancy and extend through approximately January 2016. A lump sum principal payment is due February 2016. In the event of default on the loan, interest will accrue at 6%. These payments are subject to a Subordination Agreement. Management believes the outstanding note is collectable. Management believes that the interest is not collectible and has written off the interest receivable as of December 31, 2007.

During 2007, Great Lakes issued two promissory notes, one for \$24,000 and one for \$8,000, from Great Lakes Holding Inc. Principal and interest, accruing at 2%, is due in its entirety on or before December 31, 2009.

Also during 2007, Great Lakes obtained a promissory note for \$2,670,000, with the funds to be used to renovate the Pere Marquette Depot. The note calls for interest payments of 1% monthly beginning April 2007, with the principal to be paid within 33 years after the substantial completion of the Pere Marquette Depot.

6. Investment in Properties

Investment in properties consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
200 Saginaw Street	\$ 96,450	\$ 96,450
Pere Marquette Depot	346,287	1,021,875
Vacant tract, North Washington Avenue	276,962	276,962
Former grocery store premises, 211 Washington Avenue	428,292	428,292
Labadie, west side of the 600 block of Washington Avenue and on the west side of the 400 block of Saginaw Street	734,336	709,483
Total investment in properties	<u>\$1,882,327</u>	<u>\$2,533,062</u>

Great Lakes Center Foundation

Notes to Financial Statements (continued)

6. Investment in Properties (continued)

During 2007, Great Lakes and the Bay Area Family YMCA (YMCA) negotiated an option for the YMCA to purchase several properties with a carrying value of approximately \$960,000 for \$1,020,320. The option has an initial term of one year and the YMCA paid Great Lakes \$10,000. The terms of the agreement provide for two more one-year options subject to certain provisions within the agreement.

Great Lakes also transferred \$686,622 of property and \$213,478 in cash to GLCF Holding, Inc. as an investment in GLCF Holding, Inc., which is disclosed in Note 2.

7. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	<u>2007</u>	<u>2006</u>
Note payable to a non-profit organization, with monthly interest payments to be made at National City Bank's prime rate. Principal payments are to be made upon receipt of TEA-21 grant reimbursements, with the final payment to occur no later than June 30, 2009. The note is collateralized by real estate and promises to give designated for the Pere Marquette Depot construction.	\$1,008,020	-
Note payable to a related party with interest at 5%, payable by September 14, 2008	20,000	-
	<u>\$1,028,020</u>	<u>--</u>

The annual maturities of the notes payable as of December 31 are approximately as follows:

2008	\$ 554,500
2009	473,520
Total	<u>\$1,028,020</u>

8. Restrictions on Net Assets

Temporarily restricted net assets are available for subsequent periods. Temporarily restricted net assets for the years ending December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Promises to give – restricted to long-term purposes	\$43,348	\$138,550

Great Lakes Center Foundation

Notes to Financial Statements (continued)

9. Related Party Transactions

An entity which controls the Foundation through a majority voting interest in its governing board shares management, space, and equipment with the Foundation. During 2007 and 2006, the entity did not charge the company for rent or wages attributable to the Foundation. These amounts are not recorded in the financial statements and are not material to the financial statements.