

# **Rochester Area Foundation and Affiliates**

Consolidated Financial Report  
December 31, 2023

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## Independent Auditor's Report

RSM US LLP

Finance Committee  
Rochester Area Foundation and Affiliates

### **Opinion**

We have audited the consolidated financial statements of Rochester Area Foundation and its Affiliates (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2023 and 2022, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

#### **Supplementary Information**

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  
October 3, 2024

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Financial Position  
December 31, 2023 and 2022**

	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ 12,852,566	\$ 10,558,163
Cash and cash equivalents, restricted	168,066	160,731
Interest and dividends receivable	32,588	13,824
Pledges receivable, net	4,125,000	-
Investments	37,032,447	32,459,056
Beneficial interest in trusts held by others	218,807	242,980
Loans receivable, net	1,400,174	1,270,482
Land and development costs	3,883,801	2,702,345
Property and equipment, net of accumulated depreciation	4,768,290	4,886,452
Other assets	1,793,626	438,754
Land held in Community Land Trust	10,498,227	9,580,127
	<b>\$ 76,773,592</b>	<b>\$ 62,312,914</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 462,400	\$ 193,565
Unitrust obligations	423,300	417,200
Refundable advances	452,233	422,125
Notes payable, net of unamortized deferred financing costs	2,656,637	2,751,754
<b>Total liabilities</b>	<b>3,994,570</b>	<b>3,784,644</b>
Net assets (Notes 9 and 10):		
Without donor restrictions	48,989,572	38,536,638
With donor restrictions	23,789,450	19,991,632
<b>Total net assets</b>	<b>72,779,022</b>	<b>58,528,270</b>
	<b>\$ 76,773,592</b>	<b>\$ 62,312,914</b>

See notes to consolidated financial statements.

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Activities and Changes in Net Assets  
Years Ended December 31, 2023 and 2022**

	<b>2023</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Public support and revenues:</b>			
Contribution revenue	\$ 7,709,774	\$ 6,366,836	\$ 14,076,610
Grants	-	210,000	210,000
Investment gain	4,306,303	409,945	4,716,248
Loan discount accretion	-	21,799	21,799
Other	474,030	237,790	711,820
Change in value of split-interest agreements	-	67,003	67,003
Rent	-	408,743	408,743
Net assets released from restrictions	3,924,298	(3,924,298)	-
<b>Total public support and revenues</b>	<b>16,414,405</b>	<b>3,797,818</b>	<b>20,212,223</b>
<b>Expenses:</b>			
<b>Programs:</b>			
Grants and related programs	2,769,582	-	2,769,582
Philanthropic and special	1,012,422	-	1,012,422
First Homes Properties	728,147	-	728,147
Management and general	1,040,504	-	1,040,504
Fundraising	410,816	-	410,816
<b>Total expenses</b>	<b>5,961,471</b>	<b>-</b>	<b>5,961,471</b>
<b>Changes in net assets</b>	<b>10,452,934</b>	<b>3,797,818</b>	<b>14,250,752</b>
<b>Net assets:</b>			
Beginning	38,536,638	19,991,632	58,528,270
Ending	<b>\$ 48,989,572</b>	<b>\$ 23,789,450</b>	<b>\$ 72,779,022</b>

See notes to consolidated financial statements.

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Public support and revenues:</b>			
Contribution revenue	\$ 8,708,659	\$ 4,318,597	\$ 13,027,256
Contributed nonfinancial assets	1,205,365	-	1,205,365
Grants	-	11,000	11,000
Investment loss	(4,680,262)	(431,650)	(5,111,912)
Loan discount accretion	-	(114,200)	(114,200)
Other	396,937	194,288	591,225
Change in value of split-interest agreements	-	(66,529)	(66,529)
Gain on forgiveness of debt	-	134,623	134,623
Rent	-	399,213	399,213
Net assets released from restrictions	3,231,549	(3,231,549)	-
<b>Total public support and revenues</b>	<b>8,862,248</b>	<b>1,213,793</b>	<b>10,076,041</b>
<b>Expenses:</b>			
Programs:			
Grants and related programs	5,602,586	-	5,602,586
Philanthropic and special	761,145	-	761,145
First Homes Properties	810,256	-	810,256
Management and general	840,505	-	840,505
Fundraising	316,559	-	316,559
<b>Total expenses</b>	<b>8,331,051</b>	<b>-</b>	<b>8,331,051</b>
<b>Changes in net assets</b>	<b>531,197</b>	<b>1,213,793</b>	<b>1,744,990</b>
<b>Net assets:</b>			
Beginning	38,005,441	18,777,839	56,783,280
Ending	\$ 38,536,638	\$ 19,991,632	\$ 58,528,270

**Rochester Area Foundation and Affiliates**

**Consolidated Statements of Cash Flows  
Years Ended December 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities:		
Contributions received from foundations, businesses and individuals	\$ 10,001,989	\$ 13,499,978
Grants received	210,000	11,000
Interest and dividends received	592,014	740,163
Other receipts	375,761	1,400,023
Cash paid for grants and related program expenses	(2,769,582)	(5,615,881)
Cash paid to employees	(1,127,704)	(763,727)
Cash paid to suppliers	(1,765,242)	(2,098,624)
<b>Net cash provided by operating activities</b>	<b>5,517,236</b>	<b>7,172,932</b>
Cash flows from investing activities:		
Purchase of property and equipment	(7,986)	(28,486)
Purchase of land and development costs	(6,119,537)	(5,462,079)
Purchase of land held in community land trust	(918,100)	(658,000)
Proceeds from the sale of developed properties	4,938,081	3,986,688
Payments received on loans receivable	78,665	114,251
Issuance of loans receivable	(670,480)	(89,708)
Purchase of investment securities	(584,203)	(204,415)
Proceeds from sale and maturities of investment securities	163,179	95,843
<b>Net cash used in investing activities</b>	<b>(3,120,381)</b>	<b>(2,245,906)</b>
Cash flows from financing activities:		
Principal payments on notes payable	(95,117)	(77,115)
<b>Net cash used in financing activities</b>	<b>(95,117)</b>	<b>(77,115)</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>2,301,738</b>	<b>4,849,911</b>
Cash, cash equivalents and restricted cash:		
Beginning	10,718,894	5,868,983
Ending	\$ 13,020,632	\$ 10,718,894
Supplemental disclosures of cash flow information:		
Contributed nonfinancial assets	\$ -	\$ 1,205,365
Interest paid	\$ 97,530	\$ 96,344

See notes to consolidated financial statements.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

**Nature of activities:** Rochester Area Foundation, First Homes Properties and RAF Properties (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 the greater Rochester area to secure decent and affordable housing. This work is accomplished primarily through a community land trust and Center Street Properties, LLC. 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. During the year ended December 31, 2023, RAF Properties did not receive any contributed property. During the year ended December 31, 2022, RAF Properties received contributed property, which was sold for a gain of \$407,620, and all funds received were subsequently transferred to Rochester Area Foundation and was recorded as contributed nonfinancial assets in the consolidated statement of activities and changes in net assets.

Major sources of revenue include investment income, contributions and grants. Contribution revenue can vary significantly between years, as large contributions are generally made by donors on a one-time basis.

**Reclassification:** Certain amounts in the prior year's consolidated financial report have been reclassified to conform to the current year's presentation. These reclassifications had no impact on net assets or changes in net assets previously reported.

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

**Basis of accounting:** These 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 an unconditional right to the transfer of assets exists, and expenses and liabilities are recognized when incurred. The Foundation follows accounting and reporting standards applicable to nonprofit organizations.

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.

**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.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

With the application of Accounting Standards Update (ASU) 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 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:** 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 regularly exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

**Restricted cash and cash equivalents:** The Foundation maintains cash reserves related to the note payable to the Greater Minnesota Housing Fund, per the terms of the agreement. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	December 31	
	2023	2022
Cash and cash equivalents	\$ 12,852,566	\$ 10,558,163
Cash and cash equivalents, restricted	168,066	160,731
	<u>\$ 13,020,632</u>	<u>\$ 10,718,894</u>

**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. There was \$4,125,000 and \$0 of pledges receivable at December 31, 2023 and 2022 respectively. The entire balance of pledges receivable at December 31, 2023 was expected to be collected within one year. Management concluded all pledges receivable are collectible; therefore, no allowance for uncollectible pledges is reported. At December 31, 2023, one pledge received by Rochester Area Foundation totaled 97% of the total \$4,125,000 pledge receivable related balance related to contributions without donor restrictions.

There was no bad debt or uncollectible pledge expense incurred for the years ended December 31, 2023 and 2022.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

**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 a 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.

**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 credit 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 collectibility as of the reporting date. Management has determined that no allowance for credit losses is required at December 31, 2023 and 2022, as there were no delinquent accounts and the underlying collateral is land.

**Fair value measurements:** Certain assets are reported at fair value on a recurring basis in the 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 and long-lived assets are reviewed by management periodically for impairment.

**Land held in Community Land Trust (CLT):** The Foundation purchases land for homes 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 contributions and is evaluated whenever events or changes in circumstances indicate the potential for impairment. As of December 31, 2023 and 2022, management has determined there was no impairment.

**Property and equipment:** Purchased items and significant repairs are capitalized at cost. Donated items are recorded at fair value based on an appraisal at the time of donation. Depreciation is provided over useful lives ranging from three to 40 years. As of December 31, 2023 and 2022, management has determined there was no impairment. Repair and maintenance costs are expensed as incurred.

**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% of the applicable federal rate at the date of donation, as an approximation of fair value.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

**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.

**Contribution revenue:** The Foundation reports unconditional contributions at fair value when received or 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 consolidated statements of activities and changes in net assets as net assets released from restrictions. 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 upon 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 home sale proceeds and commission revenue.

The Foundation follows ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Accounting Standards Codification (ASC) 606. ASC 606 provides a five-step model for recognizing revenues from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Foundation assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. Revenue from the exchange of resources of a commensurate value is recognized at a point in time, upon transfer of control to the customer.

The transaction price is the amount of consideration to which the Foundation expects to be entitled in exchange for transferring resources to the customer. For the Foundation, resources to be transferred include properties held for sale and commissionable services. Revenue is recorded based on the transaction price, which is a fixed consideration.

Payment terms on contracts are typically 30 days. As these payment terms are less than one year, the Foundation has elected the practical expedient to not consider the time value of money for its contracts.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

The Foundation has elected to apply the practical expedient to expense associated costs to obtain a contract as incurred when the expected amortization period is one year or less.

**Grant and related programs:** Grants to beneficiaries are expensed upon approval of the Board of Trustees, as they generally do not include conditional barriers. Program expenses take several forms and are accounted for under the relevant accounting standards.

**Functional expense allocation:** The cost of providing various programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the corresponding functional classifications.

**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 (IRC). The Foundation contributes 5% of the employee's salary through a Simplified Employee Pension Plan. The Foundation contributed \$39,743 and \$31,911 for the years ended December 31, 2023 and 2022, 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 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 IRC. The Foundation believes that no significant uncertain tax positions have been taken in its tax returns.

At December 31, 2023, generally, the federal and Minnesota tax returns for the Foundation are open for examination by taxing authorities for the years 2020 to 2023. At December 31, 2023 and 2022, the Foundation did not record any liabilities for uncertain tax positions.

**Subsequent events:** The Foundation has evaluated subsequent events through October 3, 2024, the date that the financial statements were available to be issued, in preparing the financial statements and the notes thereto.

**Accounting pronouncements adopted in the current year:** Effective January 1, 2023, the Foundation adopted ASU 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 statements of activities as the amounts expected to be collected change. There was no material impact as a result of adopting Topic 326.

Effective January 1, 2023, the Foundation adopted ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses; Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments*, which clarifies and improves guidance related to the recently issued standards on credit losses, hedging and recognition and measurement of financial instruments. There was no impact as a result of adopting this standard.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Liquidity and Availability

Financial assets available for general operating use without donor restrictions limiting their use within one year of the consolidated statement of financial position date comprise the following for the fiscal years ended December 31, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 12,852,566	\$ 10,558,163
Interest and dividends receivable	32,588	13,824
Pledges receivable	4,125,000	-
Investments	37,032,447	32,459,056
Less:		
Net assets with donor restrictions	(23,789,450)	(19,991,632)
	<u>\$ 30,253,151</u>	<u>\$ 23,039,411</u>

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 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.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### 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 unobservable inputs and assumptions of the beneficial interest in trusts held by others. The methods 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 tables present the financial instruments carried at fair value as of December 31, 2023 and 2022, by caption on the consolidated statements of financial position categorized by the valuation hierarchy and NAV:

	2023			Total Fair Value
	Fair Value Measurements			
	Level 1	Level 2	Level 3	
Investments in marketable securities:				
Mutual funds:				
Blended equity income	\$ 4,438,402	\$ -	\$ -	\$ 4,438,402
Domestic corporate obligations	1,454,842	-	-	1,454,842
Domestic equity—small/mid cap	1,748,438	-	-	1,748,438
Domestic equity—large cap	246,960	-	-	246,960
Domestic equity sectors	1,739,170	-	-	1,739,170
International equity	3,058,966	-	-	3,058,966
U.S. government obligations	78,007	-	-	78,007
Global balanced fund	8,309,371	-	-	8,309,371
Large cap common stocks	6,289,976	-	-	6,289,976
Fixed income	53,785	-	-	53,785
Total	<u>\$ 27,417,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>27,417,917</u>
Investments recorded at fair value based on NAV				<u>9,614,530</u>
Total investments				<u>\$ 37,032,447</u>
Other assets:				
Beneficial interest in trusts held by others			<u>\$ 218,807</u>	<u>\$ 218,807</u>

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 3. Fair Value Measurements (Continued)

	2022			Total Fair Value
	Fair Value Measurements			
	Level 1	Level 2	Level 3	
Investments in marketable securities:				
Mutual funds:				
Blended equity income	\$ 3,964,950	\$ -	\$ -	\$ 3,964,950
Domestic corporate obligations	1,389,052	-	-	1,389,052
Domestic equity—small/mid cap	2,203,459	-	-	2,203,459
Domestic equity—large cap	205,364	-	-	205,364
Domestic equity sectors	1,040,425	-	-	1,040,425
International equity	2,695,312	-	-	2,695,312
U.S. government obligations	20,827	-	-	20,827
Global balanced fund	7,074,376	-	-	7,074,376
Large cap common stocks	5,136,792	-	-	5,136,792
Fixed income	53,116	-	-	53,116
Total	<u>\$ 23,783,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>23,783,673</u>
Investments recorded at fair value based on NAV				8,675,383
Total investments				<u>\$ 32,459,056</u>
Other assets:				
Beneficial interest in trusts held by others			<u>\$ 242,980</u>	<u>\$ 242,980</u>

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

	2023	2022
Fair value, January 1	\$ 242,980	\$ 362,461
Dispositions and distributions	(50,379)	(65,102)
Market value change	26,206	(54,379)
Fair value, December 31	<u>\$ 218,807</u>	<u>\$ 242,980</u>
Net unrealized gains (losses) attributable to investments held at year-end	<u>\$ 26,206</u>	<u>\$ (54,379)</u>

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

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 3. Fair Value Measurements (Continued)

At December 31, 2023 and 2022, alternative investments recorded at NAV consisted of the following:

	2023			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Available)	Redemption Notice Period
Alternative investments:				
Real estate and natural resource funds (a)	\$ 241,170	\$ 198,921	(a)	(a)
Private equity (b)	9,373,360	-	Monthly/ Quarterly	30/60/120 days
	<u>\$ 9,614,530</u>	<u>\$ 198,921</u>		
	2022			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Available)	Redemption Notice Period
Alternative investments:				
Real estate and natural resource funds (a)	\$ 232,897	\$ 198,921	(a)	(a)
Private equity (b)	8,442,486	-	Monthly/ Quarterly	30/60/120 days
	<u>\$ 8,675,383</u>	<u>\$ 198,921</u>		

- (a) These categories include limited partnership interests in closed-end funds that focus on 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 at the discretion of the partnership. Approximately 5% of the funds do not allow redemptions, with the remaining 95% redeemable quarterly.
- (b) 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. Redemptions are available monthly or quarterly with notice periods of 30, 60 or 120 days, when available.

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, 2023 and 2022, was \$9,361,425 and \$8,441,000, respectively.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 4. Investments

Investments in various marketable securities at December 31, 2023 and 2022, are summarized as follows:

	2023		
	Cost	Carrying Value	Unrealized Gain (Loss)
Mutual funds:			
Blended equity income	\$ 4,241,178	\$ 4,438,402	\$ 197,224
Domestic corporate obligations	1,625,017	1,454,842	(170,175)
Domestic equity—small/mid cap	1,758,824	1,748,438	(10,386)
Domestic equity—large cap	91,492	246,960	155,468
Domestic equity sectors	1,470,151	1,739,170	269,019
International equity	2,994,139	3,058,966	64,827
U.S. government obligations	58,358	78,007	19,649
Large cap common stocks	4,619,690	6,289,976	1,670,286
Global balanced fund	7,074,377	8,309,371	1,234,994
Fixed income	55,561	53,785	(1,776)
	<u>\$ 23,988,787</u>	<u>\$ 27,417,917</u>	<u>\$ 3,429,130</u>
	2022		
	Cost	Carrying Value	Unrealized Gain (Loss)
Mutual funds:			
Blended equity income	\$ 4,173,168	\$ 3,964,950	\$ (208,218)
Domestic corporate obligations	1,590,776	1,389,052	(201,724)
Domestic equity—small/mid cap	2,402,523	2,203,459	(199,064)
Domestic equity—large cap	101,981	205,364	103,383
Domestic equity sectors	764,137	1,040,425	276,288
International equity	2,929,486	2,695,312	(234,174)
U.S. government obligations	28,674	20,827	(7,847)
Large cap common stocks	4,373,008	5,136,792	763,784
Global balanced fund	7,033,247	7,074,376	41,129
Fixed income	56,253	53,116	(3,137)
	<u>\$ 23,453,253</u>	<u>\$ 23,783,673</u>	<u>\$ 330,420</u>

At December 31, 2023 and 2022, the Foundation, as trustee, holds charitable remainder trusts/unitrusts totaling approximately \$767,000 and \$704,000, respectively, that are included in investments. Total management fees paid to outside parties were approximately \$61,000 and \$45,000 for the years ended December 31, 2023 and 2022, respectively. 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.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 4. Investments (Continued)

Reconciliation of investment income for the years ended December 31, 2023 and 2022, is as follows:

	2023	2022
Interest and dividends from depository accounts	\$ 21,470	\$ 29,492
Interest and dividends from investments	624,000	775,452
Net gains (losses)	4,070,778	(5,916,856)
	<u>\$ 4,716,248</u>	<u>\$ (5,111,912)</u>

#### Note 5. Loans Receivable

First Homes Properties originated subordinated mortgage loans for single-family and multifamily development housing during the years ended December 31, 2023 and 2022, 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% 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. First Homes Properties 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% and 6.88% 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, 2023 and 2022, a total of approximately \$20,000 and \$73,000, respectively, was repaid due to the sale of homes, no loans were in delinquency, and no loans were written off due to bank foreclosure on the primary mortgage on the home. As of December 31, 2023, all remaining loans mature between the years of 2024 and 2052, and no material credit risk 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 3.46% to 7.00%. During each of the years ended December 31, 2023 and 2022, no amounts were repaid, no loans were in delinquency, and no loans were written off. As of December 31, 2023, all multifamily loans mature between the years of 2024 and 2047, and no material credit risk to the loans has been identified necessitating further credit risk evaluation.

First Homes Properties 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. First Homes Properties does not report loans funded by GMHF within its financial statements, as the mortgage is held by GMHF.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 5. Loans Receivable (Continued)

A summary of loans receivable by segment are as follows:

	December 31	
	2023	2022
Multifamily loans	\$ 793,000	\$ 793,000
Single-family loans	1,116,174	1,048,882
Less discount	(509,000)	(571,400)
Loans receivable, net	<u>\$ 1,400,174</u>	<u>\$ 1,270,482</u>

#### Note 6. Property and Equipment

Property and equipment consisted of the following:

	December 31	
	2023	2022
Land	\$ 1,153,029	\$ 1,153,029
Building and building improvements	4,168,363	4,164,863
Equipment and furniture	365,766	362,942
Accumulated depreciation	(918,868)	(794,382)
Property and equipment, net	<u>\$ 4,768,290</u>	<u>\$ 4,886,452</u>

#### Note 7. Split-Interest Agreements

**Charitable remainder unitrust obligations:** The Foundation is a recipient and trustee of three charitable remainder unitrusts. The agreements require the Foundation to pay beneficiaries, on a quarterly basis, returns ranging from 5% to 7% of the trust assets' fair value, determined as of each January 1. A liability of approximately \$423,000 and \$417,000 as of December 31, 2023 and 2022, respectively, has been recorded based on current annual required payments, using current life expectancies of the beneficiaries and discount factors of 5% to 7%. Upon death of the beneficiaries and/or termination of the unitrusts, any remaining assets revert to the Foundation.

**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.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

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% and 5.25%, and are expected to be realized in the following periods:

2024	\$	53,485
2025		48,796
2026		49,229
2027		49,673
2028		50,128
Thereafter		4,512
		<u>255,823</u>
Less present value discount		<u>(37,016)</u>
	\$	<u>218,807</u>

During the years ended December 31, 2023 and 2022, the Foundation received distributions of \$50,380 and \$65,102, respectively, from these trusts.

#### Note 8. Notes Payable

Notes payable at December 31, 2023 and 2022, consisted of the following:

	2023	2022
1.20% note payable to bank, due in monthly installments of \$3,859, including interest, through March 2026, with a lump-sum payment of \$365,684 due April 2026*	\$ 431,033	\$ 480,388
4.25% note payable to Greater Minnesota Housing Fund, due in monthly installments of \$12,050, including interest, through February 2046, with a lump-sum payment of \$531,625 due February 2046**	2,260,779	2,308,203
	<u>2,691,812</u>	<u>2,788,591</u>
Less unamortized deferred financing costs	35,175	36,837
	<u>\$ 2,656,637</u>	<u>\$ 2,751,754</u>

\* Collateralized by substantially all assets of the Foundation

\*\* Collateralized by a property and an interest in all leases generated by the property

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 8. Notes Payable (Continued)

Maturities of long-term debt for the years subsequent to December 31, 2023, are as follows:

Years ending December 31:		
2024	\$	81,666
2025		84,466
2026		417,873
2027		54,483
2028		56,627
Thereafter		1,996,697
	\$	<u>2,691,812</u>

#### Note 9. Net Assets

The Foundation's net assets consist of individual funds established for a variety of purposes. For the year ended December 31, 2023 and 2022, respectively, there were 410 and 374 individual funds. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees. Net assets without donor restrictions are held with the following Board and donor designations as of December 31, 2023 and 2022:

	2023	2022
Board-designated:		
Board-designated	\$ 13,600	\$ 12,188
Field of interest	2,239,387	1,736,698
Scholarship	2,523,507	2,125,389
	<u>4,776,494</u>	<u>3,874,275</u>
Donor-designated:		
Donor-designated	776,104	684,074
Donor-advised (nonendowment)	25,973,506	19,426,991
NFP endowment	10,670,415	7,208,070
	<u>37,420,025</u>	<u>27,319,135</u>
Without donor designations or board designations	6,793,053	7,343,228
	<u>\$ 48,989,572</u>	<u>\$ 38,536,638</u>

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Net Assets (Continued)

Net assets with donor restrictions are restricted for the following purposes at December 31, 2023 and 2022:

	2023	2022
Time-restricted based on life expectancy of donors:		
Charitable remainder unitrust	\$ 255,061	\$ 214,866
Charitable remainder trust	71,109	64,085
Charitable gift annuity	37,871	33,381
Charitable lead trust	218,807	242,980
	<u>582,848</u>	<u>555,312</u>
Purpose-restricted:		
First Homes Properties	13,289,146	13,533,053
External NFP support	2,519,812	-
Fiscal sponsors	640,553	559,251
	<u>16,449,511</u>	<u>14,092,304</u>
Purpose-restricted, subject to endowment:		
Endowment earnings for Rochester community	(192,145)	(17,427)
Housing initiative	4,061,096	2,532,413
Preschool children	592,431	558,792
Higher learning and scholarships	29,989	25,085
Disabled individuals	344,076	323,509
	<u>4,835,447</u>	<u>3,422,372</u>
Net assets held in perpetuity, subject to endowment:		
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
	<u>1,921,644</u>	<u>1,921,644</u>
Total net assets with donor restrictions	<u>\$ 23,789,450</u>	<u>\$ 19,991,632</u>

#### Note 10. Endowment

The Foundation's endowment consists of 16 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.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 10. Endowment (Continued)

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, 2023 and 2022, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, December 31, 2021	\$ 13,726,896	\$ 4,065,212	\$ 17,792,108
Investment return, investment change	(2,493,863)	(1,113,308)	(3,607,171)
Contributions	2,389,193	3,144,020	5,533,213
Appropriation of endowment funds (net of fees and reimbursements)	(1,855,807)	(751,908)	(2,607,715)
Balance, December 31, 2022	11,766,419	5,344,016	17,110,435
Investment return, investment change	2,334,341	367,732	2,702,073
Contributions	3,509,337	2,952,314	6,461,651
Appropriation of endowment funds (net of fees and reimbursements)	(1,387,084)	(1,906,971)	(3,294,055)
Balance, December 31, 2023	<u>\$ 16,223,013</u>	<u>\$ 6,757,091</u>	<u>\$ 22,980,104</u>

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 10. 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% annually. The 7.5% is based on achieving a 5% real return plus inflation of 2.5% 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 the Foundation's 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 5% 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.

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 11. Functional Expenses

The 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 statements of activities and changes in net assets for the years ended December 31, 2023 and 2022, supported the following programs and functions:

	2023			
	Program Services	Support Services		Total Expenses
		Management and General	Fundraising Expenses	
Grants and related programs	\$ 2,769,582	\$ -	\$ -	\$ 2,769,582
Net program expense—rehabilitated homes	22,267	-	-	22,267
Net program expense—affordable housing	155,822	-	-	155,822
Valuation adjustment	80,383	-	-	80,383
Personnel	592,755	377,270	157,679	1,127,704
Printing and postage	924	2,682	264	3,870
Supplies	14,028	14,463	1,398	29,889
Telephone	26,727	19,778	1,553	48,058
Repair and maintenance	110,202	46,086	8,707	164,995
Depreciation	59,686	54,044	12,418	126,148
Professional fees	263,087	188,037	93,421	544,545
Dues and subscriptions	4,537	12,028	1,372	17,937
Board and committee meetings	4,314	33,433	3,851	41,598
Travel	7,475	4,127	2,455	14,057
Real estate taxes	28,224	-	-	28,224
Interest and other	370,138	288,556	127,698	786,392
Total	<u>\$ 4,510,151</u>	<u>\$ 1,040,504</u>	<u>\$ 410,816</u>	<u>\$ 5,961,471</u>

	2022			
	Program Services	Support Services		Total Expenses
		Management and General	Fundraising Expenses	
Grants and related programs	\$ 5,602,586	\$ -	\$ -	\$ 5,602,586
Net program expense—rehabilitated homes	178,430	-	-	178,430
Net program expense—affordable housing	139,090	-	-	139,090
Valuation adjustment	54,200	-	-	54,200
Personnel	415,372	251,632	96,723	763,727
Printing and postage	1,003	2,588	251	3,842
Supplies	7,520	7,398	699	15,617
Telephone	13,633	8,670	589	22,892
Repair and maintenance	108,436	46,351	9,503	164,290
Depreciation	57,602	52,174	11,967	121,743
Professional fees	263,458	187,720	93,010	544,188
Dues and subscriptions	4,602	12,122	1,381	18,105
Board and committee meetings	3,519	26,634	2,868	33,021
Travel	4,084	2,005	968	7,057
Real estate taxes	23,058	7,686	-	30,744
Interest and other	297,394	235,525	98,600	631,519
Total	<u>\$ 7,173,987</u>	<u>\$ 840,505</u>	<u>\$ 316,559</u>	<u>\$ 8,331,051</u>

## Rochester Area Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 12. Affordable Housing Investment

On February 19, 2020, First Homes Properties purchased a 100% interest in Center Street Properties, LLC. The purchase was funded with a capital contribution of \$780,546 from First Homes Properties and debt totaling \$2,425,000 from the Greater Minnesota Housing Fund. The creation of Center Street Properties, LLC was a requirement of the Greater Minnesota Housing Fund to secure the debt funding. Center Street Properties, LLC is the sole owner of the Center Street Apartments located in Rochester, Minnesota, and provides affordable housing to the greater Rochester area. The activities conducted by Center Street Properties, LLC is considered a program of First Homes Properties. The assets and liabilities and activities of Center Street Properties, LLC is fully consolidated within First Homes Properties. The financial position of Center Street Properties, LLC and activities for the years ended December 31, 2023 and 2022, are summarized below:

	2023	2022
Assets:		
Cash	\$ 26,291	\$ 21,693
Restricted cash	168,066	160,731
Land	913,360	913,360
Building, net	1,886,670	1,938,836
Other	45	8,693
Total assets	<u>\$ 2,994,432</u>	<u>\$ 3,043,313</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 10,665	\$ 9,300
Tenant security deposits	25,100	21,761
Mortgage, net of deferred financing costs	2,225,604	2,271,366
Total liabilities	<u>2,261,369</u>	<u>2,302,427</u>
Member's equity	733,063	740,886
Total liabilities and member's equity	<u>\$ 2,994,432</u>	<u>\$ 3,043,313</u>
Revenues:		
Rent revenue	\$ 421,853	\$ 415,498
Interest income	520	358
Total revenues	<u>422,373</u>	<u>415,856</u>
Expenses:		
Operating expenses	155,822	139,090
General and administrative	94,960	86,683
Depreciation and amortization	53,828	53,828
Real estate tax	28,224	30,744
Interest expense	97,362	99,272
Total expenses	<u>430,196</u>	<u>409,617</u>
Net (loss) income	<u>\$ (7,823)</u>	<u>\$ 6,239</u>

**Rochester Area Foundation and Affiliates**

**Notes to Consolidated Financial Statements**

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**Note 12. Affordable Housing Investment (Continued)**

A rollforward of Center Street Properties, LLC member's equity is presented below:

	<u>2023</u>	<u>2022</u>
Balance January 1	\$ 740,886	\$ 734,647
Net (loss) income	(7,823)	6,239
Balance December 31	<u>\$ 733,063</u>	<u>\$ 740,886</u>

## Rochester Area Foundation and Affiliates

### Consolidating Statement of Financial Position December 31, 2023

	Rochester Area Foundation	First Homes Properties	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 11,059,367	\$ 1,793,199	\$ 12,852,566
Cash and cash equivalents, restricted	-	168,066	168,066
Interest and dividends receivable	19,657	12,931	32,588
Pledges receivable, net	4,125,000	-	4,125,000
Due from affiliates	378,696	-	378,696
Investments	37,032,447	-	37,032,447
Beneficial interest in trusts held by others	218,807	-	218,807
Loans receivable, net	-	1,400,174	1,400,174
Land and development costs	-	3,883,801	3,883,801
Property and equipment, net of accumulated depreciation	1,968,260	2,800,030	4,768,290
Other assets	6,281,296	390,225	6,671,521
Land held in Community Land Trust	-	10,498,227	10,498,227
<b>Total assets</b>	<b>\$ 61,083,530</b>	<b>\$ 20,946,653</b>	<b>\$ 82,030,183</b>
<b>Liabilities and Net Assets</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 173,982	\$ 288,418	\$ 462,400
Unitrust obligations	423,300	-	423,300
Refundable advances	823,492	-	823,492
Notes payable	1,865,033	5,298,240	7,163,273
Due to affiliates	-	378,696	378,696
<b>Total liabilities</b>	<b>3,285,807</b>	<b>5,965,354</b>	<b>9,251,161</b>
Net assets:			
Without donor restrictions	47,297,419	1,692,153	48,989,572
With donor restrictions	10,500,304	13,289,146	23,789,450
<b>Total net assets</b>	<b>57,797,723</b>	<b>14,981,299</b>	<b>72,779,022</b>
<b>Total liabilities and net assets</b>	<b>\$ 61,083,530</b>	<b>\$ 20,946,653</b>	<b>\$ 82,030,183</b>

Eliminations	Consolidated Total
\$ -	\$ 12,852,566
-	168,066
-	32,588
-	4,125,000
(378,696)	-
-	37,032,447
-	218,807
-	1,400,174
-	3,883,801
-	4,768,290
(4,877,895)	1,793,626
-	10,498,227
<hr/>	
\$ (5,256,591)	\$ 76,773,592

\$ -	\$ 462,400
-	423,300
(371,259)	452,233
(4,506,636)	2,656,637
(378,696)	-
(5,256,591)	3,994,570

-	48,989,572
-	23,789,450
-	72,779,022
<hr/>	
\$ (5,256,591)	\$ 76,773,592

## Rochester Area Foundation and Affiliates

### Consolidating Statement of Financial Position December 31, 2022

	Rochester Area Foundation	First Homes Properties	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 9,908,181	\$ 649,982	\$ 10,558,163
Cash and cash equivalents, restricted	-	160,731	160,731
Interest and dividends receivable	893	12,931	13,824
Due from affiliates	377,094	-	377,094
Investments	32,459,056	-	32,459,056
Beneficial interest in trusts held by others	242,980	-	242,980
Loans receivable, net	-	1,270,482	1,270,482
Land and development costs	-	2,702,345	2,702,345
Property and equipment, net of accumulated depreciation	2,034,256	2,852,196	4,886,452
Other assets	1,260,381	141,401	1,401,782
Land held in Community Land Trust	-	9,580,127	9,580,127
<b>Total assets</b>	<b>\$ 46,282,841</b>	<b>\$ 17,370,195</b>	<b>\$ 63,653,036</b>
<b>Liabilities and Net Assets</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 143,265	\$ 50,300	\$ 193,565
Unitrust obligations	417,200	-	417,200
Refundable advances	422,125	-	422,125
Notes payable	480,388	3,234,394	3,714,782
Due to affiliates	-	377,094	377,094
<b>Total liabilities</b>	<b>1,462,978</b>	<b>3,661,788</b>	<b>5,124,766</b>
Net assets:			
Without donor restrictions	38,361,284	175,354	38,536,638
With donor restrictions	6,458,579	13,533,053	19,991,632
<b>Total net assets</b>	<b>44,819,863</b>	<b>13,708,407</b>	<b>58,528,270</b>
<b>Total liabilities and net assets</b>	<b>\$ 46,282,841</b>	<b>\$ 17,370,195</b>	<b>\$ 63,653,036</b>

Eliminations	Consolidated Total
\$ -	\$ 10,558,163
-	160,731
-	13,824
(377,094)	-
-	32,459,056
-	242,980
-	1,270,482
-	2,702,345
-	4,886,452
(963,028)	438,754
-	9,580,127
<hr/>	
\$ (1,340,122)	\$ 62,312,914

\$ -	\$ 193,565
-	417,200
-	422,125
(963,028)	2,751,754
(377,094)	-
(1,340,122)	3,784,644

-	38,536,638
-	19,991,632
-	58,528,270

\$ (1,340,122)	\$ 62,312,914
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## Rochester Area Foundation and Affiliates

### Consolidating Statement of Activities December 31, 2023

	Rochester Area Foundation	First Homes Properties	Total
Changes in net assets without donor restrictions:			
Public support and revenues:			
Contribution revenue	\$ 8,589,237	\$ 220,000	\$ 8,809,237
Investment gain	4,306,303	-	4,306,303
Other	474,030	-	474,030
Net assets released from restrictions	2,931,979	992,319	3,924,298
<b>Total net assets without donor restrictions public support and revenues</b>	<b>16,301,549</b>	<b>1,212,319</b>	<b>17,513,868</b>
Expenses:			
Programs:			
Grants and related programs	5,165,844	-	5,165,844
Philanthropic and special	1,012,422	-	1,012,422
First Homes Properties	-	728,147	728,147
Management and general	803,042	237,462	1,040,504
Fundraising	384,106	26,710	410,816
<b>Total expenses</b>	<b>7,365,414</b>	<b>992,319</b>	<b>8,357,733</b>
<b>Change in net assets without donor restrictions</b>	<b>8,936,135</b>	<b>220,000</b>	<b>9,156,135</b>
Changes in net assets with donor restrictions:			
Contribution revenue	6,366,836	1,296,799	7,663,635
Grants	-	210,000	210,000
Investment income	390,322	19,623	409,945
Rent	-	408,743	408,743
Loan discount accretion	-	21,799	21,799
Other	149,543	88,247	237,790
Change in value of split-interest agreements	67,003	-	67,003
Net assets released from restrictions	(2,931,979)	(992,319)	(3,924,298)
<b>Change in net assets with donor restrictions</b>	<b>4,041,725</b>	<b>1,052,892</b>	<b>5,094,617</b>
<b>Change in net assets</b>	<b>12,977,860</b>	<b>1,272,892</b>	<b>14,250,752</b>
Net assets:			
Beginning	44,819,863	13,708,407	58,528,270
Ending	<b>\$ 57,797,723</b>	<b>\$ 14,981,299</b>	<b>\$ 72,779,022</b>

Eliminations	Consolidated Total
\$ (1,099,463)	\$ 7,709,774
-	4,306,303
-	474,030
-	3,924,298
<hr/>	
(1,099,463)	16,414,405
<hr/>	
(2,396,262)	2,769,582
-	1,012,422
-	728,147
-	1,040,504
-	410,816
<hr/>	
(2,396,262)	5,961,471
<hr/>	
1,296,799	10,452,934
<hr/>	
(1,296,799)	6,366,836
-	210,000
-	409,945
-	408,743
-	21,799
-	237,790
-	67,003
-	(3,924,298)
<hr/>	
(1,296,799)	3,797,818
<hr/>	
-	14,250,752
<hr/>	
-	58,528,270
<hr/>	
\$ -	\$ 72,779,022
<hr/> <hr/>	

## Rochester Area Foundation and Affiliates

### Consolidating Statement of Activities December 31, 2022

	Rochester Area Foundation	First Homes Properties	Total
Changes in net assets without donor restrictions:			
Public support and revenues:			
Contribution revenue	\$ 8,727,659	\$ -	\$ 8,727,659
Contributed nonfinancial assets	1,205,365	-	1,205,365
Investment loss	(4,680,262)	-	(4,680,262)
Other	396,937	-	396,937
Net assets released from restrictions	2,159,286	1,072,263	3,231,549
<b>Total net assets without donor restrictions public support and revenues</b>	<b>7,808,985</b>	<b>1,072,263</b>	<b>8,881,248</b>
Expenses:			
Programs:			
Grants and related programs	5,621,586	-	5,621,586
Philanthropic and special	761,145	-	761,145
First Homes Properties	-	810,256	810,256
Management and general	603,793	236,712	840,505
Fundraising	291,264	25,295	316,559
<b>Total expenses</b>	<b>7,277,788</b>	<b>1,072,263</b>	<b>8,350,051</b>
<b>Change in net assets without donor restrictions</b>	<b>531,197</b>	<b>-</b>	<b>531,197</b>
Changes in net assets with donor restrictions:			
Contribution revenue	3,665,674	652,923	4,318,597
Grants	1,000	10,000	11,000
Investment income	(461,142)	29,492	(431,650)
Rent	-	399,213	399,213
Loan discount accretion	-	(114,200)	(114,200)
Other	(55,532)	249,820	194,288
Change in value of split-interest agreements	(66,529)	-	(66,529)
Gain on forgiveness of debt	-	134,623	134,623
Net assets released from restrictions	(2,159,286)	(1,072,263)	(3,231,549)
<b>Change in net assets with donor restrictions</b>	<b>924,185</b>	<b>289,608</b>	<b>1,213,793</b>
<b>Change in net assets</b>	<b>1,455,382</b>	<b>289,608</b>	<b>1,744,990</b>
Net assets:			
Beginning	43,364,481	13,418,799	56,783,280
Ending	\$ 44,819,863	\$ 13,708,407	\$ 58,528,270

Eliminations	Consolidated Total
\$ (19,000)	\$ 8,708,659
-	1,205,365
-	(4,680,262)
-	396,937
-	3,231,549
(19,000)	8,862,248
(19,000)	5,602,586
-	761,145
-	810,256
-	840,505
-	316,559
(19,000)	8,331,051
-	531,197
-	4,318,597
-	11,000
-	(431,650)
-	399,213
-	(114,200)
-	194,288
-	(66,529)
-	134,623
-	(3,231,549)
-	1,213,793
-	1,744,990
-	56,783,280
\$ -	\$ 58,528,270

**Rochester Area Foundation and Affiliates**

**Schedule of Rochester Area Foundation Expenses Before Eliminations  
Year Ended December 31, 2023  
(With Comparative Total for Year Ended December 31, 2022)**

	2023			2022 Total	
	Program	Support Services Management and General	Fundraising Expenses		Total
Grants	\$ 5,165,844	\$ -	\$ -	\$ 5,165,844	\$ 5,621,586
Personnel	366,215	272,713	140,253	779,181	450,283
Donor relations:					
Printing and postage	-	2,374	264	2,638	2,505
Office and equipment:					
Supplies	12,583	13,982	1,398	27,963	13,976
Telephone	13,975	15,527	1,553	31,055	11,787
Repair and maintenance	22,734	16,930	8,707	48,371	52,792
Depreciation	22,094	16,453	8,461	47,008	45,225
	<u>71,386</u>	<u>62,892</u>	<u>20,119</u>	<u>154,397</u>	<u>123,780</u>
Administration:					
Professional fees	243,934	181,653	93,421	519,008	516,724
Dues and subscriptions	1,372	10,973	1,372	13,717	13,810
Board and committee meetings	3,851	30,811	3,851	38,513	28,684
Travel	6,137	3,681	2,455	12,273	4,839
Depreciation, interest and other	319,527	237,945	122,371	679,843	515,577
	<u>574,821</u>	<u>465,063</u>	<u>223,470</u>	<u>1,263,354</u>	<u>1,079,634</u>
<b>Total</b>	<u>\$ 6,178,266</u>	<u>\$ 803,042</u>	<u>\$ 384,106</u>	<u>\$ 7,365,414</u>	<u>\$ 7,277,788</u>

**Rochester Area Foundation and Affiliates**

**Schedule of First Homes Properties Expenses Before Eliminations  
Year Ended December 31, 2023  
(With Comparative Total for Year Ended December 31, 2022)**

	2023			2022 Total
	Program	Support Services Management and General	Fundraising Expenses	
Mortgage and development activities:				
Net program expense—rehabilitated homes	\$ 22,267	\$ -	\$ -	\$ 178,430
Valuation adjustment	80,383	-	-	54,200
Net program expense—affordable housing	155,822	-	-	139,090
	<u>258,472</u>	<u>-</u>	<u>-</u>	<u>371,720</u>
Personnel	<u>226,540</u>	<u>104,557</u>	<u>17,426</u>	<u>348,523</u>
Donor relations:				
Printing and postage	<u>924</u>	<u>308</u>	<u>-</u>	<u>1,337</u>
Office and equipment:				
Supplies	1,445	481	-	1,641
Telephone	12,752	4,251	-	11,105
Repair and maintenance	87,468	29,156	-	111,498
Depreciation and amortization	37,592	37,591	3,957	76,518
	<u>139,257</u>	<u>71,479</u>	<u>3,957</u>	<u>200,762</u>
Administration:				
Professional fees	19,153	6,384	-	27,464
Dues and subscriptions	3,165	1,055	-	4,295
Board and committee meetings	463	2,622	-	4,337
Travel	1,338	446	-	2,218
Real estate taxes	28,224	-	-	30,744
Interest and other	50,611	50,611	5,327	115,942
	<u>102,954</u>	<u>61,118</u>	<u>5,327</u>	<u>185,000</u>
<b>Total</b>	<u>\$ 728,147</u>	<u>\$ 237,462</u>	<u>\$ 26,710</u>	<u>\$ 992,319</u>
				<u>\$ 1,072,263</u>