Bay Area Community Foundation and Subsidiaries

Bay Area
community foundation[SM]

Years Ended December 31, 2019 and 2018

Consolidated Financial Statements

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BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

April 21, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, in 2019 the Foundation adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to this matter.

Rehmann Robson LLC

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

Consolidated Statements of Financial Position

	December 31	
	2019	**2018**
Assets		
Cash and cash equivalents	$ 461,529	$ 1,526,901
Unconditional promises to give		
Current	31,662	32,958
Restricted to long-term purposes	39,198	73,955
Investments	44,059,378	37,008,008
Cash surrender value of life insurance	36,417	35,201
Prepaid expenses and other assets	35,802	28,565
Property and equipment, net	1,399,406	1,460,465
Nature conservatory	279,900	279,900
Total assets	**$ 46,343,292**	**$ 40,445,953**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 27,257	$ 27,822
Accrued liabilities	36,111	36,616
Grants payable	225,000	4,000
Obligations for agency endowments	2,109,563	1,703,359
Total liabilities	**2,397,931**	**1,771,797**
Contingency (Note 13)		
Net assets		
Without donor restrictions		
Undesignated	1,653,655	1,891,988
Designated by the board for operating reserve	422,617	422,617
Designated by the board for endowment	36,715,580	31,528,207
Investment in property and equipment	1,399,406	1,460,465
	40,191,258	**35,303,277**
With donor restrictions		
Perpetual in nature	1,413,900	1,413,900
Restricted for specific purpose	676,969	461,188
Restricted for the passage of time	1,663,234	1,495,791
	3,754,103	**3,370,879**
Total net assets	**43,945,361**	**38,674,156**
Total liabilities and net assets	**$ 46,343,292**	**$ 40,445,953**

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, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenue, and gains			
Contributions	$ 1,029,667	$ 13,857	$ 1,043,524
Net investment return	6,571,158	614,741	7,185,899
Rental income	31,994	-	31,994
Other income	120,009	2,533	122,542
Net assets released from restrictions	247,907	(247,907)	-
Total support, revenue, and gains	**8,000,735**	**383,224**	**8,383,959**
Expenses			
Program related			
Grant and scholarship awards	2,102,019	-	2,102,019
Grant making	367,441	-	367,441
Other	131,190	-	131,190
Total program related	2,600,650	-	2,600,650
Supporting services			
General and administrative	368,774	-	368,774
Fundraising	143,330	-	143,330
Total expenses	**3,112,754**	**-**	**3,112,754**
Change in net assets	**4,887,981**	**383,224**	**5,271,205**
Net assets, beginning of year	35,303,277	3,370,879	38,674,156
Net assets, end of year	**$ 40,191,258**	**$ 3,754,103**	**$ 43,945,361**

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
Support, revenue, and gains			
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)	-
Total support, revenue, and gains	**1,550,300**	**(730,002)**	**820,298**
Expenses			
Program related			
Grant and scholarship awards	1,530,690	-	1,530,690
Grant making	386,307	-	386,307
Other	91,734	-	91,734
Total program related	2,008,731	-	2,008,731
Supporting services			
General and administrative	374,595	-	374,595
Fundraising	129,142	-	129,142
Total expenses	**2,512,468**	**-**	**2,512,468**
Change in net assets	**(962,168)**	**(730,002)**	**(1,692,170)**
Net assets, beginning of year	36,265,445	4,100,881	40,366,326
Net assets, end of year	**$ 35,303,277**	**$ 3,370,879**	**$ 38,674,156**

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, 2019				
	Program Related		Supporting Services		
	Grant and Scholarship Awards	Other Program	General and Administrative	Fundraising	Total
Grant and scholarship awards	$ 2,102,019	$ -	$ -	$ -	$ 2,102,019
Salaries and wages	220,391	14,940	163,815	47,467	446,613
Payroll taxes	17,486	1,185	11,430	3,766	33,867
Employee benefits	32,996	2,237	21,570	7,106	63,909
Projects	-	107,222	-	-	107,222
Dues and staff development	15,672	1,063	10,245	3,376	30,356
Public relations and community development	590	40	930	30,399	31,959
Events	13,872	-	-	36,910	50,782
Professional fees	13,407	909	10,264	2,888	27,468
Office supplies and expenses	5,681	385	3,715	1,223	11,004
Information technology	19,194	1,301	12,546	4,134	37,175
Occupancy	4,334	293	49,932	932	55,491
Depreciation	8,250	559	56,504	1,777	67,090
Insurance	4,040	274	9,158	870	14,342
Conservatory upkeep	-	-	11,085	-	11,085
Other	11,528	782	7,580	2,482	22,372
Total expenses	**$ 2,469,460**	**$ 131,190**	**$ 368,774**	**$ 143,330**	**$ 3,112,754**

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		
	Grant and Scholarship Awards	Other Program	General and Administrative	Fundraising	Total
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
Total expenses	**$ 1,916,997**	**$ 91,734**	**$ 374,595**	**$ 129,142**	**$ 2,512,468**

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	
	2019	**2018**
Cash flows from operating activities		
Contributions	$ 1,079,577	$ 3,612,393
Net investment income	1,326,437	521,733
Rental income	31,994	25,209
Other income received	114,089	104,860
Grant and scholarship payments	(1,881,019)	(1,551,190)
Payments to and on behalf of employees	(544,389)	(556,280)
Payments to vendors	(400,324)	(345,481)
Net cash (used in) provided by operating activities	**(273,635)**	**1,811,244**
Cash flows from investing activities		
Purchases of investments	(1,668,372)	(14,289,135)
Proceeds from sales and maturities of investments	882,668	13,189,101
Purchases of property and equipment	(6,033)	(8,425)
Net cash (used in) investing activities	**(791,737)**	**(1,108,459)**
Net (decrease) increase in cash and cash equivalents	**(1,065,372)**	**702,785**
Cash and cash equivalents, beginning of year	1,526,901	824,116
Cash and cash equivalents, end of year	**$ 461,529**	**$ 1,526,901**

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

Notes to Consolidated Financial Statements

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Organization

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.

Risks and Economic Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a global pandemic, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations. The Foundation has been deemed an essential organization, and staff and volunteers are conducting all work remotely. The extent of the ultimate impact of the pandemic on the Foundation's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on funders. In addition, the current environment may place additional demands on the Foundation for providing immediate financial support and/or services to its program recipients. The Foundation has also secured borrowings in the amount of $108,300 through the Paycheck Protection Program ("PPP"), obtained through the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted into law on March 28, 2020 (see Note 14). While management reasonably expects the COVID-19 outbreak to negatively impact the Foundation's financial position, changes in net assets, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration is highly uncertain.

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.

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 - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been 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, 2019 and 2018.

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(loss) caption on the consolidated statement of activities. Investment income is reported net of external investment expenses.

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.

Beneficial Interest in Insurance Trusts

The Foundation is the beneficiary under various irrevocable 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. 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. The cost of program and supporting service activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. 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.

The Foundation has evaluated its income tax filing positions for years 2016 through 2019, the years which remain subject to examination as of December 31, 2019. 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, 2019 or 2018, and is not aware of any claims for such amounts by federal or state income tax authorities.

Reclassifications

Certain amounts as reported in the 2018 consolidated financial statements have been reclassified to conform with the 2019 presentation.

Change in Accounting Principle

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),* in June 2018 which was effective for the Foundation for the year ended December 31, 2019 related to contributions received and will be effective for the Foundation's year ending December 31, 2020 related to contributions made. The amendments in ASU No. 2018-08 provides additional guidance for entities to use to evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transactions and to determine whether the transaction is conditional. On January 1, 2019, the Foundation adopted the standard on its contributions received using the modified prospective basis and elected to apply the standard only to agreements that were entered into after that date. There was no impact to the timing or amount of revenue recognized as a result of this adoption. Management is evaluating the impact of adoption of this new standard related to contributions made and its effect on the consolidated financial position and consolidated results of operations of the Foundation.

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, 2019, the most recent consolidated statement of financial position presented herein, through April 21, 2020, the date the accompanying consolidated financial statements were available to be issued. No such significant events or transactions were identified, other than the economic uncertainties matter described above and in Note 14.

2. LIQUIDITY AND AVAILABILITY

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

	2019	2018
Cash and cash equivalents	$ 461,529	$ 1,526,901
Current unconditional promises to give	31,662	32,958
Endowment spending-rate and appropriations	1,518,866	1,482,141
Total	**$ 2,012,057**	**$ 3,042,000**

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 $36,703,565 and $31,528,207 as of December 31, 2019 and 2018, respectively, are subject to an annual spending rate. For the year ended December 31, 2019 and 2018, respectively, this rate was 4.7% and 4.8% and $1,518,866 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, 2019 and 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, 2019 and 2018. 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).

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			
2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities				
Mutual funds				
Equity				
Large cap broad	$ 6,912,671	$ -	$ -	$ 6,912,671
Mid cap broad	4,512,903	-	-	4,512,903
Small cap growth	2,585,500	-	-	2,585,500
Large cap growth	3,295,178	-	-	3,295,178
Emerging markets	1,998,252	-	-	1,998,252
Large cap value	2,253,112	-	-	2,253,112
International growth	4,557,944	-	-	4,557,944
Small cap value	-	2,904,927	-	2,904,927
Total equity	26,115,560	2,904,927	-	29,020,487
Fixed income				
Core plus	6,712,282	-	-	6,712,282
TIPS	1,624,862	-	-	1,624,862
Total fixed income	8,337,144	-	-	8,337,144
Total mutual funds	34,452,704	2,904,927	-	37,357,631
Exchange traded funds - public natural resources	1,819,284	-	-	1,819,284
Money market funds	-	3,476,160	-	3,476,160
Stable value funds measured at net asset value	-	-	-	1,406,303
Total investments	**$ 36,271,988**	**$ 6,381,087**	**$ -**	**$ 44,059,378**

2018	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**

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 2019	Fair Value 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Stable value fund Lighthouse Diversified	$ 1,406,303	$ 1,313,758	$ -	Monthly ^	91 days

^ 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 restriction was met in March 2019

The investment strategy for the stable value fund at December 31, 2019 and 2018, includes having a return objective of LIBOR + 5.0% to 8.0%, respectively. The fund takes a conservative approach to hedge investing and the absolute return space to provide a consistent return.

Notes to Consolidated Financial Statements

4. INVESTMENTS

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

	2019	2018
Equity	$ 29,020,487	$ 22,932,607
Fixed income	8,337,144	6,430,537
Exchange traded funds	1,819,284	1,667,118
Money market funds	3,476,160	4,663,988
Stable value funds	1,406,303	1,313,758
Total investments	**$ 44,059,378**	**$ 37,008,008**

5. UNCONDITIONAL PROMISES TO GIVE

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

	2019	2018
Less than one year	$ 31,662	$ 31,662
One to five years	40,325	77,342
Total	71,987	109,004
Less unamortized discount (based on imputed interest rates ranging from 1.91% to 2.75% in 2019 and 1.17% to 2.75% in 2018)	1,127	3,387
Net unconditional promises to give	**$ 70,860**	**$ 105,617**

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, 2019 and 2018, 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, 2019 and 2018, the Foundation recorded an allowance for doubtful accounts totaling $640,000.

Notes to Consolidated Financial Statements

7. PROPERTY AND EQUIPMENT

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

	2019	2018
Land and building improvements	$ 1,452,094	$ 1,452,094
Office equipment	48,365	55,412
Furniture and fixtures	30,571	28,458
Software	99,966	99,966
Total	1,630,996	1,635,930
Less accumulated depreciation	231,590	175,465
Net property and equipment	**$ 1,399,406**	**$ 1,460,465**

Depreciation expense was $67,090 and $77,102 for 2019 and 2018, respectively.

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:

	2019	2018
Beginning fund balances	$ 1,703,359	$ 1,957,338
Net investment (loss) return	357,114	(151,032)
Gifts received	106,873	1,778
Grants distributed	(57,783)	(104,725)
Ending fund balances	**$ 2,109,563**	**$ 1,703,359**

10. RESTRICTIONS ON NET ASSETS

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

	2019	2018
Subject to the passage of time:		
Pledges receivable	$ 70,860	$ 106,913
Beneficial interest in life insurance policies	36,417	35,201
Total subject to the passage of time	107,277	142,114
Endowments:		
Donor-restricted permanent endowment funds field of interest	1,134,000	1,134,000
Donor-restricted term endowment funds field of interest	1,555,957	1,353,677
Unspent earnings on donor-restricted permanent endowment funds	676,969	461,188
Total endowments	3,366,926	2,948,865
Not subject to spending policy or appropriations:		
Carrier Estate Nature Conservatory	279,900	279,900
Total net assets with donor restrictions	**$ 3,754,103**	**$ 3,370,879**

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.

The following is a summary of the Foundation's endowment and changes therein for the years ended December 31, 2019 and 2018:

2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets composition by type of fund			
Donor-restricted term endowment funds	$ -	$ 1,555,957	$ 1,555,957
Donor-restricted permanent endowment funds	-	1,810,969	1,810,969
Board-designated endowment funds	36,715,580	-	36,715,580
Total endowment net assets	**$ 36,715,580**	**$ 3,366,926**	**$ 40,082,506**
Changes in endowment net assets			
Net investment return	$ 6,523,735	$ 614,741	$ 7,138,476
Contributions and other revenue	821,667	8,365	830,032
Administrative expenditures	(711,267)	(40,666)	(751,933)
Appropriation of endowment assets for expenditure	(1,446,762)	(164,379)	(1,611,141)
Changes in endowment net assets	5,187,373	418,061	5,605,434
Endowment net assets, beginning of year	31,528,207	2,948,865	34,477,072
End of year	**$ 36,715,580**	**$ 3,366,926**	**$ 40,082,506**

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	**$ 31,528,207**	**$ 2,948,865**	**$ 34,477,072**
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 expenses	(741,369)	(42,081)	(783,450)
Appropriation of endowment assets for expenditure	(1,265,457)	(139,671)	(1,405,128)
Changes in endowment net assets	(2,155,129)	(403,977)	(2,559,106)
Endowment net assets, beginning of year	33,683,336	3,352,842	37,036,178
End of year	**$ 31,528,207**	**$ 2,948,865**	**$ 34,477,072**

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.

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 2019 and 2018, the spending rate maximum was 4.8% and 4.9%, 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 $13,000 and $12,600 for 2019 and 2018, 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.

14. SUBSEQUENT EVENT

In April 2020, the Foundation secured borrowings in the amount of $108,300 through the Paycheck Protection Program ("PPP"), obtained through the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The loan has a two year maturity and is subject to a 1% interest rate. There are certain provisions with the PPP which permit the Foundation to have this loan fully forgiven based on specific stipulations within the agreement.

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