



Bay Area

community foundationSM

and Subsidiary

Consolidated Financial Statements

**For the Years Ended
December 31, 2008 and 2007**

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements for the Years Ended December 31, 2008 and 2007	
Consolidated Statements of Financial Position	2
Consolidated Statement of Activities for the Year Ended December 31, 2008	3
Consolidated Statement of Activities for the Year Ended December 31, 2007	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-23

INDEPENDENT AUDITORS' REPORT

May 1, 2009

Board of Trustees
Bay Area Community Foundation
and Subsidiary
Bay City, Michigan

We have audited the accompanying consolidated statement of financial position of the **Bay Area Community Foundation and Subsidiary** (the "Foundation") as of December 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated 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 consolidated financial statements of the **Bay Area Community Foundation and Subsidiary** as of and for the year ended December 31, 2007, were audited by other auditors whose opinion dated May 8, 2008, on these statements was qualified because of the departure from generally accepted accounting principles described in the third paragraph.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

As more fully discussed in Note 1 to the consolidated financial statements, 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 effect of the departure from generally accepted accounting principles described in the preceding paragraph, the 2008 consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Bay Area Community Foundation and Subsidiary** as of December 31, 2008, and the 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.



**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 212,773	\$ 236,103
Accounts receivable	604,743	25,131
Unconditional promises to give, net of allowance of \$3,750 in 2008 and \$14,200 in 2007		
Current	158,944	142,739
Restricted to long-term purposes	560,095	552,987
Notes receivable	3,392,230	3,342,100
Investments	19,927,638	26,736,549
Cash surrender value of life insurance policies	27,012	31,538
Prepaid expenses and other assets	13,038	18,495
Furniture and equipment, net	30,881	21,002
Investment in properties	1,701,724	1,882,327
Investment in GLCF Holding, Inc.	1,000,100	900,100
Nature conservatory	279,900	279,900
Total assets	\$ 27,909,078	\$ 34,168,971
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 22,133	\$ 6,049
Accrued liabilities	14,689	10,688
Capital lease payable	1,824	4,529
Grants payable	144,928	57,384
Obligations for agency endowments	590,742	699,737
Deferred revenue	1,000	1,000
Debt	735,316	1,008,020
Life-income payable	163,657	186,654
Total liabilities	1,674,289	1,974,061
Net assets		
Unrestricted	23,989,055	31,187,746
Temporarily restricted	1,965,834	727,264
Permanently restricted	279,900	279,900
Total net assets	26,234,789	32,194,910
Total liabilities and net assets	\$ 27,909,078	\$ 34,168,971

The accompanying notes are an integral part of these consolidated financial statements.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 668,463	\$ 1,589,371	\$ -	\$ 2,257,834
Investment income	582,186	-	-	582,186
Grants - federal	76,000	-	-	76,000
Other income	810,030	-	-	810,030
Rental income	72,766	-	-	72,766
Net assets released from restrictions	350,801	(350,801)	-	-
Total support and revenue	<u>2,560,246</u>	<u>1,238,570</u>	<u>-</u>	<u>3,798,816</u>
Expenses				
Grant and scholarship awards	1,224,393	-	-	1,224,393
Program related expenses				
Project expenses	142,822	-	-	142,822
Grant making	215,219	-	-	215,219
Supporting services				
General and administrative	304,861	-	-	304,861
Fundraising	115,814	-	-	115,814
Investment services	70,434	-	-	70,434
Total expenses	<u>2,073,543</u>	<u>-</u>	<u>-</u>	<u>2,073,543</u>
Net realized and unrealized losses on investment securities	7,504,070	-	-	7,504,070
Loss on disposal of furniture and equipment	721	-	-	721
Impairment loss on investment in properties	180,603	-	-	180,603
Total expenses and losses	<u>9,758,937</u>	<u>-</u>	<u>-</u>	<u>9,758,937</u>
Change in net assets	(7,198,691)	1,238,570	-	(5,960,121)
Net assets at beginning of year	31,187,746	727,264	279,900	32,194,910
Net assets at end of year	<u>\$ 23,989,055</u>	<u>\$ 1,965,834</u>	<u>\$ 279,900</u>	<u>\$ 26,234,789</u>

The accompanying notes are an integral part of these consolidated financial statements.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions	\$ 1,649,816	\$ 311,028	\$ -	\$ 1,960,844
Investment income	552,519	-	-	552,519
Net realized and unrealized gains on investment securities	1,518,656	-	-	1,518,656
Grant revenue	1,000	-	-	1,000
Grants - federal	628,912	-	-	628,912
Other income	214,479	-	-	214,479
Rental income	74,330	-	-	74,330
Net assets released from restrictions	23,850	(23,850)	-	-
Total support and revenue	<u>4,663,562</u>	<u>287,178</u>	<u>-</u>	<u>4,950,740</u>
Expenses				
Grant and scholarship awards	955,067	-	-	955,067
Program related expenses				
Project expenses	189,102	-	-	189,102
Grant making	43,670	-	-	43,670
Supporting services				
General and administrative	389,586	-	-	389,586
Fundraising	144,195	-	-	144,195
Investment services	72,445	-	-	72,445
Total expenses	<u>1,794,065</u>	<u>-</u>	<u>-</u>	<u>1,794,065</u>
Change in net assets	2,869,497	287,178	-	3,156,675
Net assets at beginning of year	28,318,249	440,086	279,900	29,038,235
Net assets at end of year	<u>\$ 31,187,746</u>	<u>\$ 727,264</u>	<u>\$ 279,900</u>	<u>\$ 32,194,910</u>

The accompanying notes are an integral part of these consolidated financial statements.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (5,960,121)	\$ 3,156,675
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investment securities	7,504,070	(1,560,373)
Impairment loss on investment in properties	180,603	-
Loss on disposal of furniture and equipment	721	-
Depreciation	6,383	6,822
(Reductions to) provision for uncollectible unconditional promises to give	(10,450)	7,200
Donated securities	(5,481)	(1,030,615)
Changes in operating assets and liabilities which provided (used) cash		
Decrease (increase) in agency assets included in investments	233,831	(41,717)
Accounts receivable	(579,612)	(25,131)
Unconditional promises to give	(12,863)	659,490
Cash surrender value of life insurance policies	4,526	(11,533)
Prepaid expenses and other assets	5,457	74,226
Accounts payable	16,084	(9,640)
Accrued liabilities	4,001	1,923
Grants payable	87,544	(561)
Obligations for agency endowments	(108,995)	178,763
Deferred revenue	-	1,000
Net cash provided by operating activities	1,365,698	1,406,529
Cash flows from investing activities		
Purchases of investments	(1,904,907)	(2,750,078)
Proceeds from sales and maturities of investments	981,398	2,832,604
Proceeds from sale of furniture and equipment	950	-
Purchases of investment in properties	-	(35,887)
Purchases of furniture and equipment	(17,933)	(10,780)
Advances on notes receivable	(50,130)	(2,702,100)
Capital contribution in GLCF Holding, Inc.	(100,000)	(213,478)
Net cash used in investing activities	(1,090,622)	(2,879,719)
Cash flows from financing activities		
Proceeds from issuance of debt	-	2,671,526
Repayments of debt and capital lease payable	(275,409)	(1,661,980)
Contractual payments of life-income payable	(22,997)	(20,533)
Net cash (used in) provided by financing activities	(298,406)	989,013
Net decrease in cash and cash equivalents	(23,330)	(484,177)
Cash and cash equivalents at beginning of year	236,103	720,280
Cash and cash equivalents at end of year	\$ 212,773	\$ 236,103
Supplemental information		
Cash paid for interest	\$ 42,025	\$ 119,358
Transfer of property to GLCF Holding, Inc.	-	686,622

The accompanying notes are an integral part of these consolidated financial statements.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of *Bay Area Community Foundation* and its subsidiary, *Great Lakes Center Foundation*, collectively referred to as the “Foundation.” *Great Lakes Center Foundation* is consolidated, as *Bay Area Community Foundation* has an economic interest in *Great Lakes Center Foundation* and also has a majority voting interest in its governing Board of Trustees. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations

Bay Area Community Foundation, a non-profit organization tax-exempt under Internal Revenue Code Section 501(c)(3), receives and administers gifts and bequests from individuals, businesses, foundations, and organizations in the Bay County area and places the gifts into funds that match the giving priorities of the donor. The majority of the gifts are term endowment gifts and board-designated endowment gifts, the income of which is returned to the community through grants to area not-for-profit organizations. The *Great Lakes Center Foundation* (“Great Lakes”), a nonprofit organization tax-exempt under Internal Revenue Code Section 501(c)(3), 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.

Great Lakes is a 100% owner of GLCF Holding, Inc. The accounts of GLCF Holding, Inc. are not consolidated in the accompanying consolidated financial statements as required by accounting principles generally accepted in the United States of America. In 2007, Great Lakes transferred \$686,622 of property and \$213,478 in cash to GLCF Holding, Inc. thereby recognizing an initial investment of \$900,100 at December 31, 2007. In 2008, Great Lakes invested an additional \$100,000 in cash in GLCF Holding, Inc. At December 31, 2008, the Foundation has an investment in GLCF Holding, Inc. on the consolidated statements of financial position of \$1,000,100.

Concentrations of Credit Risk

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 that such changes could materially affect the account balances and the amounts reported in the consolidated statements of financial position. Subsequent to December 31, 2008, there has been a significant decline in fair value of certain investments due to market conditions.

Fund Accounting and External Reporting

To ensure observance of limitations and restrictions placed on the use of available resources, for internal accounting and stewardship purposes, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and internal reporting into funds established according to their nature and purpose.

For external financial reporting purposes, the Organizations report resources classified into net asset categories according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes of net assets - unrestricted, temporarily restricted, and permanently restricted net assets. Net assets and revenues, expenses and gains or losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Resources that are reported in this net asset category include unrestricted gifts, including those designated by the Board to function as endowment, and the investment earnings thereon, and related expenses associated with the operations of the Foundation.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions, including term endowments, that will be satisfied by actions of the Foundation or the passage of time. Resources reported in this net asset category include gifts for which restrictions have not been met. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or time restrictions have elapsed) are reported as reclassifications between the applicable classes of net assets.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Permanently Restricted Net Assets - Resources subject to donor-imposed stipulations that the corpus (original principal value of endowment gifts) be maintained permanently by the Foundation. The donors of these assets permit the Foundation to spend only the income earned on the related investments. All such income is restricted by the donors for specific purposes.

Use of Estimates

The preparation of consolidated 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 consolidated 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, the fair value of investments and investment in properties, and the collectibility of notes receivable. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and amounts maintained in bank demand deposit accounts. Cash and cash equivalents do not include investments the Foundation has the ability and intent to hold long-term (investments purchased with quasi-endowment assets). The Foundation maintains deposit accounts with various financial institutions. In the normal course of business, at various times cash balances may exceed federally insured limits.

Accounts Receivable

Accounts receivable at December 31, 2008, are unsecured and consist primarily of \$572,000 due from a related entity in relation to the sale of certain tax credits to a third party. Management believes that all accounts receivable will be fully collected within one year. Accordingly, no allowance for doubtful accounts is necessary. If amounts become uncollectible, they will be charged to expense in the period in which such determination is made.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments

The Foundation carries investments in marketable debt and equity securities at fair value, which is determined generally by using quoted market prices. Realized and unrealized gains and losses are reflected in the consolidated statements of activities.

The Foundation maintains investment accounts for its term and quasi-endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly based on the relationship of the market value of each endowment fund to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Fair Value Measurements

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (“SFAS”) No. 157 (“SFAS 157”), *Fair Value Measurements*, 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. The Foundation elected to delay the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities, as allowed by FASB Staff Position (“FSP”) SFAS 157-2. 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. 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. The initial adoption of SFAS 157 did not have any impact on the Foundation’s consolidated financial position or results of operations. For a further discussion of SFAS 157, refer to Note 6.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unconditional Promises to Give and 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 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. Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

The Foundation reports promises to give at present value, discounted using the applicable federal rate to reflect the time value of money.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Furniture and Equipment and Depreciation

Furniture and equipment is stated at cost. Maintenance and repairs are expensed as incurred. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (three to ten years). The assets are presented in the consolidated statements of financial position net of accumulated depreciation of \$24,439 and \$31,640 at December 31, 2008 and 2007, respectively.

Investment in Properties

Investment in properties are carried at the lower of cost or market value. Cost of purchased properties is determined based upon the purchase price. Donated properties are recorded at fair value when received. Major improvements are capitalized while ordinary costs to maintain the property are expensed as incurred. Management annually reviews these assets to determine whether carrying values have been impaired.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Beneficial Interest in Trusts

The Foundation is the beneficiary under various irrevocable charitable remainder and insurance trusts, the corpus of which is not controlled by management of the Foundation. Although the Foundation has no control over the administration or investment of the funds held in these trusts, the fair value of such trusts is recognized as a contribution in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to receive benefits. Charitable remainder trusts are reported at the estimated present value using the estimated future cash flows from the trust. Under the terms of the insurance trusts, the Foundation will receive the applicable death benefit from the related insurance policies. The Foundation's interest in the insurance policies is recorded as an asset measured at the policies' cash surrender value at the end of the Foundation's reporting period. Changes in the value of trust assets are included in the statements of activities as temporarily restricted revenue and support.

Life-Income Payable

The obligation for the life-income payable is reported at the present value of the future payments based on life expectancy tables and an implied rate of discount.

Functional Allocation of Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the consolidated statements 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.

Reclassifications

Certain amounts reported in the 2007 consolidated financial statements have been reclassified to conform with the 2008 presentation.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS

The following table summarizes the cost and fair value of investments at December 31:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,325,398	\$ 1,325,398	\$ 1,220,517	\$ 1,220,517
Fixed income	4,933,618	4,788,070	5,763,083	5,923,047
Equities	<u>14,655,058</u>	<u>13,814,170</u>	<u>13,918,903</u>	<u>19,592,985</u>
	<u>\$ 20,914,074</u>	<u>\$ 19,927,638</u>	<u>\$ 20,902,503</u>	<u>\$ 26,736,549</u>

Investment (loss) income for the pooled fund investments for the years ended December 31, 2008 and 2007, is summarized as follows:

	<u>2008</u>	<u>2007</u>
Investment income	\$ 582,186	\$ 552,519
Net realized and unrealized (losses) gains	<u>(7,504,070)</u>	<u>1,518,656</u>
Total investment (loss) income	<u>\$ (6,921,884)</u>	<u>\$ 2,071,175</u>

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give, net of allowance at December 31, consist of the following:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 158,944	\$ 142,739
One to five years	438,225	213,547
More than five years	<u>125,267</u>	<u>356,686</u>
Total	722,436	712,972

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2008	2007
Less unamortized discount (based on imputed interest rates ranging from 2.80% to 6.00% for both 2008 and 2007)	\$ (3,397)	\$ (17,246)
Net unconditional promises to give	<u>\$ 719,039</u>	<u>\$ 695,726</u>

Included in unconditional promises to give is a future interest of approximately \$588,000 and \$470,000 at December 31, 2008 and 2007, respectively, in charitable remainder trusts. The contributions and related receivables were recorded at the present value of the future payments on the date of the gift, calculated using discount rates, ranging from 2.80% to 6.00%.

4. NOTES RECEIVABLE (INCLUDING RELATED PARTY)

During 2002, the Foundation sold property with a carrying value of \$703,217 in exchange for a \$640,000 note receivable. The note was interest free for the first six months after occupancy, and then interest only payments calculated at 4% were to be made through January 2016. As of December 31, 2008, the Foundation has not received any interest payments on this note. Management believed that the interest on this note may not be collectible and wrote off accrued interest receivable as of December 31, 2007; interest was not recorded in 2008. A lump sum principal payment is due February 2016. In the event of default on the loan, interest will accrue at 6%. Management believes the outstanding note is fully collectible.

During 2007, the Foundation issued a promissory note for \$2,670,000, with the proceeds 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. The note is secured by various assets.

Great Lakes has issued five promissory notes in 2007 and 2008 to a related party, Great Lakes Holding, Inc. Interest is accruing on the five promissory notes at a rate of 2%. Principal of \$34,000 (\$32,100 at December 31, 2007) for two of the promissory notes and the respective accrued interest is due in its entirety on or before December 31, 2009.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Principal of \$48,230 for three of the promissory notes and the respective accrued interest is due in its entirety on or before December 31, 2010.

5. INVESTMENT IN PROPERTIES

Investment in properties consists of the following at December 31:

	<u>2008</u>	<u>2007</u>
Washington Avenue & Saginaw Street	\$ 780,000	\$ 960,603
Pere Marquette Depot	346,287	346,287
1115 and 1117 Washington Avenue	276,962	276,962
243, 245, and 247 Saginaw Street	<u>298,475</u>	<u>298,475</u>
Total investment in properties	<u>\$ 1,701,724</u>	<u>\$ 1,882,327</u>

During 2007, the Foundation and the Bay Area Family YMCA (“YMCA”) negotiated an option for the YMCA to purchase several properties. Subsequent to December 31, 2008, such option was renegotiated; however, a purchase agreement has not yet been executed. Due to a decline in the fair value of one of the properties, an other-than-temporary impairment loss of \$180,603 was recognized in 2008.

6. FAIR VALUE

The Foundation utilizes fair value measurements to record fair value adjustments to its investment securities and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

Additionally, from time to time, the Foundation may be required to record at fair value other assets on a nonrecurring basis, such as investment in properties. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Hierarchy

Under SFAS 157, the Foundation groups its investments at fair value into three levels, based on the markets in which the investments 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.

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. The Foundation holds no securities classified as Level 3.

The following is a description of the valuation methodologies used for assets recorded at fair value.

Investment Securities: Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. 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 and money market funds. Level 2 securities include equity investments in active markets.

As of December 31, 2008, the Foundation's only assets recorded at fair value on a recurring basis, consisted of investment securities with \$17,747,031 classified as Level 1 and \$2,180,607 classified as Level 2.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment in Properties: Investment in properties is carried at the lower of cost or market value on a nonrecurring basis. The investment properties were valued using a current appraised value and have a carrying value of \$780,000 (classified as Level 2), after an impairment loss of \$180,603 in 2008.

7. NATURE CONSERVATORY

During 2003, the Foundation was notified they were the beneficiary of the Robert Carrier Estate, which included property located at 10 Carrier Lane. Therefore, the Foundation recorded \$190,900 based on initial estimates of the property value. During 2005, the property was legally transferred to the Foundation, and was valued at \$279,900 at the time of transfer. This property shall not be sold or developed by the Foundation but rather kept in its natural state and forever preserved as a nature conservancy.

8. GRANTS PAYABLE

The following is a summary of grants authorized and payable at December 31:

	<u>2008</u>	<u>2007</u>
To be paid in less than one year	\$ 44,928	\$ 57,384
To be paid in two to five years	<u>100,000</u>	<u>-</u>
Total grants payable	<u>\$ 144,928</u>	<u>\$ 57,384</u>

9. OBLIGATIONS FOR AGENCY ENDOWMENTS

The Foundation is the fiscal agent for 21 various not-for-profit organizations including the Saginaw Basin Land Conservancy, the Historical Society of Bay County, the State Theatre and other local organizations. The Foundation is responsible for receiving and depositing funds on behalf of these organizations. As of December 31, 2008 and 2007, the amount held by the Foundation on behalf of these organizations was \$590,742 and \$699,737, respectively.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the activity in such funds for the years ended December 31:

	2008	2007
Beginning fund balances	\$ 699,737	\$ 520,974
Investment income, net	9,889	8,097
Unrealized and realized investment (losses) gains	(233,831)	41,717
Gifts	131,988	145,322
Grants distributed	(17,041)	(16,373)
Ending fund balances	\$ 590,742	\$ 699,737

10. DEBT

The Foundation has a note payable to a non-profit organization with an unpaid principal balance of \$735,316 and \$1,008,020 as of December 31, 2008 and 2007, respectively. Monthly interest payments are made at National City Bank's prime rate (effective rate of 3.25% at December 31, 2008). Principal payments are to be made upon receipt of development fee 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.

11. LIFE-INCOME PAYABLE

During 2005, the Foundation received \$475,000 in investments in exchange for an obligation to pay the donor an annual annuity of approximately \$43,000 over his lifetime. The obligation for the life-income payable is reported at the present value of the future payments based on life expectancy tables and an implied rate of discount of 11.5%.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. LEASES (INCLUDING RELATED PARTY)

Leasing Expense

The Foundation moved to the Pere Marquette Depot in June of 2008 and entered into an operating lease with related parties, that expires in December 2015. The Foundation also entered into an operating lease with related parties for the occupancy of the Welcome Center of the Pere Marquette Depot that expires in December 2015. The Foundation has also entered into contracts with related parties that terminate in June 2011 for office equipment. Total rent expense was \$46,448 in 2008 and \$10,920 in 2007.

The following is a summary of annual future lease payments anticipated to be paid on non-cancelable operating leases for the five years succeeding December 31, 2008 and thereafter:

<u>Year</u>	<u>Amount</u>
2009	\$ 87,381
2010	89,625
2011	86,696
2012	81,742
2013	84,194
Thereafter	<u>176,042</u>
Total minimum future lease payments to be paid	<u>\$ 605,680</u>

Leasing Revenue

The Foundation's leasing operations consist principally of the leasing of various properties under both month-to-month operating leases and a non-cancelable lease terminating on December 31, 2010. Total lease revenue received was \$70,566 and \$74,330 in 2008 and 2007, respectively.

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of annual future lease payments anticipated to be received on non-cancelable operating leases for the years succeeding December 31, 2008:

<u>Year</u>	<u>Amount</u>
2009	\$ 59,400
2010	<u>59,400</u>
Total minimum future lease payments to be received	<u>\$ 118,800</u>

13. RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets

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

	<u>2008</u>	<u>2007</u>
Pledges receivable	\$ 130,652	\$ 225,158
Beneficial interest in charitable trusts	588,387	470,568
Beneficial interest in life insurance policies	27,012	31,538
Donor-restricted term endowment funds:		
Field of interest	607,329	-
Scholarship	<u>612,454</u>	<u>-</u>
Temporarily restricted net assets	<u>\$ 1,965,834</u>	<u>\$ 727,264</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of the Carrier Estate Nature Conservatory in the amount of \$279,900 at December 31, 2008 and 2007. See Note 7 for further information on the Carrier Estate Nature Conservatory.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. ENDOWMENT

The Foundation's endowment consists of approximately 246 individual funds established for a variety of purposes. Its endowment includes both donor-restricted term endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the Michigan Uniform Management of Institution Funds Act (UMIFA) (Act 157 of 1976) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted term endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as temporarily restricted net assets (a) the original value of gifts donated to the term endowment, (b) the original value of subsequent gifts to the term endowment, and (c) accumulations to the term endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. Once the principal may be expended upon the passage of a stated period of time, the net assets are reclassified to unrestricted net assets. The remaining portion of the donor-restricted term endowment fund related to earnings is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UMIFA. In accordance with UMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted term endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation (depreciation) of investments
6. Other resources of the organization
7. The investment policies of the organization

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the Foundation's endowment and changes therein:

	Unrestricted	Temporarily Restricted	Total
Endowment Net Asset Comparison by Type of Fund as of December 31, 2008			
Donor-restricted term endowment funds	\$ 16,528,447	\$ 1,138,546	\$ 17,666,993
Board-designated endowment funds	2,358,017	-	2,358,017
	\$ 18,886,464	\$ 1,138,546	\$ 20,025,010
Changes in Endowment Net Assets for the Year Ended December 31, 2008			
Investment return:			
Investment income	\$ 534,811	\$ 23,750	\$ 558,561
Net depreciation (realized and unrealized)	(7,355,267)	(376,670)	(7,731,937)
Net investment return (loss)	(6,820,456)	(352,920)	(7,173,376)
Contributions and other revenue	1,336,730	843,012	2,179,742
Administrative and investment fees	(343,914)	(8,025)	(351,939)
Other expenditures	(124,795)	-	(124,795)
Appropriation of endowment assets for expenditure	(1,262,284)	(20,585)	(1,282,869)
Changes to endowment net assets	(7,214,719)	461,482	(6,753,237)
Endowment net assets:			
Beginning of year	26,101,183	677,064	26,778,247
End of year	\$ 18,886,464	\$ 1,138,546	\$ 20,025,010
Endowment Net Asset Comparison by Type of Fund as of December 31, 2007			
Donor-restricted term endowment funds	\$ 23,194,581	\$ 677,064	\$ 23,871,645
Board-designated endowment funds	2,906,602	-	2,906,602
	\$ 26,101,183	\$ 677,064	\$ 26,778,247
Changes in Endowment Net Assets for the Year Ended December 31, 2007			
Investment return:			
Investment income	\$ 500,967	\$ 9,284	\$ 510,251
Net appreciation (realized and unrealized)	1,533,555	28,118	1,561,673
Net investment return	2,034,522	37,402	2,071,924
Contributions and other revenue	1,824,733	94,822	1,919,555
Administrative and investment fees	(321,345)	(4,349)	(325,694)
Other expenditures	(65,416)	-	(65,416)
Appropriation of endowment assets for expenditure	(886,232)	(4,000)	(890,232)
Changes to endowment net assets	2,586,262	123,875	2,710,137
Endowment net assets:			
Beginning of year	23,514,921	553,189	24,068,110
End of year	\$ 26,101,183	\$ 677,064	\$ 26,778,247

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted term endowment funds may fall below the level that the donor or UMIFA (“Uniform Management of Institutional Funds Act”) requires the Foundation to retain as a fund. In accordance with GAAP, deficiencies of this nature that were reported in temporarily restricted net assets were \$243,957 as of December 31, 2008. These deficiencies resulted from significantly unfavorable market fluctuations during 2008. There were no such deficiencies in relation to unrestricted net assets at December 31, 2007. Management believes that these deficiencies are temporary in anticipation of a future recovery in the market.

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted term endowment funds as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indexes for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 8.0% to 10.0% annually. Actual returns in any given year may vary from this range.

Strategies Employed for Achieving Objectives

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 targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an annual spending policy of 5.0% of its endowment fund’s average fair value over the prior 12 quarters through September 30th of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long

**BAY AREA COMMUNITY FOUNDATION
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

term, the Foundation expects its current spending policy to allow its endowment to grow at an average of 3.0% to 5.0% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

15. GRANTS AND SCHOLARSHIP AWARDS

Unconditional grants are recognized as an expense at the time of formal approval by the Board of Trustees, regardless of the year in which the grant is paid. Conditional grants, if any, are expensed when such conditions are substantially met.

The following summarizes the grant and scholarship awards at December 31:

	<u>2008</u>	<u>2007</u>
Grants paid	\$ 1,079,465	\$ 897,683
Grants payable	<u>144,928</u>	<u>57,384</u>
Total grant and scholarship awards	<u>\$ 1,224,393</u>	<u>\$ 955,067</u>

16. EMPLOYEE BENEFIT PLANS

Effective January 1, 2005, the Foundation established a SIMPLE IRA retirement plan for all eligible employees. Any employee who earned at least \$5,000 in the previous year and is reasonably expected to earn \$5,000 in the current year is eligible to participate. The cost to the Foundation was approximately \$7,900 and \$5,900 for the years ended December 31, 2008, and 2007, respectively.

17. CONTINGENCY

Effective October 2, 2006, the Foundation entered into an agreement to receive TEA-21 grant reimbursements in relation to the restoration of the Pere Marquette Railroad Depot. This agreement specified that if the Foundation is found to be in default of any of the specific restrictions noted in this agreement the grant amounts received totaling approximately \$707,000 would have to be returned. Management has asserted that the Foundation is not in violation in relation to any of the requirements noted in the aforementioned agreement.

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