

Audited Financial Statements

Community Foundation
of Greater Rochester

*Years Ended December 31, 2015 and 2014
with Report of Independent Auditors*



ANDREWS HOOPER PAVLIK PLC

Community Foundation of Greater Rochester

Audited Financial Statements

Years Ended December 31, 2015 and 2014

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Report of Independent Auditors

Board of Trustees
Community Foundation of Greater Rochester
Rochester, Michigan

We have audited the accompanying financial statements of the Community Foundation of Greater Rochester (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Greater Rochester as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
March 29, 2016

Community Foundation of Greater Rochester

Statements of Financial Position

	December 31	
	2015	2014
Assets		
Cash and cash equivalents	\$ 477,246	\$ 1,029,404
Investments	6,452,674	6,755,807
Life insurance policy	108,371	90,710
Prepaid expenses	4,836	4,587
Total assets	<u>\$ 7,043,127</u>	<u>\$ 7,880,508</u>
Liabilities		
Grants payable	8,286	8,485
Administrative expenses payable	-	3,865
Total liabilities	<u>8,286</u>	<u>12,350</u>
Net assets		
Unrestricted	7,034,841	7,868,158
Total net assets	<u>7,034,841</u>	<u>7,868,158</u>
Total liabilities and net assets	<u>\$ 7,043,127</u>	<u>\$ 7,880,508</u>

See accompanying notes.

Community Foundation of Greater Rochester

Statements of Activities

	Year Ended December 31	
	2015	2014
Revenue and support		
Contributions	\$ 534,092	\$ 594,078
Investment income, net	131,925	127,924
Donated facilities	-	13,500
Realized and unrealized gain (loss) on investments	(56,181)	208,436
Total revenue and support	<u>609,836</u>	<u>943,938</u>
Grants and expenses		
Program grants and expenses	1,245,887	638,640
Management and general	197,266	210,472
Total grants and expenses	<u>1,443,153</u>	<u>849,112</u>
Change in net assets	(833,317)	94,826
Net assets at beginning of year	7,868,158	7,773,332
Net assets at end of year	<u>\$ 7,034,841</u>	<u>\$ 7,868,158</u>

See accompanying notes.

Community Foundation of Greater Rochester

Statements of Cash Flows

	Year Ended December 31	
	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (833,317)	\$ 94,826
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized gain (loss) on investments	56,181	(208,436)
Change in operating assets and liabilities:		
Pledges receivable	-	75,000
Life insurance policy	(17,661)	(17,871)
Prepaid expenses	(249)	(131)
Grants payable	(199)	(14,685)
Administrative expenses payable	(3,865)	3,865
Net cash from (used by) operating activities	<u>(799,110)</u>	<u>(67,432)</u>
Cash flows from investing activities		
Purchases of investments	(2,261,832)	(2,039,961)
Proceeds from the sale of investments	2,478,784	1,481,145
Net cash from (used by) investing activities	<u>216,952</u>	<u>(558,816)</u>
Change in cash and cash equivalents	(582,158)	(626,248)
Cash and cash equivalents at beginning of period	1,029,404	1,655,652
Cash and cash equivalents at end of period	<u>\$ 447,246</u>	<u>\$ 1,029,404</u>

See accompanying notes.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Organization

The Community Foundation of Greater Rochester (Foundation) is a Michigan nonprofit corporation incorporated April 5, 1983. The purpose of the Foundation is to receive and accept funds and property to be administered exclusively for charitable purposes primarily in, and for the people of, the Greater Rochester Area.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Promises to Give

Promises to give are unconditional. A promise to give is unconditional if its receipt depends only on the passage of time or demand for performance by an organization. Unconditional promises to give are recorded as pledges receivable in the financial statements and are recorded at fair value on the date of the pledge.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers all short-term securities purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair value. Under this method of accounting, the carrying value is adjusted to the quoted market value at the end of the fiscal year. Unrealized gains and losses are reflected in the statement of activities.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Investments (continued)

Fair value is based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Grants

Grants are recorded as expenses when they are approved by the Foundation's Board of Trustees for payment.

Contributions

The Foundation reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity, and the Foundation does not have the right to invade the original principal, the assets are reported as permanently restricted. When a donor restriction expires (such as when a stipulated time restriction ends), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are primarily released from donor restrictions when time restrictions are satisfied.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

All tax years from 2012 through the current year remain open to examination. The Foundation does not believe that the results from any examination of these open years would have a material adverse effect on the Foundation.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The cost of providing the program and support services have been reported in the statement of activities. Indirect costs have been allocated between the various programs and supporting services based on estimates by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce a different amount.

Donated Services

The Foundation receives donated services from a variety of unpaid volunteers who perform a variety of tasks that assist with specific programs or assignments. No amounts have been reflected in the financial statements for donated services because the valuation is not susceptible to objective measurement or evaluation.

Fair Value Measurements

As defined in accounting standards generally accepted in the United States of America, fair value is 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. In determining fair value, the Foundation uses various methods including market, income, and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant unobservable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

In determining the appropriate levels, the Foundation performed a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended December 31, 2015 and 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Subsequent Events

Subsequent events have been evaluated through March 29, 2016 which is the date the financial statements were available to be issued.

2. Investments

Investments are recorded at fair value. The cost and fair value are summarized as follows:

	December 31, 2015		
	Cost	Fair Value	Unrealized Gain (Loss)
Fixed income	\$ 1,866,980	\$ 1,849,316	\$ (17,664)
Equity securities	3,079,421	3,555,389	475,968
Alternative funds	485,007	486,288	1,281
Real assets	597,954	561,681	(36,273)
	\$ 6,029,362	\$ 6,452,674	\$ 423,312

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

2. Investments (continued)

	December 31, 2014		
	Cost	Fair Value	Unrealized Gain (Loss)
Fixed income	\$ 1,851,447	\$ 1,842,027	\$ (9,420)
Equity securities	3,214,008	3,860,782	646,774
Alternative funds	527,423	527,117	(306)
Real assets	472,983	525,881	52,898
	<u>\$ 6,065,861</u>	<u>\$ 6,755,807</u>	<u>\$ 689,946</u>

The realized and unrealized gain on investments recorded in the statement of activities reflects the net gains and losses on investments bought and sold, as well as held during the year.

3. Life Insurance Policy

The Foundation is the owner and beneficiary of a universal life insurance policy issued in the amount of \$1,000,000. The annual premium charge is paid by the donor and/or through the policy accumulated fund values. An asset of \$108,371 as of December 31, 2015 and \$90,710 as of December 31, 2014 was included in the financial statements, representing the net cash surrender value of the policy.

4. Grants Payable

Grants authorized but unpaid at year-end are reported as liabilities. Grants payable, which are to be paid within one year, were \$8,286 as of December 31, 2015 and \$8,485 as of December 31, 2014.

5. Concentration of Credit Risk

The Foundation maintains cash in checking accounts at three different financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides coverage for up to \$250,000 per depositor per financial institution as of December 31, 2015. At times during the year and at year end, the Foundation's account balances exceeded the amount of FDIC coverage.

6. Donated Facilities

During the first nine months of 2014, the Foundation was allowed free use of office space, provided by one of its members, on a month-to-month basis. The estimated fair market value of the rental space was \$13,500 for 2014. The donated rental space was recorded at fair market value in the statements of activities.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

7. Lease Commitments

In October 2014, the Foundation entered into a three-year operating lease agreement for office space located at 303 East Street, Rochester, Michigan. This lease expires on September 30, 2017. For the rental of this facility the Foundation paid \$19,884 for the year ended December 31, 2015 and \$4,860 for the year ended December 31, 2014.

Future minimum lease payments under this non-cancelable operating lease agreement as of December 31, 2015 are as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2016	\$ 21,657
2017	<u>17,235</u>
Total future minimum lease payments	<u>\$ 38,892</u>

Rental expense for 2015 under non-cancelable lease agreements was \$19,884.

8. Fair Value Measurements

Fair values of assets measured on a recurring basis as of December 31 are as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices In</u>	<u>Significant Other</u>	<u>Significant</u>
	<u>Fair Value</u>	<u>Active Markets</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>For Identical</u>	<u>Inputs</u>	<u>Inputs</u>
2015		<u>Assets/Liabilities</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
		<u>(Level 1)</u>		
Fixed income	\$ 1,849,316	\$ 1,849,316	\$ -	\$ -
Equity securities	3,555,389	3,555,389	-	-
Alternative funds	486,288	-	486,288	-
Real assets	561,681	-	561,681	-
	<u>\$ 6,452,674</u>	<u>\$ 5,404,705</u>	<u>\$ 1,047,969</u>	<u>\$ -</u>

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

8. Fair Value Measurements (continued)

2014	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income	\$ 1,842,027	\$ 1,842,027	\$ -	\$ -
Equity securities	3,860,782	3,860,782	-	-
Alternative funds	527,117	-	527,117	-
Real assets	525,881	-	525,881	-
	<u>\$ 6,755,807</u>	<u>\$ 5,702,809</u>	<u>\$ 1,052,998</u>	<u>\$ -</u>

9. Endowment

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's endowment fund is comprised entirely of funds designated by the Board of Trustees to function as endowments. The Foundation has variance power and therefore classifies the original value of any gifts donated to the endowment, and any subsequent investment returns or increases in fair value of investments as unrestricted net assets.

The Board of Trustees has determined that general contributions to the Foundation are subject to the terms of its governing documents and the Foundation maintains variance power over such contributions. Therefore, the Board of Trustees has the ability to distribute, at its sole discretion, the original principal of any trust or separate gift, bequest, or fund. As a result of the ability to distribute the original principal, all contributions are classified as unrestricted net assets for financial statement purposes unless specifically restricted by a donor. There were no donor-restricted contributions held by the Foundation as of December 31, 2015 and 2014.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

9. Endowment (continued)

The Foundation has adopted investment and spending policies, for endowment assets, approved by the Board of Trustees, that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of those endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes with the following ranges:

<u>Investment Type</u>	<u>Range</u>
Equity	15% - 60%
Fixed income	15% - 30%
Alternatives	0% - 30%
Cash	5% - 10%

The Foundation's Board of Trustees reviews investment performance on a quarterly basis to ensure compliance with their policy.

The spending policy determines the amount of money annually distributed from the Foundation's various endowment funds for grant making and administration. The current spending policy is to distribute an amount at least equal to 4% of a moving three-year average of the fair value of the endowment funds.

The Foundation invests with the long-term objectives of: 1) income and appreciation, 2) preservation of principal, and 3) support of the objectives of donors' philosophies and the philosophies of the Foundation. Due to the long-term nature of the investments, the Foundation's investment policy does not limit investment maturities.

The Foundation's investment policy limits investments in any single equity security to no more than 8% of the market value of the investment manager's total portfolio, or 20% of the Foundation's assets.

The Foundation's investment policy allows equity investments to include equity real estate investments which are limited to 7% of total endowment assets.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

9. Endowment (continued)

The balance of the Foundation's board-designated endowment fund is as follows:

Endowment net asset composition by type of fund:

	December 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 7,034,841	\$ -	\$ -	\$ 7,034,841
Total funds	\$ 7,034,841	\$ -	\$ -	\$ 7,034,841

	December 31, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 7,868,158	\$ -	\$ -	\$ 7,868,158
Total funds	\$ 7,868,158	\$ -	\$ -	\$ 7,868,158

Changes in board-designated endowment net assets for the fiscal years ended December 31, 2015 and 2014 are as follows:

	December 31	
	2015	2014
Endowment net assets, beginning of period	\$ 7,868,158	\$ 7,773,332
Investment return:		
Investment income	164,671	158,298
Investment fees	(32,746)	(30,374)
Net realized and unrealized gain	(56,181)	208,436
Total investment return	75,744	336,360
Contributions	534,092	594,078
Donated facilities	-	13,500
Grants and expenses	(1,443,153)	(849,112)
Endowment net assets, end of period	\$ 7,034,841	\$ 7,868,158

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2015

10. Net Assets

Although grant recommendations are accepted from the donors or other advisors of these funds, the Foundation has variance power; that is, the ultimate discretion of the use of these funds lies with the Board of Trustees. Thus, such funds represent unrestricted net assets to the Foundation.

The Foundation's unrestricted net assets are comprised of the following:

	December 31	
	2015	2014
Designated for field of interest	\$ 193,157	\$ 196,409
Designated for agency	1,406,799	1,864,664
Designated for scholarship	631,131	642,596
Designated for donor advised	3,270,956	3,524,045
Designated for other	1,532,798	1,640,444
Total net assets	<u>\$ 7,034,841</u>	<u>\$ 7,868,158</u>