Rochester Area Foundation and Affiliates

Consolidated Financial Report
December 31, 2011

Contents

Independent Auditor's Report
on the Financial Statements and Supplementary Information

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

We have audited the accompanying consolidated statements of financial position of the Rochester Area Foundation and Affiliates as of December 31, 2011 and 2010 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Rochester Area Foundation and Affiliates as of December 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual entities and is not a required part of the consolidated 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 consolidated financial statements. The consolidating and other supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

McGladrey LLP

Rochester, Minnesota
June 26, 2012

Rochester Area Foundation and Affiliates

Consolidated Statements of Financial Position
December 31, 2011 and 2010

Assets	**2011**	2010
Cash and cash equivalents	**$ 1,728,297**	$ 2,589,553
Interest and dividends receivable	**16,459**	11,758
Pledges receivable (Note 4)	**68,975**	164,325
Notes receivable	**201,057**	6,879
Investments in marketable securities (Notes 2 and 3)	**22,683,810**	23,688,896
Beneficial interest in trusts held by others (Notes 6 and 9)	**709,190**	601,147
Loans receivable (Note 5)	**2,154,902**	2,176,342
Land and development costs	**2,276,320**	2,007,026
Equipment, net of accumulated depreciation of 2011 $199,163; 2010 $184,353	**30,033**	43,123
Other assets	**77,480**	70,010
Land held in community land trust	**8,058,218**	7,860,218
Total assets	**$ 38,004,741**	$ 39,219,277

Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 212,765**	$ 47,523
Grants payable	**91,200**	69,320
Program assets held for others (Note 8)	**751,980**	926,144
Annuities payable	**91,866**	130,599
Deferred revenue	**174,000**	301,323
Unitrust obligations (Note 6)	**603,000**	678,000
Refundable advances	**497,619**	475,805
Note payable (Note 7)	**3,082,332**	3,091,501
Total liabilities	**5,504,762**	5,720,215
Commitments (Note 3)		
Net Assets (Notes 9 and 10)		
Unrestricted	**19,595,744**	20,155,255
Temporarily restricted	**10,982,591**	11,422,163
Permanently restricted	**1,921,644**	1,921,644
Total net assets	**32,499,979**	33,499,062
Total liabilities and net assets	**$ 38,004,741**	$ 39,219,277

See Notes to Consolidated Financial Statements.

Rochester Area Foundation and Affiliates

Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Foundation, corporations and individuals	$ 1,172,444	$ 541,076	$ -	$ 1,713,520
Grants	-	331,727	-	331,727
Investment loss (Note 3)	(68,391)	(159,282)	-	(227,673)
Loan discount accretion	-	80,328	-	80,328
Other	10,560	30,964	-	41,524
Change in value of split interest agreements	-	97,349	-	97,349
Net assets released from restriction	1,361,734	(1,361,734)	-	-
Total revenues and gains	2,476,347	(439,572)	-	2,036,775
Expenses:				
Programs:				
Grants	1,486,568	-	-	1,486,568
Philanthropic and special	103,733	-	-	103,733
First Homes	516,251	-	-	516,251
First Steps	251,058	-	-	251,058
Rochester Community Finance	45,479	-	-	45,479
Management and general	505,143	-	-	505,143
Fund-raising	127,626	-	-	127,626
Total expenses	3,035,858	-	-	3,035,858
Change in net assets	(559,511)	(439,572)	-	(999,083)
Net Assets:				
Beginning of year	20,155,255	11,422,163	1,921,644	33,499,062
End of year	$ 19,595,744	$ 10,982,591	$ 1,921,644	$ 32,499,979

See Notes to Consolidated Financial Statements.

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Foundation, corporations and individuals	$ 1,388,688	$ 992,768	$ -	$ 2,381,456
Grants	-	851,558	-	851,558
Investment gain (Note 3)	1,572,587	199,714	-	1,772,301
Loan discount accretion	-	90,396	-	90,396
Other	13,698	53,896	-	67,594
Change in value of split interest agreements	-	42,244	-	42,244
Net assets released from restriction	1,659,018	(1,659,018)	-	-
Total revenues and gains	4,633,991	571,558	-	5,205,549
Expenses:				
Programs:				
Grants	1,867,925	-	-	1,867,925
Philanthropic and special	115,310	-	-	115,310
First Homes	1,055,461	-	-	1,055,461
First Steps	294,411	-	-	294,411
Management and general	584,489	-	-	584,489
Fund-raising	87,444	-	-	87,444
Total expenses	4,005,040	-	-	4,005,040
Change in net assets	628,951	571,558	-	1,200,509
Net Assets:				
Beginning of year	19,526,304	10,850,605	1,921,644	32,298,553
End of year	$ 20,155,255	$ 11,422,163	$ 1,921,644	$ 33,499,062

Rochester Area Foundation and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows for Operating Activities		
Contributions received from foundation, corporations and individuals	**$ 1,099,827**	$ 1,295,457
Grants received	**104,404**	305,000
Interest and dividends received	**491,513**	618,359
Other receipts	**70,023**	228,246
Cash paid for grants	**(1,464,688)**	(1,931,770)
Cash paid to employees and suppliers	**(1,569,165)**	(2,032,321)
Net cash used in operating activities	**(1,268,086)**	(1,517,029)
Cash Flows From Investing Activities		
Payments received on notes receivable	**1,944**	83,002
Issuance of notes receivable	**(196,122)**	(18,094)
Purchase of equipment	**(1,720)**	(12,019)
Purchase of land and development projects	**(1,624,446)**	(2,281,259)
Proceeds from developed properties	**1,335,152**	4,469,039
Purchase of land held in community land trust	**(198,000)**	(402,500)
Payments received on loans receivable	**118,630**	-
Issuance of loans receivable	**(27,190)**	(234,400)
Proceeds from sale and maturities of investment securities	**6,751,073**	3,283,228
Purchase of investment securities	**(5,852,491)**	(3,177,793)
Net cash provided by investing activities	**306,830**	1,857,993
Cash Flows From Financing Activities		
Net proceeds from (payments on) annuities payable	**-**	-
Permanently restricted contributions	**-**	-
Grant proceeds	**100,000**	396,007
Principal payments of notes payable	**-**	(687,754)
Proceeds from issuance of notes payable	**-**	1,337,754
Net cash provided by financing activities	**100,000**	1,046,007
Net increase (decrease) in cash and cash equivalents	**(861,256)**	1,386,971
Cash and cash equivalents		
Beginning	**2,589,553**	1,351,371
Ending	**$ 1,728,297**	$ 2,589,553

Rochester Area Foundation and Affiliates

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of change in net assets to net cash used by operating activities:		
Change in net assets	**$ (999,083)**	$ 1,200,509
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation expense	**14,810**	20,401
Amortization of debt discount, net	**(9,169)**	3,547
Change in valuation allowance on loans and contributions	**20,000**	5,000
Grant revenue	**(227,323)**	(546,558)
Net unrealized and realized losses (gains) on investments	**723,887**	(1,307,660)
Permanently restricted contributions	**-**	-
Bad debt expense	**-**	-
Noncash donation of investments	**(617,383)**	(554,402)
Noncash donation of benefical interest in trusts held by others	**(145,085)**	(601,147)
Discount on loans receivable, net of accretion	**(70,000)**	40,000
Change in value of split interest agreements	**(97,349)**	(42,244)
Changes in assets and liabilities:		
Decrease in receivables	**90,649**	223,268
Decrease in other assets	**45,955**	1,308
Increase (decrease) in payables and accrued expenses	**161,410**	(85,027)
Increase (decrease) in unitrust obligations	**(7,055)**	24,244
Increase (decrease) in refundable advances and program assets	**(152,350)**	101,732
Net cash used in operating activities	**$ (1,268,086)**	$ (1,517,029)

See Notes to Consolidated Financial Statements.

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

Nature of activities: The Rochester Area Foundation, First Homes Properties, First Steps in Education (First Steps), Rochester Community Finance and RAF Properties (collectively referred to as Foundation) are nonprofit corporations organized under the laws of the State of Minnesota. The Rochester Area Foundation is organized for the purpose of establishing, aiding and promoting activities of a social, moral, educational, and religious nature in the Rochester and Olmsted County areas of southeastern Minnesota. First Homes Properties is organized for the purpose of providing opportunities and services for low and moderate income households in various Southeast Minnesota counties to secure decent and affordable housing. First Steps is organized for the purpose of ensuring that the Rochester communities' children are ready for school when they enter kindergarten. 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. There was no activity for RAF Properties for the years ending December 31, 2011 and 2010.

Rochester Community Finance (RCF) was organized in 2011 to provide increased access to capital for low and moderate income individuals and communities in the Rochester area. Consistent with RCF's purpose, the balances of all single-family and multi-family loans receivable and certain notes payable incurred for housing rehabilitation were transferred from First Homes to RCF at carrying value, resulting in intercompany accounts payable and receivable for these balances. This transaction did not have an impact on the net assets of the consolidated financial statements.

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, First Steps, RAF Properties and Rochester Community Finance. Rochester Area Foundation is the sole member of First Homes Properties, First Steps, RAF Properties and Rochester Community Finance. All material inter-company balances and transactions have been eliminated in preparation of the consolidated financial statements.

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

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

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

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

Receivables: Receivables 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 present value of projected future cash flows. Management determines bad debts by regularly evaluating individual pledge receivables and considers a donor's financial condition and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of pledge receivables previously written off are recorded when received.

Notes receivable: The Foundation receives promissory notes in connection with sales of residential real estate lots from a not-for-profit foundation (NPO). These lots have been developed on land owned by the Foundation. The NPO builds a home and markets the property for sale. If the purchaser of the property is eligible for participation in the First Homes program, the Foundation will collect the note plus interest and reinvest those funds in a mortgage loan or community land trust. As lots are sold, any gain or loss is recognized in the statement of activities.

The Foundation also receives promissory notes from certain NPO's in connection with construction of residences intended to be sold to low and moderate income home buyers. These notes earn 4% simple interest and are due during the fiscal year ending December 31, 2013.

Investments: Donated real property is initially stated at fair value based on an appraisal at the date of donation. Investments in marketable equity and debt securities are stated at fair value based on quoted market prices or valued based on models using observable inputs. Investments in hedge funds, private equity funds and real estate investment trusts (alternative investments) are stated at net asset value using the practical expedient based on values reported by fund managers, audited financial statements of the funds and third party valuation estimates. An investment advisor recommends the purchase of securities based on investment guidelines established by the Foundation. Investment income includes dividends and interest which are recognized when earned, realized gains and losses recognized upon sale using specific identification method and unrealized gains/losses recognized for change in fair value between reporting dates. Investment income is included in the change in unrestricted net assets unless the income is restricted by donor or law. Gains and losses from the sale of securities and unrealized appreciation or depreciation in investments are allocated to net asset components in the same manner as interest and dividends.

Loans receivable: The Foundation originates subordinated mortgage loans at advantageous rates to developers and families in Southeast Minnesota to increase affordable multi-family and single-family housing. Loans receivable are initially reported at estimated fair value determined by discounting projected cash flows using an imputed interest rate and estimated loan payoff date. The initial discount is recorded as a program expense. Accretion of the discount is reported as revenue. Management provides a provision for loan losses based on their current judgment about the credit quality of the loan portfolio and considers all known relevant internal and external factors that affect collectability as of the reporting date. Management has determined that no allowance is required at December 31, 2011 and 2010.

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

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

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

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

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 3 to 7 years.

Operating lease: The Foundation leases office space pursuant to a noncancellable operating lease. The lease agreement, which expires in 2012, requires a minimum monthly payment of $5,535, which includes payment of real estate taxes and operating expenses. Future minimum commitment under this lease is $49,815 in fiscal year 2012. Rental expense related to this operating lease as of December 31, 2011 and 2010 was $136,000 and $133,000, respectively.

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

Beneficial interest in trusts held by others: Funds held in trust by others are reported at fair value. Fair value represents total present value 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.

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

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

Grant revenue: Revenue from grants provided primarily by Minnesota Housing Finance Agency (MHFA), is recognized as single-family mortgage (gap) loans are originated. Cash received less gap loans made and certain CLTs awarded are reported as deferred revenue.

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

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

Retirement benefits: The Foundation provides retirement benefits to eligible employees through salary reduction plan as permitted under Section 403(b) of the Internal Revenue Code. The Foundation contributes 5% of the employee's salary through a Simplified Employee Pension Plan. The Foundation contributed $20,587 and $18,448 for the years ending December 31, 2011 and 2010, 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 allowance for doubtful pledges, valuation of alternative investments, factors that impact the determination of unitrust obligations, discount on loans receivable and impairments of community land trust.

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, 2011 generally, the federal and Minnesota tax returns for the Foundation are open for examination by taxing authorities for the years 2008 to 2010. At December 31, 2011, the Foundation did not record any liabilities for uncertain tax positions.

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

Subsequent events: The Foundation has evaluated events and transactions occurring subsequent to December 31, 2011 through June 26, 2012 the date the financial statements were available for issue. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. Additionally, there were no nonrecognized subsequent events requiring disclosure subsequent to year end, except as follows:

- In March of 2012 the Foundation agreed to provide a $2,000,000 collateralized loan guarantee for the purposes of building a new facility to house programs for lower income and at-risk youth. This guarantee will be made to the primary lending institution for a loan into a New Markets Tax Credit structure. Under this agreement, the Foundation will receive escrow funds from the initial loan proceeds which will be held by the Foundation in escrow in the event that the Foundation's guarantee is called. This guarantee will be secured by an interest in Foundation assets. As of June 26, 2012, no loan proceeds have been disbursed by the primary lender, nor have any fees or escrow amounts been collected by the Foundation.

Note 2. Fair Value Measurements

The Foundation holds certain financial instruments that are required to be measured at fair value on a recurring basis. The valuation techniques used to measure fair value under the Fair Value Measurements and Disclosures Topic of FASB 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.

Note 2. Fair Value Measurements (Continued)

Assets subject to the recurring fair value measurements described above included in the consolidated statements of financial position at December 31, 2011 and 2010 are summarized as follows:

	2011			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investments in securities				
Fixed income securities				
Corporate obligations	$ -	$ 979,385	$ -	$ 979,385
Mutual funds				
Blended equity income	1,933,451	-	-	1,933,451
Domestic corporate obligations	2,819,418	-	-	2,819,418
Domestic equity - small/mid cap	73,979	-	-	73,979
Domestic equity - large cap	241,374	-	-	241,374
Domestic equity sectors	113,929	-	-	113,929
International corporate obligations	298,827	-	-	298,827
International equity	2,172,051	-	-	2,172,051
US Government obligations	506,017	-	-	506,017
Large cap common stocks	3,599,814	-	-	3,599,814
Global balanced fund	2,897,268	-	-	2,897,268
Alternative investments				
Hedge funds	-	-	536,504	536,504
Real estate and natural resource funds	-	-	1,304,441	1,304,441
Private equity	-	-	5,207,352	5,207,352
Other assets				
Beneficial interest in trusts	-	-	709,190	709,190
Total	$ 14,656,128	$ 979,385	$ 7,757,487	$ 23,393,000

Note 2. Fair Value Measurements (Continued)

	2010			
	Level 1	Level 2	Level 3	Total Fair Value
Investments in securities				
Fixed income securities				
Government obligations	$ -	$ 591,447	$ -	$ 591,447
Corporate obligations	-	774,891	-	774,891
Mutual funds				
Blended equity income	2,297,905	-	-	2,297,905
Domestic corporate obligations	3,441,047	-	-	3,441,047
Domestic equity - small/mid cap	81,041	-	-	81,041
Domestic equity - large cap	965,819	-	-	965,819
Domestic equity sectors	54,579	-	-	54,579
International corporate obligations	283,474	-	-	283,474
International equity	2,396,972	-	-	2,396,972
Large cap common stocks	3,861,276	-	-	3,861,276
Alternative investments				
Hedge funds	-	-	2,613,491	2,613,491
Real estate and natural resource funds	-	-	1,040,805	1,040,805
Private equity	-	-	5,286,149	5,286,149
Other assets				
Beneficial interest in trusts	-	-	601,147	601,147
Total	$ 13,382,113	$ 1,366,338	$ 9,541,592	$ 24,290,043

Following is a description of the Foundation's valuation methodologies for assets and liabilities measured at fair value:

- Fair value for level 1 is based upon quoted market prices.
- Fair value for Level 2 is based on 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.
- Level 3, which consists of alternative investments (principally limited partnership interests in private equity, hedge, real estate, and natural resources funds), represents the Foundation's ownership interest in the net asset value (NAV) of the respective investment. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by the limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on a variety of inputs, including: historical cost, independent external valuations from specialists such as actuaries, appraisers, and engineers, comparison to publicly traded comparables, pricing used in the most recent secondary transaction or financing, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other thing, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

Note 2. Fair Value Measurements (Continued)

The methods described above 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 of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

	2011				
	Hedge Funds	**Real Estate and Natural Resource Funds**	**Private Equity**	**Other**	**Total**
Fair value January 1, 2011	**$ 2,613,491**	**$ 1,040,805**	**$ 5,286,149**	**$ 601,147**	**$ 9,541,592**
Net purchases, issuances, contributions and capital calls	**-**	**101,889**	**-**	**145,085**	**246,974**
Dispositions and distributions	**(2,191,758)**	**-**	**-**	**(53,424)**	**(2,245,182)**
Market value change	**114,771**	**161,747**	**(78,797)**	**16,382**	**214,103**
Fair value December 31, 2011	**$ 536,504**	**$ 1,304,441**	**$ 5,207,352**	**$ 709,190**	**$ 7,757,487**
Unrealized gains/(losses) related to financial instruments held at December 31, 2011, and included in the statement of activities	**$ (198,172)**	**$ (1,211,342)**	**$ 142,782**	**$ -**	**$ (1,266,732)**

	2010				
	Hedge Funds	Real Estate and Natural Resource Funds	Private Equity	Other	Total
Fair value January 1, 2010	$ 921,499	$ 821,284	$ -	$ -	$ 1,742,783
Net purchases, issuances, contributions and capital calls	1,750,000	213,187	5,064,570	659,236	7,686,993
Disposition of investments	(250,061)	-	-	(58,089)	(308,150)
Market value change	192,053	6,334	221,579	-	419,966
Fair value December 31, 2010	$ 2,613,491	$ 1,040,805	$ 5,286,149	$ 601,147	$ 9,541,592
Unrealized gains/(losses) related to financial instruments held at December 31, 2010, and included in the statement of activities	$ (163,784)	$ (1,373,089)	$ 220,579	$ -	$ (1,316,294)

Note 2. Fair Value Measurements (Continued)

The following information pertains to those alternative investments recorded at net asset value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC:

	2011			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently available)	Redemption Notice Period
Alternative investments				
Hedge funds (a)	$ 536,504	$ -	Quarterly	120 days
Real estate and natural resource funds (b)	1,304,441	529,025	Not available	Upon liquidation
Private equity (b)	5,207,352	-	Quarterly	60 days
	$ 7,048,297	$ 529,025		

(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 fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments in this category generally carry “lock-up” restrictions that do not allow investors to seek redemption in the first year after acquisition. Following the initial lock-up period, liquidity is generally available monthly, quarterly, or annually following a redemption request. Over 70 percent of the investments in this category have at least monthly liquidity.

(b) This category includes limited partnership interests in closed-end funds that focus on private equity, real estate, and resource-related strategies. The fair values of the investments in these categories have been estimated using the net asset value of the Foundation’s ownership interest in partners’ capital. 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 5 to 7 year period. These alternative investments are non-marketable, and, although a secondary market exists for non-marketable 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 net asset value. 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 net asset value, and the discount could be significant.

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, 2011 and 2010 is $5,142,782 and $5,221,579, respectively.

Rochester Area Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Investments

Investments at December 31, 2011 and 2010 are summarized as follows:

	2011		
	Cost	**Carrying Value**	**Unrealized Gain/(Loss)**
Fixed income securities			
Corporate obligations	**$ 957,854**	**$ 979,385**	**$ 21,531**
Mutual funds			
Blended equity income	**2,056,831**	**1,933,451**	**(123,380)**
Domestic corporate obligations	**2,707,913**	**2,819,418**	**111,505**
Domestic equity - small/mid cap	**79,181**	**73,979**	**(5,202)**
Domestic equity - large cap	**263,845**	**241,374**	**(22,471)**
Domestic equity sectors	**112,354**	**113,929**	**1,575**
International corporate obligations	**268,273**	**298,827**	**30,554**
International equity	**2,534,440**	**2,172,051**	**(362,389)**
US Government obligations	**509,157**	**506,017**	**(3,140)**
Large cap common stocks	**3,541,310**	**3,599,814**	**58,504**
Global balanced fund	**3,076,179**	**2,897,268**	**(178,911)**
Alternative investments			
Hedge funds	**734,676**	**536,504**	**(198,172)**
Real estate and natural resource funds	**2,515,783**	**1,304,441**	**(1,211,342)**
Private equity	**5,064,570**	**5,207,352**	**142,782**
	$ 24,422,366	**$ 22,683,810**	**$ (1,738,556)**

	2010		
	Cost	Carrying Value	Unrealized Gain/(Loss)
Fixed income securities			
Government obligations	$ 509,464	$ 591,447	$ 81,983
Corporate obligations	756,659	774,891	18,232
Mutual funds			
Blended equity income	2,167,424	2,297,905	130,481
Domestic corporate obligations	3,431,769	3,441,047	9,278
Domestic equity - small/mid cap	79,669	81,041	1,372
Domestic equity - large cap	1,047,998	965,819	(82,179)
Domestic equity sectors	56,988	54,579	(2,409)
International corporate obligations	227,901	283,474	55,573
International equity	2,283,460	2,396,972	113,512
Large cap common stocks	3,449,688	3,861,276	411,588
Alternative investments			
Hedge funds	2,777,275	2,613,491	(163,784)
Real estate and natural resource funds	2,413,894	1,040,805	(1,373,089)
Private equity	5,065,570	5,286,149	220,579
	$ 24,267,759	$ 23,688,896	$ (578,863)

Note 3. Investments (Continued)

At December 31, 2011 and 2010, the Foundation, as trustee, holds Charitable Remainder Trust/Unitrusts totaling approximately $1,081,799 and $1,016,518, respectively, that are included in investments. Reconciliation of investment income (loss) for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Interest and dividends from depository accounts	**$ 17,273**	$ 3,348
Interest and dividends from investments	**478,941**	461,293
Net gains (losses)	**(658,083)**	1,363,424
Investment fees	**(65,804)**	(55,764)
	$ (227,673)	$ 1,772,301

Note 4. Pledges Receivable

Pledges receivable are scheduled to be received as follows:

	Endowment	First Steps	Total
2012	$ 30,075	$ 6,350	$ 36,425
2013	50	-	50
2014	-	-	-
2015	32,500	-	32,500
	$ 62,625	$ 6,350	$ 68,975

Note 5. Loans Receivable

Rochester Community Finance (RCF) originates subordinated mortgage loans for single-family and multi-family development housing as follows:

Single-family loans: Single-family mortgage loans are originated to assist low and moderate income home-buyers with all or a portion of the down payment required on their primary residence, in amounts ranging from $1,000 to $10,000 for a 30 year term in conjunction with their primary mortgage lender. Loans originated for the purchase of homes within the Community Land Trust program administered by First Homes do not earn interest during the 30 year mortgage term, with the balance of principal due upon loan maturity or sale of the home, whichever comes first. Loans originated for financing outside of the Community Land Trust program earn simple interest of 2% per annum over the 30 year mortgage term, with balance of principal and interest due upon loan maturity or sale of the home, whichever comes first. RCF has estimated that the majority of these loans will be repaid within an average of ten years, with total projected cash flows discounted to present value with rates between 4.13% 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 year ending December 31, 2011, a total of $112,000 was repaid due to the sale of homes, and one loan of $6,500 was written off due to bank foreclosure on the primary mortgage on the home. As of December 31, 2011, all remaining loans mature between the years of 2030 and 2041, and no impairment to the loans or the underlying value of the land has been identified necessitating further credit risk evaluation.

Multi-family loans: Multi-family loans are originated to agencies with the intent to construct and develop multi-family 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 40 years, with the principal balance of the loan due upon maturity of the primary mortgage or sale of the development, whichever comes first. Multi-family 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 4.7% to 7.6%. As of December 31, 2011, all multi-family loans mature between the years of 2012 and 2040, and no impairment to the loans has been identified necessitating further credit risk evaluation.

RCF 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. RCF 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,	
	2011	2010
Multi-family loans	**$ 2,911,200**	$ 2,911,200
Single-family loans	**1,463,702**	1,555,142
Less discount	**(2,220,000)**	(2,290,000)
Loans receivable, net	**$ 2,154,902**	$ 2,176,342

Note 6. Split Interest Agreements

Charitable remainder unitrusts: The Foundation is a recipient and Trustee of four Charitable Remainder Unitrusts. The agreements require the Foundation pay beneficiaries, on a quarterly basis, returns ranging from 5.0% to 7.5% of the trust assets fair value, determined as of each January 1. A liability has been recorded based on current annual required payments using current life expectancies of the beneficiaries and discount factors of 5.0% to 7.5%. 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. 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:

2012	$ 62,097
2013 - 2017	312,119
2018 - 2022	316,672
2023 - 2027	305,059
Thereafter	65,595
	1,061,542
Less: present value discount	352,352
	$ 709,190

During the year ended December 31, 2011 and 2010, the Foundation received distributions of $53,424 and $58,089, respectively, from these trusts.

Note 7. Notes Payable

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

Notes payable are as follows at December 31, 2011 and 2010:

	2011	2010
Greater Minnesota Housing Fund, 4% simple interest rate, annual interest payments only until May 2014, when balance is due in full.	**$ 600,000**	$ 600,000
Greater Minnesota Housing Fund, 4% simple interest rate, quarterly interest payments only until October 2013, when balance is due in full.	**687,754**	687,754
Wells Fargo, 2% interest, quarterly interest and principal payments due until January 2013, when balance is due in full.	**625,000**	625,000
Greater Minnesota Housing Fund, 4% simple interest rate, annual interest payments only until May 2014, when balance is due in full.	**560,000**	560,000
Greater Minnesota Housing Fund, 4% simple interest rate, annual interest payments only until April 2013, when balance is due in full.	**650,000**	650,000
Discount	**(40,422)**	(31,253)
	$ 3,082,332	$ 3,091,501

Certain of the notes payable above have been discounted based on the terms of the notes in relation to the notes market value. The discount is being amortized using the interest method over the term of the respective note.

Future maturities are as follows:

2012	$ 428,028
2013	1,494,004
2014	1,160,300
	$ 3,082,332

Note 8. Program Assets Held for Others

In 2009, First Homes and the City of Rochester, Minnesota (the City) were notified by the Minnesota Housing Finance Agency that the City would be the recipient of up to $2 million in Neighborhood Stabilization Program (NSP) grant funds. The City Council executed an agreement with First Homes to implement the NSP grant program on behalf of the City. The funds will be primarily used by First Homes to purchase and rehabilitate foreclosed homes in NSP targeted areas, and resold to income-qualified individuals through the year 2013.

Upon purchase and renovation of property that is designated as eligible for the NSP funds, an asset is recorded by First Homes, and reimbursement for costs expended is requested from the City. Upon reimbursement from the City, the amount received is recorded by First Homes as a program payable to the City, as these funds are returned to the City upon project sale, and reinvested into the program for similar future projects. First homes receives marketing and developing fee for completed projects. Fees earned in 2011 and 2010 were $62,000 and $118,000, respectively. The program also contributes to a portion of the value added to the Community Land Trust (CLT). NSP funds used for CLT expansion in 2011 and 2010 were $43,000 and $187,000, respectively. At December 31, 2011 First Homes has invested $1,340,601 in these projects, including $588,621 from other funding sources, which is included in the balance of land and development costs.

Note 9. Net Assets

Unrestricted net assets are held with the following Board designations as of December 31, 2011 and 2010:

	2011	2010
Board designated	**$ 15,506**	$ 16,829
Donor designated	**355,329**	336,919
Donor advised	**8,985,684**	9,581,195
Agency endowment	**4,625,821**	4,515,857
Field of interest	**858,378**	825,849
Undesignated	**4,755,026**	4,878,606
	$ 19,595,744	$ 20,155,255

Note 9. Net Assets (Continued)

Temporarily restricted net assets are restricted for the following purposes at December 31, 2011 and 2010:

	2011	2010
Time restricted based on life expectancy of donors		
Charitable remainder unitrust	**$ 178,510**	$ 191,903
Charitable remainder trust	**99,877**	146,610
Charitable gift annuity	**181,079**	295,856
Charitable lead trust	**709,190**	601,147
Purpose restricted		
Endowment earnings for community improvements	**154,936**	236,678
First Homes	**8,791,126**	9,067,196
First Steps	**-**	(17,888)
Rochester Community Finance	**6,352**	-
Pre-school children	**512,735**	522,487
Higher learning	**18,107**	18,654
Disabled individuals	**330,679**	359,520
	$ 10,982,591	$ 11,422,163

Permanently restricted net assets of which investment income is available for the following purposes at December 31, 2011 and 2010 is as follows:

	2011	2010
Scholarships	**$ 10,000**	$ 10,000
Higher learning	**10,000**	10,000
Rochester community	**1,426,644**	1,426,644
Operating endowment	**475,000**	475,000
	$ 1,921,644	$ 1,921,644

Note 10. Endowment

The Foundation's endowment consists of approximately 190 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 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, (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 year ended December 31, 2011 and 2010 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2009	$ 10,299,459	$ 961,987	$ 1,921,644	$ 13,183,090
Investment return, investment change	809,073	175,252	-	984,325
Board allocations	365,918	100	-	366,018
Appropriation of endowment funds (Net of fees and reimbursements)	(900,390)	-	-	(900,390)
Balance, December 31, 2010	10,574,060	1,137,339	1,921,644	13,633,043
Investment return, investment change	**(8,070)**	**(121,132)**	**-**	**(129,202)**
Board allocations	**662,991**	**250**	**-**	**663,241**
Appropriation of endowment funds (Net of fees and reimbursements)	**(618,921)**	**-**	**-**	**(618,921)**
Balance, December 31, 2011	**$ 10,610,060**	**$ 1,016,457**	**$ 1,921,644**	**$ 13,548,161**

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 purposes to achieve a total return equivalent to or greater than the Foundation's financial requirements and long-term objectives. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8.0% annually. Actual returns in any given year may vary from this amount.

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

The Foundation has a policy of appropriating for distribution each year 5.0% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2.5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 11. New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and disclosing information about fair value measurements, and clarifies the application of existing fair value measurement requirements. The update will be effective for the Foundation beginning January 1, 2012. Adoption of this update will not have a material effect on the Foundation's consolidated financial statements.

Rochester Area Foundation and Affiliates

Consolidating Statement of Financial Position
December 31, 2011

Assets	**Endowment**	**First Steps**	**First Homes Properties**
Cash and cash equivalents	$ 1,263,029	$ 39,179	$ 393,231
Interest and dividends receivable	14,754	-	-
Pledges receivable	62,625	6,350	-
Notes receivable	-	-	4,935
Due from affiliates	380,981	166,364	2,155,698
Investments in marketable securities	22,683,810	-	-
Beneficial interest in trusts held by others	709,190	-	-
Loans receivable	-	-	2,154,902
Land and development costs	-	-	2,276,320
Equipment, net of accumulated depreciation	27,209	-	2,824
Other assets	39,634	-	37,846
Land held in community land trust	-	-	8,058,218
Total assets	$ 25,181,232	$ 211,893	$ 15,083,974

Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	$ 28,682	$ 21,726	$ 108,623
Grants payable	91,200	-	-
Program assets held for others	-	-	751,980
Annuities payable	91,866	-	-
Deferred revenue	-	-	174,000
Unitrust obligations	603,000	-	-
Refundable advances	497,619	-	-
Note payable	-	-	3,082,332
Due to Affiliates	166,364	190,167	2,175,913
Total liabilities	1,478,731	211,893	6,292,848
Net Assets			
Unrestricted	19,595,744	-	-
Temporarily restricted	2,185,113	-	8,791,126
Permanently restricted	1,921,644	-	-
Total net assets	23,702,501	-	8,791,126
Total liabilities and net assets	$ 25,181,232	$ 211,893	$ 15,083,974

Rochester Community Finance	Total	Eliminations	Consolidated Total
$ 32,858	$ 1,728,297	$ -	$ 1,728,297
1,705	16,459	-	16,459
-	68,975	-	68,975
196,122	201,057	-	201,057
2,154,902	4,857,945	(4,857,945)	-
-	22,683,810	-	22,683,810
-	709,190	-	709,190
-	2,154,902	-	2,154,902
-	2,276,320	-	2,276,320
-	30,033	-	30,033
-	77,480	-	77,480
-	8,058,218	-	8,058,218
$ 2,385,587	$ 42,862,686	$ (4,857,945)	$ 38,004,741
$ 53,734	$ 212,765	$ -	$ 212,765
-	91,200	-	91,200
-	751,980	-	751,980
-	91,866	-	91,866
-	174,000	-	174,000
-	603,000	-	603,000
-	497,619	-	497,619
-	3,082,332	-	3,082,332
2,325,501	4,857,945	(4,857,945)	-
2,379,235	10,362,707	(4,857,945)	5,504,762
-	19,595,744	-	19,595,744
6,352	10,982,591	-	10,982,591
-	1,921,644	-	1,921,644
6,352	32,499,979	-	32,499,979
$ 2,385,587	$ 42,862,686	$ (4,857,945)	$ 38,004,741

Rochester Area Foundation and Affiliates

Consolidating Statement of Financial Position
December 31, 2010

Assets	Endowment	First Steps	First Homes Properties
Cash and cash equivalents	$ 1,133,419	$ 79,871	$ 1,376,263
Interest and dividends receivable	11,758	-	-
Pledges receivable	78,125	86,200	-
Notes receivable	-	-	6,879
Due from affiliates	226,517	-	-
Investments in marketable securities	23,688,896	-	-
Beneficial interest in trusts held by others	601,147	-	-
Loans receivable	-	-	2,176,342
Land and development costs	-	-	2,007,026
Equipment, net of accumulated depreciation	40,220	29	2,874
Other assets	41,976	-	28,034
Land held in community land trust	-	-	7,860,218
Total assets	$ 25,822,058	$ 166,100	$ 13,457,636

Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	$ 18,580	$ 13,908	$ 15,035
Grants payable	69,320	-	-
Program assets held for others	-	-	926,144
Annuities payable	130,599	-	-
Deferred revenue	-	-	301,323
Unitrust obligations	678,000	-	-
Refundable advances	475,805	-	-
Note payable	-	-	3,091,501
Due to Rochester Area Foundation	-	170,080	56,437
Total liabilities	1,372,304	183,988	4,390,440
Net Assets			
Unrestricted	20,155,255	-	-
Temporarily restricted	2,372,855	(17,888)	9,067,196
Permanently restricted	1,921,644	-	-
Total net assets	24,449,754	(17,888)	9,067,196
Total liabilities and net assets	$ 25,822,058	$ 166,100	$ 13,457,636

Total	Eliminations	Consolidated Total
$ 2,589,553	$ -	$ 2,589,553
11,758	-	11,758
164,325	-	164,325
6,879	-	6,879
226,517	(226,517)	-
23,688,896	-	23,688,896
601,147	-	601,147
2,176,342	-	2,176,342
2,007,026	-	2,007,026
43,123	-	43,123
70,010	-	70,010
7,860,218	-	7,860,218
$ 39,445,794	$ (226,517)	$ 39,219,277

$ 47,523	$ -	$ 47,523
69,320	-	69,320
926,144	-	926,144
130,599	-	130,599
301,323	-	301,323
678,000	-	678,000
475,805	-	475,805
3,091,501	-	3,091,501
226,517	(226,517)	-
5,946,732	(226,517)	5,720,215
20,155,255	-	20,155,255
11,422,163	-	11,422,163
1,921,644	-	1,921,644
33,499,062	-	33,499,062
$ 39,445,794	$ (226,517)	$ 39,219,277

Rochester Area Foundation and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2011

	Endowment	First Steps	First Homes Properties
Changes in unrestricted net assets:			
Public support and revenues:			
Contributions	$ 1,172,444	$ -	$ -
Investment loss	(68,391)	-	-
Other revenue	10,560	-	-
Net assets released from restriction	354,768	288,164	863,234
Total unrestricted public support and revenues	1,469,381	288,164	863,234
Expenses:			
Programs:			
Grants	1,590,318	-	-
Philanthropic and special	103,733	-	-
First Homes	-	-	498,751
First Steps	-	251,058	-
Rochester Community Finance	-	-	-
Management and general	219,604	28,760	360,440
Fund-raising	115,237	8,346	4,043
Total expenses	2,028,892	288,164	863,234
Change in unrestricted net assets	(559,511)	-	-
Changes in temporarily restricted net assets:			
Contributions	246,232	306,052	216,746
Grants	-	-	331,727
Loan discount accretion	-	-	-
Other revenue	-	-	30,964
Investment loss	(176,555)	-	7,727
Change in value of split interest agreements	97,349	-	-
Net assets released from restrictions	(354,768)	(288,164)	(863,234)
Change in temporarily restricted net assets	(187,742)	17,888	(276,070)
Change in net assets	(747,253)	17,888	(276,070)
Net assets, beginning	24,449,754	(17,888)	9,067,196
Net assets, ending	$ 23,702,501	$ -	$ 8,791,126

Rochester Community Finance	Total	Eliminations	Consolidated Total
$ -	$ 1,172,444	$ -	$ 1,172,444
-	(68,391)	-	(68,391)
-	10,560	-	10,560
125,682	1,631,848	(270,114)	1,361,734
125,682	2,746,461	(270,114)	2,476,347
-	1,590,318	(103,750)	1,486,568
-	103,733	-	103,733
-	498,751	-	498,751
-	251,058	-	251,058
45,479	45,479	-	45,479
80,203	689,007	(166,364)	522,643
-	127,626	-	127,626
125,682	3,305,972	(270,114)	3,035,858
-	(559,511)	-	(559,511)
42,160	811,190	(270,114)	541,076
-	331,727	-	331,727
80,328	80,328	-	80,328
-	30,964	-	30,964
9,546	(159,282)	-	(159,282)
-	97,349	-	97,349
(125,682)	(1,631,848)	270,114	(1,361,734)
6,352	(439,572)	-	(439,572)
6,352	(999,083)	-	(999,083)
-	33,499,062	-	33,499,062
$ 6,352	$ 32,499,979	$ -	$ 32,499,979

Rochester Area Foundation and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2010

	Endowment	First Steps	First Homes Properties
Changes in unrestricted net assets:			
Public support and revenues:			
Contributions	$ 1,388,688	$ -	$ -
Investment gain	1,572,587	-	-
Other revenue	13,698	-	-
Net assets released from restriction	75,624	369,710	1,367,184
Total unrestricted public support and revenues	3,050,597	369,710	1,367,184
Expenses:			
Programs:			
Grants	2,021,425	-	-
Philanthropic and special	115,310	-	-
First Homes	-	-	1,055,461
First Steps	-	294,411	-
Management and general	206,614	73,926	303,949
Fund-raising	78,297	1,373	7,774
Total expenses	2,421,646	369,710	1,367,184
Change in unrestricted net assets	628,951	-	-
Changes in temporarily restricted net assets:			
Contributions	659,335	271,284	215,649
Grants	-	15,027	836,531
Loan discount accretion	-	-	90,396
Other revenue	-	1,195	52,701
Investment gain	196,366	-	3,348
Change in value of split interest agreements	42,244	-	-
Net assets released from restrictions	(75,624)	(369,710)	(1,367,184)
Change in temporarily restricted net assets	822,321	(82,204)	(168,559)
Change in net assets	1,451,272	(82,204)	(168,559)
Net assets, beginning	22,998,482	64,316	9,235,755
Net assets, ending	$ 24,449,754	$ (17,888)	$ 9,067,196

	Total	Eliminations	Consolidated Total
	$ 1,388,688	$ -	$ 1,388,688
	1,572,587	-	1,572,587
	13,698	-	13,698
	1,812,518	(153,500)	1,659,018
	4,787,491	(153,500)	4,633,991
	2,021,425	(153,500)	1,867,925
	115,310	-	115,310
	1,055,461	-	1,055,461
	294,411	-	294,411
	584,489	-	584,489
	87,444	-	87,444
	4,158,540	(153,500)	4,005,040
	628,951	-	628,951
	1,146,268	(153,500)	992,768
	851,558	-	851,558
	90,396	-	90,396
	53,896	-	53,896
	199,714	-	199,714
	42,244	-	42,244
	(1,812,518)	153,500	(1,659,018)
	571,558	-	571,558
	1,200,509	-	1,200,509
	32,298,553	-	32,298,553
	$ 33,499,062	$ -	$ 33,499,062

Rochester Area Foundation and Affiliates

Schedule of Endowment Expenses
Year Ended December 31, 2011

	Program	Management and General	Fundraising	Total
Personnel	$ 69,994	$ 56,768	$ 74,277	$ 201,039
Donor relations				
Printing and postage	-	25,080	-	25,080
Office and equipment				
Supplies	1,113	2,084	-	3,197
Telephone	2,083	3,901	-	5,984
Repair and maintenance	5,043	9,443	-	14,486
Office lease	20,970	39,262	-	60,232
Depreciation	4,530	8,481	-	13,011
	33,739	63,171	-	96,910
Administration				
Professional fees	-	45,339	40,960	86,299
Dues and subscriptions	-	565	-	565
Board and committee meetings	-	8,903	-	8,903
Travel	-	4,258	-	4,258
Depreciation, interest and other	-	15,520	-	15,520
	-	74,585	40,960	115,545
Total	$ 103,733	$ 219,604	$ 115,237	$ 438,574

Rochester Area Foundation and Affiliates

Schedule of Endowment Expenses
Year Ended December 31, 2010

	Program	Management and General	Fundraising	Total
Personnel	$ 77,808	$ 53,833	$ 74,946	$ 206,587
Donor relations				
Printing and postage	-	1,733	-	1,733
Office and equipment				
Supplies	1,380	2,283	-	3,663
Telephone	1,649	2,728	-	4,377
Repair and maintenance	6,584	10,898	-	17,482
Office lease	23,014	38,090	-	61,104
Depreciation	4,875	8,069	-	12,944
	37,502	62,068	-	99,570
Administration				
Professional fees	-	39,036	3,351	42,387
Dues and subscriptions	-	2,523	-	2,523
Board and committee meetings	-	11,271	-	11,271
Travel	-	1,807	-	1,807
Depreciation, interest and other	-	34,343	-	34,343
	-	88,980	3,351	92,331
Total	$ 115,310	$ 206,614	$ 78,297	$ 400,221

Rochester Area Foundation and Affiliates

Schedule of First Steps Expenses
Year Ended December 31, 2011

	Program	Management and General	Fundraising	Total
Educational training and evaluation				
Provider training	$ 189,933	$ -	$ -	$ 189,933
Personnel	33,425	11,049	792	45,266
Donor relations				
Printing and postage	-	-	7,554	7,554
Office and equipment				
Supplies	541	192	-	733
Telephone	595	211	-	806
Repair and maintenance	1,970	698	-	2,668
Office lease	8,843	3,133	-	11,976
Depreciation	21	8	-	29
	11,970	4,242	-	16,212
Administration				
Professional fees	15,730	9,049	-	24,779
Board and committee meetings	-	1,899	-	1,899
Travel	-	-	-	-
Depreciation, interest and other	-	2,521	-	2,521
	15,730	13,469	-	29,199
Total	$ 251,058	$ 28,760	$ 8,346	$ 288,164

Rochester Area Foundation and Affiliates

Schedule of First Steps Expenses
Year Ended December 31, 2010

	Program	Management and General	Fundraising	Total
Educational training and evaluation				
Provider training	$ 195,187	$ -	$ -	$ 189,933
Personnel	68,154	27,926	1,373	45,266
Donor relations				
Printing and postage	-	1,081	7,249	8,330
Office and equipment				
Supplies	2,314	995	-	3,309
Telephone	1,723	741	-	2,464
Repair and maintenance	3,504	1,506	-	5,010
Office lease	17,657	7,591	-	25,248
Depreciation	3,783	1,626	-	5,409
	28,981	12,459	-	41,440
Administration				
Professional fees	2,089	16,630	-	18,719
Board and committee meetings	-	2,412	-	2,414
Travel	-	754	-	754
Depreciation, interest and other	-	12,662	-	12,662
	2,089	32,460	-	34,549
Total	$ 294,411	$ 73,926	$ 8,622	$ 369,710

Rochester Area Foundation and Affiliates

Schedule of First Homes Properties Expenses
Year Ended December 31, 2011

	Program	Management and General	Fundraising	Total
Mortgage and development activities				
In-kind contributions - TIF	$ 61,535	$ -	$ -	$ 61,535
Net program expense - rehabilitated homes	189,902	-	-	189,902
	251,437	-	-	251,437
Personnel	161,663	87,388	4,043	253,094
Donor relations				
Printing and postage	-	1,592	-	1,592
	-	1,592	-	1,592
Office and equipment				
Supplies	2,020	1,559	-	3,579
Telephone	4,345	3,354	-	7,699
Repair and maintenance	6,590	5,087	-	11,677
Office lease	35,961	27,761	-	63,722
Depreciation	998	771	-	1,769
	49,914	38,532	-	88,446
Administration				
Professional fees	35,737	50,228	-	85,965
Dues and subscriptions	-	4,364	-	4,364
Board and committee meetings	-	7,131	-	7,131
Travel	-	11,140	-	11,140
Depreciation, interest and other	-	160,065	-	160,065
	35,737	232,928	-	268,665
Total	$ 498,751	$ 360,440	$ 4,043	$ 863,234

Rochester Area Foundation and Affiliates

Schedule of First Homes Properties Expenses
Year Ended December 31, 2010

	Program	Management and General	Fundraising	Total
Mortgage and development activities				
Valuation Adjustment	$ 130,396	$ -	$ -	$ 130,396
In-kind contributions - TIF	58,557	-	-	58,557
Net program expense - rehabilitated homes	538,922	-	-	538,922
	727,875	-	-	727,875
Personnel	209,023	35,022	7,574	251,619
Donor relations				
Printing and postage	-	1,543	-	1,543
	-	1,543	-	1,543
Office and equipment				
Supplies	5,655	1,152	-	6,807
Telephone	6,061	1,235	-	7,296
Repair and maintenance	11,512	2,346	-	13,858
Office lease	38,618	7,870	-	46,488
Depreciation	1,701	347	-	2,048
	63,547	12,950	-	76,497
Administration				
Professional fees	55,016	42,966	-	97,982
Dues and subscriptions	-	6,852	-	6,852
Board and committee meetings	-	4,315	-	4,315
Travel	-	5,459	-	5,459
Depreciation, interest and other	-	194,842	200	195,042
	55,016	254,434	200	309,650
Total	$ 1,055,461	$ 303,949	$ 7,774	$ 1,367,184

Rochester Area Foundation and Affiliates

Schedule of Rochester Community Finance Expenses
Year Ended December 31, 2011

	Program	Management and General	Fundraising	Total
Mortgage and development activities				
Valuation Adjustment	$ 10,328	$ -	$ -	$ 10,328
	10,328	-	-	10,328
Personnel	24,638	8,728	-	33,366
Donor relations				
Printing and postage	-	15	-	15
	-	15	-	15
Office and equipment				
Supplies	144	51	-	195
Telephone	-	-	-	-
Repair and maintenance	-	-	-	-
Office lease	-	-	-	-
Depreciation	-	-	-	-
	144	51	-	195
Administration				
Professional fees	10,369	-	-	10,369
Dues and subscriptions	-	-	-	-
Board and committee meetings	-	931	-	931
Travel	-	387	-	387
Depreciation, interest and other	-	70,091	-	70,091
	10,369	71,409	-	81,778
Total	$ 45,479	$ 80,203	$ -	$ 125,682

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