# Rochester Area Foundation and Affiliates

Consolidated Financial Report
December 31, 2015

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## Contents

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# Independent Auditor's Report

To the Board of Trustees
Rochester Area Foundation and Affiliates
Rochester, Minnesota

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Rochester Area Foundation and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements, (collectively, financial statements).

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Rochester Area Foundation and Affiliates as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual entities and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Rochester, Minnesota
May 17, 2016

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Financial Position**
**December 31, 2015 and 2014**

| | **2015** | 2014 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 1,233,462** | $ 1,196,156 |
| Interest and dividends receivable | **12,899** | 12,989 |
| Pledges receivable, net (Note 4) | **542,112** | 245,500 |
| Investments in marketable securities (Notes 2 and 3) | **25,330,984** | 26,605,384 |
| Beneficial interest in trusts held by others (Notes 2, 7, and 9) | **533,206** | 619,369 |
| Loans receivable, net (Note 5) | **2,478,153** | 2,564,958 |
| Land and development costs | **245,038** | 422,128 |
| Property and equipment, net of accumulated depreciation of $109,871 in 2015 and $236,725 in 2014 (Note 6) | **876,069** | 4,487 |
| Other assets | **126,108** | 131,763 |
| Land held in Community Land Trust | **7,953,584** | 7,983,584 |
| **Total assets** | **$ 39,331,615** | $ 39,786,318 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | **$ 113,499** | $ 35,489 |
| Grants payable | **72,976** | 48,795 |
| Annuities payable | **87,520** | 62,603 |
| Unitrust obligations (Note 7) | **555,000** | 614,000 |
| Refundable advances | **540,483** | 550,081 |
| Line of credit (Note 8) | **201,794** | - |
| Notes payable (Note 8) | **567,686** | 848,266 |
| **Total liabilities** | **2,138,958** | 2,159,234 |
| Commitments (Notes 2 and 11) | | |
| Net assets (Notes 9 and 10): | | |
| Unrestricted | **22,561,248** | 24,152,828 |
| Temporarily restricted | **12,709,765** | 11,552,612 |
| Permanently restricted | **1,921,644** | 1,921,644 |
| **Total net assets** | **37,192,657** | 37,627,084 |
| **Total liabilities and net assets** | **$ 39,331,615** | $ 39,786,318 |

See notes to consolidated financial statements.

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Activities and Changes in Net Assets**
**Years Ended December 31, 2015 and 2014**

| | 2015 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Public support and revenues: | | | | |
| Foundations, corporations and individuals | **$ 1,193,134** | **$ 1,411,364** | **$ -** | **$ 2,604,498** |
| Grants | **-** | **17,000** | **-** | **17,000** |
| Investment (loss) (Note 3) | **(263,630)** | **(336,792)** | **-** | **(600,422)** |
| Loan discount accretion | **-** | **76,408** | **-** | **76,408** |
| Other | **20,466** | **44,935** | **-** | **65,401** |
| Change in value of split interest agreements | **-** | **(38,030)** | **-** | **(38,030)** |
| Net assets released from restriction | **17,732** | **(17,732)** | **-** | **-** |
| **Total revenues and gains** | **967,702** | **1,157,153** | **-** | **2,124,855** |
| Expenses: | | | | |
| Programs: | | | | |
| Grants | **1,550,450** | **-** | **-** | **1,550,450** |
| Philanthropic and special | **178,773** | **-** | **-** | **178,773** |
| First Homes Properties | **115,194** | **-** | **-** | **115,194** |
| Impact Finance | **40,247** | **-** | **-** | **40,247** |
| Management and general | **531,113** | **-** | **-** | **531,113** |
| Fundraising | **143,505** | **-** | **-** | **143,505** |
| **Total expenses** | **2,559,282** | **-** | **-** | **2,559,282** |
| **Change in net assets** | **(1,591,580)** | **1,157,153** | **-** | **(434,427)** |
| Net assets: | | | | |
| Beginning of year | **24,152,828** | **11,552,612** | **1,921,644** | **37,627,084** |
| End of year | **$ 22,561,248** | **$ 12,709,765** | **$ 1,921,644** | **$ 37,192,657** |

See notes to consolidated financial statements.

| 2014 | | | |
|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| $ 2,431,410 | $ 164,480 | $ - | $ 2,595,890 |
| - | 100,000 | - | 100,000 |
| 1,178,480 | (32,107) | - | 1,146,373 |
| - | 81,058 | - | 81,058 |
| 8,585 | 180,370 | - | 188,955 |
| - | 24,680 | - | 24,680 |
| 299,721 | (299,721) | - | - |
| 3,918,196 | 218,760 | - | 4,136,956 |
| | | | |
| 2,278,740 | - | - | 2,278,740 |
| 130,606 | - | - | 130,606 |
| 129,248 | - | - | 129,248 |
| 43,070 | - | - | 43,070 |
| 631,479 | - | - | 631,479 |
| 137,231 | - | - | 137,231 |
| 3,350,374 | - | - | 3,350,374 |
| 567,822 | 218,760 | - | 786,582 |
| 23,585,006 | 11,333,852 | 1,921,644 | 36,840,502 |
| $ 24,152,828 | $ 11,552,612 | $ 1,921,644 | $ 37,627,084 |

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Cash Flows**
**Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Contributions received from foundation, corporations and individuals | $ 1,754,626 | $ 1,808,970 |
| Grants received | 17,000 | 100,000 |
| Interest and dividends received | 207,421 | 593,195 |
| Other receipts | 72,112 | 337,448 |
| Cash paid for grants | (1,526,269) | (2,274,145) |
| Cash paid to employees and suppliers | (964,330) | (1,095,635) |
| **Net cash used in operating activities** | (439,440) | (530,167) |
| | | |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (885,230) | - |
| Purchase of land and development projects | (84,153) | (454,121) |
| Proceeds from developed properties | 277,243 | 552,322 |
| Sale of land held in community land trust | 30,000 | 30,000 |
| Payments received on loans receivable | 167,443 | 47,454 |
| Issuance of loans receivable | (7,638) | (30,856) |
| Proceeds from sale and maturities of investment securities | 1,577,790 | 3,167,442 |
| Purchase of investment securities | (519,923) | (1,590,736) |
| **Net cash provided by investing activities** | 555,532 | 1,721,505 |
| | | |
| Cash flows from financing activities: | | |
| Principal payments of notes payable | (280,580) | (740,699) |
| Proceeds from revolving credit agreement | 201,794 | - |
| **Net cash used in financing activities** | (78,786) | (740,699) |
| | | |
| **Net increase in cash and cash equivalents** | 37,306 | 450,639 |
| | | |
| Cash and cash equivalents: | | |
| Beginning | 1,196,156 | 745,517 |
| | | |
| Ending | $ 1,233,462 | $ 1,196,156 |

(Continued)

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Cash Flows (Continued)**
**Years Ended December 31, 2015 and 2014**

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Reconciliation of change in net assets to net cash used in operating Activities: | | | | |
| Change in net assets | **$** | **(434,427)** | $ | 786,582 |
| Adjustments to reconcile change in net assets to cash used in operating activities: | | | | |
| Depreciation expense | | **13,648** | | 10,327 |
| Change in valuation allowance on loans and contributions | | **(16,000)** | | 137,000 |
| Net unrealized and realized (gains) loss on investments | | **807,753** | | (563,659) |
| Noncash donation of investments | | **(616,756)** | | (621,203) |
| Discount on loans receivable, net of accretion | | **(73,000)** | | (72,000) |
| Change in value of split interest agreements | | **38,030** | | (24,680) |
| Changes in assets and liabilities: | | | | |
| Increase in receivables | | **(296,522)** | | (220,019) |
| Decrease in other assets | | **69,151** | | 56,891 |
| Increase in payables and accrued expenses | | **127,108** | | 11,539 |
| Decrease in unitrust obligations | | **(48,827)** | | (43,370) |
| (Decrease) increase in refundable advances | | **(9,598)** | | 12,425 |
| **Net cash used in operating activities** | **$** | **(439,440)** | $ | (530,167) |

See notes to consolidated financial statements.

## Note 1. Nature of Activities and Summary of Significant Accounting Policies

**Nature of activities:** Rochester Area Foundation, First Homes Properties, RAF Properties, and Rochester Community Finance d/b/a Impact Finance (collectively referred to as the Foundation) are not-for-profit corporations organized under the laws of the State of Minnesota. The Rochester Area Foundation is organized for the purpose of establishing, aiding and promoting activities of a social, moral, educational and religious nature in the Rochester and Olmsted County areas of southeastern Minnesota. First Homes Properties is organized for the purpose of providing opportunities and services for low- and moderate-income households in various southeast Minnesota counties to secure decent and affordable housing. RAF Properties is organized to receive, hold, administer and disburse any real property received as a gift, devise, bequest or otherwise for the benefit of Rochester Area Foundation. Impact Finance is organized to provide increased access to capital for low- and moderate-income individuals and communities in the Rochester area. There was no activity for RAF Properties for the years ending December 31, 2015 and 2014.

Major sources of revenue include investment income, contributions and grant revenue. Contribution revenue can vary significantly between years, as large contributions are generally made by donors on a one-time basis. The entities are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Principles of consolidation:** The accompanying consolidated financial statements include the activities of Rochester Area Foundation, First Homes Properties, and Impact Finance. Rochester Area Foundation is the sole member of First Homes Properties, RAF Properties and Impact Finance. All material intercompany balances and transactions have been eliminated in preparation of the consolidated financial statements.

**Presentation:** Unrestricted net assets are those funds presently available for use by or on behalf of the Foundation, including amounts available for management and general expenses. These unrestricted net assets may also include board-designated amounts. Temporarily restricted net assets are contributions that have donor-imposed stipulations that can be fulfilled by certain actions of the Foundation. These are primarily contributions that are time restricted for charitable remainder trust/unitrust obligations or purpose restricted for certain projects. Permanently restricted net assets are contributions that have donor-imposed restrictions whereby the amount of the gift is to be held in perpetuity and only the income generated can be used as stipulated by the donor.

**Concentration of credit risk:** Most of the Foundation’s activities, particularly First Homes Properties, are with beneficiaries in southeast Minnesota. Note 5 discusses the types of lending the Foundation engages in. A substantial portion of the Foundation’s beneficiaries’ abilities to honor their contracts is dependent on the business economy in Rochester, and surrounding communities.

**Cash and cash equivalents:** For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

**Pledges receivable:** Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts not expected to be collected within one year are reported at the present value of projected future cash flows. Management determines bad debts by regularly evaluating individual pledges receivable and considers a donor’s financial condition and current economic conditions. Pledges receivable are written off when deemed uncollectible. Recoveries of pledges receivable previously written off are recorded when received. At December 31, 2015 and 2014, management concluded that all pledges receivable are collectable, therefore no allowance for bad debts is reported.

## Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Investments in marketable securities:** Donated real property is initially stated at fair value based on an appraisal at the date of donation. Investments in marketable equity and debt securities are stated at fair value based on quoted market prices or valued based on models using observable inputs. Investments in hedge funds, private equity funds and real estate investment trusts (alternative investments) are stated at fair value using the practical expedient based on net asset values reported by fund managers, audited financial statements of the funds and third-party valuation estimates. An investment advisor recommends the purchase of securities based on investment guidelines established by the Foundation. Investment income includes dividends and interest, which are recognized when earned; realized gains and losses recognized upon sale, using specific identification methods, and unrealized gains/losses recognized for change in fair value between reporting dates. Investment income is included in the change in unrestricted net assets unless the income is restricted by donor or law. Gains and losses from the sale of securities and unrealized appreciation or depreciation in investments are allocated to net asset components in the same manner as interest and dividends. The alternative investments are nonmarketable and, although a secondary market exists for nonmarketable investments, it is not active, and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported NAV. Therefore, if the redemption rights in the funds were restricted or eliminated, and the Foundation was to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported NAV, and the discount could be significant.

**Loans receivable:** The Foundation originates subordinated mortgage loans at advantageous rates to developers and families in southeast Minnesota to increase affordable multifamily and single-family housing. Loans receivable are initially reported at estimated fair value determined by discounting projected cash flows, using an imputed interest rate and estimated loan payoff date. The initial discount is recorded as a program expense. Accretion of the discount is reported as revenue. Management provides a provision for loan losses based on their current judgment about the credit quality of the loan portfolio and considers all known relevant internal and external factors that affect collectability as of the reporting date. Management has determined that no allowance for loan losses is required at December 31, 2015 and 2014.

**Fair value measurements:** Certain assets are reported at fair value on a recurring basis in the consolidated financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for additional information with respect to fair value measurements.

**Land and development costs:** The Foundation has acquired homes and land and is developing or rehabilitating these properties. Real estate properties held for sale are carried at the lower of cost, including cost of improvements and amenities incurred subsequent to acquisition, or fair value less cost to sell. Project costs associated with the acquisition, development and construction are capitalized.

**Land held in Community Land Trust (CLT):** The Foundation purchases land for homes purchased through the CLT, enters into a 99-year lease with the homeowner and receives title to the land. Certain municipalities in southeast Minnesota also participate by providing tax increment financing (TIF). TIF contributions related to CLT are capitalized at fair value and reported as revenue by the Foundation. CLT is stated at cost plus fair value of TIF contribution and is evaluated whenever events or changes in circumstances indicate the potential for impairment.

**Property, equipment and leasehold improvements:** Purchased items are capitalized at cost. Donated items are recorded at fair value at the time of donation. Depreciation is provided over useful lives ranging from three to 30 years.

## Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Annuities payable and unitrust obligations:** Represents the estimated obligation for future payments under charitable gift annuities and various charitable remainder trusts. The initial obligations are calculated based on the present value of expected payments over the life expectancies of the beneficiaries, discounted based on 120 percent of the applicable federal rate (AFR) rate at the date of donation as an approximation of fair value.

**Beneficial interest in trusts held by others:** Funds held in trust by others are reported at fair value. Fair value is based upon the total present value of discounted future cash flows estimated over the life of the trust. These funds represent resources neither in the possession nor under the control of the Foundation, but held and administered by outside fiscal agents, with the Foundation deriving income therefrom.

**Contributions:** The Foundation reports contributions at fair value when received or unconditionally pledged as unrestricted support, unless specifically restricted by the donor. For donor agreements involving a third party, contributions are reported as unrestricted if the donor agreement includes a variance provision giving the Board of Trustees the power to vary the use of funds. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When donor restrictions expire, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities as net assets released from restriction. If the restriction is met in the period the related revenue is recognized, amounts are reported as unrestricted activity. Contribution support for split-interest agreements is recognized at fair value at the date of the gift, calculated at present value of future estimated value. Contributions from municipalities in the form of TIF are recognized as revenue when an eligible mortgage is originated or purchase of eligible land via community land trust. Conditional contributions are recognized when the condition has been met.

**Grant revenue:** Government grants arise under agreements with federal government agencies. These agreements normally represent exchange transactions between the Foundation and the grantors and, most commonly, are included in unrestricted net assets. Revenue from grants is recognized according to the terms of the agreements, which commonly is when expenditures are incurred.

**Grant expense:** Grants to beneficiaries are expensed upon approval of the Board of Trustees.

**Refundable advances:** Amounts received by the Foundation that do not meet the requirements for recognition as contribution revenue are reported as a liability to the resource provider.

**Retirement benefits:** The Foundation provides retirement benefits to eligible employees through salary reduction plan, as permitted under Section 403(b) of the Internal Revenue Code. The Foundation contributes 5 percent of the employee’s salary through a Simplified Employee Pension Plan. The Foundation contributed $17,219 and $17,705 for the years ending December 31, 2015 and 2014, respectively.

**Use of estimates:** In preparing the Foundation’s financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near term are the valuation of investments, factors that impact the determination of unitrust obligations, and discount on loans receivable.

**Income taxes:** The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation believes that no significant uncertain tax positions have been taken in its tax returns.

## Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

At December 31, 2015, generally, the federal and Minnesota tax returns for the Foundation are open for examination by taxing authorities for the years 2013 to 2015. At December 31, 2015 and 2014, the Foundation did not record any liabilities for uncertain tax positions.

**Recent Accounting Pronouncements:** In May 2014 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard becomes effective for the Organization for the year beginning January 1, 2019. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. This ASU is effective for the year beginning January 1, 2017. As ASU 2015-07 only amends and eliminates certain disclosures, the Foundation does not anticipate its adoption will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and measurement of Financial Assets and Financial Liabilities* (Topic 825-10). The ASU applies to all entities that hold financial assets or owe financial liabilities and represents the finalization of just one component of the FASB's broader financial instruments project. The most far-reaching ramification of the ASU is the elimination of the available-for-sale classification for equity securities and a new requirement to carry those equity securities with readily determinable fair values at fair value through net income. Other notable changes brought about by the ASU involve: (a) applying a practicability exception from fair value accounting to equity securities that do not have a readily determinable fair value, (b) assessing the need for a valuation allowance for a deferred tax asset related to an available-for-sale debt security, (c) applying the fair value option to liabilities and the treatment of changes in fair value attributable to instrument-specific credit risk and (d) adding disclosures and eliminating certain disclosures. The standard becomes effective for the Credit Union in fiscal year ending December 31, 2020. Early implementation is allowed. The Company is currently evaluating the effect that the standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. While both lessees and lessors are affected by the new guidance, the effects on lessees are much more significant. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straightline basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. For many entities, this could significantly affect the financial ratios they use for external reporting and other purposes, such as debt covenant compliance. The ASU is effective for the Foundation for the year beginning January 1, 2020. The Foundation is currently evaluating the effect that the standard will have on its financial statements.

## Note 2. Fair Value Measurements

The Foundation holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the Fair Value Measurements and Disclosures topic of *FASB Accounting Standards Codification* (ASC) 820 are based upon observable and unobservable inputs. The standard establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

**Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the Foundation's valuation methodologies for assets and liabilities measured at fair value:

- Fair value for Level 1 is based upon quoted market prices.

- Fair value for Level 2 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 or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers.

- Fair value for Level 3, which consists of alternative investments (principally limited partnership interests in private equity, hedge, real estate, and natural resources funds), represents the Foundation's ownership interest in the net asset value (NAV) of the respective investment. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by the limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on a variety of inputs, including historical cost; independent external valuations from specialists, such as actuaries, appraisers and engineers; comparison to publicly traded comparables; pricing used in the most recent secondary transaction or financing; or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Level 3 investments also include beneficial interest in trust, as the Foundation has no redemption rights with respect to trust assets. The fair value of the beneficial interest is determined based upon the discounted cash flow of the expected payment streams. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. 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 could result in a different estimate of fair value at the reporting date.

## Note 2. Fair Value Measurements (Continued)

Assets subject to the recurring fair value measurements described above included in the consolidated statements of financial position at December 31, 2015 and 2014, are summarized as follows:

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Investments in marketable securities: | | | | |
| Mutual funds: | | | | |
| Blended equity income | $ 2,916,343 | $ - | $ - | $ 2,916,343 |
| Domestic corporate obligations | 857,315 | - | - | 857,315 |
| Domestic equity—small/mid cap | 715,357 | - | - | 715,357 |
| Domestic equity—large cap | 207,033 | - | - | 207,033 |
| Domestic equity sectors | 419,676 | - | - | 419,676 |
| International corporate obligations | 16,393 | - | - | 16,393 |
| International equity | 1,927,913 | - | - | 1,927,913 |
| U.S. Government obligations | 33,693 | - | - | 33,693 |
| Global balanced fund | 5,916,694 | - | - | 5,916,694 |
| Large cap common stocks | 4,555,735 | - | - | 4,555,735 |
| Alternative investments: | | | | |
| Hedge funds | - | - | 206,596 | 206,596 |
| Real estate and natural resource funds | - | - | 870,788 | 870,788 |
| Private equity | - | - | 6,687,448 | 6,687,448 |
| Total investments in marketable securities | 17,566,152 | - | 7,764,832 | 25,330,984 |
| Other assets: | | | | |
| Beneficial interest in trusts held by others | - | - | 533,206 | 533,206 |
| Total | $ 17,566,152 | $ - | $ 8,298,038 | $ 25,864,190 |

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Investments in marketable securities: | | | | |
| Mutual funds: | | | | |
| Blended equity income | $ 2,900,361 | $ - | $ - | $ 2,900,361 |
| Domestic corporate obligations | 1,203,867 | - | - | 1,203,867 |
| Domestic equity—small/mid cap | 532,236 | - | - | 532,236 |
| Domestic equity—large cap | 253,530 | - | - | 253,530 |
| Domestic equity sectors | 435,357 | - | - | 435,357 |
| International corporate obligations | 18,486 | - | - | 18,486 |
| International equity | 1,688,106 | - | - | 1,688,106 |
| U.S. Government obligations | 33,845 | - | - | 33,845 |
| Global balanced fund | 6,495,839 | - | - | 6,495,839 |
| Large cap common stocks | 4,784,982 | - | - | 4,784,982 |
| Alternative investments: | | | | |
| Hedge funds | - | - | 278,523 | 278,523 |
| Real estate and natural resource funds | - | - | 1,291,704 | 1,291,704 |
| Private equity | - | - | 6,688,548 | 6,688,548 |
| Total investments in marketable securities | 18,346,609 | - | 8,258,775 | 26,605,384 |
| Other assets: | | | | |
| Beneficial interest in trusts held by others | - | - | 619,369 | 619,369 |
| Total | $ 18,346,609 | $ - | $ 8,878,144 | $ 27,224,753 |

## Note 2. Fair Value Measurements (Continued)

The following tables are a roll-forward of the investments classified by the Foundation within Level 3 of the valuation hierarchy defined above:

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Hedge Funds | Real Estate and Natural Resource Funds | Private Equity | Other | Total |
| Fair value January 1, 2015 | $ 278,523 | $ 1,291,704 | $ 6,688,548 | $ 619,369 | $ 8,878,144 |
| Net purchases, issuances, contributions and capital calls | - | - | 300,000 | - | 300,000 |
| Dispositions and distributions | (69,576) | (426,895) | - | (63,495) | (559,966) |
| Market value change | (6,647) | 5,979 | (287,528) | (22,668) | (310,864) |
| Fair value December 31, 2015 | $ 202,300 | $ 870,788 | $ 6,701,020 | $ 533,206 | $ 8,307,314 |
| Net unrealized gains (losses) attributable to investments held at year end | $ (6,647) | $ 5,979 | $ (287,528) | $ (22,668) | $ (310,864) |

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Hedge Funds | Real Estate and Natural Resource Funds | Private Equity | Other | Total |
| Fair value January 1, 2014 | $ 349,887 | $ 1,508,405 | $ 6,086,703 | $ 667,751 | $ 8,612,746 |
| Net purchases, issuances, contributions and capital calls | - | - | 300,000 | - | 300,000 |
| Disposition of investments | (94,549) | (308,776) | - | (64,784) | (468,109) |
| Market value change | 23,185 | 92,075 | 301,845 | 16,402 | 433,507 |
| Fair value December 31, 2014 | $ 278,523 | $ 1,291,704 | $ 6,688,548 | $ 619,369 | $ 8,878,144 |
| Net unrealized gains attributable to investments held at year end | $ 23,185 | $ 92,075 | $ 301,845 | $ 16,402 | $ 433,507 |

The following information pertains to those alternative investments recorded at NAV in accordance with the Fair Value Measurements and Disclosures topic of the FASB ASC:

| | 2015 | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency (if currently available) | Redemption Notice Period |
| Alternative investments: | | | | |
| Hedge funds (a) | $ 202,300 | $ - | Not available | Upon liquidation |
| Real estate and natural resource funds (b) | 870,788 | 128,799 | (b) | (b) |
| Private equity | 6,701,020 | - | Monthly/ Quarterly | 30/60 days |
| | $ 7,774,108 | $ 128,799 | | |

### Note 2. Fair Value Measurements (Continued)

(a) This category includes investments in absolute return/hedge funds, which are actively managed, commingled investment vehicles that derive the majority of their returns from factors other than the directional flow of the markets in which they invest. The Foundation's investments in this asset class currently do not allow any redemptions.

(b) These categories include limited partnership interests in closed-end funds that focus on private equity, real estate and resource-related strategies. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of most funds will generally be liquidated over a five to seven year period. These alternative investments are nonmarketable and, although a secondary market exists for nonmarketable investments, it is not active, and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported NAV. Therefore, if the redemption rights in the funds were restricted or eliminated, and the Foundation was to sell these investments in the secondary market, it is reasonably possible that a buyer in the secondary market may require a discount to the reported NAV, and the discount could be significant. Redemption frequency varies on these investments from not available to quarterly, with the notice periods of 45 to 60 days, when available. Approximately 10 percent of the funds do not allow redemptions, with the remaining 90 percent redeemable quarterly.

(c) This category includes a limited partnership interest in a fund of funds whose objective is to maximize risk-adjusted returns over the long term horizon by employing various strategies.

The Foundation uses various external investment managers to diversify the investments in alternative assets. The largest allocation to any alternative investment strategy manager as of December 31, 2015 and 2014, was $6,687,000 and $6,689,000, respectively.

### Note 3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2015 and 2014, are summarized as follows:

| | 2015 | | |
|---|---|---|---|
| | Cost | Carrying Value | Unrealized Gain/(Loss) |
| Mutual funds: | | | |
| Blended equity income | $ 2,770,511 | $ 2,916,343 | $ 145,832 |
| Domestic corporate obligations | 906,927 | 857,315 | (49,612) |
| Domestic equity—small/mid cap | 700,289 | 715,357 | 15,068 |
| Domestic equity—large cap | 150,704 | 207,033 | 56,329 |
| Domestic equity sectors | 381,093 | 419,676 | 38,583 |
| International corporate obligations | 18,840 | 16,393 | (2,447) |
| International equity | 2,124,870 | 1,927,913 | (196,957) |
| U.S. government obligations | 33,380 | 33,693 | 313 |
| Large cap common stocks | 4,018,765 | 4,555,735 | 536,970 |
| Global balanced fund | 6,435,649 | 5,916,694 | (518,955) |
| Alternative investments: | | | |
| Hedge funds | 319,722 | 206,596 | (113,126) |
| Real estate and natural resource funds | 2,751,285 | 870,788 | (1,880,497) |
| Private equity | 6,600,000 | 6,687,448 | 87,448 |
| | $ 27,212,035 | $ 25,330,984 | $ (1,881,051) |

## Note 3. Investments in Marketable Securities (Continued)

| | 2014 | | |
|---|---|---|---|
| | Cost | Carrying Value | Unrealized Gain/(Loss) |
| Mutual funds: | | | |
| Blended equity income | $ 2,646,161 | $ 2,900,361 | $ 254,200 |
| Domestic corporate obligations | 1,231,288 | 1,203,867 | (27,421) |
| Domestic equity—small/mid cap | 458,307 | 532,236 | 73,929 |
| Domestic equity—large cap | 184,803 | 253,530 | 68,727 |
| Domestic equity sectors | 370,366 | 435,357 | 64,991 |
| International corporate obligations | 18,840 | 18,486 | (354) |
| International equity | 1,751,013 | 1,688,106 | (62,907) |
| U.S. government obligations | 33,380 | 33,845 | 465 |
| Large cap common stocks | 3,911,046 | 4,784,982 | 873,936 |
| Global balanced fund | 6,199,546 | 6,495,839 | 296,293 |
| Alternative investments: | | | |
| Hedge funds | 389,298 | 278,523 | (110,775) |
| Real estate and natural resource funds | 3,001,758 | 1,291,704 | (1,710,054) |
| Private equity | 6,300,000 | 6,688,548 | 388,548 |
| | $ 26,495,806 | $ 26,605,384 | $ 109,578 |

At December 31, 2015 and 2014, the Foundation, as trustee, holds charitable remainder trusts/unitrusts totaling approximately $837,000 and $912,000, respectively, that are included in investments.

Reconciliation of investment income (loss) for the years ended December 31, 2015 and 2014, is as follows:

| | 2015 | 2014 |
|---|---|---|
| Interest and dividends from depository accounts | $ 28,871 | $ 20,687 |
| Interest and dividends from investments | 203,996 | 528,378 |
| Net (losses) gains | (788,107) | 638,152 |
| Investment fees (individually identified) | (45,182) | (40,844) |
| | $ (600,422) | $ 1,146,373 |

## Note 4. Pledges Receivable

Long-term pledges receivable are recognized at net realizable value, using present value techniques and a discount rate of 5 percent.

| | 2015 | 2014 |
|---|---|---|
| Total pledges | $ 572,112 | $ 245,500 |
| Less discount applied to long-term pledges | (30,000) | - |
| Pledge receivable, net | $ 542,112 | $ 245,500 |

## Note 4. Pledges Receivable (Continued)

As of December 31, 2015, pledges receivable are expected to be collected in the following periods:

| | | |
|---|---|---|
| 2016 | $ | 157,923 |
| 2017 | | 169,164 |
| 2018 | | 245,025 |
| | $ | 572,112 |

## Note 5. Loans Receivable

Impact Finance originates subordinated mortgage loans for single-family and multifamily development housing as follows:

**Single-family loans:** Single-family mortgage loans are originated to assist low- and moderate-income homebuyers with all or a portion of the down payment required on their primary residence, in amounts ranging from $1,000 to $10,000 for a 30-year term in conjunction with their primary mortgage lender. Loans originated for the purchase of homes within the Community Land Trust program administered by First Homes Properties do not earn interest during the 30-year mortgage term, with the balance of principal due upon loan maturity or sale of the home, whichever comes first. Loans originated for financing outside of the Community Land Trust program earn simple interest of 2 percent per annum over the 30-year mortgage term, with balance of principal and interest due upon loan maturity or sale of the home, whichever comes first. Impact Finance has estimated that the majority of these loans will be repaid within an average of 10 years, with total projected cash flows discounted to present value with rates between 3.46 percent and 6.88 percent over that period. Loans originated in conjunction with a home purchased through the Community Land Trust program are collateralized by the underlying value of the land in the trust, which is evaluated annually for impairment. During the years ended December 31, 2015 and 2014, a total of approximately $127,000 and $42,000, respectively, was repaid due to the sale of homes, and no loans and one loan of $5,000, respectively, was written off due to bank foreclosure on the primary mortgage on the home. As of December 31, 2015, all remaining loans mature between the years of 2020 and 2045, and no impairment to the loans or the underlying value of the land has been identified necessitating further credit risk evaluation.

**Multifamily loans:** Multifamily loans are originated to agencies with the intent to construct and develop multifamily residences for low- and moderate-income individuals. These loans do not earn interest and are discounted over the term of the primary mortgage that ranges from 20 to 30 years, with the principal balance of the loan due upon maturity of the primary mortgage or sale of the development, whichever comes first. Multifamily loans are discounted using rates consistent with the underlying primary mortgage of the development or the effective yield of underlying bonds issued if no primary mortgage exists, with rates ranging from 5.0 percent to 7.6 percent. As of December 31, 2015, all multifamily loans mature between the years of 2020 and 2040, and no impairment to the loans has been identified necessitating further credit risk evaluation.

**Contracts for deed:** Contracts for deed are originated to low- and moderate-income homebuyers. These loans earn simple interest of 4 percent per annum and require monthly principal and interest payments until maturity in 2016, when the remaining unpaid principal and interest balances are due. As of December 31, 2015, borrowers have paid in accordance with contractual terms, and no impairment to the loans has been identified necessitating further credit risk evaluation.

## Note 5. Loans Receivable (Continued)

Impact Finance administers $2.5 million committed by the Greater Minnesota Housing Foundation (GMHF) to provide funding for single-family gap loans for households in Southeast Minnesota. Impact Finance does not report loans funded by GMHF within its financial statements, as the mortgage is held by GMHF.

A summary of loans receivable by type are as follows:

| | December 31 | |
|---|---|---|
| | 2015 | 2014 |
| Multifamily loans | $ 2,871,200 | $ 2,911,200 |
| Single-family loans | 1,370,651 | 1,487,394 |
| Contract for deed | 146,302 | 149,364 |
| Less discount | (1,910,000) | (1,983,000) |
| Loans receivable, net | $ 2,478,153 | $ 2,564,958 |

Under the terms of the refinanced debt with the GMHF (see Note 7), the Foundation pledged certain loans receivable and assigned the cash flows from certain loans receivable as follows: (1) 60 percent of the repayments on single-family loans through 2020 and (2) 100 percent of the repayments on contracts for deed through 2020.

## Note 6. Property and Equipment

Property and equipment as of December 31, 2015 and 2014, consisted of the following:

| | 2015 | 2014 |
|---|---|---|
| Leasehold improvements | $ 839,143 | $ 24,132 |
| Equipment and furniture | 146,797 | 217,080 |
| Accumulated depreciation | (109,871) | (236,725) |
| Property and equipment, net | $ 876,069 | $ 4,487 |

## Note 7. Split-Interest Agreements

**Charitable remainder unitrust obligations:** The Foundation is a recipient and Trustee of four charitable remainder unitrusts. The agreements require the Foundation to pay beneficiaries, on a quarterly basis, returns ranging from 5.0 percent to 7.0 percent of the trust assets' fair value, determined as of each January 1. A liability of $555,000 and $614,000 as of December 31, 2015 and 2014, respectively, has been recorded based on current annual required payments, using current life expectancies of the beneficiaries and discount factors of 5.0 percent to 7.0 percent. Upon death of the beneficiaries and/or termination of the unitrusts, any remaining assets revert to the Foundation.

## Note 7. Split-Interest Agreements (Continued)

**Beneficial interest in trusts held by others–charitable lead trusts:** In December 2010, three irrevocable charitable lead trusts were established for the benefit of the Foundation. Under the terms of the trust agreements, the Foundation will receive an annuity equal to a percentage of the fair value of the trusts as of an annual valuation date. Annuity payments will be made for a term of 15 years for one trust, 20 years for another, and the third is estimated to be over 18 years. Distributions from the three trusts are discounted at rates between 4.75 percent and 5.25 percent and are expected to be realized in the following periods:

| | |
|---|---|
| 2016 | $ 58,022 |
| 2017-2021 | 292,476 |
| 2022-2026 | 286,089 |
| 2027-2029 | 115,379 |
| | 751,966 |
| Less: present value discount | (218,760) |
| | $ 533,206 |

During the years ended December 31, 2015 and 2014, the Foundation received distributions of $62,854 and $64,784, respectively, from these trusts.

## Note 8. Notes Payable

The Foundation obtained funding from the Greater Minnesota Housing Fund to begin a revolving loan fund to be used to pay costs in connection with the acquisition, construction and/or rehabilitation of existing homes in the vicinity of Rochester, Minnesota.

The Foundation has a note payable to the Greater Minnesota Housing Fund. The note is secured by an assignment and assumption of mortgage and loan receivables carried at approximately $339,000. As outlined in the agreement, certain notes receivable, mortgages, contracts for deed and other assets were listed as collateral (approximately $997,000) and future proceeds are assigned to the lender (see Note 5). Under the agreement, loan payments and mortgage sale proceeds will be received by the lender as a reduction in the outstanding principal balance over the life of the loan. Interest on the loan is 2 percent simple interest rate, with quarterly interest only payments until December 2020 and is collateralized by assets and future revenues. All accrued interest and the unpaid principal balance is due as a balloon payment in December 2020.

The Foundation established a fixed rate revolving line of credit of $250,000 with a bank in Rochester, Minnesota. The line of credit is backed by a promissory note maturing in November, 2016. The note carries a fixed rate of 1.50 percent. The line of credit calls for monthly interest only payments with any outstanding balance due at maturity. There was approximately $201,000 and zero outstanding as of December 31, 2015 and 2014, respectively.

## Note 9. Net Assets

Unrestricted net assets are held with the following Board designations as of December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Board designated | $ 14,622 | $ 286,072 |
| Donor designated | 1,106,227 | 1,166,554 |
| Donor advised (nonendowment) | 10,017,845 | 10,549,523 |
| Agency endowment | 5,651,881 | 6,056,443 |
| Field of interest | 1,041,144 | 1,100,583 |
| Undesignated | 4,729,529 | 4,993,653 |
| | $ 22,561,248 | $ 24,152,828 |

Temporarily restricted net assets are restricted for the following purposes at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Time restricted based on life expectancy of donors: | | |
| Charitable remainder unitrust | $ 204,972 | $ 218,399 |
| Charitable remainder trust | 52,114 | 54,049 |
| Charitable gift annuity | 188,676 | 111,802 |
| Charitable lead trust | 533,206 | 619,369 |
| | 978,968 | 1,003,619 |
| Purpose restricted: | | |
| First Homes Properties | 9,951,599 | 9,041,501 |
| Impact Finance | 193,449 | 113,785 |
| | 10,145,048 | 9,155,286 |
| Endowment earnings for Rochester community | 115,739 | 351,252 |
| Building campaign | 384,068 | - |
| Housing initiative | 103,334 | - |
| Preschool children | 584,100 | 617,769 |
| Higher learning | 22,342 | 23,504 |
| Disabled individuals | 376,166 | 401,182 |
| | 1,585,749 | 1,393,707 |
| | $ 12,709,765 | $ 11,552,612 |

### Note 9. Net Assets (Continued)

Permanently restricted net assets of which investment income is available for the following purposes at December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| Scholarships | $ 10,000 | $ 10,000 |
| Higher learning | 10,000 | 10,000 |
| Rochester community | 1,426,644 | 1,426,644 |
| Operating endowment | 475,000 | 475,000 |
| | $ 1,921,644 | $ 1,921,644 |

### Note 10. Endowment

The Foundation’s endowment consists of 209 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, 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.

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets 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 SPMIFA. In accordance with the SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

### Note 10. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2015 and 2014, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance, December 31, 2013 | $ 13,562,209 | $ 1,387,712 | $ 1,921,644 | $ 16,871,565 |
| Investment return, investment change | 719,602 | 5,845 | - | 725,447 |
| Board allocations of unrestricted contributions | 494,395 | 150 | - | 494,545 |
| Appropriation of endowment funds (net of fees and reimbursements) | (1,172,901) | - | - | (1,172,901) |
| Balance, December 31, 2014 | 13,603,305 | 1,393,707 | 1,921,644 | 16,918,656 |
| Investment return, investment change | (27,021) | (295,410) | - | (322,431) |
| Contributions | - | 1,410,814 | - | 1,410,814 |
| Board allocations of unrestricted contributions | 37,891 | - | - | 37,891 |
| Appropriation of endowment funds (net of fees and reimbursements) | (1,070,772) | (923,362) | - | (1,994,134) |
| Balance, December 31, 2015 | $ 12,543,403 | $ 1,585,749 | $ 1,921,644 | $ 16,050,796 |

The Foundation has adopted investment and spending 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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that proposes to achieve a total return equivalent to or greater than the Foundation's financial requirements and long-term objectives. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

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.

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3.0 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## Note 11. Commitments and Contingencies

**Operating lease:** The Foundation leases office space pursuant to a noncancellable operating lease. The lease agreement, which expires in March 2016, requires a minimum monthly payment of $5,395, which includes payment of real estate taxes and operating expenses. The future minimum commitments under this lease are approximately $16,000 in fiscal year 2016. Rental expense related to this operating lease for the years ended December 31, 2015 and 2014, was approximately $67,000 and $114,000, respectively. Subsequent to December 31, 2015 the Foundation purchased the building, see Note 12.

**Loan guarantee:** In March of 2012, the Foundation agreed to provide a $2,000,000 collateralized loan guarantee to the Boys and Girls Club and Childcare Resource and Referral for the purposes of building a new facility to house programs for lower income and at-risk youth. This guarantee was made to the primary lending institution for a loan into a New Markets Tax Credit structure. This guarantee is secured by an interest in Foundation assets. As of December 31, 2012, the loan proceeds were disbursed by the primary lender, and the Foundation was reimbursed $300,000 for costs related to services provided obtaining the loan. The Foundation can be required to perform on the guarantee only in the event of nonpayment of the debt by the debtor. Management evaluates the Foundation's exposure to loss at each statement of financial position date and provides accruals for such as deemed necessary. No accruals were deemed necessary at December 31, 2015 or 2014.

## Note 12. Subsequent Events

The Foundation obtained financing for the purchase of a building to be used for office space subsequent to year-end but prior to the financial statements being issued or available to be issued. The building was purchased for $1,600,000. The long-term debt consists of two agreements. The first agreement for $750,000, payable in three payment streams with varying interest rates, collateralized by substantially all the assets of the Foundation. The interest rates range from 1.82 percent to 2.15 percent and is payable monthly in the amount of $7,627 from May 2016 through April 2026, with a lump sum payment of $416,313 in April 2026. The second agreement for $522,000 is an unsecured note, which accrues interest at 1.75 percent, with interest only payments until April 2020.

**Rochester Area Foundation and Affiliates**

**Consolidating Statements of Financial Position**
**Year Ended December 31, 2015**

| | Endowment | First Homes Properties | Rochester Community Finance |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 963,004 | $ 141,425 | $ 129,033 |
| Interest and dividends receivable | - | 4,810 | 8,089 |
| Pledges receivable | 542,112 | - | - |
| Due from affiliates | 187,754 | 1,857,083 | 2,250 |
| Investments in marketable securities | 25,330,984 | - | - |
| Beneficial interest in trusts held by others | 533,206 | - | - |
| Loans receivable, net | - | 305,802 | 2,172,351 |
| Land and development costs | - | 245,038 | - |
| Property and equipment, net of accumulated depreciation | 875,904 | 165 | - |
| Other assets | 51,395 | 71,447 | 3,266 |
| Land held in Community Land Trust | - | 7,953,584 | - |
| **Total assets** | $ 28,484,359 | $ 10,579,354 | $ 2,314,989 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ 76,727 | $ 34,873 | $ 1,899 |
| Grants payable | 72,976 | - | - |
| Annuities payable | 87,520 | - | - |
| Unitrust obligations | 555,000 | - | - |
| Refundable advances | 540,483 | - | - |
| Line of credit | 201,794 | - | - |
| Notes payable | - | 567,686 | - |
| Due to affiliates | 2,250 | 25,196 | 2,019,641 |
| **Total liabilities** | 1,536,750 | 627,755 | 2,021,540 |
| Net assets: | | | |
| Unrestricted | 22,461,248 | - | 100,000 |
| Temporarily restricted | 2,564,717 | 9,951,599 | 193,449 |
| Permanently restricted | 1,921,644 | - | - |
| **Total net assets** | 26,947,609 | 9,951,599 | 293,449 |
| **Total liabilities and net assets** | $ 28,484,359 | $ 10,579,354 | $ 2,314,989 |

| Total | Eliminations | Consolidated Total |
|---|---|---|
| $ 1,233,462 | $ - | $ 1,233,462 |
| 12,899 | - | 12,899 |
| 542,112 | - | 542,112 |
| 2,047,087 | (2,047,087) | - |
| 25,330,984 | - | 25,330,984 |
| 533,206 | - | 533,206 |
| 2,478,153 | - | 2,478,153 |
| 245,038 | - | 245,038 |
| 876,069 | - | 876,069 |
| 126,108 | - | 126,108 |
| 7,953,584 | - | 7,953,584 |
| $ 41,378,702 | $ (2,047,087) | $ 39,331,615 |
| $ 113,499 | $ - | $ 113,499 |
| 72,976 | - | 72,976 |
| 87,520 | - | 87,520 |
| 555,000 | - | 555,000 |
| 540,483 | - | 540,483 |
| 201,794 | - | 201,794 |
| 567,686 | - | 567,686 |
| 2,047,087 | (2,047,087) | - |
| 4,186,045 | (2,047,087) | 2,138,958 |
| 22,561,248 | - | 22,561,248 |
| 12,709,765 | - | 12,709,765 |
| 1,921,644 | - | 1,921,644 |
| 37,192,657 | - | 37,192,657 |
| $ 41,378,702 | $ (2,047,087) | $ 39,331,615 |

**Rochester Area Foundation and Affiliates**

**Consolidating Statements of Financial Position**
**Year Ended December 31, 2014**

| | Endowment | First Homes Properties | Rochester Community Finance |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 1,036,274 | $ 124,089 | $ 35,793 |
| Interest and dividends receivable | - | 4,900 | 8,089 |
| Pledges receivable | 245,500 | - | - |
| Notes receivable from affiliates | 1,113,541 | 1,983,272 | 4,500 |
| Investments in marketable securities | 26,605,384 | - | - |
| Beneficial interest in trusts held by others | 619,369 | - | - |
| Loans receivable, net | - | 308,864 | 2,256,094 |
| Land and development costs | - | 422,128 | - |
| Equipment, net of accumulated depreciation | 4,153 | 334 | - |
| Other assets | 50,641 | 73,122 | 8,000 |
| Land held in Community Land Trust | - | 7,983,584 | - |
| **Total assets** | $ 29,674,862 | $ 10,900,293 | $ 2,312,476 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ 23,085 | $ 10,030 | $ 2,374 |
| Grants payable | 48,795 | - | - |
| Annuities payable | 62,603 | - | - |
| Unitrust obligations | 614,000 | - | - |
| Refundable advances | 550,081 | - | - |
| Notes payable | - | 848,266 | - |
| Notes payable to affiliates | 4,500 | 1,000,496 | 2,096,317 |
| **Total liabilities** | 1,303,064 | 1,858,792 | 2,098,691 |
| Net assets: | | | |
| Unrestricted | 24,052,828 | - | 100,000 |
| Temporarily restricted | 2,397,326 | 9,041,501 | 113,785 |
| Permanently restricted | 1,921,644 | - | - |
| **Total net assets** | 28,371,798 | 9,041,501 | 213,785 |
| **Total liabilities and net assets** | $ 29,674,862 | $ 10,900,293 | $ 2,312,476 |

| Total | Eliminations | Consolidated Total |
|---|---|---|
| | | |
| $ 1,196,156 | $ - | $ 1,196,156 |
| 12,989 | - | 12,989 |
| 245,500 | - | 245,500 |
| 3,101,313 | (3,101,313) | - |
| 26,605,384 | - | 26,605,384 |
| 619,369 | - | 619,369 |
| 2,564,958 | - | 2,564,958 |
| 422,128 | - | 422,128 |
| 4,487 | - | 4,487 |
| 131,763 | - | 131,763 |
| 7,983,584 | - | 7,983,584 |
| $ 42,887,631 | $ (3,101,313) | $ 39,786,318 |
| | | |
| $ 35,489 | $ - | $ 35,489 |
| 48,795 | - | 48,795 |
| 62,603 | - | 62,603 |
| 614,000 | - | 614,000 |
| 550,081 | - | 550,081 |
| 848,266 | - | 848,266 |
| 3,101,313 | (3,101,313) | - |
| 5,260,547 | (3,101,313) | 2,159,234 |
| | | |
| 24,152,828 | - | 24,152,828 |
| 11,552,612 | - | 11,552,612 |
| 1,921,644 | - | 1,921,644 |
| 37,627,084 | - | 37,627,084 |
| $ 42,887,631 | $ (3,101,313) | $ 39,786,318 |

**Rochester Area Foundation and Affiliates**

**Consolidating Statements of Activities**
**Year Ended December 31, 2015**

| | Endowment | First Homes Properties | Rochester Community Finance |
|---|---|---|---|
| Changes in unrestricted net assets: | | | |
| Public support and revenues: | | | |
| Foundation, corporations and individuals, net | $ 1,193,134 | $ - | $ - |
| Investment loss | (263,630) | - | - |
| Other | 20,466 | - | - |
| Net assets released from restriction | 939,972 | 195,082 | 86,646 |
| **Total unrestricted public support and revenues** | 1,889,942 | 195,082 | 86,646 |
| Expenses: | | | |
| Programs: | | | |
| Grants | 2,754,418 | - | - |
| Philanthropic and special | 178,773 | - | - |
| First Homes Properties | - | 115,194 | - |
| Impact Finance | - | - | 40,247 |
| Management and general | 417,561 | 76,758 | 36,794 |
| Fundraising | 130,770 | 3,130 | 9,605 |
| **Total expenses** | 3,481,522 | 195,082 | 86,646 |
| **Change in unrestricted net assets** | (1,591,580) | - | - |
| Changes in temporarily restricted net assets: | | | |
| Foundation, corporations and individuals | 1,511,056 | 1,046,016 | 58,260 |
| Grants | - | - | 17,000 |
| Investment (loss) gain | (365,663) | 15,499 | 13,372 |
| Loan discount accretion | - | - | 76,408 |
| Other | - | 43,665 | 1,270 |
| Change in value of split-interest agreements | (38,030) | - | - |
| Net assets released from restriction | (939,972) | (195,082) | (86,646) |
| **Change in temporarily restricted net assets** | 167,391 | 910,098 | 79,664 |
| **Change in net assets** | (1,424,189) | 910,098 | 79,664 |
| Net assets, beginning | 28,371,798 | 9,041,501 | 213,785 |
| Net assets, ending | $ 26,947,609 | $ 9,951,599 | $ 293,449 |

| Total | Eliminations | Consolidated Total |
|---|---|---|
| | | |
| $ 1,193,134 | $ - | $ 1,193,134 |
| (263,630) | - | (263,630) |
| 20,466 | - | 20,466 |
| 1,221,700 | (1,203,968) | 17,732 |
| 2,171,670 | (1,203,968) | 967,702 |
| | | |
| 2,754,418 | (1,203,968) | 1,550,450 |
| 178,773 | - | 178,773 |
| 115,194 | - | 115,194 |
| 40,247 | - | 40,247 |
| 531,113 | - | 531,113 |
| 143,505 | - | 143,505 |
| 3,763,250 | (1,203,968) | 2,559,282 |
| (1,591,580) | - | (1,591,580) |
| | | |
| 2,615,332 | (1,203,968) | 1,411,364 |
| 17,000 | - | 17,000 |
| (336,792) | - | (336,792) |
| 76,408 | - | 76,408 |
| 44,935 | - | 44,935 |
| (38,030) | - | (38,030) |
| (1,221,700) | 1,203,968 | (17,732) |
| 1,157,153 | - | 1,157,153 |
| (434,427) | - | (434,427) |
| 37,627,084 | - | 37,627,084 |
| $ 37,192,657 | $ - | $ 37,192,657 |

**Rochester Area Foundation and Affiliates**

**Consolidating Statements of Activities**
**Year Ended December 31, 2014**

| | Endowment | First Homes Properties | Rochester Community Finance |
|---|---|---|---|
| Changes in unrestricted net assets: | | | |
| Public support and revenues: | | | |
| Foundation, corporations and individuals | $ 2,431,410 | $ - | $ - |
| Investment gain | 1,178,480 | - | - |
| Other | 8,585 | - | - |
| Net assets released from restriction | 15,400 | 240,094 | 150,842 |
| **Total unrestricted public support and revenues** | 3,633,875 | 240,094 | 150,842 |
| Expenses: | | | |
| Programs: | | | |
| Grants | 2,385,355 | - | - |
| Philanthropic and special | 130,606 | - | - |
| First Homes Properties | - | 129,248 | - |
| Impact Finance | - | - | 43,070 |
| Management and general | 426,423 | 109,084 | 95,972 |
| Fundraising | 123,669 | 1,762 | 11,800 |
| **Total expenses** | 3,066,053 | 240,094 | 150,842 |
| **Change in unrestricted net assets** | 567,822 | - | - |
| Changes in temporarily restricted net assets: | | | |
| Foundation, corporations and individuals | 150 | 239,235 | 31,710 |
| Grants | - | - | 100,000 |
| Investment gain | (52,794) | 17,093 | 3,594 |
| Loan discount accretion | - | - | 81,058 |
| Other | - | 180,321 | - |
| Change in value of split-interest agreements | 24,680 | - | 49 |
| Net assets released from restriction | (15,400) | (240,094) | (150,842) |
| **Change in temporarily restricted net assets** | (43,364) | 196,555 | 65,569 |
| **Change in net assets** | 524,458 | 196,555 | 65,569 |
| Net assets, beginning | 27,847,340 | 8,844,946 | 148,216 |
| Net assets, ending | $ 28,371,798 | $ 9,041,501 | $ 213,785 |

| Total | Eliminations | Consolidated Total |
|---|---|---|
| | | |
| $ 2,431,410 | $ - | $ 2,431,410 |
| 1,178,480 | - | 1,178,480 |
| 8,585 | - | 8,585 |
| 406,336 | (106,615) | 299,721 |
| 4,024,811 | (106,615) | 3,918,196 |
| | | |
| 2,385,355 | (106,615) | 2,278,740 |
| 130,606 | - | 130,606 |
| 129,248 | - | 129,248 |
| 43,070 | - | 43,070 |
| 631,479 | - | 631,479 |
| 137,231 | - | 137,231 |
| 3,456,989 | (106,615) | 3,350,374 |
| 567,822 | - | 567,822 |
| | | |
| 271,095 | (106,615) | 164,480 |
| 100,000 | - | 100,000 |
| (32,107) | - | (32,107) |
| 81,058 | - | 81,058 |
| 180,321 | - | 180,321 |
| 24,729 | - | 24,729 |
| (406,336) | 106,615 | (299,721) |
| 218,760 | - | 218,760 |
| 786,582 | - | 786,582 |
| 36,840,502 | - | 36,840,502 |
| $ 37,627,084 | $ - | $ 37,627,084 |

**Rochester Area Foundation and Affiliates**

**Schedule of Endowment Expenses**
**Year Ended December 31, 2015**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Program | Management and General | Fundraising | Total | 2014 Total |
| Personnel | $ 140,801 | $ 178,430 | $ 126,870 | $ 446,101 | $ 408,860 |
| Donor relations: | | | | | |
| Printing and postage | - | 13,287 | - | 13,287 | 12,226 |
| Office and equipment: | | | | | |
| Supplies | 3,260 | 7,070 | - | 10,330 | 6,171 |
| Telephone | 2,152 | 4,666 | - | 6,818 | 6,284 |
| Repair and maintenance | 12,387 | 26,860 | - | 39,247 | 26,739 |
| Office lease | 15,919 | 34,516 | - | 50,435 | 68,448 |
| Depreciation | 4,254 | 9,224 | - | 13,478 | 10,104 |
| | 37,972 | 82,336 | - | 120,308 | 117,746 |
| Administration: | | | | | |
| Professional fees | - | 57,776 | 3,900 | 61,676 | 63,111 |
| Dues and subscriptions | - | 6,839 | - | 6,839 | 10,062 |
| Board and committee meetings | - | 14,995 | - | 14,995 | 22,693 |
| Travel | - | 5,651 | - | 5,651 | 4,422 |
| Depreciation, interest and other | - | 58,247 | - | 58,247 | 41,578 |
| | - | 143,508 | 3,900 | 147,408 | 141,866 |
| **Total** | $ 178,773 | $ 417,561 | $ 130,770 | $ 727,104 | $ 680,698 |

**Rochester Area Foundation and Affiliates**

**Schedule of First Homes Properties Expenses**
**Year Ended December 31, 2015**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | **Program** | **Management and General** | **Fundraising** | **Total** | 2014 Total |
| Mortgage and development activities: | | | | | |
| Net program expense—rehabilitated homes | **$ 16,651** | **$ -** | **$ -** | **$ 16,651** | $ 16,726 |
| Personnel | **82,248** | **27,094** | **3,130** | **112,472** | 97,923 |
| Donor relations: | | | | | |
| Printing and postage | **-** | **763** | **-** | **763** | 960 |
| Office and equipment: | | | | | |
| Supplies | **1,560** | **573** | **-** | **2,133** | 3,006 |
| Telephone | **1,506** | **554** | **-** | **2,060** | 3,710 |
| Repair and maintenance | **4,746** | **1,744** | **-** | **6,490** | 8,147 |
| Office lease | **8,359** | **3,071** | **-** | **11,430** | 29,720 |
| Depreciation | **124** | **46** | **-** | **170** | 223 |
| | **16,295** | **5,988** | **-** | **22,283** | 44,806 |
| Administration: | | | | | |
| Professional fees | **-** | **11,372** | **-** | **11,372** | 28,110 |
| Dues and subscriptions | **-** | **3,519** | **-** | **3,519** | 2,900 |
| Board and committee meetings | **-** | **2,298** | **-** | **2,298** | 2,033 |
| Travel | **-** | **1,761** | **-** | **1,761** | 3,246 |
| Depreciation, interest and other | **-** | **23,963** | **-** | **23,963** | 43,390 |
| | **-** | **42,913** | **-** | **42,913** | 79,679 |
| **Total** | **$ 115,194** | **$ 76,758** | **$ 3,130** | **$ 195,082** | $ 240,094 |

**Rochester Area Foundation and Affiliates**

**Schedule of Impact Finance Expenses**
**Year Ended December 31, 2015**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Program | Management and General | Fundraising | Total | 2014 Total |
| Mortgage and development activities: | | | | | |
| Valuation adjustment | $ 3,408 | $ - | $ - | $ 3,408 | $ 9,058 |
| Personnel | 32,155 | 22,271 | 9,605 | 64,031 | 78,667 |
| Donor relations: | | | | | |
| Printing and postage | - | 320 | - | 320 | 510 |
| Office and equipment: | | | | | |
| Supplies | 401 | 398 | - | 799 | 1,166 |
| Telephone | 352 | 348 | - | 700 | 1,467 |
| Repair and maintenance | 1,034 | 1,026 | - | 2,060 | 3,494 |
| Office lease | 2,707 | 2,683 | - | 5,390 | 15,980 |
| | 4,494 | 4,455 | - | 8,949 | 22,107 |
| Administration: | | | | | |
| Professional fees | 190 | 4,980 | - | 5,170 | 17,619 |
| Board and committee meetings | - | 1,608 | - | 1,608 | 3,125 |
| Travel | - | 1,146 | - | 1,146 | 1,111 |
| Depreciation, interest and other | - | 2,014 | - | 2,014 | 18,645 |
| | 190 | 9,748 | - | 9,938 | 40,500 |
| **Total** | $ 40,247 | $ 36,794 | $ 9,605 | $ 86,646 | $ 150,842 |