



**Bay Area**

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community foundation<sup>SM</sup>

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**and Subsidiaries**

**Consolidated Financial Statements**

**For the Year Ended December 31, 2010**

 **Rehmann**  
*Business wisdom delivered.*

**BAY AREA COMMUNITY FOUNDATION  
AND SUBSIDIARIES**

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**INDEPENDENT AUDITORS' REPORT**

April 29, 2011

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

We have audited the accompanying consolidated statement of financial position of the **Bay Area Community Foundation and Subsidiaries** (the "Foundation") as of December 31, 2010, and the related consolidated statements of activities, changes in net assets 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. We did not audit the consolidated financial statements of GLCF Holding Inc. and Subsidiary, which statements reflect total assets of \$6,119,377 as of December 31, 2010, and total revenues of \$209,263, for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for GLCF Holding Inc. and Subsidiary, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Bay Area Community Foundation and Subsidiaries** as of December 31, 2010, 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 SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**DECEMBER 31, 2010**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 765,218
Accounts receivable	8,168
Unconditional promises to give, net of allowance of \$1,800	
Current	238,346
Restricted to long-term purposes	552,366
Notes receivable	3,310,000
Investments	27,774,994
Cash surrender value of life insurance policies	30,636
Prepaid expenses and other assets	20,820
Property and equipment, net	5,527,670
Investment in properties	644,762
Nature conservatory	279,900
Intangible assets	345,722
	<b>\$ 39,498,602</b>
<b>LIABILITIES AND NET ASSETS</b>	
Accounts payable	\$ 21,349
Accrued liabilities	8,825
Obligations for agency endowments	967,573
Grants payable	91,091
Capital lease payable	5,003
Long-term debt	3,570,000
Deferred income taxes	67,150
	<b>4,730,991</b>
Commitments and contingency (Note 13 and 18)	
<b>Net assets</b>	
Foundation net assets	
Unrestricted	29,678,982
Temporarily restricted	2,590,577
Permanently restricted	1,413,900
	33,683,459
Total Foundation net assets	33,683,459
Noncontrolling interest in net assets of consolidated subsidiary	1,084,152
	<b>34,767,611</b>
<b>Total net assets</b>	<b>\$ 39,498,602</b>
<b>Total liabilities and net assets</b>	<b>\$ 39,498,602</b>

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

**BAY AREA COMMUNITY FOUNDATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Contributions	\$ 870,873	\$ 78,239	\$ 10,000	\$ 959,112
Investment income	374,485	43,027	-	417,512
Other income	79,393	7,891	-	87,284
Rental income	166,963	-	-	166,963
Grants	50,000	-	-	50,000
Net assets released from restrictions	375,083	(375,083)	-	-
<b>Total support and revenue</b>	<b>1,916,797</b>	<b>(245,926)</b>	<b>10,000</b>	<b>1,680,871</b>
<b>Expenses</b>				
Grant and scholarship awards	1,225,105	-	-	1,225,105
Program related expenses				
Grant making	155,593	-	-	155,593
Project expenses	207,352	-	-	207,352
Supporting services				
General and administrative	665,558	-	-	665,558
Fundraising	104,837	-	-	104,837
Investment services	72,331	-	-	72,331
<b>Total expenses</b>	<b>2,430,776</b>	<b>-</b>	<b>-</b>	<b>2,430,776</b>
Loss on disposal of property and equipment	1,865	-	-	1,865
<b>Total expenses and losses</b>	<b>2,432,641</b>	<b>-</b>	<b>-</b>	<b>2,432,641</b>
Net realized and unrealized gains on investment securities	2,731,461	347,160	-	3,078,621
Transfer to agency fund	(20,490)	-	-	(20,490)
<b>Change in net assets before noncontrolling interest</b>	<b>2,195,127</b>	<b>101,234</b>	<b>10,000</b>	<b>2,306,361</b>
Change in net assets attributable to the noncontrolling interest	(106,741)	-	-	(106,741)
<b>Change in net assets attributable to the Foundation</b>	<b>\$ 2,301,868</b>	<b>\$ 101,234</b>	<b>\$ 10,000</b>	<b>\$ 2,413,102</b>

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

**BAY AREA COMMUNITY FOUNDATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

	<b>Foundation</b>			<b>Noncontrolling Interest</b>	<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
<b>Balances, January 1, 2010</b>	<b>\$ 27,377,114</b>	<b>\$ 2,489,343</b>	<b>\$ 1,403,900</b>	<b>\$ 600,893</b>	<b>\$ 31,871,250</b>
Contributions to noncontrolling interest	-	-	-	590,000	590,000
Change in net assets	2,301,868	101,234	10,000	(106,741)	2,306,361
<b>Balances, December 31, 2010</b>	<b>\$ 29,678,982</b>	<b>\$ 2,590,577</b>	<b>\$ 1,413,900</b>	<b>\$ 1,084,152</b>	<b>\$ 34,767,611</b>

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

**BAY AREA COMMUNITY FOUNDATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2010**

<b>Cash flows from operating activities</b>	
Change in net assets	\$ 2,306,361
Adjustments to reconcile change in net assets to net cash used in operating activities	
Net realized and unrealized gains on investment securities	(3,078,621)
Loss on disposal of property and equipment	1,865
Depreciation	220,567
Recovery of uncollectible unconditional promises to give	(4,600)
Donated securities	(98,653)
Decrease in agency assets included in investments	(114,041)
Amortization of intangible assets	16,106
Deferred income taxes	32,495
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	66,719
Unconditional promises to give	130,566
Cash surrender value of life insurance policies	(618)
Prepaid expenses and other assets	1,891
Accounts payable	(18,197)
Accrued liabilities	(7,941)
Obligations for agency endowments	108,586
Grants payable	(13,909)
	<b>(451,424)</b>
<b>Net cash used in operating activities</b>	<b>(451,424)</b>
<b>Cash flows from investing activities</b>	
Purchases of investments	(6,669,395)
Proceeds from sales and maturities of investments	7,040,001
Purchases of property and equipment	(57,025)
	<b>313,581</b>
<b>Net cash provided by investing activities</b>	<b>313,581</b>
<b>Cash flows provided by financing activities</b>	
Proceeds from issuance of capital lease payable	4,735
	<b>(133,108)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(133,108)</b>
Cash and cash equivalents at beginning of year	898,326
<b>Cash and cash equivalents at end of year</b>	<b>\$ 765,218</b>
<b>Supplemental information</b>	
Cash paid for interest	\$ 52,332
Noncash conversion of note payable to investment in MTD, LLC	590,000
Noncash conversion of capital lease payable	56,600

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

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### *Consolidation and Nature of Operations*

The accompanying consolidated financial statements include the accounts of *Bay Area Community Foundation* and its subsidiaries, *Great Lakes Center Foundation*, *GLCF Holding Inc.*, and *Marquette Train Depot, LLC*, 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. GLCF Holding Inc. is consolidated as Great Lakes Center Foundation is a 100% owner in GLCF Holding Inc. Marquette Train Depot (“MTD, LLC”) is a variable interest entity for which GLCF Holding Inc. is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

GLCF Holding Inc. holds a 51 percent interest in MTD, LLC. GLCF Holding Inc. leases its operating facility as a master subtenant from the Master Tenant of MTD, LLC. The Master Tenant is the investing member of MTD, LLC (49%) and also an entity for which GLCF Holding Inc. is the non-member manager. MTD, LLC was formed to acquire, own, rehabilitate, and operate a historically designated building known as the Pere Marquette Train Depot located in Bay City, Michigan.

MTD, LLC is considered to be a variable interest entity because it does not have sufficient equity to carry out its principal activities without the subordinated financial support provided through the financial guarantees by the managing member, GLCF Holding Inc. and its owner, Great Lakes Center Foundation.

GLCF Holding Inc. determined that it is the primary beneficiary of MTD, LLC because its role as the managing member and the debt guarantee provide it with (1) the power to direct the activities of MTD, LLC that most significantly impact its economic performance and (2) the obligation to absorb losses that could potentially be significant to MTD, LLC. As a result, MTD, LLC has been included in the consolidated financial statements as a consolidated variable interest entity.

Bay Area Community Foundation, a nonprofit 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

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

### *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 risk associated with certain investment securities, it is at least reasonably possible that changes in the fair 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 statement of financial position.

### *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 Foundations 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 of Directors to function as endowment, and the investment earnings thereon, and related expenses associated with the operations of the Foundation.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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***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.

***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 collectability 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. Management does not believe the Foundation is exposed to any significant interest rate or other financial risk as a result of these deposits.

# **BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### ***Accounts Receivable***

Accounts receivable are unsecured. 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 the determination is made.

### ***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 or permanently 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.

### ***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 statement 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.

# **BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### ***Fair Value Measurements***

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

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 the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurement, refer to Note 2 to the consolidated financial statements.

### ***Property and Equipment and Depreciation***

Property and equipment is stated at cost. Major improvements and renewals are capitalized while ordinary 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 (approximately 3 to 39 years).

# **BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### ***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.

### ***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 consolidated statement of activities as temporarily restricted revenue and support.

### ***Intangible Assets***

Intangible assets, including lease costs and loan costs, with definite useful lives are amortized over the life of the related lease or term of their related debt and are tested for impairment at least annually.

Lease commissions and legal costs of \$96,847 related to drafting and negotiating leases have been capitalized and are being amortized over the life of the lease to which they relate. Accumulated amortization and amortization expense as of and for the year ended December 31, 2010, was \$12,920 and \$5,274, respectively.

Loan costs of \$296,162 were incurred by the Foundation in connection with obtaining the permanent mortgage on rehabilitated property. These costs are being amortized over the term of the related debt. Accumulated amortization and amortization expense as of and for the year ended December 31, 2010, were \$34,367 and \$10,832, respectively.

# **BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### ***Functional Allocation of Expenses***

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

### ***Income Taxes***

Bay Area Community Foundation and Great Lakes Center Foundation are not-for-profit organizations that are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and are exempt from similar state and local taxes. Although the Foundations were granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from the membership.

GLCF Holding, Inc. is subject to income tax and is taxed as a “C” Corporation. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and federal income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred income taxes arise from temporary basis differences principally related to property and equipment. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities. Income tax expense is considered insignificant and therefore not presented separately in the consolidated statement of activities.

MTD, LLC has elected to be taxed as an LLC, under the provisions of Internal Revenue Code whereby taxable income, as well as tax credits, are passed directly to the members for inclusion in their tax returns. Therefore, income taxes are not provided in the accompanying consolidated financial statements related to MTD, LLC.

The Michigan Business Tax (“MBT”) is a business income tax and modified gross receipts tax. Because the MBT is based or derived from income-based measures, the provisions of income tax accounting apply.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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In July 2006, the Financial Accounting Standards Board (FASB) issued a new standard related to *Accounting for Uncertainty in Income Taxes*, now codified as Accounting Standards Codification (“ASC”) Topic 740. ASC Topic 740 seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes the recognition threshold and measurement attribute for disclosures of tax positions previously taken or expected to be taken on an income tax return. Not-for-profit entities are also within the scope of ASC Topic 740. The Foundation analyzes its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Foundation reflects any charges for interest and penalties attributable to income taxes, to the extent they arise, as a component of its general and administrative expenses.

### *Net Asset Classifications*

In August 2008, FASB issued ASC Topic 958, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. ASC Topic 958 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 the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

The State of Michigan adopted UPMIFA effective September 10, 2009. The Foundation adopted ASC Topic 958 for the year ended December 31, 2009. The Board of Directors, on the advice of legal counsel, has determined that a majority of the Foundation’s net assets meet the definition of endowment funds under UPMIFA. The Foundation is governed subject to the Bay Area Community Foundation By-Laws (the “By-Laws”) and most contributions are received subject to the terms of the By-Laws.

Under the terms of the By-Laws, the Board of Trustees has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest or fund as the Board in its sole discretion shall determine. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund,
- 2) The purposes of the Foundation and the donor-restricted endowment fund,

# **BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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- 3) General economic conditions,
- 4) The possible effect of inflation and deflation,
- 5) The expected total return from income and appreciation of investments,
- 6) Other resources of the Foundation, and
- 7) The investment policies of the Foundation.

As a result of the ability to distribute corpus, the Board of Trustees has determined that all contributions received subject to the By-Laws, and subject to UPMIFA, are classified as unrestricted net assets. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement.

Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted, and if the corpus never becomes available for spending it will be reported as permanently restricted.

### ***Subsequent Events***

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2010, the most recent consolidated statement of financial position presented herein, through April 29, 2011, the date the accompanying consolidated financial statements were available to be issued. No such significant events or transactions were identified.

## **2. FAIR VALUE MEASUREMENTS**

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments and beneficial interest in trusts 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 unconditional promises to give, notes receivable, investment in properties and certain other assets and liabilities. 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 SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value on a recurring basis and an indication of the level of the fair value hierarchy in which the assets are classified.

### **Investment Securities**

Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include mutual funds and common stocks traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities are recorded at fair value on a recurring basis. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include stable value funds, certain mutual funds, money market funds, and certificates of deposit. The Foundation had no Level 3 investment securities at December 31, 2010.

### **Beneficial Interest in Trusts**

Fair value measurements of these assets are determined by the underlying investments in the charitable remainder trusts, which are based upon the present value of the future payments on the date of the gift, calculated using discount rates, ranging from 2.80% to 8.00% at December 31, 2010.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundations believe its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of investments could result in a different fair value measurement at the reporting date.

**BAY AREA COMMUNITY FOUNDATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Assets Recorded at Fair Value on a Recurring Basis**

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2010:

	<b>Assets at Fair Value</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Investment securities				
Mutual funds				
Equity				
Large cap broad	\$ 4,375,844	\$ -	\$ -	\$ 4,375,844
Mid cap broad	2,840,577	-	-	2,840,577
Large cap growth	2,033,222	-	-	2,033,222
Small cap growth	2,268,565	-	-	2,268,565
Large cap value	1,431,608	-	-	1,431,608
International growth	1,364,691	-	-	1,364,691
International value	1,348,638	-	-	1,348,638
Emerging markets	1,346,015	-	-	1,346,015
Small cap value	-	<u>1,929,622</u>	-	<u>1,929,622</u>
<b>Total equity</b>	<b><u>17,009,160</u></b>	<b><u>1,929,622</u></b>	<b><u>-</u></b>	<b><u>18,938,782</u></b>
Fixed income				
Core plus	3,827,047	-	-	3,827,047
TIPS	1,220,074	-	-	1,220,074
Global core	<u>858,617</u>	<u>-</u>	<u>-</u>	<u>858,617</u>
<b>Total fixed income</b>	<b><u>5,905,738</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>5,905,738</u></b>
<b>Total mutual funds</b>	<b><u>22,914,898</u></b>	<b><u>1,929,622</u></b>	<b><u>-</u></b>	<b><u>24,844,520</u></b>

**BAY AREA COMMUNITY FOUNDATION  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Assets at Fair Value</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Commons stocks				
Consumer discretionary	\$ 69,795	\$ -	\$ -	\$ 69,795
Information technology	61,689	-	-	61,689
Materials	43,243	-	-	43,243
Industrial	41,881	-	-	41,881
Healthcare	36,900	-	-	36,900
Utilities	35,773	-	-	35,773
Consumer staples	22,512	-	-	22,512
Financials	17,783	-	-	17,783
Other	44,622	-	-	44,622
<b>Total common stocks</b>	<b>374,198</b>	<b>-</b>	<b>-</b>	<b>374,198</b>
Stable value funds	-	1,243,203	-	1,243,203
Money market funds	-	1,267,619	-	1,267,619
Certificate of deposit	-	45,454	-	45,454
<b>Total investments</b>	<b>\$ 23,289,096</b>	<b>\$4,485,898</b>	<b>\$ -</b>	<b>\$ 27,774,994</b>
<b>Beneficial interest in trusts</b> (included in unconditional promises to give)	<b>\$ -</b>	<b>\$ -</b>	<b>\$640,716</b>	<b>\$ 640,716</b>

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended December 31, 2010:

	<b><u>Beneficial Interests in Trusts</u></b>
<b>Balance, beginning of year</b>	<b>\$ 612,803</b>
Changes in value related to instruments still held at December 31, 2010	27,913
<b>Balance, end of year</b>	<b>\$ 640,716</b>

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**3. INVESTMENTS**

The following table summarizes fair value of investments at December 31, 2010:

Mutual funds	
Equities	\$ 18,938,782
Fixed Income	5,905,738
Common stocks	374,198
Stable value funds	1,243,203
Money market funds	1,267,619
Certificate of deposit	<u>45,454</u>
<b>Total investments</b>	<b><u>\$ 27,774,994</u></b>

**4. UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give, net of discount at December 31, 2010, consist of the following:

Less than one year	\$ 238,346
One to five years	397,829
More than five years	<u>155,475</u>
<b>Total</b>	<b>791,650</b>
Less unamortized discount (based on imputed interest rates ranging from 2.80% to 8.00% for 2010)	<u>(938)</u>
<b>Net unconditional promises to give</b>	<b><u>\$ 790,712</u></b>

Included in unconditional promises to give is a future interest of approximately \$641,000 at December 31, 2010, 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 8.00%.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 5. 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, then interest only payments calculated at 4% were to be made through January 2016. As of December 31, 2010, the Foundation has not received any interest payments on this note. Management believed that the interest on the note may not be collectible and wrote off accrued interest receivable as of December 31, 2007. Interest was not recorded in 2010. 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 renovation of the Pere Marquette Train Depot. The note is secured by various assets.

### 6. PROPERTY AND EQUIPMENT

Net property and equipment consists of the following at December 31, 2010:

<b>Property and equipment</b>	
Land improvements	\$ 985,931
Building improvements	4,893,199
Office equipment	58,410
Furniture and fixtures	132,641
Software	<u>14,007</u>
Total	6,084,188
Less accumulated depreciation	<u>556,518</u>
<b>Net property and equipment</b>	<b><u>\$ 5,527,670</u></b>

Depreciation expense for 2010 was \$220,567.

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**7. INVESTMENT IN PROPERTIES**

Investment in properties consists of the following at December 31, 2010:

Pere Marquette Depot	\$ 346,287
243, 245, and 247 Saginaw Street	<u>298,475</u>
<b>Total investment in properties</b>	<b><u>\$ 644,762</u></b>

**8. 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.

**9. GRANTS PAYABLE**

The following is a summary of grants authorized and payable at December 31, 2010:

To be paid in less than one year	\$ 36,091
To be paid in two to five years	<u>55,000</u>
<b>Total grants payable</b>	<b><u>\$ 91,091</u></b>

**10. OBLIGATIONS FOR AGENCY ENDOWMENTS**

The Foundation is the fiscal agent for 23 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, 2010, the amount held by the Foundation on behalf of these organizations was \$967,573.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table summarizes the activity in such funds for the year ended December 31, 2010:

Beginning fund balances	\$ 858,987
Investment income, net	5,592
Unrealized and realized investment gains	114,041
Transfers from endowed funds	20,490
Grants distributed	<u>(31,537)</u>
<b>Ending fund balances</b>	<b><u>\$ 967,573</u></b>

### 11. DEBT

The Foundation's long-term debt consists of two notes payable to Michigan Magnet Fund, LLC with total outstanding balance of \$3,570,000 at December 31, 2010, with interest charged at 1.45%. The loans are due through June 2041 with interest only payments due monthly for the first 18 years. Beginning in 2027, monthly payments of principal and interest shall be due based on a 360-month self-amortization of then outstanding loan balance. The loans are collateralized by property and equipment as well as any revenue earned by GLCF Holding Inc. and MTD, LLC.

The borrowing agreements contain certain restrictive covenants. The Foundation was in violation of a certain covenant as of December 31, 2010. The lender has waived the requirement for the year ended December 31, 2010; accordingly, the obligations are classified on the Foundation's 2010 consolidated statement of financial position pursuant to their original terms.

Interest expense totaled \$52,332 for 2010.

### 12. DEFERRED INCOME TAXES

The net deferred income tax liability presented in the accompanying consolidated statement of financial position is comprised of the following amounts at December 31, 2010.

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Deferred tax asset - federal	\$ 86,999
Deferred tax asset - state	<u>22,520</u>
Total deferred tax assets	109,519
Valuation allowance recognized for federal deferred tax assets	<u>(86,999)</u>
Net deferred tax assets	22,520
Deferred tax liability - state	<u>(89,670)</u>
<b>Net deferred tax liability</b>	<b><u>\$ 67,150</u></b>

Realization of federal deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of loss carryforwards. The Foundation has loss carryforwards for tax purposes of approximately \$266,000, which expire through 2030. Due to uncertainty as to the realization of the net operating loss carryforwards, a valuation allowance has been recorded against the related federal deferred tax asset.

The Foundation has evaluated the provisions of ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. The evaluation was performed for the years 2007 through 2010, the years which remain subject to examination by major tax jurisdiction as of December 31, 2010. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in the Foundation's consolidated financial statements. The Foundation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g., tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase in the next 12 months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2010, and it is not aware of any claims for such amounts by federal or state income tax authorities.

**13. LEASES (INCLUDING RELATED PARTY)**

***Leasing Expense***

In 2008, the Foundation entered into an occupancy operating lease with a related party; such agreement expires in June 2019. Total rent expense was \$92,833 for the year ended December 31, 2010.

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The following is a summary of annual future lease payments anticipated to be paid on noncancelable operating leases for the five years succeeding December 31, 2010, and thereafter:

<u>Year</u>	<u>Amount</u>
2011	\$ 97,000
2012	97,000
2013	97,000
2014	97,000
2015	97,000
Thereafter	<u>339,500</u>
<b>Total minimum future lease payments to be paid</b>	<b><u>\$ 824,500</u></b>

***Leasing Revenue***

The Foundation's leasing operations consists of a commercial space cancelable lease terminating in June 2012 and various commercial space noncancelable leases terminating at various dates through June 2027. Total lease revenue received was \$166,963 in 2010.

The following is a summary of annual future lease payments anticipated to be received on noncancelable operating leases for the five years succeeding December 31, 2010 and thereafter:

<u>Year</u>	<u>Amount</u>
2011	\$ 134,614
2012	134,614
2013	75,214
2014	75,214
2015	75,214
Thereafter	<u>869,961</u>
<b>Total minimum future lease payments to be received</b>	<b><u>\$1,364,831</u></b>

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**14. RESTRICTIONS ON NET ASSETS**

*Temporarily Restricted Net Assets*

Temporarily restricted net assets consist of the following at December 31, 2010:

Pledges receivable	\$ 149,996
Beneficial interest in charitable trusts	640,716
Beneficial interest in life insurance policies	30,636
Donor-restricted term endowment funds	
Field of interest	<u>1,769,229</u>
<b>Temporarily restricted net assets</b>	<b><u>\$ 2,590,577</u></b>

*Permanently Restricted Net Assets*

Permanently restricted net assets consist of the following at December 31, 2010:

Carrier Estate Nature Conservatory	\$ 279,900
Donor-restricted permanent endowment funds	
Field of interest	<u>1,134,000</u>
<b>Permanently restricted net assets</b>	<b><u>\$ 1,413,900</u></b>

Permanently restricted net assets consist of the Carrier Estate Nature Conservatory, the Kellogg Youth Fund, and the Husband Fund. See Note 8 for further information on the Carrier Estate Nature Conservatory.

**15. ENDOWMENT**

The Foundation's endowment consists of 248 individual funds established for a variety of purposes. Its endowment includes donor-restricted term and permanent 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

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

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as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted term and permanent endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as temporarily and permanently restricted net assets respectively (a) the original value of gifts donated to the term and permanent endowment without granting the Foundation variance power, (b) the original value of subsequent gifts to the term and permanent endowment, and (c) accumulations to the permanent 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. The remaining portion of the donor-restricted term and permanent 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 UPMIFA. The Foundation classifies as unrestricted net assets (a) the original value of gifts donated to the Foundation without granting the Foundation variance power, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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. See Note 1 for further discussion related to the net asset classifications.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net asset comparison by type of fund as of December 31, 2010</b>				
Donor-restricted term endowment funds	\$ 20,513,939	\$ 1,769,229	\$ -	\$ 22,283,168
Donor-restricted permanent endowment funds	-	-	1,134,000	1,134,000
Board-designated endowment funds	<u>3,297,778</u>	<u>-</u>	<u>-</u>	<u>3,297,778</u>
<b>Total endowed net assets</b>	<b><u>\$ 23,811,717</u></b>	<b><u>\$ 1,769,229</u></b>	<b><u>\$ 1,134,000</u></b>	<b><u>\$ 26,714,946</u></b>

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Changes in endowment net assets for the year ended December 31, 2010</b>				
Investment return				
Investment income	\$ 343,048	\$ 43,027	\$ -	\$ 386,075
Net appreciation (realized and unrealized)	<u>2,746,162</u>	<u>347,160</u>	<u>-</u>	<u>3,093,322</u>
<b>Net investment income</b>	<b>3,089,210</b>	<b>390,187</b>	<b>-</b>	<b>3,479,397</b>
Contributions and other revenue	428,714	10,191	10,000	448,905
Administrative and investment fees	(508,896)	(87,448)	-	(596,344)
Appropriation of endowment assets for expenditures	<u>(855,366)</u>	<u>(86,348)</u>	<u>-</u>	<u>(941,714)</u>
<b>Changes to endowment net assets</b>	<b>2,153,662</b>	<b>226,582</b>	<b>10,000</b>	<b>2,390,244</b>
Endowment net assets				
Beginning of year	<u>21,658,055</u>	<u>1,542,647</u>	<u>1,124,000</u>	<u>24,324,702</u>
<b>End of year</b>	<b><u>\$ 23,811,717</u></b>	<b><u>\$ 1,769,229</u></b>	<b><u>\$ 1,134,000</u></b>	<b><u>\$ 26,714,946</u></b>

***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. Management evaluated the donor-restricted term endowment funds as of December 31, 2010, and determined there were no deficiencies of this nature.

***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.

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*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 30<sup>th</sup> 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 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.

**16. 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, 2010:

Grants paid	\$ 1,134,014
Grants payable	<u>91,091</u>
<b>Total grant and scholarship awards</b>	<b><u>\$ 1,225,105</u></b>

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**17. 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 \$6,000 for 2010.

**18. 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 Train 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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