

Bay Area  
Community  
Foundation  
and Subsidiaries



**Bay Area**  
community foundation™

Years Ended  
December 31,  
2018 and 2017

Consolidated  
Financial  
Statements

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

April 18, 2019

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, 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 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, 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, 2018 and 2017, 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 Johnson LLC*

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Consolidated Statements of Financial Position

	December 31	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 1,526,901	\$ 824,116
Unconditional promises to give		
Current	32,958	335,175
Restricted to long-term purposes	73,955	76,419
Investments	37,008,008	39,283,050
Cash surrender value of life insurance	35,201	56,543
Prepaid expenses and other assets	28,565	25,342
Property and equipment, net	1,460,465	1,529,142
Nature conservatory	279,900	279,900
<b>Total assets</b>	<b>\$ 40,445,953</b>	<b>\$ 42,409,687</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 27,822	\$ 30,287
Accrued liabilities	36,616	31,236
Grants payable	4,000	24,500
Obligations for agency endowments	1,703,359	1,957,338
<b>Total liabilities</b>	<b>1,771,797</b>	<b>2,043,361</b>
Contingency (Note 13)		
<b>Net assets</b>		
Without donor restrictions		
Undesignated	1,891,988	680,238
Designated by the board for operating reserve	422,617	372,729
Designated by the board for endowment	31,528,207	33,683,336
Investment in property and equipment	1,460,465	1,529,142
	<u>35,303,277</u>	<u>36,265,445</u>
With donor restrictions		
Perpetual in nature	1,413,900	1,413,900
Restricted for specific purpose	461,188	684,172
Restricted for the passage of time	1,495,791	2,002,809
	<u>3,370,879</u>	<u>4,100,881</u>
<b>Total net assets</b>	<b>38,674,156</b>	<b>40,366,326</b>
<b>Total liabilities and net assets</b>	<b>\$ 40,445,953</b>	<b>\$ 42,409,687</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, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support, revenue, and gains</b>			
Contributions	\$ 3,262,387	\$ 45,325	\$ 3,307,712
Net investment loss	(2,372,758)	(226,606)	(2,599,364)
Rental income	25,209	-	25,209
Other income	108,082	(21,341)	86,741
Net assets released from restrictions	527,380	(527,380)	-
<b>Total support, revenue, and gains</b>	<b>1,550,300</b>	<b>(730,002)</b>	<b>820,298</b>
<b>Expenses</b>			
Program related			
Grant and scholarship awards	1,530,690	-	1,530,690
Grant making	386,307	-	386,307
Other	91,734	-	91,734
<b>Total program related</b>	<b>2,008,731</b>	<b>-</b>	<b>2,008,731</b>
Supporting services			
General and administrative	374,595	-	374,595
Fundraising	129,142	-	129,142
<b>Total expenses</b>	<b>2,512,468</b>	<b>-</b>	<b>2,512,468</b>
<b>Change in net assets</b>	<b>(962,168)</b>	<b>(730,002)</b>	<b>(1,692,170)</b>
<b>Net assets, beginning of year</b>	<b>36,265,445</b>	<b>4,100,881</b>	<b>40,366,326</b>
<b>Net assets, end of year</b>	<b>\$ 35,303,277</b>	<b>\$ 3,370,879</b>	<b>\$ 38,674,156</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, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenue, and gains			
Contributions	\$ 1,139,081	\$ 125,804	\$ 1,264,885
Net investment return	4,496,946	469,086	4,966,032
Rental income	38,535	-	38,535
Grants	5,750	-	5,750
Other income	105,656	(32,187)	73,469
Net assets released from restrictions	221,533	(221,533)	-
<b>Total support, revenue, and gains</b>	<b>6,007,501</b>	<b>341,170</b>	<b>6,348,671</b>
Expenses			
Program related			
Grant and scholarship awards	1,523,679	-	1,523,679
Grant making	393,323	-	393,323
Other	33,632	-	33,632
<b>Total program related</b>	<b>1,950,634</b>	<b>-</b>	<b>1,950,634</b>
Supporting services			
General and administrative	327,905	-	327,905
Fundraising	162,158	-	162,158
<b>Total expenses</b>	<b>2,440,697</b>	<b>-</b>	<b>2,440,697</b>
Change in net assets	3,566,804	341,170	3,907,974
Net assets, beginning of year	32,698,641	3,759,711	36,458,352
<b>Net assets, end of year</b>	<b>\$ 36,265,445</b>	<b>\$ 4,100,881</b>	<b>\$ 40,366,326</b>

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

## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Consolidated Statement of Functional Expenses

	Year Ended December 31, 2018				
	Program Related		Supporting Services		Total
	Grant Awards and Scholarships	Other Program	General and Administrative	Fundraising	
Grant and scholarship awards	\$ 1,530,690	\$ -	\$ -	\$ -	\$ 1,530,690
Salaries and wages	224,921	15,247	169,198	48,443	457,809
Payroll taxes	17,491	1,186	11,433	3,767	33,877
Employee benefits	33,350	2,261	21,800	7,183	64,594
Projects	-	66,448	-	-	66,448
Dues and staff development	14,397	976	9,413	3,100	27,886
Public relations and community development	626	42	1,603	32,374	34,645
Events	13,288	-	-	16,563	29,851
Professional fees	11,139	755	11,415	2,399	25,708
Office supplies and expenses	5,548	376	3,628	1,195	10,747
Information technology	18,985	1,287	12,412	4,089	36,773
Occupancy	31,028	2,104	46,475	6,683	86,290
Depreciation	11,027	747	62,953	2,375	77,102
Insurance	3,435	233	11,212	740	15,620
Conservatory upkeep	-	-	12,312	-	12,312
Other	1,072	72	741	231	2,116
<b>Total expenses</b>	<b>\$ 1,916,997</b>	<b>\$ 91,734</b>	<b>\$ 374,595</b>	<b>\$ 129,142</b>	<b>\$ 2,512,468</b>

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



## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Consolidated Statement of Functional Expenses

	Year Ended December 31, 2017				
	Program Related		Supporting Services		Total
	Grant Awards and Scholarships	Other Program	General and Administrative	Fundraising	
Grant and scholarship awards	\$ 1,523,679	\$ -	\$ -	\$ -	\$ 1,523,679
Salaries and wages	220,394	5,517	145,803	51,971	423,685
Payroll taxes	16,999	426	9,404	4,008	30,837
Employee benefits	26,414	661	14,616	6,229	47,920
Projects	-	24,082	-	-	24,082
Dues and staff development	14,750	370	8,161	3,477	26,758
Public relations and community development	12,148	9	219	29,503	41,879
Events	-	-	-	42,772	42,772
Professional fees	11,542	289	7,635	2,722	22,188
Office supplies and expenses	6,451	162	3,568	1,521	11,702
Information technology	15,762	394	8,720	3,716	28,592
Occupancy	43,717	1,094	31,955	10,309	87,075
Depreciation	11,077	277	68,823	2,612	82,789
Insurance	4,198	105	12,556	990	17,849
Conservatory upkeep	-	-	10,595	-	10,595
Other	9,871	246	5,850	2,328	18,295
<b>Total expenses</b>	<b>\$ 1,917,002</b>	<b>\$ 33,632</b>	<b>\$ 327,905</b>	<b>\$ 162,158</b>	<b>\$ 2,440,697</b>

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	
	2018	2017
Cash flows from operating activities		
Contributions	\$ 3,612,393	\$ 1,175,714
Net investment income	521,733	427,845
Rental income	25,209	38,535
Grant income	-	5,750
Other income received	104,860	89,251
Grant and scholarship payments	(1,551,190)	(1,499,679)
Payments to and on behalf of employees	(556,280)	(502,438)
Payments to vendors	(345,481)	(330,846)
Net cash provided by (used in) operating activities	<u>1,811,244</u>	<u>(595,868)</u>
Cash flows from investing activities		
Purchases of investments	(14,289,135)	(6,863,889)
Proceeds from sales and maturities of investments	13,189,101	7,437,027
Purchases of property and equipment	(8,425)	(6,003)
Net cash (used in) provided by investing activities	<u>(1,108,459)</u>	<u>567,135</u>
Net increase (decrease) in cash and cash equivalents	702,785	(28,733)
Cash and cash equivalents, beginning of year	<u>824,116</u>	<u>852,849</u>
Cash and cash equivalents, end of year	<u>\$ 1,526,901</u>	<u>\$ 824,116</u>

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 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Consolidation and Nature of Operations*

The accompanying consolidated financial statements include the accounts of *Bay Area Community Foundation* (“BACF”) and its subsidiaries, *Great Lakes Center Foundation* (“GLCF”), and *Pere Marquette Depot LLC* (“PMD”) (collectively, the “Foundation”). Great Lakes Center Foundation and Pere Marquette Depot LLC are consolidated herein because Bay Area Community Foundation has an economic interest in each organization, and also holds a majority voting interest on each organization’s 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), was established in April 1982 as a Michigan nonprofit organization. BACF, located in Bay City Michigan, inspires philanthropy and empowers individuals to create a better community by receiving gifts, grants, and bequests for the purpose of making charitable grants to approved organizations primarily in the Bay and Arenac counties. Pere Marquette Depot, a single member LLC formed in 2018, wholly owned by BACF, owns, operates, and works to preserve the historic Pere Marquette Depot building in downtown Bay City, as well as educating the public as to the building’s historic significance. 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 in furtherance of the public welfare and betterment of the local community.

#### *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.

#### *Net Assets*

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions:	Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
Net Assets With Donor Restrictions:	Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where a donor stipulates that the resource be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, stipulated purpose for which the resources was restricted has been fulfilled or both.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“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 the fair value of investments and the collectability of the note 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 in amounts, 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.

### *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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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. Management has determined that an allowance for uncollectible amounts is not necessary as of December 31, 2018 and 2017.

### *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 net investment return caption on the consolidated statement of activities. Investment income is reported net of external investment expenses.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Foundation maintains investment accounts for its term and permanent endowments, and funds designated by the Board of Trustees to function as 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.
- 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 3.

### *Property, 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 reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from approximately 2 to 60 years.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### *Beneficial Interest in Trusts*

The Foundation is the beneficiary under various irrevocable charitable remainder and insurance trusts, the corpus of which is not controlled by management of the Foundation. Although the Foundation has no control over the administration or investment of the funds held in these trusts, the fair value of such trusts is recognized as a contribution in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to receive benefits. Charitable remainder trusts are reported at the estimated present value using the estimated future cash flows from the 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 revenue and support of the net assets with donor restrictions class.

### *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.

### *Functional Allocation of Expenses*

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated on the basis of estimates of time and effort. Expenses for GLCF and PMD are allocated to general and administrative based on the nature of their operations. 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 federal 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". Pere Marquette Depot LLC is a single member LLC and is considered a disregarded entity of Bay Area Community Foundation for federal income tax purposes and is combined with Bay Area Community Foundation for tax reporting purposes. As a result, there are no amounts provided for income taxes in these consolidated financial statements related to Pere Marquette Depot LLC.

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.

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Foundation has evaluated its income tax filing positions for years 2015 through 2018, the years which remain subject to examination as of December 31, 2018. The Foundation concluded that there are no significant uncertain tax positions requiring 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, 2018 or 2017, and is not aware of any claims for such amounts by federal or state income tax authorities.

### *Reclassifications*

Certain amounts as reported in the 2017 consolidated financial statements have been reclassified to conform with the 2018 presentation.

### *Change in Accounting Principle*

As of January 1, 2017, the Foundation adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The ASU (1) reduces the number of net asset classes presented from three to two; (2) requires enhanced disclosures concerning board designated net assets; (3) requires the presentation of expenses by function and natural classification in one location; (4) requires qualitative and quantitative disclosure about the liquidity and availability of financial assets; (5) requires the presentation of investment return net of external and direct internal investment expenses; and (6) removes the requirement to present an indirect method operating cash flow reconciliation when presenting a direct method statement of cash flows.

### *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, 2018, the most recent consolidated statement of financial position presented herein, through April 18, 2019, the date the accompanying consolidated financial statements were available to be issued. No such significant events or transactions were identified.

## 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, are comprised of the following:

Cash and cash equivalents	\$ 1,526,901
Current unconditional promises to give	32,958
Endowment spending-rate distributions and appropriations	<u>(1,482,141)</u>
Total	<u>\$ 77,718</u>

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that are restricted for a specific purpose are not available for general expenditure. As described in Note 11, the Foundation's board designated endowments of \$31,528,207 are subject to an annual spending rate. For the year ended December 31, 2018 this rate was 4.8% and \$1,482,141 of appropriation from the board-designated endowments will be available within the next 12 months. Although the Foundation does not intend to spend from this board-designated endowment (other than the amounts appropriated per the board's annual spending rate approval) these amounts could be made available if necessary.

The Foundation manages its cash available for grant purposes by examining the purpose for which the fund was established, whether the fund is endowed or not. Most funds that are not endowed are invested in the Foundation's short-term pool made of various money market accounts. Funds held in the short-term pool are subject to withdrawal at any time. The board designates a portion of any operating surplus to the Foundation's operating reserve, which was \$422,617 as of December 31, 2018. Capital preservation and liquidity are paramount.

### 3. 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.

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.

#### *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, exchange traded 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 certain mutual funds, and money market funds. The Foundation had no Level 3 investment securities at December 31, 2018 and 2017. Investments that are measured at fair value using net asset value (NAV) per share as a practical expedient are not classified in the fair value hierarchy (Stable Value Funds).



## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### *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, of less than one year, using a discount rate of 8% at December 31, 2017. This valuation method is considered a Level 3 method under the fair value hierarchy. There were no beneficial interest in trusts at December 31, 2018.

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.

#### *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:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Mutual funds				
Equity				
Large cap broad	\$ 5,419,764	\$ -	\$ -	\$ 5,419,764
Mid cap broad	3,498,083	-	-	3,498,083
Small cap growth	2,247,875	-	-	2,247,875
Large cap growth	2,695,303	-	-	2,695,303
Emerging markets	1,737,629	-	-	1,737,629
Large cap value	1,925,260	-	-	1,925,260
International growth	3,092,656	-	-	3,092,656
Small cap value	-	2,316,038	-	2,316,038
Total equity	20,616,569	2,316,038	-	22,932,607
Fixed income				
Core plus	4,893,573	-	-	4,893,573
TIPS	1,536,964	-	-	1,536,964
Total fixed income	6,430,537	-	-	6,430,537
Total mutual funds	27,047,106	2,316,038	-	29,363,144
Exchange traded funds - public				
natural resources	1,667,118	-	-	1,667,118
Money market funds	-	4,663,988	-	4,663,988
Stable value funds measured				
at net asset value	-	-	-	1,313,758
Total investments	\$ 28,714,224	\$ 6,980,026	\$ -	\$ 37,008,008

## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Mutual funds				
Equity				
Large cap broad	\$ 5,798,707	\$ -	\$ -	\$ 5,798,707
Mid cap broad	3,917,550	-	-	3,917,550
Small cap growth	3,079,499	-	-	3,079,499
Large cap growth	3,020,688	-	-	3,020,688
Emerging markets	2,085,246	-	-	2,085,246
Large cap value	2,341,004	-	-	2,341,004
International growth	2,090,423	-	-	2,090,423
International value	1,946,522	-	-	1,946,522
Small cap value	-	3,328,487	-	3,328,487
Total equity	24,279,639	3,328,487	-	27,608,126
Fixed income				
Core plus	5,073,528	-	-	5,073,528
TIPS	1,607,283	-	-	1,607,283
Total fixed income	6,680,811	-	-	6,680,811
Common stocks - consumer staples	21,423	-	-	21,423
Exchange traded funds - public				
natural resources	1,933,183	-	-	1,933,183
Money market funds	-	1,544,057	-	1,544,057
Stable value funds measured at net asset value	-	-	-	1,495,450
Total investments	\$ 32,915,056	\$ 4,872,544	\$ -	\$ 39,283,050
Beneficial interest in trust (included in unconditional promises to give)	\$ -	\$ -	\$ 289,275	\$ 289,275

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 Trust	
	2018	2017
Balance, beginning of year	\$ 289,275	\$ 324,424
Changes in value related to instruments still held	-	(35,149)
Collection of terminated trust	(289,275)	-
Balance, end of year	\$ -	\$ 289,275

## 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	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2018	2017			
Stable value fund					
Lighthouse					
Diversified	\$ 1,313,758	\$ 1,291,807	\$ -	Monthly ^	91 days
Stable value fund					
Private					
Advisors	\$ -	\$ 203,643	\$ -	*	*

^ This stable value fund requires a minimum investment of \$1,000,000. Once the minimum investment is reached, the Foundation can't redeem any funds for a twelve-month period.

\* This stable value fund was in the liquidation process as of December 31, 2017.

The investment strategy for the stable value funds at December 31, 2018 and 2017, include having a return objective of LIBOR + 5.0% and 5.0% to 6.0%, respectively. The funds take a conservative approach to hedge investing and the absolute return space to provide a consistent return.

#### 4. INVESTMENTS

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

	2018	2017
Equity	\$ 22,932,607	\$ 27,608,126
Fixed income	6,430,537	6,680,811
Common stocks	-	21,423
Exchange traded funds	1,667,118	1,933,183
Money market funds	4,663,988	1,544,057
Stable value funds	1,313,758	1,495,450
Total investments	<u>\$ 37,008,008</u>	<u>\$ 39,283,050</u>

## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 5. UNCONDITIONAL PROMISES TO GIVE

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

	2018	2017
Less than one year	\$ 32,958	\$ 335,175
One to five years	77,342	80,100
Total	<u>110,300</u>	<u>415,275</u>
Less unamortized discount (based on imputed interest rates ranging from 1.17% to 2.75% in 2018 and 1.33% to 1.91% in 2017)	<u>3,387</u>	<u>3,681</u>
Net unconditional promises to give	<u>\$ 106,913</u>	<u>\$ 411,594</u>

Included in unconditional promises to give is an interest of approximately \$289,000 at December 31, 2017, in a charitable remainder trust.

#### 6. NOTE RECEIVABLE

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, 2018 and 2017, 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 was due February 2016. With the event of default on the loan, interest now accrues at 6%. At December 31, 2018 and 2017, the Foundation recorded an allowance for doubtful accounts totaling \$640,000.

#### 7. PROPERTY AND EQUIPMENT

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

	2018	2017
Land and building improvements	\$ 1,452,094	\$ 2,824,155
Office equipment	55,412	77,595
Furniture and fixtures	28,458	159,233
Software	99,966	99,966
Total	<u>1,635,930</u>	<u>3,160,949</u>
Less accumulated depreciation	<u>175,465</u>	<u>1,631,807</u>
Net property and equipment	<u>\$ 1,460,465</u>	<u>\$ 1,529,142</u>

Depreciation expense was \$77,102 and \$82,789 for 2018 and 2017, respectively.

## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 8. NATURE CONSERVATORY

During 2003, the Foundation was notified it was the beneficiary of the Robert Carrier Estate, which included real 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. 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, and the Bay Area Family Y. 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:

	2018	2017
Beginning fund balances	\$ 1,957,338	\$ 1,682,690
Net investment (loss) return	(151,032)	245,178
Gifts received	1,778	104,435
Grants distributed	(104,725)	(74,965)
Ending fund balances	<u>\$ 1,703,359</u>	<u>\$ 1,957,338</u>

#### 10. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	2018	2017
<b>Subject to the passage of time:</b>		
Pledges receivable	\$ 106,913	\$ 122,321
Beneficial interest in charitable trust	-	289,275
Beneficial interest in life insurance policies	35,201	56,543
<b>Total subject to the passage of time</b>	<u>142,114</u>	<u>468,139</u>
<b>Endowments:</b>		
Donor-restricted permanent endowment funds field of interest	1,134,000	1,134,000
Donor-restricted term endowment funds field of interest	1,353,677	1,534,670
Unspent earnings on donor-restricted permanent endowment funds	461,188	684,172
<b>Total endowments</b>	<u>2,948,865</u>	<u>3,352,842</u>
<b>Not subject to spending policy or appropriations:</b>		
Carrier Estate Nature Conservatory	279,900	279,900
<b>Total net assets with donor restrictions</b>	<u>\$ 3,370,879</u>	<u>\$ 4,100,881</u>

# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Donor-restricted permanent endowment funds consist of a portion of the Youth Advisory Endowment Fund and the Husband Fund discussed in Note 11. See Note 8 for further information on the Carrier Estate Nature Conservatory.

### 11. ENDOWMENT

The Foundation's endowment consists of 344 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 accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of Relevant Law*

The Board of Trustees, 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 donor 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 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 net assets without donor restrictions. Contributions that are subject to other gift instruments may be recorded as net assets with or without donor restrictions, 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 a restricted term endowment, and if the corpus never becomes available for spending it will be reported as a restricted permanent endowment.

## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The following is a summary of the Foundation's endowment and changes therein for the years ended December 31, 2018 and 2017:

2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets			
composition by type of fund			
Donor-restricted term			
endowment funds	\$ -	\$ 1,353,677	\$ 1,353,677
Donor-restricted			
permanent endowment funds	-	1,595,188	1,595,188
Board-designated			
endowment funds	31,528,207	-	31,528,207
Total endowment net assets	<u>\$ 31,528,207</u>	<u>\$ 2,948,865</u>	<u>\$ 34,477,072</u>
Changes in endowment net assets			
Net investment loss	(2,336,983)	(226,606)	(2,563,589)
Contributions and other revenue	2,188,680	4,381	2,193,061
Administrative expenditures	(741,369)	(42,081)	(783,450)
Appropriation of endowment			
assets for expenditure	<u>(1,265,457)</u>	<u>(139,671)</u>	<u>(1,405,128)</u>
Changes in endowment net assets	(2,155,129)	(403,977)	(2,559,106)
Endowment net assets			
beginning of year	<u>33,683,336</u>	<u>3,352,842</u>	<u>37,036,178</u>
End of year	<u>\$ 31,528,207</u>	<u>\$ 2,948,865</u>	<u>\$ 34,477,072</u>

## BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

2017	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets			
composition by type of fund			
Donor-restricted term endowment funds	\$ -	\$ 1,534,670	\$ 1,534,670
Donor-restricted permanent endowment funds	-	1,818,172	1,818,172
Board-designated endowment funds	33,683,336	-	33,683,336
Total endowment net assets	<u>\$ 33,683,336</u>	<u>\$ 3,352,842</u>	<u>\$ 37,036,178</u>
Changes in endowment net assets			
Net investment return	\$ 4,553,073	\$ 469,086	\$ 5,022,159
Contributions and other revenue	874,616	4,471	879,087
Administrative expenses	(728,497)	(36,783)	(765,280)
Appropriation of endowment assets for expenditure	(1,187,570)	(155,550)	(1,343,120)
Changes in endowment net assets	3,511,622	281,224	3,792,846
Endowment net assets beginning of year	<u>30,171,714</u>	<u>3,071,618</u>	<u>33,243,332</u>
End of year	<u>\$ 33,683,336</u>	<u>\$ 3,352,842</u>	<u>\$ 37,036,178</u>

#### *Funds with Deficiencies*

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation Board has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

#### *Investment and Spending Policy*

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 to provide the necessary capital to fund the spending policy, and to cover the cost of managing the Endowment investments. The target minimum rate of return in the Consumer Price Index plus spending rate plus administrative fees on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.



# BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

## ■ Notes to Consolidated Financial Statements

The Foundation uses an endowment spending rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. The rate is determined and adjusted from time to time by the Board of Trustees; it applies the average fair value of the Endowment investments for the prior 16 quarters at September of each year to determine the spending amount for the upcoming year. During 2018 and 2017, the spending rate maximum was 4.9% and 5.0%, respectively. In establishing this policy, the Foundation considered the long-term expected rate of return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

## 12. 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 \$12,600 and \$9,500 for 2018 and 2017, respectively.

## 13. 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.

