Rochester Area Foundation and Affiliates

Consolidated Financial Report
December 31, 2012

McGladrey

Assurance ▪ Tax ▪ Consulting

Contents

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Rochester Area Foundation and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, 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, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the 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
July 16, 2013

Rochester Area Foundation and Affiliates

Consolidated Statements of Financial Position
December 31, 2012 and 2011

Assets	**2012**	2011
Cash and cash equivalents	**$ 428,384**	$ 1,728,297
Interest and dividends receivable	**25,242**	16,459
Pledges receivable (Note 4)	**41,150**	68,975
Notes receivable	**201,057**	201,057
Investments in marketable securities (Notes 2 and 3)	**24,787,057**	22,683,810
Beneficial interest in trusts held by others (Notes 2, 6 and 9)	**661,205**	709,190
Loans receivable (Note 5)	**2,483,265**	2,154,902
Land and development costs	**1,140,294**	2,276,320
Equipment, net of accumulated depreciation of $213,034 in 2012 and $199,163 in 2011	**28,178**	30,033
Other assets	**92,825**	77,480
Land held in Community Land Trust	**8,060,398**	8,058,218
Total assets	**$ 37,949,055**	$ 38,004,741

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	**$ 132,606**	$ 212,765
Grants payable	**51,350**	91,200
Program assets held for others (Note 8)	**156,667**	751,980
Annuities payable	**80,449**	91,866
Deferred revenue	**-**	174,000
Unitrust obligations (Note 6)	**634,000**	603,000
Refundable advances	**486,764**	497,619
Notes payable (Note 7)	**2,396,004**	3,082,332
Total liabilities	**3,937,840**	5,504,762
Commitments (Notes 3 and 11)		
Net Assets (Notes 9 and 10)		
Unrestricted	**21,221,109**	19,595,744
Temporarily restricted	**10,868,462**	10,982,591
Permanently restricted	**1,921,644**	1,921,644
Total net assets	**34,011,215**	32,499,979
Total liabilities and net assets	**$ 37,949,055**	$ 38,004,741

See Notes to Consolidated Financial Statements.

Rochester Area Foundation and Affiliates

Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Foundations, corporations and individuals	$ 1,779,298	$ 235,959	$ -	$ 2,015,257
Grants	-	337,640	-	337,640
Investment gain (Note 3)	1,985,888	88,495	-	2,074,383
Loan discount accretion	-	95,862	-	95,862
Other	311,204	178,044	-	489,248
Change in value of split interest agreements	-	45,580	-	45,580
Net assets released from restriction	1,095,709	(1,095,709)	-	-
Total revenues and gains	5,172,099	(114,129)	-	5,057,970
Expenses:				
Programs:				
Grants	1,961,759	-	-	1,961,759
Philanthropic and special	154,509	-	-	154,509
First Homes Properties	698,564	-	-	698,564
First Steps	193,676	-	-	193,676
Rochester Community Finance	52,675	-	-	52,675
Management and general	354,126	-	-	354,126
Fundraising	131,425	-	-	131,425
Total expenses	3,546,734	-	-	3,546,734
Change in net assets	1,625,365	(114,129)	-	1,511,236
Net Assets:				
Beginning of year	19,595,744	10,982,591	1,921,644	32,499,979
End of year	$ 21,221,109	$ 10,868,462	$ 1,921,644	$ 34,011,215

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,172,444	$ 541,076	$ -	$ 1,713,520
-	331,727	-	331,727
(68,391)	(159,282)	-	(227,673)
-	80,328	-	80,328
10,560	30,964	-	41,524
-	97,349	-	97,349
1,361,734	(1,361,734)	-	-
2,476,347	(439,572)	-	2,036,775
1,486,568	-	-	1,486,568
103,733	-	-	103,733
498,751	-	-	498,751
251,058	-	-	251,058
45,479	-	-	45,479
522,643	-	-	522,643
127,626	-	-	127,626
3,035,858	-	-	3,035,858
(559,511)	(439,572)	-	(999,083)
20,155,255	11,422,163	1,921,644	33,499,062
$ 19,595,744	$ 10,982,591	$ 1,921,644	$ 32,499,979

Rochester Area Foundation and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Contributions received from foundation, corporations and individuals	$ 1,809,485	$ 1,099,827
Grants received	34,140	104,404
Interest and dividends received	431,967	491,513
Other receipts	600,057	70,023
Cash paid for grants	(2,001,609)	(1,464,688)
Cash paid to employees and suppliers	(1,654,826)	(1,395,001)
Net cash used in operating activities	(780,786)	(1,093,922)
Cash Flows From Investing Activities		
Payments received on notes receivable	-	1,944
Issuance of notes receivable	-	(196,122)
Purchase of equipment	(12,015)	(1,720)
Purchase of land and development projects	(416,693)	(1,624,446)
Payments for land development projects	(595,313)	(174,164)
Proceeds from developed properties	1,483,719	1,335,152
Purchase of land held in community land trust	(2,180)	(198,000)
Payments received on loans receivable	86,179	118,630
Issuance of loans receivable	(321,542)	(27,190)
Proceeds from sale and maturities of investment securities	2,338,327	6,751,073
Purchase of investment securities	(2,482,359)	(5,852,491)
Net cash provided by investing activities	78,123	132,666
Cash Flows From Financing Activities		
Grant proceeds	129,500	100,000
Principal payments of notes payable	(726,750)	-
Net cash provided by (used in) financing activities	(597,250)	100,000
Net decrease in cash and cash equivalents	(1,299,913)	(861,256)
Cash and cash equivalents		
Beginning	1,728,297	2,589,553
Ending	$ 428,384	$ 1,728,297

(Continued)

Rochester Area Foundation and Affiliates

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

		2012		2011
Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities:				
Change in net assets	**$**	**1,511,236**	$	(999,083)
Adjustments to reconcile change in net assets to cash used in operating activities:				
Depreciation expense		**13,870**		14,810
Amortization of debt discount, net		**40,422**		(9,169)
Change in valuation allowance on loans and contributions		**69,000**		20,000
Grant revenue		**(303,500)**		(227,323)
Net unrealized and realized losses (gains) on investments		**(1,633,633)**		723,887
Noncash donation of investments		**(325,582)**		(617,383)
Noncash donation of beneficial interest in trusts held by others		**-**		(145,085)
Discount on loans receivable, net of accretion		**(93,000)**		(70,000)
Change in value of split interest agreements		**(45,580)**		(97,349)
Changes in assets and liabilities:				
Decrease in receivables		**19,042**		90,649
Decrease in other assets		**76,640**		45,955
(Decrease) increase in payables and accrued expenses		**(131,426)**		161,410
Increase (decrease) in unitrust obligations		**32,580**		(7,055)
Decrease in refundable advances and program assets held for others		**(10,855)**		(152,350)
Net cash used in operating activities	**$**	**(780,786)**	$	(1,268,086)

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), RAF Properties and Rochester Community Finance (RCF) (collectively referred to as the 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 community's 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, 2012 and 2011.

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 Properties 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 the Rochester Area Foundation, First Homes Properties, First Steps, RAF Properties and RCF. The Rochester Area Foundation is the sole member of First Homes Properties, First Steps, RAF Properties and RCF. All material intercompany balances and transactions have been eliminated in preparation of the consolidated financial statements.

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

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

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 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.

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 Properties 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 percent simple interest and are due during the fiscal year ending December 31, 2013.

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

Loans receivable: The Foundation originates subordinated mortgage loans at advantageous rates to developers and families in southeast Minnesota to increase affordable multifamily and single-family housing. Loans receivable are initially reported at estimated fair value determined by discounting projected cash flows, using an imputed interest rate and estimated loan payoff date. The initial discount is recorded as a program expense. Accretion of the discount is reported as revenue. Management provides a provision for loan losses based on their current judgment about the credit quality of the loan portfolio and considers all known relevant internal and external factors that affect collectibility as of the reporting date. Management has determined that no allowance is required at December 31, 2012 and 2011.

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.

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

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.

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

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

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

Grant revenue: 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 percent of the employee’s salary through a Simplified Employee Pension Plan. The Foundation contributed $17,503 and $20,587 for the years ending December 31, 2012 and 2011, respectively.

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

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 alternative investments, factors that impact the determination of unitrust obligations, and discount on loans receivable.

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

At December 31, 2012, generally, the federal and Minnesota tax returns for the Foundation are open for examination by taxing authorities for the years 2009 to 2011. At December 31, 2012, the Foundation did not record any liabilities for uncertain tax positions.

Subsequent events: The Foundation has evaluated events and transactions occurring subsequent to December 31, 2012, through July 16, 2013, 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.

Note 2. Fair Value Measurements

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

Note 2. Fair Value Measurements (Continued)

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

- Fair value for Level 1 is based upon quoted market prices.
- Fair value for Level 2 is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers.
- Fair value for Level 3, which consists of alternative investments (principally limited partnership interests in private equity, hedge, real estate, and natural resources funds), represents the Foundation's ownership interest in the net asset value (NAV) of the respective investment. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by the limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on a variety of inputs, including historical cost; independent external valuations from specialists, such as actuaries, appraisers and engineers; comparison to publicly traded comparables; pricing used in the most recent secondary transaction or financing; or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Level 3 investments also include beneficial interest in trust, as the Foundation has no redemption rights with respect to trust assets. The fair value of the beneficial interest is determined based upon the discounted cash flow of the expected payment streams.

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, 2012 and 2011, are summarized as follows:

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
Investments in marketable securities:				
Fixed-income securities:				
Corporate obligations	$ -	$ 1,566,768	$ -	$ 1,566,768
Mutual funds:				
Blended equity income	1,799,953	-	-	1,799,953
Domestic corporate obligations	1,547,955	-	-	1,547,955
Domestic equity—small/mid cap	311,100	-	-	311,100
Domestic equity—large cap	192,207	-	-	192,207
Domestic equity sectors	242,905	-	-	242,905
International corporate obligations	275,908	-	-	275,908
International equity	1,966,952	-	-	1,966,952
US Government obligations	519,547	-	-	519,547
Large cap common stocks	3,106,958	-	-	3,106,958
Global balanced fund	5,697,349	-	-	5,697,349
Alternative investments:				
Hedge funds	-	-	458,687	458,687
Real estate and natural resource funds	-	-	1,501,979	1,501,979
Private equity	-	-	5,598,789	5,598,789
Total investments in marketable securities	15,660,834	1,566,768	7,559,455	24,787,057
Other assets:				
Beneficial interest in trusts held by others	-	-	661,205	661,205
Total	$ 15,660,834	$ 1,566,768	$ 8,220,660	$ 25,448,262

Note 2. Fair Value Measurements (Continued)

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
Investments in marketable 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
Total investments in marketable securities	14,656,128	979,385	7,048,297	22,683,810
Other assets:				
Beneficial interest in trusts held by others	-	-	709,190	709,190
Total	$ 14,656,128	$ 979,385	$ 7,757,487	$ 23,393,000

The methods described previously 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.

Note 2. Fair Value Measurements (Continued)

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

	2012				
	Hedge Funds	Real Estate and Natural Resource Funds	Private Equity	Other	Total
Fair value January 1, 2012	$ 536,504	$ 1,304,441	$ 5,207,352	$ 709,190	$ 7,757,487
Net purchases, issuances, contributions and capital calls	-	69,616	-	-	69,616
Dispositions and distributions	(109,992)	-	-	(91,985)	(201,977)
Market value change	32,175	127,922	391,437	44,000	595,534
Fair value December 31, 2012	$ 458,687	$ 1,501,979	$ 5,598,789	$ 661,205	$ 8,220,660
Unrealized gains/(losses) related to financial instruments held at December 31, 2012, and included in the statement of activities	$ (275,989)	$ (1,020,954)	$ 534,219	$ -	$ (762,724)

	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
Disposition of investments	(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)

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:

	2012			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently available)	Redemption Notice Period
Alternative investments:				
Hedge funds (a)	$ 458,687	$ -	Not available	Upon liquidation
Real estate and natural resource funds (b)	1,501,979	170,347	(b)	(b)
Private equity (b)	5,598,789	-	Quarterly	60 days
	$ 7,559,455	$ 170,347		

(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. The Foundation’s investments in this asset class currently do not allow any redemptions.

(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 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 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. Redemption frequency varies on these investments from not available to quarterly, with the notice periods of 45 to 60 days, when available. Approximately 13 percent of the funds do not allow redemptions, with the remaining 87 percent redeemable quarterly.

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, 2012 and 2011, is $5,534,781 and $5,142,782, respectively.

Note 3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2012 and 2011, are summarized as follows:

	2012		
	Cost	Carrying Value	Unrealized Gain/(Loss)
Fixed-income securities:			
Corporate obligations	$ 1,514,762	$ 1,566,768	$ 52,006
Mutual funds:			
Blended equity income	1,842,760	1,799,953	(42,807)
Domestic corporate obligations	1,496,780	1,547,955	51,175
Domestic equity—small/mid cap	294,544	311,100	16,556
Domestic equity—large cap	150,254	192,207	41,953
Domestic equity sectors	231,148	242,905	11,757
International corporate obligations	249,365	275,908	26,543
International equity	1,990,522	1,966,952	(23,570)
US Government obligations	518,630	519,547	917
Large cap common stocks	2,911,738	3,106,958	195,220
Global balanced fund	5,612,859	5,697,349	84,490
Alternative investments:			
Hedge funds	734,676	458,687	(275,989)
Real estate and natural resource funds	2,522,933	1,501,979	(1,020,954)
Private equity	5,064,570	5,598,789	534,219
	$ 25,135,541	$ 24,787,057	$ (348,484)

	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)

Note 3. Investments in Marketable Securities (Continued)

At December 31, 2012 and 2011, the Foundation, as trustee, holds Charitable Remainder Trusts/Unitrusts totaling approximately $878,236 and $1,081,799, respectively, that are included in investments.

Reconciliation of investment income (loss) for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Interest and dividends from depository accounts	$ 27,124	$ 17,273
Interest and dividends from investments	413,626	478,941
Net gains (losses)	1,682,732	(658,083)
Investment fees (individually identified)	(49,099)	(65,804)
	$ 2,074,383	$ (227,673)

Note 4. Pledges Receivable

As of December 31, 2012, pledges receivable are $41,150 and are expected to be collected by December 31, 2013.

Note 5. Loans Receivable

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

Single-family loans: Single-family mortgage loans are originated to assist low- and moderate-income homebuyers with all or a portion of the downpayment required on their primary residence, in amounts ranging from $1,000 to $10,000 for a 30-year term in conjunction with their primary mortgage lender. Loans originated for the purchase of homes within the Community Land Trust program administered by First Homes Properties do not earn interest during the 30-year mortgage term, with the balance of principal due upon loan maturity or sale of the home, whichever comes first. Loans originated for financing outside of the Community Land Trust program earn simple interest of 2 percent per annum over the 30-year mortgage term, with balance of principal and interest due upon loan maturity or sale of the home, whichever comes first. 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 3.95 percent and 6.88 percent over that period. Loans originated in conjunction with a home purchased through the Community Land Trust program are collateralized by the underlying value of the land in the trust, which is evaluated annually for impairment. During the year ending December 31, 2012, a total of $86,000 was repaid due to the sale of homes, and one loan of $7,500 was written off due to bank foreclosure on the primary mortgage on the home. As of December 31, 2012, all remaining loans mature between the years of 2030 and 2042, and no impairment to the loans or the underlying value of the land has been identified necessitating further credit risk evaluation.

Note 5. Loans Receivable (Continued)

Multifamily loans: Multifamily loans are originated to agencies with the intent to construct and develop multifamily residences for low- and moderate-income individuals. These loans do not earn interest and are discounted over the term of the primary mortgage that ranges from 20 to 40 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 3.5 percent to 7.6 percent. As of December 31, 2012, all multifamily loans mature between the years of 2013 and 2040, and no impairment to the loans has been identified necessitating further credit risk evaluation.

Contracts for deed: Contracts for deed are originated to low- and moderate-income homebuyers. These loans earn simple interest of 4 percent per annum and require monthly principal and interest payments until maturity in 2014, when the remaining unpaid principal and interest balances are due. As of December 31, 2012, borrowers have paid in accordance with contractual terms, 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, 2012	December 31, 2011
Multifamily loans	$ 2,911,200	$ 2,911,200
Single-family loans	1,385,523	1,463,702
Contract for deed	313,542	-
Less discount	(2,127,000)	(2,220,000)
Loans receivable, net	$ 2,483,265	$ 2,154,902

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 to pay beneficiaries, on a quarterly basis, returns ranging from 5.0 percent to 7.0 percent of the trust assets' fair value, determined as of each January 1. A liability has been recorded based on current annual required payments, using current life expectancies of the beneficiaries and discount factors of 5.0 percent to 7.0 percent. Upon death of the beneficiaries and/or termination of the unitrusts, any remaining assets revert to the Foundation.

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

2013	$ 61,784
2014–2018	310,460
2019–2023	314,854
2024–2028	296,475
Thereafter	5,870
	989,443
Less: present value discount	328,238
	$ 661,205

During the years ended December 31, 2012 and 2011, the Foundation received distributions of $91,985 and $53,424, 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 Properties program.

Notes payable are as follows at December 31, 2012 and 2011:

	2012	2011
Greater Minnesota Housing Fund, 4% simple interest rate, refinanced in current year	$ -	$ 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	156,250	625,000
Greater Minnesota Housing Fund, 4% simple interest rate, refinanced in current year	-	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
Greater Minnesota Housing Fund, 4% simple interest rate, annual interest payments only until October 2014, when balance is due in full, collateralized by assets	902,000	-
Discount	-	(40,422)
	$ 2,396,004	$ 3,082,332

A note payable above has 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:

2013	$ 1,494,004
2014	902,000
	$ 2,396,004

Note 8. Program Assets Held for Others

In 2009, First Homes Properties and the City of Rochester (the City), Minnesota, 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.

Note 8. Program Assets Held for Others (Continued)

Upon purchase and renovation of property that is designated as eligible for the NSP funds, an asset is recorded by First Homes Properties, and reimbursement for costs expended is requested from the City. Upon reimbursement from the City, the amount received is recorded by First Homes Properties 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 Properties receives marketing and developing fees for completed projects. Fees earned in 2012 and 2011 were $70,000 and $62,000, respectively. The program also contributes to a portion of the value added to the Community Land Trust. NSP funds used for CLT expansion in 2012 and 2011 were $-0- and $43,000, respectively. At December 31, 2012, First Homes Properties has invested $194,185 in these projects, including $37,518 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, 2012 and 2011:

	2012	2011
Board designated	$ 536,077	$ 15,506
Donor designated	437,113	355,329
Donor advised	8,943,971	8,985,684
Agency endowment	5,203,362	4,625,821
Field of interest	933,653	858,378
Undesignated	5,166,933	4,755,026
	$ 21,221,109	$ 19,595,744

Temporarily restricted net assets are restricted for the following purposes at December 31, 2012 and 2011:

	2012	2011
Time restricted based on life expectancy of donors:		
Charitable remainder unitrust	$ 175,552	$ 178,510
Charitable remainder trust	47,209	99,877
Charitable gift annuity	167,889	181,079
Charitable lead trust	661,205	709,190
	1,051,855	1,168,656
Purpose restricted:		
First Homes Properties	8,669,305	8,791,126
Rochester Community Finance	-	6,352
	8,669,305	8,797,478
Endowment earnings for community improvements	227,432	154,936
Preschool children	551,366	512,735
Higher learning	20,413	18,107
Disabled individuals	348,091	330,679
	1,147,302	1,016,457
	$ 10,868,462	$ 10,982,591

Note 9. Net Assets (Continued)

Permanently restricted net assets of which investment income is available for the following purposes at December 31, 2012 and 2011 is as follows:

	2012	2011
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 generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

Note 10. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2012 and 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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)
Contributions	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
Investment return, investment change	1,230,344	144,146	-	1,374,490
Contributions	1,286,495	260	-	1,286,755
Appropriation of endowment funds (net of fees and reimbursements)	(849,761)	(13,561)	-	(863,322)
Balance, December 31, 2012	$ 12,277,138	$ 1,147,302	$ 1,921,644	$ 15,346,084

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 percent annually. Actual returns in any given year may vary from this amount.

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

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 11. Commitments

Operating lease: The Foundation leases office space pursuant to a noncancellable operating lease. The lease agreement, which expires in 2014, requires a minimum monthly payment of $5,794, which includes payment of real estate taxes and operating expenses. The future minimum commitments under this lease are approximately $69,000 in fiscal year 2013 and $52,000 in fiscal year 2014. Rental expense related to this operating lease as of December 31, 2012 and 2011, was $135,000 and $136,000, respectively.

Loan guarantee: In March of 2012, the Foundation agreed to provide a $2,000,000 collateralized loan guarantee to the Boys and Girls Club and Childcare Resource and Referral for the purposes of building a new facility to house programs for lower income and at-risk youth. This guarantee will be made to the primary lending institution for a loan into a New Markets Tax Credit structure. This guarantee is secured by an interest in Foundation assets. As of December 31, 2012, the loan proceeds have been disbursed by the primary lender, and the Foundation has collected $300,000 in fees. The Foundation can be required to perform on the guarantee only in the event of nonpayment of the debt by the debtor. Management evaluates the Foundation’s exposure to loss at each balance sheet date and provides accruals for such as deemed necessary. No accruals were deemed necessary at December 31, 2012.

Rochester Area Foundation and Affiliates

Consolidating Statements of Financial Position
December 31, 2012

Assets	Endowment	First Steps	First Homes Properties
Cash and cash equivalents	$ 338,089	$ 192	$ 30,328
Interest and dividends receivable	15,477	-	-
Pledges receivable	40,050	1,100	-
Notes receivable	-	-	4,935
Due from affiliates	774,592	78,734	1,727,370
Investments in marketable securities	24,787,057	-	-
Beneficial interest in trusts held by others	661,205	-	-
Loans receivable	-	-	2,483,265
Land and development costs	-	-	1,140,294
Equipment, net of accumulated depreciation	26,824	-	1,354
Other assets	44,335	-	48,490
Land held in Community Land Trust	-	-	8,060,398
Total assets	$ 26,687,629	$ 80,026	$ 13,496,434
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	$ 36,495	$ -	$ 18,513
Grants payable	51,350	-	-
Program assets held for others	-	-	156,667
Annuities payable	80,449	-	-
Deferred revenue	-	-	-
Unitrust obligations	634,000	-	-
Refundable advances	486,764	-	-
Notes payable	-	-	2,396,004
Due to affiliates	156,661	80,026	2,255,945
Total liabilities	1,445,719	80,026	4,827,129
Net assets			
Unrestricted	21,121,109	-	-
Temporarily restricted	2,199,157	-	8,669,305
Permanently restricted	1,921,644	-	-
Total net assets	25,241,910	-	8,669,305
Total liabilities and net assets	$ 26,687,629	$ 80,026	$ 13,496,434

Rochester Community Finance	Total	Eliminations	Consolidated Total
$ 59,775	$ 428,384	$ -	$ 428,384
9,765	25,242	-	25,242
-	41,150	-	41,150
196,122	201,057	-	201,057
2,247,650	4,828,346	(4,828,346)	-
-	24,787,057	-	24,787,057
-	661,205	-	661,205
-	2,483,265	-	2,483,265
-	1,140,294	-	1,140,294
-	28,178	-	28,178
-	92,825	-	92,825
-	8,060,398	-	8,060,398
$ 2,513,312	$ 42,777,401	$ (4,828,346)	$ 37,949,055
$ 77,598	$ 132,606	$ -	$ 132,606
-	51,350	-	51,350
-	156,667	-	156,667
-	80,449	-	80,449
-	-	-	-
-	634,000	-	634,000
-	486,764	-	486,764
-	2,396,004	-	2,396,004
2,335,714	4,828,346	(4,828,346)	-
2,413,312	8,766,186	(4,828,346)	3,937,840
100,000	21,221,109	-	21,221,109
-	10,868,462	-	10,868,462
-	1,921,644	-	1,921,644
100,000	34,011,215	-	34,011,215
$ 2,513,312	$ 42,777,401	$ (4,828,346)	$ 37,949,055

Rochester Area Foundation and Affiliates

Consolidating Statements 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	-	-
Notes 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 Activities
Year Ended December 31, 2012

	Endowment	First Steps	First Homes Properties
Changes in unrestricted net assets:			
Public support and revenues:			
Foundation, corporations, and individuals	$ 1,779,298	$ -	$ -
Investment gain	1,985,888	-	-
Other	211,204	-	-
Net assets released from restriction	93,167	216,646	818,122
Total unrestricted public support and revenues	4,069,557	216,646	818,122
Expenses:			
Programs:			
Grants	2,038,759	-	-
Philanthropic and special	154,509	-	-
First Homes Properties	-	-	698,564
First Steps	-	193,676	-
Rochester Community Finance	-	-	-
Management and general	227,052	21,641	113,334
Fundraising	123,872	1,329	6,224
Total expenses	2,544,192	216,646	818,122
Change in unrestricted net assets	1,525,365	-	-
Changes in temporarily restricted net assets:			
Foundation, corporations, and individuals	260	216,646	169,383
Grants	-	-	337,640
Investment gain	61,371	-	11,234
Loan discount accretion	-	-	-
Other	-	-	178,044
Change in value of split-interest agreements	45,580	-	-
Net assets released from restriction	(93,167)	(216,646)	(818,122)
Change in temporarily restricted net assets	14,044	-	(121,821)
Change in net assets	1,539,409	-	(121,821)
Net assets, beginning	23,702,501	-	8,791,126
Net assets, ending	$ 25,241,910	$ -	$ 8,669,305

Rochester Community Finance	Total	Eliminations	Consolidated Total
$ -	$ 1,779,298	$ -	$ 1,779,298
-	1,985,888	-	1,985,888
100,000	311,204	-	311,204
201,435	1,329,370	(233,661)	1,095,709
301,435	5,405,760	(233,661)	5,172,099
-	2,038,759	(77,000)	1,961,759
-	154,509	-	154,509
-	698,564	-	698,564
-	193,676	-	193,676
52,675	52,675	-	52,675
148,760	510,787	(156,661)	354,126
-	131,425	-	131,425
201,435	3,780,395	(233,661)	3,546,734
100,000	1,625,365	-	1,625,365
83,331	469,620	(233,661)	235,959
-	337,640	-	337,640
15,890	88,495	-	88,495
95,862	95,862	-	95,862
-	178,044	-	178,044
-	45,580	-	45,580
(201,435)	(1,329,370)	233,661	(1,095,709)
(6,352)	(114,129)	-	(114,129)
93,648	1,511,236	-	1,511,236
6,352	32,499,979	-	32,499,979
$ 100,000	$ 34,011,215	$ -	$ 34,011,215

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:			
Foundation, corporations, and individuals	$ 1,172,444	$ -	$ -
Investment loss	(68,391)	-	-
Other	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 Properties	-	-	498,751
First Steps	-	251,058	-
Rochester Community Finance	-	-	-
Management and general	219,604	28,760	360,440
Fundraising	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:			
Foundation, corporations, and individuals	246,232	306,052	216,746
Grants	-	-	331,727
Investment (gain) loss	(176,555)	-	7,727
Loan discount accretion	-	-	-
Other	-	-	30,964
Change in value of split-interest agreements	97,349	-	-
Net assets released from restriction	(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
9,546	(159,282)	-	(159,282)
80,328	80,328	-	80,328
-	30,964	-	30,964
-	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

Schedule of Endowment Expenses
Year Ended December 31, 2012

	2012				
	Program	**Management and General**	**Fundraising**	**Total**	2011 Total
Personnel	**$ 107,089**	**$ 63,553**	**$ 75,384**	**$ 246,026**	$ 201,039
Donor relations:					
Printing and postage	**-**	**18,241**	**-**	**18,241**	25,080
Office and equipment:					
Supplies	**1,406**	**1,825**	**-**	**3,231**	3,197
Telephone	**2,300**	**2,983**	**-**	**5,283**	5,984
Repair and maintenance	**11,983**	**15,546**	**-**	**27,529**	14,486
Office lease	**26,334**	**34,165**	**-**	**60,499**	60,232
Depreciation	**5,397**	**7,004**	**-**	**12,401**	13,011
	47,420	**61,523**	**-**	**108,943**	96,910
Administration:					
Professional fees	**-**	**55,867**	**48,488**	**104,355**	86,299
Dues and subscriptions	**-**	**1,158**	**-**	**1,158**	565
Board and committee meetings	**-**	**11,330**	**-**	**11,330**	8,903
Travel	**-**	**2,496**	**-**	**2,496**	4,258
Depreciation, interest and other	**-**	**12,884**	**-**	**12,884**	15,520
	-	**83,735**	**48,488**	**132,223**	115,545
Total	**$ 154,509**	**$ 227,052**	**$ 123,872**	**$ 505,433**	$ 438,574

Rochester Area Foundation and Affiliates

Schedule of First Steps Expenses
Year Ended December 31, 2012

	2012				
	Program	**Management and General**	**Fundraising**	**Total**	2011 Total
Educational training and evaluation:					
Provider training	**$ 129,142**	**$ -**	**$ -**	**$ 129,142**	$ 189,933
Personnel	**27,275**	**2,842**	**476**	**30,593**	45,266
Donor relations:					
Printing and postage	**-**	**-**	**853**	**853**	7,554
Office and equipment:					
Supplies	**1,199**	**146**	**-**	**1,345**	733
Telephone	**1,574**	**192**	**-**	**1,766**	806
Repair and maintenance	**2,897**	**352**	**-**	**3,249**	2,668
Office lease	**22,489**	**2,736**	**-**	**25,225**	11,976
Depreciation	**-**	**-**	**-**	**-**	29
	28,159	**3,426**	**-**	**31,585**	16,212
Administration:					
Professional fees	**9,100**	**10,148**	**-**	**19,248**	24,779
Board and committee meetings	**-**	**2,252**	**-**	**2,252**	1,899
Travel	**-**	**210**	**-**	**210**	-
Depreciation, interest and other	**-**	**2,763**	**-**	**2,763**	2,521
	9,100	**15,373**	**-**	**24,473**	29,199
Total	**$ 193,676**	**$ 21,641**	**$ 1,329**	**$ 216,646**	$ 288,164

Rochester Area Foundation and Affiliates

Schedule of First Homes Properties Expenses
Year Ended December 31, 2012

	2012				
	Program	**Management and General**	**Fundraising**	**Total**	2011 Total
Mortgage and development activities:					
In-kind contributions—TIF	**$ 57,891**	**$ -**	**$ -**	**$ 57,891**	$ 61,535
Net program expense—rehabilitated homes	**389,763**	**-**	**-**	**389,763**	189,902
	447,654	**-**	**-**	**447,654**	251,437
Personnel	**186,910**	**32,733**	**6,224**	**225,867**	253,094
Donor relations:					
Printing and postage	**-**	**1,356**	**-**	**1,356**	1,592
Office and equipment:					
Supplies	**2,286**	**477**	**-**	**2,763**	3,579
Telephone	**4,860**	**1,013**	**-**	**5,873**	7,699
Repair and maintenance	**10,822**	**2,256**	**-**	**13,078**	11,677
Office lease	**32,191**	**6,710**	**-**	**38,901**	63,722
Depreciation	**1,216**	**254**	**-**	**1,470**	1,769
	51,375	**10,710**	**-**	**62,085**	88,446
Administration:					
Professional fees	**12,625**	**36,880**	**-**	**49,505**	85,965
Dues and subscriptions	**-**	**3,546**	**-**	**3,546**	4,364
Board and committee meetings	**-**	**3,137**	**-**	**3,137**	7,131
Travel	**-**	**3,182**	**-**	**3,182**	11,140
Depreciation, interest and other	**-**	**21,790**	**-**	**21,790**	160,065
	12,625	**68,535**	**-**	**81,160**	268,665
Total	**$ 698,564**	**$ 113,334**	**$ 6,224**	**$ 818,122**	$ 863,234

Rochester Area Foundation and Affiliates

Schedule of Rochester Community Finance Expenses
Year Ended December 31, 2012

	2012				
	Program	**Management and General**	**Fundraising**	**Total**	2011 Total
Mortgage and development activities:					
Valuation adjustment	**$ 2,862**	**$ -**	**$ -**	**$ 2,862**	$ 10,328
Personnel	**40,280**	**4,900**	**-**	**45,180**	33,366
Donor relations:					
Printing and postage	**-**	**367**	**-**	**367**	15
Office and equipment:					
Supplies	**514**	**63**	**-**	**577**	195
Telephone	**311**	**446**	**-**	**757**	-
Repair and maintenance	**443**	**634**	**-**	**1,077**	-
Office lease	**4,442**	**6,368**	**-**	**10,810**	-
	5,710	**7,511**	**-**	**13,221**	195
Administration:					
Professional fees	**3,823**	**8,885**	**-**	**12,708**	10,369
Board and committee meetings	**-**	**124**	**-**	**124**	931
Travel	**-**	**81**	**-**	**81**	387
Depreciation, interest and other	**-**	**126,892**	**-**	**126,892**	70,091
	3,823	**135,982**	**-**	**139,805**	81,778
Total	**$ 52,675**	**$ 148,760**	**$ -**	**$ 201,435**	$ 125,682