Bay Area Community Foundation and Subsidiaries

Years Ended December 31, 2012 and 2011

Consolidated Financial Statements

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

April 18, 2013

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, 2012 and 2011, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of GLCF Holding Inc. and Subsidiary, which statements reflect total assets of $5,675,118 and $5,884,280 as of December 31, 2012 and 2011, respectively, and total revenues of $260,756 and $264,687, respectively, for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for GLCF Holding Inc. and Subsidiary, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, 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, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rehmann Robson

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	**2011**
ASSETS		
Cash and cash equivalents	$ 1,092,909	$ 1,350,984
Accounts receivable	2,400	16,083
Unconditional promises to give, net of allowance of $700 ($2,600 in 2011)		
Current	480,681	156,697
Restricted to long-term purposes	198,770	579,730
Notes receivable	3,310,000	3,310,000
Investments	29,696,848	26,307,534
Cash surrender value of life insurance policies	28,493	25,597
Prepaid expenses and other assets	31,881	28,312
Property and equipment, net	5,196,807	5,309,686
Investment in properties	646,467	644,762
Nature conservatory	279,900	279,900
Intangible assets, net	317,720	331,791
Total assets	**$ 41,282,876**	**$ 38,341,076**
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 83,700	$ 16,772
Accrued liabilities	17,024	8,370
Obligations for agency endowments	1,449,210	923,124
Grants payable	37,000	40,000
Capital lease payable	2,221	3,718
Long-term debt	3,570,000	3,570,000
Total liabilities	**5,159,155**	**4,561,984**
Commitments and contingency (Notes 12 and 18)		
Net assets		
Foundation net assets		
Unrestricted	31,366,794	29,087,358
Temporarily restricted	2,436,814	2,290,807
Permanently restricted	1,413,900	1,413,900
Total Foundation net assets	35,217,508	32,792,065
Noncontrolling interest in unrestricted net assets of consolidated subsidiary	906,213	987,027
Total net assets	**36,123,721**	**33,779,092**
Total liabilities and net assets	**$ 41,282,876**	**$ 38,341,076**

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, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions	$ 1,293,620	$ 5,624	$ -	$ 1,299,244
Investment income	531,246	58,335	-	589,581
Net realized and unrealized gains on investment securities	2,609,200	310,546	-	2,919,746
Rental income	172,540	-	-	172,540
Grants	49,100	-	-	49,100
Other income	56,477	-	-	56,477
Net assets released from restrictions	228,498	(228,498)	-	-
Total support, revenue, and gains	**4,940,681**	**146,007**	**-**	**5,086,688**
Expenses				
Grant and scholarship awards	1,376,361	-	-	1,376,361
Other program related expenses				
Grant making	275,613	-	-	275,613
Project expenses	209,373	-	-	209,373
Supporting services				
General and administrative	634,584	-	-	634,584
Fundraising	175,521	-	-	175,521
Investment services	70,607	-	-	70,607
Total expenses	**2,742,059**	**-**	**-**	**2,742,059**
Change in net assets including noncontrolling interest	**2,198,622**	**146,007**	**-**	**2,344,629**
Decrease in net assets attributable to noncontrolling interest	(80,814)	-	-	(80,814)
Change in net assets attributable to the Foundation	**$ 2,279,436**	**$ 146,007**	**$ -**	**$ 2,425,443**

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, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, and gains				
Contributions	$ 1,664,378	$ 119,093	$ -	$ 1,783,471
Investment income	425,600	48,178	-	473,778
Net realized and unrealized losses on investment securities	(787,452)	(95,469)	-	(882,921)
Rental income	180,292	-	-	180,292
Grants	56,000	-	-	56,000
Other income	71,506	350	-	71,856
Net assets released from restrictions	371,922	(371,922)	-	-
Total support, revenue, and gains	**1,982,246**	**(299,770)**	**-**	**1,682,476**
Expenses				
Grant and scholarship awards	1,293,931	-	-	1,293,931
Other program related expenses				
Grant making	214,723	-	-	214,723
Project expenses	360,922	-	-	360,922
Supporting services				
General and administrative	610,049	-	-	610,049
Fundraising	116,465	-	-	116,465
Investment services	74,905	-	-	74,905
Total expenses	**2,670,995**	**-**	**-**	**2,670,995**
Change in net assets including noncontrolling interest	**(688,749)**	**(299,770)**	**-**	**(988,519)**
Decrease in net assets attributable to noncontrolling interest	(97,125)	-	-	(97,125)
Change in net assets attributable to the Foundation	**$ (591,624)**	**$ (299,770)**	**$ -**	**$ (891,394)**

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

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Foundation				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Noncontrolling Interest	Total
Balances, January 1, 2011	**$ 29,678,982**	**$ 2,590,577**	**$ 1,413,900**	**$ 1,084,152**	**$ 34,767,611**
Change in net assets	(591,624)	(299,770)	-	(97,125)	(988,519)
Balances, December 31, 2011	**29,087,358**	**2,290,807**	**1,413,900**	**987,027**	**33,779,092**
Change in net assets	2,279,436	146,007	-	(80,814)	2,344,629
Balances, December 31, 2012	**$ 31,366,794**	**$ 2,436,814**	**$ 1,413,900**	**$ 906,213**	**$ 36,123,721**

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	
	2012	**2011**
Cash flows from operating activities		
Change in net assets	$ 2,344,629	$ (988,519)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses on investment securities	(2,919,746)	882,921
Depreciation	225,944	222,820
(Recovery of) provision for uncollectible unconditional promises to give	(1,900)	800
Donated securities	(138,917)	(25,733)
(Decrease) increase in agency assets included in investments	(111,369)	33,075
Amortization of intangible assets	14,071	13,931
Deferred income tax benefit	-	(67,150)
Changes in operating assets and liabilities which provided (used) cash		
Accounts receivable	13,683	(7,915)
Unconditional promises to give	58,876	53,485
Cash surrender value of life insurance policies	(2,896)	5,039
Prepaid expenses and other assets	(3,569)	(7,492)
Accounts payable	66,928	(4,577)
Accrued liabilities	8,654	(455)
Obligations for agency endowments	526,086	(44,449)
Grants payable	(3,000)	(51,091)
Net cash provided by operating activities	**77,474**	**14,690**
Cash flows from investing activities		
Purchases of investments	(9,708,810)	(5,466,273)
Proceeds from sales and maturities of investments	9,489,528	6,043,470
Purchases of property and equipment	(113,065)	(4,836)
Capitalized cost of investment in properties	(1,705)	-
Net cash (used in) provided by investing activities	**(334,052)**	**572,361**
Cash flows used in financing activities		
Repayments of capital lease payable	(1,497)	(1,285)
Net (decrease) increase in cash and cash equivalents	**(258,075)**	**585,766**
Cash and cash equivalents, beginning of year	1,350,984	765,218
Cash and cash equivalents, end of year	**$ 1,092,909**	**$ 1,350,984**
Supplemental cash flow information		
Cash paid for interest	$ 52,168	$ 52,379

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

BAY AREA COMMUNITY FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of ***Bay Area Community Foundation*** and its subsidiaries, ***Great Lakes Center Foundation***, ***GLCF Holding Inc.***, and ***Marquette Train Depot, LLC,*** collectively referred to as the "Foundation." Great Lakes Center Foundation is consolidated as Bay Area Community Foundation has an economic interest in Great Lakes Center Foundation, and also has a majority voting interest in its governing Board of Trustees. GLCF Holding Inc. is consolidated as Great Lakes Center Foundation is a 100% owner in GLCF Holding Inc. Marquette Train Depot ("MTD, LLC") is a variable interest entity for which GLCF Holding Inc. is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

Bay Area Community Foundation, a nonprofit organization tax-exempt under Internal Revenue Code Section 501(c)(3), receives and administers gifts and bequests from individuals, businesses, foundations, and organizations in the Bay County area and places the gifts into funds that match the giving priorities of the donor. The majority of the gifts are term endowment gifts and Board-designated endowment gifts, the income of which is returned to the community through grants to area not-for-profit organizations. The Great Lakes Center Foundation ("Great Lakes"), a nonprofit organization tax-exempt under Internal Revenue Code Section 501(c)(3), receives and administers funds for the acquisition and development of real estate in Bay County for the public welfare and betterment of the local community.

Concentration Risks

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

Fund Accounting and External Reporting

To ensure observance of limitations and restrictions placed on the use of available resources, for internal accounting and stewardship purposes, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and internal reporting into funds established according to their nature and purpose.

For external financial reporting purposes, the Foundation reports resources classified into net asset categories according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes of net assets - unrestricted, temporarily restricted, and permanently restricted. Net assets and revenues, expenses and gains or losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Resources that are reported in this net asset category include unrestricted gifts, including those designated by the Board of Directors to function as endowment, and the investment earnings thereon, and related expenses associated with the operations of the Foundation.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions, including term endowments that will be satisfied by actions of the Foundation or the passage of time. Resources reported in this net asset category include gifts for which restrictions have not been met. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or time restrictions have elapsed) are reported as reclassifications between the applicable classes of net assets.

Permanently Restricted Net Assets - Resources subject to donor-imposed stipulations that the corpus (original principal value of endowment gifts) be maintained permanently by the Foundation. The donors of these assets permit the Foundation to spend only the income earned on the related investments. All such income is restricted by the donors for specific purposes.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and demand deposits in banks. Cash and cash equivalents do not include investments the Foundation has the ability and intent to hold long-term (investments purchased with endowment assets). The Foundation maintains deposit accounts with various financial institutions, which at times may exceed federally insured limits. Management does not believe the Foundation is exposed to any significant interest rate or other financial risk as a result of these deposits.

Accounts Receivable

Accounts receivable are unsecured. Management believes that all accounts receivable will be fully collected within one year. Accordingly, no allowance for doubtful accounts is necessary. If amounts become uncollectible, they will be charged to expense in the period in which the determination is made.

Unconditional Promises to Give and Contributions

Contributions, including unconditional promises to give, are recognized in the period received or when verifiable evidence that the promise was made exists. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Donated investments and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

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

The Foundation uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Investments

The Foundation carries investments in marketable debt and equity securities at fair value, which is determined generally by using quoted market prices. Realized and unrealized gains and losses are reflected in the consolidated statements of activities.

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

Fair Value Measurements

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

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

> Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

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

Property and Equipment and Depreciation

Property and equipment is stated at cost. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed as incurred. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from approximately 3 to 39 years.

Investment in Properties

Investment in properties is carried at the lower of cost or market value. Cost of purchased properties is determined based upon the purchase price. Donated properties are recorded at fair value when received. Major improvements are capitalized while ordinary costs to maintain the property are expensed as incurred. Management annually reviews these assets to determine whether carrying values have been impaired.

Beneficial Interest in Trusts

The Foundation is the beneficiary under various irrevocable charitable remainder and insurance trusts, the corpus of which is not controlled by management of the Foundation. Although the Foundation has no control over the administration or investment of the funds held in these trusts, the fair value of such trusts is recognized as a contribution in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to receive benefits. Charitable remainder trusts are reported at the estimated present value using the estimated future cash flows from the trusts. Under the terms of the insurance trusts, the Foundation will receive the applicable death benefit from the related insurance policies. The Foundation's interest in the insurance policies is recorded as an asset measured at the policies' cash surrender value at the end of the Foundation's reporting period. Changes in the value of trust assets are included in the consolidated statements of activities as temporarily restricted revenue and support.

Intangible Assets

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

Lease commissions and legal costs of $96,847 related to drafting and negotiating leases have been capitalized and are being amortized over the life of the lease to which they relate. Amortization expense for 2012 and 2011, was $5,097 and $4,920, respectively. Additionally, at December 31, 2012 and 2011, accumulated amortization totaled $22,937 and $17,840, respectively.

Debt issuance costs of $296,162 were incurred by the Foundation in connection with obtaining the permanent mortgage on rehabilitated property. Amortization expense for 2012 and 2011, was $8,974 and $9,011, respectively. Additionally, at December 31, 2012 and 2011, accumulated amortization totaled $52,352 and $43,378, respectively.

Functional Allocation of Expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Although the methods of allocation used are considered appropriate, other methods could be used that would produce a different amount.

Income Taxes

Bay Area Community Foundation and Great Lakes Center Foundation are not-for-profit organizations that are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and are exempt from similar state and local taxes. Although the Foundations were granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income."

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

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

GLCF Holding Inc. was subject to the Michigan Business Tax ("MBT"), which was a business income tax and modified gross receipts tax; because the MBT was based or derived from income-based measures, the provisions of income tax accounting applied. However, on May 25, 2011, the State of Michigan enacted a new tax law, the Michigan Corporate Income Tax ("MCIT"), which was effective January 1, 2012, and eliminated the MBT effective December 31, 2011. The MCIT is an entity level business income tax and does not include a gross receipts tax component as required by the MBT. Therefore, the components of income tax accounting associated with the gross receipts tax will no longer be recorded in periods beginning after the effective date. The impact of this tax law change on the Foundation's 2011 consolidated financial statements is reported in Note 13.

In accordance with Accounting Standards Codification ("ASC") Topic 740, *Accounting for Uncertainty in Income Taxes,* not-for-profit organizations must consider whether they have engaged in activities that jeopardize their current tax exempt status with the Internal Revenue Service. Furthermore, an organization must determine whether it has any unrelated business income which may be subject to U.S. Federal or State Income Taxes. The

Foundation analyzes its filing positions in the tax jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Foundation also 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 continued application of ASC Topic 740 has had no significant impact on the Foundation's consolidated financial statements.

Endowment Net Asset Classifications

The Board of Directors, on the advice of legal counsel, has determined that a majority of the Foundation's net assets meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Foundation is governed subject to the Bay Area Community Foundation By-Laws (the "By-Laws") and most contributions are received subject to the terms of the By-Laws.

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

1. The duration and preservation of the fund,
2. The purposes of the Foundation and the donor-restricted endowment fund,
3. General economic conditions,
4. The possible effect of inflation and deflation,
5. The expected total return from income and appreciation of investments,
6. Other resources of the Foundation, and
7. The investment policies of the Foundation.

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

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

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2012, the most recent consolidated statement of financial position presented herein, through April 18, 2013, the date the accompanying consolidated financial statements were available to be issued. No significant such events or transactions were identified.

2. FAIR VALUE MEASUREMENTS

The Foundation utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Investments and beneficial interest in trusts are recorded at fair value on a recurring basis. Additionally, from time to time, the Foundation may be required to record at fair value other assets on a nonrecurring basis, such as unconditional promises to give, notes receivable, investment in properties and certain other assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

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

Investment Securities
Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include mutual funds and common stocks traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include stable value funds, certain mutual funds, money market funds, and certificates of deposit. The Foundation had no Level 3 investment securities at December 31, 2012 and 2011.

Beneficial Interest in Trusts
Fair value measurements of these assets are determined by the underlying investments in the charitable remainder trusts, which are based upon the present value of the future payments on the date of the gift, calculated on expected distributions, ranging from less than one year to 4 years, using discount rates, ranging from 2.80% to 8.00% at December 31, 2012 and 2011. This valuation method is considered a Level 3 method under the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation 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 table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31:

	Assets at Fair Value			
2012	Level 1	Level 2	Level 3	Total
Investment securities				
Mutual funds				
Equity				
Large cap broad	$ 4,587,610	$ -	$ -	$ 4,587,610
Mid cap broad	2,849,288	-	-	2,849,288
Small cap growth	2,254,081	-	-	2,254,081
Large cap growth	1,895,782	-	-	1,895,782
Large cap value	1,613,269	-	-	1,613,269
International growth	1,508,242	-	-	1,508,242
International value	1,461,773	-	-	1,461,773
Emerging markets	1,440,231	-	-	1,440,231
Small cap value	-	1,980,596	-	1,980,596
Total equity	**17,610,276**	**1,980,596**	**-**	**19,590,872**
Fixed income				
Core plus	4,682,064	-	-	4,682,064
TIPS	1,380,807	-	-	1,380,807
Global core	979,749	-	-	979,749
Total fixed income	**7,042,620**	**-**	**-**	**7,042,620**
Total mutual funds	**24,652,896**	**1,980,596**	**-**	**26,633,492**
Common stocks				
Consumer, non-cyclical	108,287	-	-	108,287
Information technology	64,402	-	-	64,402
Communications	61,317	-	-	61,317
Energy	51,820	-	-	51,820
Industrial	39,165	-	-	39,165
Utilities	24,094	-	-	24,094
Consumer, cyclical	22,792	-	-	22,792
Materials	21,481	-	-	21,481
Financials	15,454	-	-	15,454
Total common stocks	**408,812**	**-**	**-**	**408,812**
Stable value funds	-	1,335,835	-	1,335,835
Money market funds	-	1,272,412	-	1,272,412
Certificates of deposit	-	46,297	-	46,297
Total investments	**$ 25,061,708**	**$ 4,635,140**	**$ -**	**$29,696,848**
Beneficial interest in trusts (included in unconditional promises to give)	**$ -**	**$ -**	**$ 638,812**	**$ 638,812**

2011	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Mutual funds				
Equity				
Large cap broad	$ 4,376,983	$ -	$ -	$ 4,376,983
Mid cap broad	2,746,835	-	-	2,746,835
Small cap growth	1,963,871	-	-	1,963,871
Large cap growth	1,894,956	-	-	1,894,956
Large cap value	1,445,514	-	-	1,445,514
International growth	1,170,453	-	-	1,170,453
International value	1,168,226	-	-	1,168,226
Emerging markets	958,448	-	-	958,448
Small cap value	-	1,714,817	-	1,714,817
Total equity	**15,725,286**	**1,714,817**	**-**	**17,440,103**
Fixed income				
Core plus	4,026,653	-	-	4,026,653
TIPS	1,325,413	-	-	1,325,413
Global core	783,266	-	-	783,266
Total fixed income	**6,135,332**	**-**	**-**	**6,135,332**
Total mutual funds	**21,860,618**	**1,714,817**	**-**	**23,575,435**
Common stocks				
Consumer, non-cyclical	79,403	-	-	79,403
Energy	63,625	-	-	63,625
Industrial	42,148	-	-	42,148
Consumer, cyclical	38,514	-	-	38,514
Materials	34,426	-	-	34,426
Information technology	31,553	-	-	31,553
Communications	23,244	-	-	23,244
Utilities	22,016	-	-	22,016
Financials	20,214	-	-	20,214
Total common stocks	**355,143**	**-**	**-**	**355,143**
Stable value funds	-	1,249,755	-	1,249,755
Money market funds	-	1,081,081	-	1,081,081
Certificates of deposit	-	46,120	-	46,120
Total investments	**$22,215,761**	**$ 4,091,773**	**$ -**	**$26,307,534**
Beneficial interest in trusts (included in unconditional promises to give)	**$ -**	**$ -**	**$ 647,056**	**$ 647,056**

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

	Beneficial Interest in Trusts	
	2012	2011
Balance, beginning of year	$ 647,056	$ 640,716
Changes in value related to instruments still held	(8,244)	6,340
Balance, end of year	$ 638,812	$ 647,056

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	2012 Fair Value	2011 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Stable value funds	$ 1,335,835	$ 1,249,755	-	Semi-annually	95 days
Mutual funds - small cap value	-	1,714,817	-	Quarterly	30 days

The following is a description of the investment strategy used for this investment at December 31, 2012 and 2011:

Stable value funds: These funds have a return objective of 8% to 12%. The funds take a conservative approach to hedge investing and the absolute return space to provide a consistent return.

Mutual funds – small cap value: These funds are invested in companies that are trading at significant discounts to their intrinsic value (generally 50% to 60%) with strong operating fundamentals, and positive business momentum. Positive business momentum would include the following: positive earnings per share, improving inventory trends, restructuring, consolidation, improving demand and pricing power. During 2012, the Foundation invested in a different small cap value mutual fund from that invested in during 2011, which does not calculate value using the net asset value per share.

3. INVESTMENTS

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

	2012	2011
Mutual funds		
Equity	$ 19,590,872	$ 17,440,103
Fixed income	7,042,620	6,135,332
Common stocks	408,812	355,143
Stable value funds	1,335,835	1,249,755
Money market funds	1,272,412	1,081,081
Certificates of deposit	46,297	46,120
Total investments	**$ 29,696,848**	**$ 26,307,534**

4. UNCONDITIONAL PROMISES TO GIVE

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

	2012	2011
Less than one year	$ 480,681	$ 156,697
One to five years	199,064	580,346
Total	**679,745**	**737,043**
Less unamortized discount (based on imputed interest rates ranging from 0.76% to 2.80% and 0.89% to 2.80% in 2012 and 2011, respectively)	294	616
Net unconditional promises to give	**$ 679,451**	**$ 736,427**

Included in unconditional promises to give is a future interest of approximately $639,000 and $647,000 at December 31, 2012 and 2011, in charitable and charitable term remainder trusts. The contributions and related receivables were recorded at the present value of the future payments on the date of the gift, calculated using discount rates, ranging from 2.80% to 8.00% at December 31, 2012 and 2011.

5. NOTES RECEIVABLE (INCLUDING RELATED PARTY)

During 2002, the Foundation sold property with a carrying value of $703,217 in exchange for a $640,000 note receivable. The note was interest free for the first six months after occupancy, then interest only payments calculated at 4% were to be made through January 2016. As of December 31, 2012, the Foundation has not received any interest payments on this note. Management believed that the interest on the note may not be collectible and wrote off accrued interest receivable as of December 31, 2007; interest has not been recorded since that date. A lump sum principal payment is due February 2016. In the event of default on the loan, interest will accrue at 6%. Management believes the outstanding note is fully collectible.

During 2007, the Foundation issued a promissory note for $2,670,000, with the proceeds to be used to renovate the Pere Marquette Train Depot. The note receivable is due from an affiliate, Pere Marquette Investment Fund, LLC. The note calls for interest payments of 1% monthly beginning April 2007, with the principal to be paid within 33 years after the substantial completion of the renovation of the Pere Marquette Train Depot. The note is secured by various assets. Interest income received on the note totaled $26,700 for both 2012 and 2011.

6. PROPERTY AND EQUIPMENT

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

	2012	2011
Land and improvements	$ 985,931	$ 985,931
Building improvements	4,893,199	4,893,199
Office equipment	62,890	60,817
Furniture and fixtures	151,833	132,641
Software	105,807	14,007
Total	6,199,660	6,086,595
Less accumulated depreciation	1,002,853	776,909
Net property and equipment	**$ 5,196,807**	**$ 5,309,686**

Depreciation expense for 2012 and 2011 was $225,944 and $222,820, respectively.

7. INVESTMENT IN PROPERTIES

Investment in properties consists of the following at December 31:

	2012	2011
Pere Marquette Depot	$ 347,992	$ 346,287
243, 245, and 247 Saginaw Street	298,475	298,475
Total investment in properties	**$ 646,467**	**$ 644,762**

8. NATURE CONSERVATORY

During 2003, the Foundation was notified it was the beneficiary of the Robert Carrier Estate, which included property located at 10 Carrier Lane. Therefore, the Foundation recorded $190,900 based on initial estimates of the property value. During 2005, the property was legally transferred to the Foundation, and was valued at $279,900 at the time of transfer. This property shall not be sold or developed by the Foundation but rather kept in its natural state and forever preserved as a nature conservancy.

9. GRANTS PAYABLE

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

	2012	2011
To be paid in less than one year	$ 37,000	$ 20,000
To be paid in two to five years	-	20,000
Total grants payable	**$ 37,000**	**$ 40,000**

10. OBLIGATIONS FOR AGENCY ENDOWMENTS

The Foundation is the fiscal agent for 22 (23 in 2011) various not-for-profit organizations including the Saginaw Basin Land Conservancy, the Historical Society of Bay County, the State Theatre and other local organizations. The Foundation is responsible for receiving and depositing funds on behalf of these organizations.

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

	2012	2011
Beginning fund balances	$ 923,124	$ 967,573
Investment income, net	11,990	6,716
Unrealized and realized investment gains (losses)	111,369	(33,075)
Gifts received	440,000	16,953
Grants distributed	(37,273)	(35,043)
Ending fund balances	**$ 1,449,210**	**$ 923,124**

11. LONG-TERM DEBT

The Foundation's long-term debt consists of two notes payable to Michigan Magnet Fund, LLC with total outstanding balances of $3,570,000 at December 31, 2012 and 2011, and interest charged at 1.45%. The loans are due through June 2041 with interest only payments due monthly for the first 18 years. Beginning in 2027, monthly payments of principal and interest shall be due based on a 360-month self-amortization of the then outstanding loan balance. The loans are collateralized by property and equipment as well as any revenue earned by GLCF Holding Inc. and MTD, LLC. The borrowing agreements contain certain restrictive covenants.

Interest expense totaled $52,168 and $52,379 for 2012 and 2011, respectively.

12. LEASES (INCLUDING RELATED PARTY)

Lease Expense
In 2008, the Foundation entered into an occupancy operating lease with a related party; such agreement expires in June 2019. Total rent expense was $97,000 for both 2012 and 2011.

The following is a summary of annual future lease payments anticipated to be paid on the non-cancelable operating lease for the five years succeeding December 31, 2012, and thereafter:

Year	Amount
2013	$ 97,000
2014	97,000
2015	97,000
2016	97,000
2017	97,000
Thereafter	145,500
Total minimum payments to be paid	**$ 630,500**

Lease Revenue
The Foundation's leasing operations consist of various commercial space non-cancelable leases, one of which is with a related party, terminating at various dates through June 2027. Total lease revenue received was $172,540 and $180,292 in 2012 and 2011.

The following is a summary of annual future lease payments anticipated to be received on non-cancelable operating leases for the five years succeeding December 31, 2012 and thereafter:

Year	Amount
2013	$ 75,214
2014	75,214
2015	75,214
2016	75,214
2017	75,214
Thereafter	719,533
Total minimum payments to be received	**$ 1,095,603**

All annual future lease payments summarized above are anticipated to be received from related parties.

13. DEFERRED INCOME TAXES

The net deferred income tax asset is comprised of the following amounts at December 31:

	2012	2011
Deferred tax asset - federal	$ 215,174	$ 153,447
Valuation allowance recognized for federal deferred tax assets	(215,174)	(153,447)
Net deferred tax asset	$ -	$ -

Realization of federal deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of loss carryforwards. The Foundation has loss carryforwards for tax purposes of approximately $633,000, which expire through 2032. Due to uncertainty as to the realization of the net operating loss carryforwards, a valuation allowance has been recorded against the related federal deferred tax asset.

Upon enactment of the MBT, the Michigan legislature created a future statutory deduction which allowed entities to recognize a deferred tax asset to mitigate the negative impact for recording the effect of the income tax accounting associated with the new law. The MCIT does not allow this future deduction; therefore, the Foundation eliminated a net deferred tax liability of $67,150 during 2011.

The Foundation has evaluated the provisions of ASC Topic 740, *Accounting for Uncertainty in Income Taxes* for the years 2008 through 2012, the years which remain subject to examination by major tax jurisdiction as of December 31, 2012. The Foundation concluded that there are no significant uncertain tax positions requiring recognition in the Foundation's consolidated financial statements. The Foundation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g., tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase in the next 12 months. The Foundation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2012 and 2011, and it is not aware of any claims for such amounts by income tax authorities.

14. RESTRICTIONS ON NET ASSETS

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

	2012	2011
Pledges receivable	$ 40,639	$ 89,371
Beneficial interest in charitable trusts	638,812	647,056
Beneficial interest in life insurance policies	28,493	25,597
Donor-restricted term endowment funds field of interest	1,219,310	1,123,757
Unspent earnings on donor-restricted permanent endowment funds	509,560	405,026
Temporarily restricted net assets	**$ 2,436,814**	**$ 2,290,807**

Permanently restricted net assets consist of the following at December 31, 2012 and 2011:

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

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

15. ENDOWMENT

The Foundation's endowment consists of 266 individual funds established for a variety of purposes. Its endowment includes donor-restricted term and permanent endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted term and permanent endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as temporarily and permanently restricted net assets, respectively, (a) the original value of gifts donated to the term and permanent endowment without granting the Foundation variance power, (b) the original value of subsequent gifts to the term and permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted term and permanent endowment fund related to earnings is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation classifies as unrestricted net assets (a) the original value of gifts donated to the Foundation granting the Foundation variance power, including term endowments, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. See Note 1 for further discussion related to the net asset classifications.

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

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets composition by type of fund				
Donor-restricted term endowment funds	$ 23,942,289	$ 1,219,310	$ -	$ 25,161,599
Donor-restricted permanent endowment funds	-	509,560	1,134,000	1,643,560
Board-designated endowment funds	1,733,981	-	-	1,733,981
Total endowment net assets	**$ 25,676,270**	**$ 1,728,870**	**$ 1,134,000**	**$ 28,539,140**
Changes in endowment net assets				
Investment return				
Investment income	$ 501,732	$ 58,335	$ -	$ 560,067
Net appreciation (realized and unrealized)	2,609,200	310,546	-	2,919,746
Net investment return	**3,110,932**	**368,881**		**3,479,813**
Contributions and other revenue	1,025,095	1,250	-	1,026,345
Administrative and investment fees	(607,662)	(48,557)	-	(656,219)
Appropriation of endowment assets for expenditure	(1,012,417)	(121,487)	-	(1,133,904)
Changes in endowment net assets	**2,515,948**	**200,087**	**-**	**2,716,035**
Endowment net assets beginning of year	23,160,322	1,528,783	1,134,000	25,823,105
End of year	**$ 25,676,270**	**$ 1,728,870**	**$ 1,134,000**	**$ 28,539,140**

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets composition by type of fund				
Donor-restricted term endowment funds	$ 21,493,141	$ 1,123,757	$ -	$ 22,616,898
Donor-restricted permanent endowment funds	-	405,026	1,134,000	1,539,026
Board-designated endowment funds	1,667,181	-	-	1,667,181
Total endowment net assets	**$ 23,160,322**	**$ 1,528,783**	**$ 1,134,000**	**$ 25,823,105**
Changes in endowment net assets				
Investment loss				
Investment income	$ 395,405	$ 48,178	$ -	$ 443,583
Net depreciation (realized and unrealized)	(787,452)	(95,469)	-	(882,921)
Net investment loss	**(392,047)**	**(47,291)**	**-**	**(439,338)**
Contributions and other revenue	1,164,194	2,150	-	1,166,344
Administrative and investment fees	(413,824)	(65,221)	-	(479,045)
Appropriation of endowment assets for expenditure	(1,009,718)	(130,084)	-	(1,139,802)
Changes in endowment net assets	**(651,395)**	**(240,446)**	**-**	**(891,841)**
Endowment net assets beginning of year	23,811,717	1,769,229	1,134,000	26,714,946
End of year	**$ 23,160,322**	**$ 1,528,783**	**$ 1,134,000**	**$ 25,823,105**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted term and permanent endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund. Management evaluated the donor-restricted term and permanent endowment funds as of December 31, 2012 and 2011, and determined there were no deficiencies of this nature.

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, which includes those assets of donor-restricted term and permanent endowment funds as well as Board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of established indices for differing investment classes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of 8.0% to 10.0% annually. Actual returns in any given year may vary from this range.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an annual spending policy of 5.0% of its endowment fund's average fair value over the prior 12 quarters through September 30th of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment to grow at an average of 3.0% to 5.0% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

16. GRANT AND SCHOLARSHIP AWARDS

Unconditional grants are recorded as an expense at the time of formal approval by the Board of Trustees, regardless of the year in which the grant is paid. Conditional grants, if any, are expensed when such conditions are substantially met.

The following summarizes the grant and scholarship awards for the years ended December 31:

	2012	2011
Grants and scholarships paid	$ 1,339,361	$ 1,253,931
Grants payable	37,000	40,000
Total grant and scholarship awards	**$ 1,376,361**	**$ 1,293,931**

17. EMPLOYEE BENEFIT PLANS

Effective January 1, 2005, the Foundation established a SIMPLE IRA retirement plan for all eligible employees. Any employee who earned at least $5,000 in the previous year and is reasonably expected to earn $5,000 in the current year is eligible to participate. The cost to the Foundation was approximately $8,800 and $7,500 for 2012 and 2011, respectively.

18. CONTINGENCY

Effective October 2, 2006, the Foundation entered into an agreement to receive TEA-21 grant reimbursements in relation to the restoration of the Pere Marquette Train Depot. This agreement specified that if the Foundation is found to be in default of any of the specific restrictions noted in this agreement the grant amounts received totaling approximately $707,000 would have to be returned. Management has asserted that the Foundation is not in violation in relation to any of the requirements noted in the aforementioned agreement.

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