Rochester Area Foundation and Affiliates

Consolidated Financial Statements
December 31, 2018 and 2017

Contents

Independent Auditor's Report

To the Board of Trustees
Rochester Area Foundation and Affiliates

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, 2018 and 2017, 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, the 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, 2018 and 2017, and the 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.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis 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 audits 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
June 10, 2019

Rochester Area Foundation and Affiliates

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 6,520,493	$ 2,645,986
Interest and dividends receivable	166,819	73,824
Pledges receivable, net (Note 5)	141,359	316,012
Investments in marketable securities (Notes 3 and 4)	24,375,624	28,662,399
Beneficial interest in trusts held by others (Notes 3, 8 and 10)	403,900	507,000
Loans receivable, net (Note 6)	2,012,854	2,009,871
Land and development costs	374,423	190,080
Property and equipment, net of accumulated depreciation (Note 7)	2,313,232	2,391,190
Other assets	227,430	232,990
Land held in Community Land Trust	7,943,584	7,943,584
Total assets	$ 44,479,718	$ 44,972,936
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 83,216	$ 69,728
Grants payable	90,613	57,000
Annuities payable	22,550	37,647
Unitrust obligations (Note 8)	528,000	572,000
Refundable advances	1,032,957	766,049
Notes payable (Note 9)	921,572	828,274
Total liabilities	2,678,908	2,330,698
Commitments (Note 12)		
Net assets (Notes 10 and 11):		
Without donor restrictions	27,112,002	27,603,973
With donor restrictions	14,688,808	15,038,265
Total net assets	41,800,810	42,642,238
Total liabilities and net assets	$ 44,479,718	$ 44,972,936

See notes to consolidated financial statements.

Rochester Area Foundation and Affiliates

Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2018 and 2017

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues:			
Foundations, businesses and individuals	$ 4,961,494	$ 105,366	$ 5,066,860
Grants	-	205,567	205,567
Investment income (loss) (Notes 3 and 4)	(1,569,092)	(336,806)	(1,905,898)
Loan discount accretion	-	52,000	52,000
Other	49,662	378,317	427,979
Change in value of split-interest agreements	-	(83,177)	(83,177)
Net assets released from restriction	670,724	(670,724)	-
Total public support and revenues	4,112,788	(349,457)	3,763,331
Expenses:			
Programs:			
Grants	3,354,544	-	3,354,544
Philanthropic and special	294,172	-	294,172
First Homes Properties	419,184	-	419,184
Impact Finance	37,409	-	37,409
Management and general	371,682	-	371,682
Fundraising	127,767	-	127,767
Total expenses	4,604,759	-	4,604,759
Changes in net assets	(491,971)	(349,457)	(841,428)
Net assets:			
Beginning of year	27,603,973	15,038,265	42,642,238
End of year	$ 27,112,002	$ 14,688,808	$ 41,800,810

See notes to consolidated financial statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 2,861,506	$ 1,939	$ 2,863,445
-	117,266	117,266
3,422,424	259,801	3,682,225
-	255,000	255,000
65,149	343,309	408,458
-	136,354	136,354
630,123	(630,123)	-
6,979,202	483,546	7,462,748
2,903,363	-	2,903,363
105,758	-	105,758
326,674	-	326,674
23,579	-	23,579
609,108	-	609,108
106,913	-	106,913
4,075,395	-	4,075,395
2,903,807	483,546	3,387,353
24,700,166	14,554,719	39,254,885
$ 27,603,973	$ 15,038,265	$ 42,642,238

Rochester Area Foundation and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Contributions received from foundations, corporations and individuals	**$ 4,839,632**	$ 2,007,611
Grants received	**205,567**	117,266
Interest and dividends received	**367,320**	370,806
Other payments and receipts	**595,289**	445,190
Cash paid for grants	**(3,320,931)**	(2,914,063)
Cash paid to employees	**(614,269)**	(621,710)
Cash paid to suppliers	**(401,288)**	(386,634)
Net cash provided by (used in) operating activities	**1,671,320**	(981,534)
Cash flows from investing activities:		
Purchase of property and equipment	**(7,696)**	(29,328)
Purchase of land and development project costs	**(363,362)**	(229,904)
Proceeds from the sale of developed properties	**179,019**	121,742
Payments received on loans receivable	**87,288**	348,014
Issuance of loans receivable	**(114,367)**	(131,700)
Proceeds from sale and maturities of investment securities	**3,741,344**	1,528,981
Purchase of investment securities	**(1,412,336)**	(437,581)
Net cash provided by investing activities	**2,109,890**	1,170,224
Cash flows from financing activities:		
Principal payments of notes payable	**(143,556)**	(476,491)
Proceeds from notes payable	**236,853**	16,500
Net cash provided by (used in) financing activities	**93,297**	(459,991)
Net increase (decrease) in cash and cash equivalents	**3,874,507**	(271,301)
Cash and cash equivalents:		
Beginning of year	**2,645,986**	2,917,287
End of year	**$ 6,520,493**	$ 2,645,986

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 nonprofit corporations organized under the laws of the state of Minnesota. 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 ended December 31, 2018 and 2017.

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.

Basis of accounting: These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, revenue and assets are recognized when earned, and expenses and liabilities are recognized when incurred. The Foundation follows accounting and reporting standards applicable to nonprofit organizations.

For the year ended December 31, 2018, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about liquidity, financial performance and cash flows. The ASU has been applied retrospectively to all periods presented. The Foundation has elected to apply the practical expedient and not disclose prior year liquidity and availability of resources. The adoption of this ASU did not impact the Foundation's net asset balance, change in net assets, or cash flows for the year ended December 31, 2017.

For financial reporting purposes, the Foundation classifies its activities as net assets without donor restrictions or net assets with donor restrictions based on the existence or absence of donor-imposed restrictions, as follows:

Without donor restrictions: Net assets without donor restrictions are not subject to donor-imposed restrictions. These are funds that are presently available for use by or on behalf of the Foundation, including amounts available for management and general expenses. These net assets may also include Board-designated amounts.

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

With donor restrictions: Net assets with donor restrictions 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. These can also include net assets that 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

With the application of ASU No. 2016-14, the Board of Trustees of the Foundation has interpreted Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. Historically, funds without donor restrictions were used to make whole any underwater funds. Those funds were then relieved as market gains increased the value of the fund. As a result of this standard, underwater funds are no longer being supplemented with funds without restrictions, and disbursements from the funds are suspended until the funds are no longer underwater.

Concentration of credit risk: Most of the Foundation’s activities, particularly First Homes Properties, are with beneficiaries in southeast Minnesota. Note 6 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.

Reclassifications: Certain items in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation. The reclassification had no impact on the changes in net assets or on net assets as previously reported.

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, 2018 and 2017, management concluded that all pledges receivable are collectible; therefore, no allowance for bad debts is reported.

Donated real property: Donated real property is initially stated at fair value based on an appraisal at the date of donation.

Investments in marketable and nonmarketable securities: The Foundation’s investments are stated at fair value. Some of the Foundation’s investments are reported at net asset value (NAV) as provided by the investment managers and are used as a practical expedient to estimate fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned.

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

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.

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 its 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, 2018 and 2017.

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 3 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 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. As of December 31, 2018 and 2017, there was no impairment.

Property and equipment: 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.

Annuities payable and unitrust obligations: Annuities payable and unitrust obligations represent 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 at the date of donation as an approximation of fair value.

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.

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

Contribution revenue: The Foundation reports contributions at fair value when received or unconditionally pledged as net assets without donor restrictions, unless specifically restricted by the donor. For donor agreements involving a third party, contributions are reported as net assets without donor restrictions 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 net assets with donor restrictions that increases that net asset class. When donor restrictions expire, that is, when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements 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 net assets without donor restrictions. 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 CLT. 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 transactions between the Foundation and the grantors and, most commonly, are included in net assets with donor restrictions. Revenue from grants is recognized according to the terms of the agreements, which commonly is when expenditures are incurred.

Other revenue: Other revenue is generated through First Homes Properties, including TIF revenue, home sale proceeds, commission revenue and other income.

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

Retirement benefits: The Foundation provides retirement benefits to eligible employees through a 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 $23,091 and $20,807 for the years ended December 31, 2018 and 2017, respectively.

Use of estimates: In preparing the Foundation's consolidated 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 consolidated 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 and community land trusts, factors that impact the determination of annuities payable, unitrust obligations and charitable lead trusts, 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.

At December 31, 2018, generally, the federal and Minnesota tax returns for the Foundation are open for examination by taxing authorities for the years 2016 to 2018. At December 31, 2018 and 2017, the Foundation did not record any liabilities for uncertain tax positions.

Subsequent events: The Foundation has evaluated subsequent events through June 10, 2019, the date of issuance of the consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

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

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued 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. Contribution public support revenue has been scoped out of this ASU; therefore, only the other revenue sources of the Foundation will be impacted by the ASU. 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 Foundation for the year beginning January 1, 2019. Management has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the 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 and other notable changes brought about by the ASU involve applying a practicability exception from fair value accounting to equity securities that do not have a readily determinable fair value. The standard becomes effective for the Foundation in fiscal year beginning January 1, 2020. Early implementation is allowed. Management is currently evaluating the effect that the standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning January 1, 2021. Early adoption is allowed. Management does not anticipate ASU 2016-03's adoption will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of ASU 2018-13 is not expected to have a material impact on the consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*, which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under *FASB Accounting Standards Codification* (ASC) Topic 606 when the counterparty is a customer. In addition, ASU 2018-18 precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This ASU is effective for the Foundation beginning on January 1, 2021. The Foundation is currently evaluating the impact of this new guidance on its consolidated financial statements.

Note 2. Liquidity and Availability

Financial assets available for general operating use without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date comprise the following for the fiscal year ended December 31, 2018:

Cash and cash equivalents	$ 6,520,493
Interest and dividends receivable	166,819
Pledges receivable	141,359
Investments	5,686,797
Beneficial interest in trusts held by others	108,171
Loans receivable	38,059
	$ 12,661,698

As part of the Foundation's internal cash management process, the Foundation aims to maintain operating liquidity balances of at least three and up to six months of operating expenses. In addition, the Foundation regularly monitors the availability of resources required to manage liquidity, using a rolling six-month cash reconciliation and forecast model encompassing, but not limited to, operating expenses and draws from funds.

The cash reconciliation and forecasting model helps to support the management of the timing and use of commitments available to the Foundation. This is reviewed monthly by management to manage liquidity. Further, the Foundation prepares annual budgets to support this.

Note 3. 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 ASC Topic 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.

Note 3. Fair Value Measurements (Continued)

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 is based upon the discounted cash flow of the expected payment streams of the beneficial interest in trusts held by others. 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.

The Foundation invests in certain alternative investments, principally funds of limited partnership interests in private equity, hedge, and real estate and natural resources funds. The Foundation uses the NAV per share of its investments in alternative investments to estimate fair value. As such, alternative investments are excluded from the fair value hierarchy but are included as reconciling item to arrive at total investments.

The following table presents the financial instruments carried at fair value as of December 31, 2018, by caption on the consolidated statement of financial position categorized by the valuation hierarchy and NAV:

	2018			
	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	Fair Value
Investments in marketable securities:				
Mutual funds:				
Blended equity income	$ 3,242,697	$ -	$ -	$ 3,242,697
Domestic corporate obligations	972,113	-	-	972,113
Domestic equity—small/mid cap	1,496,308	-	-	1,496,308
Domestic equity—large cap	193,767	-	-	193,767
Domestic equity sectors	822,174	-	-	822,174
International equity	2,256,071	-	-	2,256,071
U.S. government obligations	38,556	-	-	38,556
Global balanced fund	5,436,842	-	-	5,436,842
Large cap common stocks	4,123,468	-	-	4,123,468
Total	$ 18,581,996	$ -	$ -	18,581,996
Investments recorded at fair value based on NAV				5,793,628
Total investments				$ 24,375,624
Other assets:				
Beneficial interest in trusts held by others			$ 403,900	$ 403,900

Note 3. Fair Value Measurements (Continued)

The following table presents the financial instruments carried at fair value as of December 31, 2017, by caption on the consolidated statement of financial position categorized by the valuation hierarchy and NAV:

	2017			
	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	Fair Value
Investments in marketable securities:				
Mutual funds:				
Blended equity income	$ 3,435,695	$ -	$ -	$ 3,435,695
Domestic corporate obligations	918,756	-	-	918,756
Domestic equity—small/mid cap	994,621	-	-	994,621
Domestic equity—large cap	241,569	-	-	241,569
Domestic equity sectors	1,184,722	-	-	1,184,722
International corporate obligations	17,934	-	-	17,934
International equity	2,275,615	-	-	2,275,615
U.S. government obligations	20,939	-	-	20,939
Global balanced fund	5,862,452	-	-	5,862,452
Large cap common stocks	5,264,347	-	-	5,264,347
Total	$ 20,216,650	$ -	$ -	20,216,650
Investments recorded at fair value based on NAV				8,445,749
Total investments				$ 28,662,399
Other assets:				
Beneficial interest in trusts held by others			$ 507,000	$ 507,000

The following table is a rollforward of the investments classified by the Foundation within Level 3 of the valuation hierarchy defined above:

	2018	2017
Fair value, January 1	$ 507,000	$ 502,100
Dispositions and distributions	(62,879)	(58,266)
Market value change	(40,221)	63,166
Fair value, December 31	$ 403,900	$ 507,000
Net unrealized gains (losses) attributable to investments held at year-end	$ (40,221)	$ 63,166

The following information pertains to those alternative investments recorded at NAV in accordance with ASC Topic 820, Fair Value Measurements and Disclosures.

Note 3. Fair Value Measurements (Continued)

At December 31, alternative investments recorded at NAV consisted of the following:

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Available)	Redemption Notice Period
Alternative investments:				
Hedge funds (a)	$ 7,509	$ -	Not available	Upon liquidation
Real estate and natural resource funds (b)	434,525	111,264	(b)	(b)
Private equity (c)	5,351,594	-	Monthly/ Quarterly	30/60 days
	$ 5,793,628	$ 111,264		

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Available)	Redemption Notice Period
Alternative investments:				
Hedge funds (a)	$ 114,226	$ -	Not available	Upon liquidation
Real estate and natural resource funds (b)	521,163	113,672	(b)	(b)
Private equity (c)	7,810,360	-	Monthly/ Quarterly	30/60 days
	$ 8,445,749	$ 113,672		

(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 limited partnership interests in closed-end funds that focus on private equity and hedge fund strategies. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership interest in partners' capital. This category utilizes proprietary risk management and asset allocation models based on mean-variance optimization techniques to produce an overall portfolio asset allocation designed to maximize the portfolio for a given level of risk.

Note 3. Fair Value Measurements (Continued)

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, 2018 and 2017, was approximately $5,352,000 and $7,810,000, respectively.

Note 4. Investments in Marketable Securities

Investments in marketable securities at December 31, 2018 and 2017, are summarized as follows:

	2018		
	Cost	Carrying Value	Unrealized Gain (Loss)
Mutual funds:			
Blended equity income	$ 3,046,019	$ 3,242,697	$ 196,678
Domestic corporate obligations	1,041,676	972,113	(69,563)
Domestic equity—small/mid cap	1,549,957	1,496,308	(53,649)
Domestic equity—large cap	115,308	193,767	78,459
Domestic equity sectors	622,075	822,174	200,099
International equity	2,308,660	2,256,071	(52,589)
U.S. government obligations	45,659	38,556	(7,103)
Large cap common stocks	3,714,538	4,123,468	408,930
Global balanced fund	5,710,958	5,436,842	(274,116)
	$ 18,154,850	$ 18,581,996	$ 427,146

	2017		
	Cost	Carrying Value	Unrealized Gain (Loss)
Mutual funds:			
Blended equity income	$ 2,791,547	$ 3,435,695	$ 644,148
Domestic corporate obligations	949,964	918,756	(31,208)
Domestic equity—small/mid cap	888,603	994,621	106,018
Domestic equity—large cap	137,954	241,569	103,615
Domestic equity sectors	1,123,841	1,184,722	60,881
International corporate obligations	18,840	17,934	(906)
International equity	1,846,126	2,275,615	429,489
U.S. government obligations	21,491	20,939	(552)
Large cap common stocks	4,190,107	5,264,347	1,074,240
Global balanced fund	5,513,029	5,862,452	349,423
	$ 17,481,502	$ 20,216,650	$ 2,735,148

At December 31, 2018 and 2017, the Foundation, as trustee, holds charitable remainder trusts/unitrusts totaling approximately $745,000 and $912,000, respectively, that are included in investments. Total management fees paid to outside parties were approximately $68,000 for the year ended December 31, 2018. Internal cost of the financial management of the investments are immaterial due to the contributions of in-kind services provided by trustees and volunteers with treasury services and investment expertise. As a result, the administrative fees charged to the agency and donor-advised funds are available to and support the Foundation’s community programs.

Note 4. Investments in Marketable Securities (Continued)

Reconciliation of investment income (loss) for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Interest and dividends from depository accounts	$ 21,983	$ 26,113
Interest and dividends from investments	494,646	264,380
Net gains (losses)	(2,422,527)	3,391,732
	$ (1,905,898)	$ 3,682,225

Note 5. Pledges Receivable

Pledges receivable are recognized at net realizable value, using present value techniques and a discount rate of 5 percent. As of December 31, 2018, pledge receivables are expected to be collected in 2019.

	2018	2017
Total pledges	$ 148,359	$ 323,012
Less discount applied to long-term pledges	(7,000)	(7,000)
	$ 141,359	$ 316,012

Note 6. 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 $20,000 for up to 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 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 and have up to a 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 3.41 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, 2018 and 2017, a total of approximately $87,000 and $98,000, respectively, was repaid due to the sale of homes, and no loans were written off due to bank foreclosure on the primary mortgage on the home. As of December 31, 2018, all remaining loans mature between the years of 2020 and 2048, and no impairment to the loans or the underlying value of the land has been identified necessitating further credit risk evaluation.

Note 6. Loans Receivable (Continued)

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 3.46 percent to 7.00 percent. As of December 31, 2018, all multifamily loans mature between the years of 2020 and 2046, and no impairment to the loans has been identified necessitating further credit risk evaluation.

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	
	2018	2017
Multifamily loans	$ 1,676,200	$ 1,676,200
Single-family loans	1,226,654	1,268,671
Less discount	(890,000)	(935,000)
Loans receivable, net	$ 2,012,854	$ 2,009,871

Note 7. Property and Equipment

Property and equipment consisted of the following:

	December 31	
	2018	2017
Land	$ 239,669	$ 239,669
Building and building improvements	2,072,782	2,072,782
Equipment and furniture	320,814	313,118
Accumulated depreciation	(320,033)	(234,379)
Property and equipment, net	$ 2,313,232	$ 2,391,190

Note 8. 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 $528,000 and $572,000 as of December 31, 2018 and 2017, 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 8. 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:

2019	$ 54,085
2020–2024	273,413
2025–2029	206,858
	534,356
Less present value discount	(130,456)
	$ 403,900

During the years ended December 31, 2018 and 2017, the Foundation received distributions of $62,879 and $58,266, respectively, from these trusts.

Note 9. Notes Payable

Notes payable at December 31, 2017 and 2016, consisted of the following:

	2018	2017
2.15% note payable to bank, due in monthly installments of $3,859, including interest, due March 2026 with a lump-sum payment of $416,313 due April 2026*	$ 668,273	$ 696,574
1.75% note payable to bank, paid in full in 2018	-	115,200
4.00% note payable to bank, with interest-only payments, due October 2019*	63,614	5,500
1.99% note payable to bank, due and paid in full in May 2019	100,499	5,500
4.00% note payable to bank, with interest-only payments, due October 2019*	89,186	5,500
	$ 921,572	$ 828,274

* Collateralized by substantially all assets of the Foundation.

Maturities of long-term debt for the years subsequent to December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 286,306
2020	33,688
2021	33,649
2022	33,973
2023	34,674
Thereafter	499,282
	$ 921,572

Note 10. Net Assets

Net assets without donor restrictions are held with the following Board designations as of December 31:

	2018	2017
Board-designated	$ 13,069	$ 15,011
Donor-designated	1,976,696	1,544,677
Donor-advised (nonendowment)	13,313,721	12,116,607
Agency endowment	3,887,179	5,565,838
Field of interest	946,539	1,062,750
Scholarship	1,288,001	1,312,812
Without donor restrictions	5,686,797	5,986,278
	$ 27,112,002	$ 27,603,973

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

	2018	2017
Time-restricted based on life expectancy of donors:		
Charitable remainder unitrust	$ 160,589	$ 278,929
Charitable remainder trust	56,670	61,481
Charitable gift annuity	111,072	137,732
Charitable lead trust	403,900	507,000
	732,231	985,142
Purpose-restricted:		
First Homes Properties	10,079,017	10,025,929
Impact Finance	812,111	740,895
	10,891,128	10,766,824
Endowment earnings for Rochester community	81,867	280,024
Housing initiative	111,283	23,333
Preschool children	591,905	652,374
Higher learning	23,026	26,774
Disabled individuals	335,724	382,150
	1,143,805	1,364,655
Net assets held in perpetuity:		
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
Total net assets with donor restrictions	$ 14,688,808	$ 15,038,265

Note 11. Endowment

The Foundation's endowment consists of 228 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 U.S. 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.

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

Changes in endowment net assets for the years ended December 31, 2018 and 2017, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, December 31, 2016	$ 13,301,652	$ 3,047,734	$ 16,349,386
Investment return, investment change	1,953,468	267,698	2,221,166
Contributions	984,363	-	984,363
Appropriation of endowment funds (net of fees and reimbursements)	(752,117)	(29,133)	(781,250)
Balance, December 31, 2017	15,487,366	3,286,299	18,773,665
Investment return, investment change	(829,297)	(332,203)	(1,161,500)
Contributions	1,318,259	111,353	1,429,612
Appropriation of endowment funds (net of fees and reimbursements)	(2,178,047)	-	(2,178,047)
Balance, December 31, 2018	$ 13,798,281	$ 3,065,449	$ 16,863,730

Note 11. Endowment (Continued)

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 7.5 percent annually. The 7.5 percent is based on achieving a 5.0 percent real return plus inflation of 2.5 percent on an annualized basis over the long term. This long-term target is reviewed by the Investment Committee annually for its reasonability and, if necessary, adjusted to reflect changes in our long-term outlook. Within the portfolio, on a one-, three- and five-year basis, investment returns of individual managers are compared to manager-specific benchmarks to evaluate their performance and role in fulfilling the Foundation's long-term investment target. 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 4.5 percent of its endowment fund's average fair value over the prior 16 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 with the pace of inflation. 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 12. Functional Expenses

The consolidated financial statements present certain expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Natural expenses attributable to more than one functional expense category are allocated based on salary expense. The expenses reported in the consolidated statement of activities for the year ended December 31, 2018, supported the following programs and functions:

	2018			
		Support Services		
	Program Services	Management and General	Fundraising Expenses	Total Expenses
Grants	$ 3,354,544	$ -	$ -	$ 3,354,544
Net program expense—rehabiliatated homes	203,063	-	-	203,063
Valuation adjustment	7,000	-	-	7,000
Personnel	335,985	203,444	74,840	614,269
Printing and postage	689	4,412	466	5,567
Supplies	4,439	2,925	212	7,576
Telephone	5,123	3,288	233	8,644
Repair and maintenance	40,037	21,040	7,507	68,584
Office lease	-	-	-	-
Depreciation	38,152	32,062	10,641	80,855
Professional fees	39,071	20,662	7,499	67,232
Dues and subscriptions	2,547	3,125	297	5,969
Board and committee meetings	3,335	25,587	2,867	31,789
Travel	2,197	866	201	3,264
Depreciation, interest and other	69,133	54,272	23,004	146,409
Total	$ 4,105,315	$ 371,683	$ 127,767	$ 4,604,765

The expenses reported in the consolidated statement of activities for the year ended December 31, 2017, supported the following programs and functions:

	2017			
		Support Services		
	Program Services	Management and General	Fundraising Expenses	Total Expenses
Grants	$ 2,903,363	$ -	$ -	$ 2,903,363
Net program expense—rehabiliatated homes	141,482	-	-	141,482
Valuation adjustment	4,000	-	-	4,000
Personnel	345,931	204,934	70,838	621,703
Printing and postage	1,155	6,855	723	8,733
Supplies	5,901	3,249	200	9,350
Telephone	5,360	3,050	195	8,605
Repair and maintenance	43,783	20,430	6,217	70,430
Office lease	-	-	-	-
Depreciation	35,856	30,788	9,286	75,930
Professional fees	74,687	33,248	9,798	117,733
Dues and subscriptions	2,687	2,981	272	5,940
Board and committee meetings	1,364	10,106	1,019	12,489
Travel	2,547	862	33	3,442
Depreciation, interest and other	43,766	35,482	12,947	92,195
Total	$ 3,611,882	$ 351,985	$ 111,528	$ 4,075,395

Note 13. Commitments and Contingencies

Loan guarantee: The Foundation agreed to provide a $2,000,000 collateralized loan guarantee to the Boys and Girls Club and Childcare Resource and Referral (Families First) for the purposes of building a new facility to house programs for lower-income and at-risk youth in 2012. 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. The loan proceeds were disbursed in 2012 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 consolidated statement of financial position date and provides accruals for such as deemed necessary. No accruals were deemed necessary at December 31, 2018 or 2017, as the entity has remained current on all payments.

Rochester Area Foundation and Affiliates

Consolidating Statement of Financial Position
December 31, 2018

	Endowment	First Homes Properties	Impact Finance
Assets			
Cash and cash equivalents	$ 5,878,054	$ 314,542	$ 327,897
Interest and dividends receivable	-	158,728	8,091
Pledges receivable, net	91,359	50,000	-
Due from affiliates	107,201	1,242,855	-
Investments in marketable securities	24,375,624	-	-
Beneficial interest in trusts held by others	403,900	-	-
Loans receivable, net	-	159,500	1,853,354
Land and development costs	-	374,423	-
Property and equipment, net of accumulated depreciation	2,313,232	-	-
Other assets	64,062	163,368	-
Land held in Community Land Trust	-	7,943,584	-
Total assets	$ 33,233,432	$ 10,407,000	$ 2,189,342
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$ 81,357	$ 1,859	$ -
Grants payable	90,613	-	-
Annuities payable	22,550	-	-
Unitrust obligations	528,000	-	-
Refundable advances	1,032,957	-	-
Notes payable	668,273	253,299	-
Due to affiliates	-	72,825	1,277,231
Total liabilities	2,423,750	327,983	1,277,231
Net assets:			
Without donor restrictions	27,012,002	-	100,000
With donor restrictions	3,797,680	10,079,017	812,111
Total net assets	30,809,682	10,079,017	912,111
Total liabilities and net assets	$ 33,233,432	$ 10,407,000	$ 2,189,342

Total	Eliminations	Consolidated Total
$ 6,520,493	$ -	$ 6,520,493
166,819	-	166,819
141,359	-	141,359
1,350,056	(1,350,056)	-
24,375,624	-	24,375,624
403,900	-	403,900
2,012,854	-	2,012,854
374,423	-	374,423
2,313,232	-	2,313,232
227,430	-	227,430
7,943,584	-	7,943,584
$ 45,829,774	$ (1,350,056)	$ 44,479,718
$ 83,216	$ -	$ 83,216
90,613	-	90,613
22,550	-	22,550
528,000	-	528,000
1,032,957	-	1,032,957
921,572	-	921,572
1,350,056	(1,350,056)	-
4,028,964	(1,350,056)	2,678,908
27,112,002	-	27,112,002
14,688,808	-	14,688,808
41,800,810	-	41,800,810
$ 45,829,774	$ (1,350,056)	$ 44,479,718

Rochester Area Foundation and Affiliates

Consolidating Statement of Financial Position
December 31, 2017

	Endowment	First Homes Properties	Impact Finance
Assets			
Cash and cash equivalents	$ 1,958,932	$ 347,941	$ 339,113
Interest and dividends receivable	-	65,733	8,091
Pledges receivable, net	316,012	-	-
Due from affiliates	195,979	1,242,855	-
Investments in marketable securities	28,662,399	-	-
Beneficial interest in trusts held by others	507,000	-	-
Loans receivable, net	-	159,500	1,850,371
Land and development costs	-	190,080	-
Property and equipment, net of accumulated depreciation	2,391,190	-	-
Other assets	56,760	176,230	-
Land held in Community Land Trust	-	7,943,584	-
Total assets	$ 34,088,272	$ 10,125,923	$ 2,197,575
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$ 68,388	$ 1,340	$ -
Grants payable	57,000	-	-
Annuities payable	37,647	-	-
Unitrust obligations	572,000	-	-
Refundable advances	766,049	-	-
Notes payable	811,774	16,500	-
Due to affiliates	-	82,154	1,356,680
Total liabilities	2,312,858	99,994	1,356,680
Net assets:			
Without donor restrictions	27,503,973	-	100,000
With donor restrictions	4,271,441	10,025,929	740,895
Total net assets	31,775,414	10,025,929	840,895
Total liabilities and net assets	$ 34,088,272	$ 10,125,923	$ 2,197,575

	Total	Eliminations	Consolidated Total
	$ 2,645,986	$ -	$ 2,645,986
	73,824	-	73,824
	316,012	-	316,012
	1,438,834	(1,438,834)	-
	28,662,399	-	28,662,399
	507,000	-	507,000
	2,009,871	-	2,009,871
	190,080	-	190,080
	2,391,190	-	2,391,190
	232,990	-	232,990
	7,943,584	-	7,943,584
	$ 46,411,770	$ (1,438,834)	$ 44,972,936
	$ 69,728	$ -	$ 69,728
	57,000	-	57,000
	37,647	-	37,647
	572,000	-	572,000
	766,049	-	766,049
	828,274	-	828,274
	1,438,834	(1,438,834)	-
	3,769,532	(1,438,834)	2,330,698
	27,603,973	-	27,603,973
	15,038,265	-	15,038,265
	42,642,238	-	42,642,238
	$ 46,411,770	$ (1,438,834)	$ 44,972,936

Rochester Area Foundation and Affiliates

Consolidating Statement of Activities
December 31, 2018

	Endowment	First Homes Properties	Impact Finance
Changes in net assets without donor restrictions:			
Public support and revenues:			
Foundation, businesses and individuals	$ 4,961,494	$ -	$ -
Investment loss	(1,569,092)	-	-
Other	49,662	-	-
Net assets released from restriction	193,562	540,730	53,700
Total net assets without donor restrictions public support and revenues	3,635,626	540,730	53,700
Expenses:			
Programs:			
Grants	3,471,812	-	-
Philanthropic and special	294,172	-	-
First Homes Properties	-	419,184	-
Impact Finance	-	-	37,409
Management and general	247,612	107,779	16,291
Fundraising	114,000	13,767	-
Total expenses	4,127,597	540,730	53,700
Change in net assets without donor restrictions	(491,971)	-	-
Changes in net assets with donor restrictions:			
Foundation, businesses and individuals	111,354	111,280	-
Grants	-	150,067	55,500
Investment income (loss)	(358,789)	7,013	14,970
Loan discount accretion	-	-	52,000
Other	50,413	325,458	2,446
Change in value of split-interest agreements	(83,177)	-	-
Net assets released from restriction	(193,562)	(540,730)	(53,700)
Change in net assets with donor restrictions	(473,761)	53,088	71,216
Change in net assets	(965,732)	53,088	71,216
Net assets, beginning	31,775,414	10,025,929	840,895
Net assets, ending	$ 30,809,682	$ 10,079,017	$ 912,111

Total	Eliminations	Consolidated Total
$ 4,961,494	$ -	$ 4,961,494
(1,569,092)	-	(1,569,092)
49,662	-	49,662
787,992	(117,268)	670,724
4,230,056	(117,268)	4,112,788
3,471,812	(117,268)	3,354,544
294,172	-	294,172
419,184	-	419,184
37,409	-	37,409
371,682	-	371,682
127,767	-	127,767
4,722,027	(117,268)	4,604,759
(491,971)	-	(491,971)
222,634	(117,268)	105,366
205,567	-	205,567
(336,806)	-	(336,806)
52,000	-	52,000
378,317	-	378,317
(83,177)	-	(83,177)
(787,992)	117,268	(670,724)
(349,457)	-	(349,457)
(841,428)	-	(841,428)
42,642,238	-	42,642,238
$ 41,800,810	$ -	$ 41,800,810

Rochester Area Foundation and Affiliates

Consolidating Statement of Activities
December 31, 2017

	Endowment	First Homes Properties	Impact Finance
Changes in net assets without donor restrictions:			
Public support and revenues:			
Foundation, businesses and individuals	$ 2,861,506	$ -	$ -
Investment income	3,422,424	-	-
Other	65,149	-	-
Net assets released from restriction	106,643	533,647	86,720
Total net assets without donor restrictions public support and revenues	6,455,722	533,647	86,720
Expenses:			
Programs:			
Grants	3,000,250	-	-
Philanthropic and special	105,758	-	-
First Homes Properties	-	326,674	-
Impact Finance	-	-	23,579
Management and general	351,722	197,683	59,703
Fundraising	94,185	9,290	3,438
Total expenses	3,551,915	533,647	86,720
Change in net assets without donor restrictions	2,903,807	-	-
Changes in net assets with donor restrictions:			
Foundation, businesses and individuals	-	98,826	-
Grants	-	67,266	50,000
Investment income	233,688	7,009	19,104
Loan discount accretion	-	-	255,000
Other	-	339,709	3,600
Change in value of split-interest agreements	136,354	-	-
Net assets released from restriction	(106,643)	(533,647)	(86,720)
Change in net assets with donor restrictions	263,399	(20,837)	240,984
Change in net assets	3,167,206	(20,837)	240,984
Net assets, beginning	28,608,208	10,046,766	599,911
Net assets, ending	$ 31,775,414	$ 10,025,929	$ 840,895

Total	Eliminations	Consolidated Total
$ 2,861,506	$ -	$ 2,861,506
3,422,424	-	3,422,424
65,149	-	65,149
727,010	(96,887)	630,123
7,076,089	(96,887)	6,979,202
3,000,250	(96,887)	2,903,363
105,758	-	105,758
326,674	-	326,674
23,579	-	23,579
609,108	-	609,108
106,913	-	106,913
4,172,282	(96,887)	4,075,395
2,903,807	-	2,903,807
98,826	(96,887)	1,939
117,266	-	117,266
259,801	-	259,801
255,000	-	255,000
343,309	-	343,309
136,354	-	136,354
(727,010)	96,887	(630,123)
483,546	-	483,546
3,387,353	-	3,387,353
39,254,885	-	39,254,885
$ 42,642,238	$ -	$ 42,642,238

Rochester Area Foundation and Affiliates

Schedule of Endowment Expenses Before Eliminations
Year Ended December 31, 2018 with Comparative Total for Year Ended December 31, 2017

	2018				
	Program	Management and General	Fundraising	Total	2017 Total
Grants	$ 3,471,812	$ -	$ -	$ 3,471,812	$ 3,000,250
Personnel	165,258	123,065	63,290	351,613	323,223
Donor relations:					
Printing and postage	-	4,197	466	4,663	7,233
Office and equipment:					
Supplies	1,911	2,123	212	4,246	4,008
Telephone	2,094	2,327	233	4,653	3,893
Repair and maintenance	19,601	14,596	7,507	41,704	34,539
Office lease	-	-	-	-	-
Depreciation	23,854	17,764	9,136	50,754	42,229
	47,460	36,810	17,087	101,357	84,669
Administration:					
Professional fees	19,581	14,581	7,499	41,661	54,433
Dues and subscriptions	297	2,375	297	2,969	2,720
Board and committee meetings	2,867	22,938	2,867	28,672	10,192
Travel	503	302	201	1,005	163
Depreciation, interest and other	58,207	43,346	22,292	123,845	69,032
	81,454	83,541	33,156	198,152	136,540
Total	$ 3,765,984	$ 247,612	$ 114,000	$ 4,127,597	$ 3,551,915

Rochester Area Foundation and Affiliates

Schedule of First Homes Properties Expenses Before Eliminations
Year Ended December 31, 2018 with Comparative Total for Year Ended December 31, 2017

	2018				
	Program	**Management and General**	**Fundraising**	**Total**	2017 Total
Mortgage and development activities:					
Net program expense—rehabilitated homes	**$ 203,063**	**$ -**	**$ -**	**$ 203,063**	$ 141,482
Personnel	**150,149**	**69,299**	**11,550**	**230,998**	253,153
Donor relations:					
Printing and postage	**595**	**198**	**-**	**793**	1,200
Office and equipment:					
Supplies	**2,264**	**755**	**-**	**3,018**	4,431
Telephone	**2,723**	**908**	**-**	**3,630**	3,960
Repair and maintenance	**18,090**	**6,030**	**-**	**24,120**	29,570
Office lease	**-**	**-**	**-**	**-**	-
Depreciation	**14,298**	**14,298**	**1,505**	**30,100**	33,700
	37,374	**21,990**	**1,505**	**60,868**	71,661
Administration:					
Professional fees	**16,838**	**5,613**	**-**	**22,450**	47,012
Dues and subscriptions	**2,250**	**750**	**-**	**3,000**	3,220
Board and committee meetings	**459**	**2,600**	**-**	**3,059**	2,297
Travel	**1,694**	**565**	**-**	**2,258**	3,207
Depreciation, interest and other	**6,764**	**6,764**	**712**	**14,241**	10,415
	28,004	**16,292**	**712**	**45,008**	66,151
Total	**$ 419,184**	**$ 107,779**	**$ 13,767**	**$ 540,730**	$ 533,647

Rochester Area Foundation and Affiliates

Schedule of Impact Finance Expenses Before Eliminations
Year Ended December 31, 2018 with Comparative Total for Year Ended December 31, 2017

	2018				
	Program	Management and General	Fundraising	Total	2017 Total
Mortgage and development activities:					
Valuation adjustment	$ 7,000	$ -	$ -	$ 7,000	$ 4,000
Personnel	20,578	11,080	-	31,658	45,334
Donor relations:					
Printing and postage	94	17	-	110	300
Office and equipment:					
Supplies	264	47	-	310	911
Telephone	306	54	-	360	750
Repair and maintenance	2,346	414	-	2,760	6,320
Office lease	-	-	-	-	-
	2,916	515	-	3,430	7,981
Administration:					
Professional fees	2,652	468	-	3,120	16,287
Board and committee meetings	9	49	-	58	-
Travel	-	-	-	-	70
Depreciation, interest and other	4,162	4,162	-	8,324	12,748
	6,823	4,679	-	11,502	29,105
Total	$ 37,409	$ 16,291	$ -	$ 53,700	$ 86,720