

Bay Area
Community
Foundation
and
Subsidiaries



Bay Area

community foundationSM

Years Ended
December 31,
2014 and 2013

Consolidated
Financial
Statements

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

TABLE OF CONTENTS	PAGE
Independent Auditors' Report	1-2
Consolidated Financial Statements for the Years Ended December 31, 2014 and 2013	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-29

INDEPENDENT AUDITORS' REPORT

April 30, 2015

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

We have audited the accompanying consolidated financial statements of **Bay Area Community Foundation and Subsidiaries** (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2013 consolidated financial statements of GLCF Holding Inc. and Subsidiary (Great Lakes Center Foundation is the sole owner of GLCF Holding Inc.), which statements reflect total assets of \$5,471,022 as of December 31, 2013, and total revenues of \$262,556 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 2013 amounts included for GLCF Holding Inc. and Subsidiary, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors for 2013, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Bay Area Community Foundation and Subsidiaries** as of December 31, 2014 and 2013, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rehmann Lobson LLC

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 862,699	\$ 1,127,778
Accounts receivable	450	11,412
Unconditional promises to give, net of allowance of \$1,600 (\$700 in 2013)		
Current	117,310	141,877
Restricted to long-term purposes	296,753	309,035
Notes receivable (Notes 5 and 19)	-	2,670,000
Investments	34,625,367	34,505,647
Cash surrender value of life insurance	51,529	32,649
Prepaid expenses and other assets	29,695	32,868
Property and equipment, net (Note 6)	1,745,015	4,974,005
Investment in properties	298,475	646,467
Nature conservatory	279,900	279,900
Lease and debt origination costs, net	-	303,648
Total assets	\$ 38,307,193	\$ 45,035,286
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 63,914	\$ 48,925
Accrued liabilities	20,232	18,386
Obligations for agency endowments	1,697,014	1,689,721
Grants payable	-	8,000
Capital lease obligation	-	479
Term notes payable (Notes 11 and 19)	-	3,570,000
Total liabilities	1,781,160	5,335,511
Commitments and contingency (Notes 12 and 18)		
Net assets		
Foundation net assets		
Unrestricted	32,492,243	34,836,363
Temporarily restricted	2,619,890	2,647,948
Permanently restricted	1,413,900	1,413,900
Total Foundation net assets	36,526,033	38,898,211
Noncontrolling interest in unrestricted net assets of consolidated subsidiary	-	801,564
Total net assets	36,526,033	39,699,775
Total liabilities and net assets	\$ 38,307,193	\$ 45,035,286

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, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions	\$ 1,088,715	\$ 38,651	\$ -	\$ 1,127,366
Net realized and unrealized gains on investment securities	823,164	91,142	-	914,306
Other investment income	462,307	50,997	-	513,304
Rental income	77,492	-	-	77,492
Grants	25,000	-	-	25,000
Other income	92,300	-	-	92,300
Net assets released from restrictions	208,848	(208,848)	-	-
Total support, revenue, and gains	2,777,826	(28,058)	-	2,749,768
Expenses				
Program related				
Grant and scholarship awards	1,764,335	-	-	1,764,335
Other				
Grant making	309,878	-	-	309,878
Project expenses	56,745	-	-	56,745
Total program related	2,130,958	-	-	2,130,958
Supporting services				
General and administrative	854,111	-	-	854,111
Fundraising	198,621	-	-	198,621
Investment services	64,237	-	-	64,237
Total expenses	3,247,927	-	-	3,247,927
Change in net assets before real property losses and gains, and acquisition of noncontrolling interest	(470,101)	(28,058)	-	(498,159)
Impairment loss on Train Depot and investment in properties (Note 1)	(3,422,423)	-	-	(3,422,423)
Acquisition of noncontrolling interest (Note 1)	746,840	-	-	746,840
Change in net assets	(3,145,684)	(28,058)	-	(3,173,742)
Change in net assets attributable to noncontrolling interest	(54,724)	-	-	(54,724)
Change in net assets attributable to the Foundation	\$ (3,090,960)	\$ (28,058)	\$ -	\$ (3,119,018)

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, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions	\$ 1,166,983	\$ 260,990	\$ -	\$ 1,427,973
Net realized and unrealized gains on investment securities	4,591,046	520,591	-	5,111,637
Other investment income	436,554	45,879	-	482,433
Rental income	141,748	-	-	141,748
Grants	40,000	-	-	40,000
Other income	104,187	-	-	104,187
Net assets released from restrictions	616,326	(616,326)	-	-
Total support, revenue, and gains	7,096,844	211,134	-	7,307,978
Expenses				
Program related				
Grant and scholarship awards	1,717,806	-	-	1,717,806
Other				
Grant making	303,961	-	-	303,961
Project expenses	132,035	-	-	132,035
Total program related	2,153,802	-	-	2,153,802
Supporting services				
General and administrative	647,657	-	-	647,657
Fundraising	230,339	-	-	230,339
Investment services	60,126	-	-	60,126
Bad debts	640,000	-	-	640,000
Total expenses	3,731,924	-	-	3,731,924
Change in net assets	3,364,920	211,134	-	3,576,054
Change in net assets attributable to noncontrolling interest	(104,649)	-	-	(104,649)
Change in net assets attributable to the Foundation	\$ 3,469,569	\$ 211,134	\$ -	\$ 3,680,703

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

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Foundation			Noncontrolling Interest	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Balances, January 1, 2013	\$ 31,366,794	\$ 2,436,814	\$ 1,413,900	\$ 906,213	\$ 36,123,721
Change in net assets	3,469,569	211,134	-	(104,649)	3,576,054
Balances, December 31, 2013	34,836,363	2,647,948	1,413,900	801,564	39,699,775
Change in net assets	(3,090,960)	(28,058)	-	(54,724)	(3,173,742)
Acquisition of noncontrolling interest (Note 1)	746,840	-	-	(746,840)	-
Balances, December 31, 2014	<u>\$ 32,492,243</u>	<u>\$ 2,619,890</u>	<u>\$ 1,413,900</u>	<u>\$ -</u>	<u>\$ 36,526,033</u>

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

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (3,173,742)	\$ 3,576,054
Adjustments to reconcile change in net assets to net cash used in operating activities		
Bad debts	-	640,000
Loss on building and investment in properties (Note 1)	3,422,423	-
Acquisition of noncontrolling interest (Note 1)	(746,840)	-
Net realized and unrealized gains on investment securities	(914,306)	(5,111,637)
Depreciation	158,923	233,247
Amortization of lease and debt origination costs	303,648	14,072
Provision for uncollectible unconditional promises to give	900	-
Donated securities	(65,941)	(18,841)
Decrease in agency assets included in investments	(46,919)	(267,684)
Cash surrender value of life insurance	(18,880)	(4,156)
Changes in operating assets and liabilities which provided by (used) cash		
Accounts receivable	10,962	(9,012)
Unconditional promises to give	35,949	228,539
Prepaid expenses and other assets	3,173	(987)
Accounts payable	14,989	(34,775)
Accrued liabilities	(80,314)	1,362
Obligations for agency endowments	7,293	240,511
Grants payable	(8,000)	(29,000)
Net cash used in operating activities	(1,096,682)	(542,307)
Cash flows from investing activities		
Purchases of investments	(9,771,412)	(8,168,668)
Proceeds from sales and maturities of investments	10,678,858	8,758,031
Purchases of property and equipment	(4,364)	(10,445)
Cash paid for acquisition of noncontrolling interest (Note 1)	(71,000)	-
Net cash provided by investing activities	832,082	578,918
Cash flows used in financing activities		
Repayments of capital lease obligation	(479)	(1,742)
Net (decrease) increase in cash and cash equivalents	(265,079)	34,869
Cash and cash equivalents, beginning of year	1,127,778	1,092,909
Cash and cash equivalents, end of year	\$ 862,699	\$ 1,127,778

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

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of *Bay Area Community Foundation* and its subsidiary, *Great Lakes Center Foundation and its subsidiary, GLCF Holding, Inc.*, and variable interest entity *Marquette Train Depot, LLC* (collectively, the “Foundation”). Great Lakes Center Foundation is consolidated herein because Bay Area Community Foundation has an economic interest in Great Lakes Center Foundation, and also holds a majority voting interest on its governing Board of Trustees. All significant inter-entity accounts and transactions have been eliminated in consolidation.

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 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. Great Lakes Center Foundation (“Great Lakes”), also 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 in furtherance of the public welfare and betterment of the local community.

Basis of Presentation

Great Lakes Center Foundation was a 100% owner in GLCF Holding Inc. Marquette Train Depot, LLC was a variable interest entity for which GLCF Holding Inc. was the primary beneficiary. GLCF Holding Inc. held a 51 percent interest in Marquette Train Depot, LLC (MTD, LLC). GLCF Holding Inc. leased its operating facility as a master subtenant from the Master Tenant of MTD, LLC (Master Tenant). The Master Tenant was the investing member of MTD, LLC (49% owner) and also an entity for which GLCF Holding Inc. was 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 (the “Train Depot”) located in Bay City, Michigan.

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

GLCF Holding Inc. determined that it was the primary beneficiary of MTD, LLC because of 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 was included in the consolidated financial statements as a consolidated variable interest entity. All significant intercompany accounts and transactions were eliminated in consolidation.

On March 25, 2014, MTD, LLC assigned all right, title, and interest to the Option Agreement to GLCF Holding Inc. Fifth Third Community Development Corporation (Fifth Third CDC) and MTD, LLC reached an agreement on a put price of \$71,000. On March 28, 2014, Fifth Third

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CDC issued a Notice of Exercise pursuant to the Operating Agreement to purchase Fifth Third CDC's interest in Pere Marquette Investment Fund, LLC.

Simultaneously, on March 28, 2014, in connection with this transaction, Michigan Magnet Fund C, LLC (MMF C) was liquidated by distributing all of its assets and liabilities to Pere Marquette Investment Fund, LLC (Investment Fund) in full redemption of the Investment Fund's interest in MMF C. MMF C assigned its interest in the Investment Fund to GLCF Holding Inc. for \$100. This resulted in GLCF Holding, Inc. being the sole owner of the Investment Fund. As the Investment Fund was the sole owner of Master Tenant, who held the 49% interest in MTD, LLC, the remaining 49% noncontrolling interest in MTD, LLC was acquired by GLCF Holding, Inc. in 2014. As a result of these actions, the noncontrolling interest was acquired at carrying value totaling \$746,840 and is reported in the accompanying 2014 statement of activities (Note 19).

MTD, LLC and Master Tenant consented to the early termination of the Master Lease. As a result of the termination of the Master Lease, Master Tenant recognized ordinary income for federal income tax purposes of \$685,693, which relates to the acceleration of the unamortized balance of the historic tax credits over the amount of tax credit amortization income recognized previously. Fifth Third CDC had agreed to recognize the ordinary income resulting from the termination of the Master Lease, when such income is passed-through to Fifth Third CDC by way of its interest in the Investment Fund.

On March 31, 2014, MTD, LLC, Master Tenant and the Investment Fund dissolved. Additionally, on December 30, 2014, GLCF Holding, Inc. also dissolved. During the recording of the dissolutions, it was determined that the Train Depot was impaired; a loss totaling \$3,422,423 was incurred and is reported in the accompanying 2014 consolidated statement of activities. (See additional discussion in Note 19).

Concentration Risks

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 statements of financial position and consolidated statements of activities.

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 and

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of amounts recorded related to unconditional promises to give, the fair value of investments and investment in properties, the carrying value of real property, and the collectability of notes receivable.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits in banks, and deposits in money market funds with original maturities when purchased at less than three months. Cash and cash equivalents do not include investments the Foundation has the ability and intent to hold long-term (investments purchased with endowment assets). The Foundation maintains deposit accounts with various financial institutions, which at times 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.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

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 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 investments and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

The Foundation reports unconditional promises to give at present value, discounted using the risk adjusted rate to reflect the time value of money.

The Foundation uses the allowance method to determine uncollectible unconditional promises to give. 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 statements of activities.

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

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.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Measurements, refer to Note 2.

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. (See Note 1 related to the impairment of the Train Depot in 2014). Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from approximately 2 to 30 years.

Investment in Properties

Investment in properties is 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. (See Note 1 related to the impairment of the Train Depot in 2014.)

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 trusts. 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 statements of activities as temporarily restricted revenue and support.

Lease and Debt Origination Costs

Lease and debt origination costs, with definite useful lives, were amortized over the life of the related lease or term of their related debt and were tested for impairment at least annually.

Prior to the dissolution of the entities discussed in Note 1, lease commissions and legal costs of \$96,847 related to drafting and negotiating leases were capitalized and being amortized over the life of the lease to which they related. Amortization expense was \$5,097 for 2013 and accumulated amortization totaled \$28,034 at December 31, 2013. Additionally, debt issuance costs of \$296,162 were incurred by the Foundation in connection with obtaining the permanent mortgage on rehabilitated property. Amortization expense was \$8,975 for 2013 and accumulated amortization totaled \$61,327 at December 31, 2013. Due to the lease and

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

debt terminating, for which the assets relate, the assets were fully amortized at December 31, 2014, with amortization expense totaling \$303,648 recorded in 2014.

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.

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.”

GLCF Holding Inc. was subject to income tax and was taxed as a “C” Corporation. Deferred income tax assets and liabilities were computed annually for differences between the financial statement and 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 the future benefit of net operating loss carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense was 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 statements of activities, but is included in general and administrative expenses.

MTD, LLC has elected to be taxed as an LLC, under the provisions of the Internal Revenue Code whereby taxable income, as well as tax credits, are passed directly to the members for inclusion in their tax returns.

The Foundation analyzes its income tax 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, to identify potential uncertain tax positions. The Foundation treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its general and administrative expenses.

Endowment Net Asset Classifications

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 the Uniform Prudent Management of Institutional Funds Act (“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.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the terms of the By-Laws, the Board of Trustees has the ability to distribute as 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,
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, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2014, the most recent consolidated statement of financial position presented herein, through April 30, 2015, the date the accompanying consolidated financial statements were available to be issued. No significant such events or transactions were identified.

2. FAIR VALUE MEASUREMENTS

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets 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, property and equipment investment in properties, intangible assets and certain other assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

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

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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, 2014 and 2013.

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 on expected distributions, ranging from less than one year to three years, using discount rates, ranging from 6.17% to 8.00% at December 31, 2014 and 2013. This valuation method is considered a Level 3 method under the fair value hierarchy.

Building Improvements and Train Depot Investment in Properties

Building improvements which are earned at cost and the Train Depot investment in properties which are carried at the lower of cost or fair value were written down to fair value in 2014. Fair value measurement of these assets were determined through the income capitalization method based upon the income sources derived from the building at a capitalization rate of 7%. This valuation method is considered a Level 3 method under the fair value hierarchy.

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 Foundation management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of these assets could result in a different fair value measurement at the reporting date.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets Recorded at Fair Value on a Recurring Basis

The following tables set 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:

2014	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Mutual funds				
Equity				
Large cap broad	\$ 5,249,847	\$ -	\$ -	\$ 5,249,847
Mid cap broad	3,495,701	-	-	3,495,701
Small cap growth	2,659,918	-	-	2,659,918
Large cap growth	2,410,988	-	-	2,410,988
Large cap value	1,893,045	-	-	1,893,045
International growth	1,670,487	-	-	1,670,487
International value	1,609,299	-	-	1,609,299
Emerging markets	1,597,554	-	-	1,597,554
Small cap value	-	2,887,305	-	2,887,305
Total equity	20,586,839	2,887,305	-	23,474,144
Fixed income				
Core plus	3,932,193	-	-	3,932,193
TIPS	1,675,762	-	-	1,675,762
Global core	1,137,433	-	-	1,137,433
Total fixed income	6,745,388	-	-	6,745,388
Total mutual funds	27,332,227	2,887,305	-	30,219,532
Common stocks				
Consumer, non-cyclical	118,131	-	-	118,131
Communications	67,232	-	-	67,232
Information technology	61,053	-	-	61,053
Energy	56,002	-	-	56,002
Financials	37,043	-	-	37,043
Industrial	36,584	-	-	36,584
Utilities	34,865	-	-	34,865
Materials	28,112	-	-	28,112
Consumer, cyclical	26,432	-	-	26,432
Healthcare	25,342	-	-	25,342
Consumer discretionary	15,992	-	-	15,992
Total common stocks	506,788	-	-	506,788

(continued)

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Exchange traded funds - public				
natural resources	\$ 1,777,555	\$ -	\$ -	\$ 1,777,555
Stable value funds	-	1,448,143	-	1,448,143
Money market funds	-	673,349	-	673,349
Total investments	\$29,616,570	\$ 5,008,797	\$ -	\$34,625,367
Beneficial interest in trusts (included in unconditional promises to give)	\$ -	\$ -	\$ 321,916	\$ 321,916

2013	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Mutual funds				
Equity				
Large cap broad	\$ 5,325,572	\$ -	\$ -	\$ 5,325,572
Mid cap broad	3,594,476	-	-	3,594,476
Small cap growth	2,648,309	-	-	2,648,309
Large cap growth	2,367,043	-	-	2,367,043
Large cap value	1,882,634	-	-	1,882,634
International growth	1,697,491	-	-	1,697,491
International value	1,670,968	-	-	1,670,968
Emerging markets	1,587,155	-	-	1,587,155
Small cap value	-	2,741,448	-	2,741,448
Total equity	20,773,648	2,741,448	-	23,515,096
Fixed income				
Core plus	3,313,517	-	-	3,313,517
TIPS	1,577,603	-	-	1,577,603
Global core	1,010,013	-	-	1,010,013
Total fixed income	5,901,133	-	-	5,901,133
Total mutual funds	26,674,781	2,741,448	-	29,416,229

(continued)

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2013	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks				
Consumer, non-cyclical	\$ 137,812	\$ -	\$ -	137,812
Energy	72,785	-	-	72,785
Communications	70,921	-	-	70,921
Industrial	52,666	-	-	52,666
Information technology	51,627	-	-	51,627
Consumer, cyclical	29,992	-	-	29,992
Materials	27,510	-	-	27,510
Utilities	26,305	-	-	26,305
Financials	10,776	-	-	10,776
Total common stocks	480,394	-	-	480,394
Exchange traded funds - public				
natural resources	1,954,885	-	-	1,954,885
Stable value funds	-	1,440,189	-	1,440,189
Money market funds	-	1,167,561	-	1,167,561
Certificates of deposit	-	46,389	-	46,389
Total investments	\$29,110,060	\$ 5,395,587	\$ -	\$34,505,647
Beneficial interest in trusts (included in unconditional promises to give)	\$ -	\$ -	\$ 305,834	\$ 305,834

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

	Beneficial Interest in Trusts	
	2014	2013
Balance, beginning of year	\$ 305,834	\$ 638,812
Changes in value related to instruments still held	16,082	77,581
Receipt of a beneficial interest in a trust	-	(410,559)
Balance, end of year	\$ 321,916	\$ 305,834

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth additional disclosures for the fair value measurement of an investment in a certain entity that calculates net asset value per share (or its equivalent) as of December 31:

Investment Type	2014	2013	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	Fair Value				
Stable value funds	\$ 1,448,143	\$ 1,440,189	\$ -	Semi-annually	95 days

The investment strategy for the stable value funds at December 31, 2014 and 2013, include having a return objective of 8.0% to 12.0%. The funds take a conservative approach to hedge investing and the absolute return space to provide a consistent return.

Assets Recorded at Fair Value on a Nonrecurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a nonrecurring basis as of December 31, 2014. No such assets were measured on a nonrecurring basis at December 31, 2013.

	Assets at Carrying Value			
	Level 1	Level 2	Level 3	Total
Building improvements and Train Depot investment in properties (1)	\$ -	\$ -	\$ 1,818,768	\$1,818,768

(1) Building improvements which are carried at cost and investment in properties which are carried at the lower of cost or fair value at December 31, 2014, were written down to fair value of \$1,818,768. Impairment losses for building improvements and Train Depot investment in properties of \$3,074,431 and \$347,992, respectively, are included in the 2014 consolidated statement of activities.

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2014:

Instrument	Level 3 Instruments			Weighted Average and/or Range
	Fair Value	Valuation Technique	Unobservable Input	
Building improvements and Train Depot investment in properties	\$ 1,818,768	Income Capitalization Method	Capitalization Rate	7%

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENTS

The following table summarizes the composition of the fair values of investments at December 31:

	2014	2013
Mutual funds		
Equity	\$ 23,474,144	\$ 23,515,096
Fixed income	6,745,388	5,901,133
Common stocks	506,788	480,394
Exchange traded funds	1,777,555	1,954,885
Stable value funds	1,448,143	1,440,189
Money market funds	673,349	1,167,561
Certificates of deposit	-	46,389
	<u> </u>	<u> </u>
Total investments	<u>\$ 34,625,367</u>	<u>\$ 34,505,647</u>

4. UNCONDITIONAL PROMISES TO GIVE

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

	2014	2013
Less than one year	\$ 117,310	\$ 141,877
One to five years	<u>297,769</u>	<u>311,210</u>
Total	415,079	453,087
Less unamortized discount (based on imputed interest rates ranging from 0.76% to 2.20% and 0.76% to 1.52% in 2014 and 2013, respectively)	<u>1,016</u>	<u>2,175</u>
Net unconditional promises to give	<u>\$ 414,063</u>	<u>\$ 450,912</u>

Included in unconditional promises to give is a future interest of approximately \$322,000 and \$306,000 at December 31, 2014 and 2013, in charitable and charitable term remainder trusts.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2014, 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 has not been recorded since that date. A lump sum principal payment is due February 2016. In the event of default on the loan, interest will accrue at 6%. At December 31, 2014 and 2013, the Foundation recorded an allowance for doubtful accounts totaling \$640,000.

During 2007, the Foundation made a promissory note for \$2,670,000, with the proceeds to be used to renovate the Train Depot. The note receivable was settled in 2014 with the dissolution of the entities discussed in Notes 1 and 19. Interest income received on the note totaled \$6,675 and \$26,700 in 2014 and 2013, respectively.

6. PROPERTY AND EQUIPMENT

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

	2014	2013
Land and building improvements	\$ 2,804,699	\$ 5,879,130
Office equipment	63,329	64,686
Furniture and fixtures	157,498	157,498
Software	96,662	108,791
Total	3,122,188	6,210,105
Less accumulated depreciation	1,377,173	1,236,100
Net property and equipment	\$ 1,745,015	\$ 4,974,005

Depreciation expense was \$158,923 and \$233,247 for 2014 and 2013, respectively. During 2014, an impairment loss on the Train Depot was recorded totaling \$3,074,431, thereby reducing building improvements.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENT IN PROPERTIES

Investment in properties consists of the following amounts at December 31:

	2014	2013
243, 245, and 247 Saginaw Street Train Depot	\$ 298,475	\$ 298,475
	<u>-</u>	<u>347,992</u>
Total investment in properties	<u>\$ 298,475</u>	<u>\$ 646,467</u>

8. NATURE CONSERVATORY

During 2003, the Foundation was notified it was 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 may not be sold or developed by the Foundation but rather maintained in its natural state and forever preserved as a nature conservancy.

9. GRANTS PAYABLE

Grants authorized and payable at December 31, 2013, totaled \$8,000. These grants were to be paid in less than one year. There were no grants payable at December 31, 2014.

10. OBLIGATIONS FOR AGENCY ENDOWMENTS

The Foundation is the fiscal agent for 22 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.

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

	2014	2013
Beginning fund balances	\$ 1,689,721	\$ 1,449,210
Investment income, net	11,534	12,444
Unrealized and realized investment gains	46,919	267,684
Gifts received	2,050	2,550
Grants distributed	<u>(53,210)</u>	<u>(42,167)</u>
Ending fund balances	<u>\$ 1,697,014</u>	<u>\$ 1,689,721</u>

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. TERM NOTES PAYABLE

The Foundation's term debt consisted of two notes payable to Michigan Magnet Fund, LLC with total outstanding balance of \$3,570,000 at December 31, 2013. The loan was settled during 2014 in conjunction with the dissolution of the entities discussed in Notes 1 and 19.

Interest expense totaled \$51,922 for 2013. No interest expense was charged during 2014.

12. LEASES (INCLUDING RELATED PARTY)

Lease Expense

In 2008, the Foundation entered into an occupancy operating lease with a related party; such agreement was to expire in June 2019. Total rent expense was \$29,913 and \$97,000 for 2014 and 2013, respectively. The lease and all future payments were cancelled during 2014 in conjunction with the dissolution of entities discussed in Note 1.

Lease Revenue

The Foundation's leasing operations consisted of various commercial space non-cancelable leases, with related parties, which were to terminate at various dates through June 2027. Total lease revenue received was \$77,492 and \$137,526 in 2014 and 2013, respectively. The leases and all future revenues associated with the leases were cancelled during 2014 in connection with the dissolution of the entities discussed in Note 1.

13. DEFERRED INCOME TAXES

There is no net deferred tax assets at December 31, 2014, due to the dissolution of entities discussed in Note 1.

The net deferred tax asset was comprised of the following amounts at December 31, 2013:

Deferred tax asset - federal	\$	274,914
Valuation allowance recognized for federal deferred tax asset		<u>(274,914)</u>
Net deferred tax asset	\$	<u><u>-</u></u>

The realization of the federal deferred tax asset was dependent on generating sufficient taxable income prior to the expiration of loss carryforwards. The Foundation has loss carryforwards for tax purposes of approximately \$829,000, which expire through 2033. Due to uncertainty as to the realization of the net operating loss carryforwards, a valuation allowance had been recorded against the related federal deferred tax asset.

The Foundation has evaluated its income tax filing positions for fiscal years 2010 through 2014, the years which remain subject to examination as of December 31, 2014. The Foundation concluded that there are no significant uncertain tax positions requiring

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

recognition or disclosure in these 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 change in the next twelve months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2014 or 2013, and is not aware of any claims for such amounts by federal or state income tax authorities.

14. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for only the following purposes at December 31:

	2014	2013
Pledges receivable	\$ 92,147	\$ 145,079
Beneficial interest in charitable trusts	321,916	305,834
Beneficial interest in life insurance policies	51,529	32,649
Donor-restricted term endowment funds field of interest	1,451,249	1,458,402
Unspent earnings on donor-restricted permanent endowment funds	<u>703,049</u>	<u>705,984</u>
Temporarily restricted net assets	<u>\$ 2,619,890</u>	<u>\$ 2,647,948</u>

Permanently restricted net assets consist of the following amounts at December 31, 2014 and 2013:

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

Donor-restricted permanent endowment funds consist of the Kellogg Youth Fund and the Husband Fund (see Note 15). See Note 8 for further information on the Carrier Estate Nature Conservatory.

15. ENDOWMENT

The Foundation’s endowment consists of 302 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 as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interpretation of Relevant Law

The Foundation's Board of Trustees 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 granting the Foundation variance power, including term endowments, (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 for the years ended December 31:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets				
composition by type of fund				
Donor-restricted term endowment funds	\$ 27,875,239	\$ 1,451,249	\$ -	\$ 29,326,488
Donor-restricted permanent endowment funds	-	703,049	1,134,000	1,837,049
Board-designated endowment funds	<u>2,048,821</u>	<u>-</u>	<u>-</u>	<u>2,048,821</u>
Total endowment net assets	<u>\$ 29,924,060</u>	<u>\$ 2,154,298</u>	<u>\$ 1,134,000</u>	<u>\$ 33,212,358</u>
Changes in endowment net assets				
Investment return				
Investment income	\$ 456,661	\$ 50,997	\$ -	\$ 507,658
Net appreciation (realized and unrealized)	<u>823,164</u>	<u>91,142</u>	<u>-</u>	<u>914,306</u>

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net investment return	\$ 1,279,825	\$ 142,139	\$ -	\$ 1,421,964
Contributions and other revenue	727,240	1,430	-	728,670
Administrative and investment fees	(736,319)	(40,750)	-	(777,069)
Appropriation of endowment assets for expenditure	<u>(1,253,587)</u>	<u>(112,907)</u>	<u>-</u>	<u>(1,366,494)</u>
Changes in endowment net assets	17,159	(10,088)	-	7,071
Endowment net assets beginning of year	<u>29,906,901</u>	<u>2,164,386</u>	<u>1,134,000</u>	<u>33,205,287</u>
End of year	<u>\$ 29,924,060</u>	<u>\$ 2,154,298</u>	<u>\$ 1,134,000</u>	<u>\$ 33,212,358</u>

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets composition by type of fund				
Donor-restricted term endowment funds	\$ 27,834,320	\$ 1,458,402	\$ -	\$ 29,292,722
Donor-restricted permanent endowment funds	-	705,984	1,134,000	1,839,984
Board-designated endowment funds	<u>2,072,581</u>	<u>-</u>	<u>-</u>	<u>2,072,581</u>
Total endowment net assets	<u>\$ 29,906,901</u>	<u>\$ 2,164,386</u>	<u>\$ 1,134,000</u>	<u>\$ 33,205,287</u>
Changes in endowment net assets				
Investment return	\$ 407,728	\$ 45,879	\$ -	\$ 453,607
Investment income				
Net appreciation (realized and unrealized)	<u>4,591,046</u>	<u>520,591</u>	<u>-</u>	<u>5,111,637</u>

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net investment return	\$ 4,998,774	\$ 566,470	\$ -	\$ 5,565,244
Contributions and other revenue	959,397	65,602	-	1,024,999
Administrative and investment fees	(628,536)	(40,560)	-	(669,096)
Appropriation of endowment assets for expenditure	<u>(1,099,004)</u>	<u>(155,996)</u>	<u>-</u>	<u>(1,255,000)</u>
Changes in endowment net assets	4,230,631	435,516	-	4,666,147
Endowment net assets beginning of year	<u>25,676,270</u>	<u>1,728,870</u>	<u>1,134,000</u>	<u>28,539,140</u>
End of year	<u>\$ 29,906,901</u>	<u>\$ 2,164,386</u>	<u>\$ 1,134,000</u>	<u>\$ 33,205,287</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted term and permanent endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund. Management evaluated the donor-restricted term and permanent endowment funds as of December 31, 2014 and 2013, 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 and permanent 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 indices 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-

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. GRANT AND SCHOLARSHIP AWARDS

Unconditional grants are recorded 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 for the years ended December 31:

	2014	2013
Grants and scholarships paid	\$ 1,764,335	\$ 1,709,806
Grants payable	-	8,000
Total grant and scholarship awards	<u>\$ 1,764,335</u>	<u>\$ 1,717,806</u>

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 \$10,900 and \$11,300 for 2014 and 2013, respectively.

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 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.

19. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing and Financing Activities

As more fully described in Note 1, during 2014, several entities dissolved in relation to Fifth Third CDC issuing a Notice of Exercise pursuant to the Operating Agreement to purchase Fifth Third CDC's interest in Pere Marquette Investment Fund, LLC. As a result of these activities, the note receivable due from the Pere Marquette Investment Fund, LLC totaling \$2,670,000 at December 31, 2013, appearing on the consolidated statement of financial position was settled

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

■ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Note 5) and two notes payable due to Michigan Magnet Fund, LLC with a total outstanding balance of \$3,570,000 at December 31, 2013, were also settled and removed (Note 11), in exchange for the payment by the Foundation of \$71,000 in cash. The Foundation also assumed net other liabilities totaling \$82,160 as of date of acquisition.

Other Cash Flows Information

Cash paid for interest amounted to \$51,922 during 2013. No cash was paid for interest during 2014.

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