

Great Lakes Center Foundation and Subsidiaries

Consolidated Financial Statements

For the Year Ended December 31, 2010

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Consolidated Financial Statements for the Year Ended December 31, 2010	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Changes in Unrestricted Net Assets	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-15

INDEPENDENT AUDITORS' REPORT

April 29, 2011

Board of Directors
Great Lakes Center Foundation
and Subsidiaries
Bay City, Michigan

We have audited the accompanying consolidated statement of financial position of *Great Lakes Center Foundation and Subsidiaries* (the "Foundation") as of December 31, 2010, and the related consolidated statements of activities, changes in unrestricted 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 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 *Great Lakes Center 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.



**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

ASSETS	
Cash and cash equivalents	\$ 622,605
Accounts receivable	13,753
Notes receivable	3,310,000
Prepaid expenses and other assets	53,864
Property and equipment, net	5,506,304
Investment in properties	644,762
Intangible assets	<u>345,722</u>
Total assets	<u><u>\$ 10,497,010</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Accounts payable	\$ 13,968
Deferred income taxes	67,150
Long-term debt	3,570,000
Other liabilities	<u>1,100</u>
Total liabilities	<u>3,652,218</u>
Commitments and contingency (Notes 7 and 9)	
Unrestricted net assets	
Foundation unrestricted net assets	5,760,640
Noncontrolling interest in unrestricted net assets	<u>1,084,152</u>
Total unrestricted net assets	<u>6,844,792</u>
Total liabilities and unrestricted net assets	<u><u>\$ 10,497,010</u></u>

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

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

Support and revenue	
Rental income	\$ 214,314
Interest income	<u>29,026</u>
Total support and revenue	<u>243,340</u>
Expenses	
Program related expenses	
Project expenses	51,700
Supporting services	
General and administrative	<u>483,321</u>
Total expenses	<u>535,021</u>
Change in unrestricted net assets before noncontrolling interest	(291,681)
Change in unrestricted net assets attributable to the noncontrolling interest	<u>(106,741)</u>
Decrease in unrestricted net assets attributable to the Foundation	<u><u>\$ (184,940)</u></u>

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

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS

	Foundation	Noncontrolling Interest	Total
Balances, January 1, 2010	\$ 5,945,580	\$ 600,893	\$ 6,546,473
Contributions to noncontrolling interest	-	590,000	590,000
Decrease in unrestricted net assets	(184,940)	(106,741)	(291,681)
Balances, December 31, 2010	\$ 5,760,640	\$ 1,084,152	\$ 6,844,792

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

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

Cash flows from operating activities	
Change in unrestricted net assets	\$ (291,681)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities	
Depreciation	209,509
Amortization of intangible assets	16,106
Deferred income taxes	32,495
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	60,414
Prepaid expenses and other assets	816
Accounts payable	(9,005)
Other liabilities	<u>(7,575)</u>
Net cash provided by operating activities	11,079
Cash flows used in investing activities	
Purchases of property and equipment	<u>(49,952)</u>
Net decrease in cash and cash equivalents	(38,873)
Cash and cash equivalents, beginning of year	<u>661,478</u>
Cash and cash equivalents, end of year	<u>\$ 622,605</u>
Supplemental cash flows information	
Cash paid for interest	\$ 51,700
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.

GREAT LAKES CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of *Great Lakes Center Foundation* and its subsidiaries, *GLCF Holding Inc.*, and *Marquette Train Depot, LLC*, collectively referred to as the “Foundation.” Great Lakes Center Foundation is a 100% owner in GLCF Holding Inc. Marquette Train Depot, 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 Marquette Train Depot, LLC (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% owner) 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.

Great Lakes Center Foundation, 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 CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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 Foundation reports 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 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 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.

GREAT LAKES CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 the fair value of 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 amounts maintained in bank demand deposit and savings accounts. 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.

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.

Rental Income

Rental income is recognized when earned in accordance with lease agreements.

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).

GREAT LAKES CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Investment in Properties

Investments 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.

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.

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

Great Lakes Center Foundation is a not-for-profit organization that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Foundation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated

GREAT LAKES CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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.

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.

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.

GREAT LAKES CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

2. 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 Train 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 Train Depot renovations. The note is secured by various assets.

3. PROPERTY AND EQUIPMENT

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

Property and equipment	
Land improvements	\$ 985,931
Building improvements	4,893,199
Office equipment	23,427
Furniture and fixtures	<u>123,476</u>
Total	6,026,033
Less accumulated depreciation	<u>519,729</u>
Net property and equipment	<u>\$ 5,506,304</u>

Depreciation expense for 2010 totaled \$209,509.

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS

4. 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>
Total investment in properties	<u>\$ 644,762</u>

5. DEBT

The Foundation's long-term debt consists of two notes payable to Michigan Magnet Fund, LLC with total outstanding balances 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 2010; accordingly, the obligations are classified on the Foundation's 2010 consolidated statement of financial position pursuant to their original terms.

Interest expense totaled \$51,700 for 2010.

GREAT LAKES CENTER FOUNDATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

6. 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.

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

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.

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS

7. 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.

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, 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>
Total minimum future lease payments to be paid	<u>\$ 824,500</u>

Leasing Revenue

The Foundation's leasing operations consists of a commercial space cancelable lease terminating in June 2012 and various commercial space non-cancelable leases, one of which is with a related party, terminating at various dates through June 2027. Total lease revenue received was \$214,314 in 2010.

**GREAT LAKES CENTER FOUNDATION
AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS

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

<u>Year</u>	<u>Amount</u>
2011	\$ 185,865
2012	174,676
2013	108,303
2014	108,303
2015	108,303
Thereafter	<u>872,719</u>
Total minimum future lease payments to be received	<u>\$1,558,169</u>

8. RELATED PARTY TRANSACTIONS

The Bay Area Community Foundation (“BACF”) controls the Foundation through a majority voting interest in its governing Board, and also shares management personnel, office space, and office equipment with the activities of the Foundation. During 2010, BACF did not charge the Foundation for rent attributable to the Foundation. These amounts are not recorded in the consolidated financial statements and are not considered material to the consolidated financial statements.

9. 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.

* * * * *