

Audited Financial Statements

**Community Foundation
of Greater Rochester**

*Years Ended December 31, 2016 and 2015
with Report of Independent Auditors*

Community Foundation of Greater Rochester

Audited Financial Statements

Years Ended December 31, 2016 and 2015

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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 not-for-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2016 and 2015, 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
April 10, 2017

Community Foundation of Greater Rochester

Statements of Financial Position

	December 31	
	2016	2015
Assets		
Cash and cash equivalents	\$ 1,451,832	\$ 477,246
Investments	6,805,080	6,452,674
Life insurance policy	124,472	108,371
Prepaid expenses	5,878	4,836
Total assets	<u>\$ 8,387,262</u>	<u>\$ 7,043,127</u>
Liabilities		
Grants payable	\$ 1,027	\$ 8,286
Total liabilities	<u>1,027</u>	<u>8,286</u>
Net assets		
Unrestricted	<u>8,386,235</u>	7,034,841
Total net assets	<u>8,386,235</u>	7,034,841
Total liabilities and net assets	<u>\$ 8,387,262</u>	<u>\$ 7,043,127</u>

Community Foundation of Greater Rochester

Statements of Activities

	Year Ended December 31	
	2016	2015
Revenue and support		
Contributions	\$ 2,008,215	\$ 534,092
Investment income, net	113,262	131,925
Realized and unrealized (gain) loss on investments	251,178	(73,842)
Total revenue and support	<u>2,372,655</u>	<u>592,175</u>
Grants and expenses		
Program grants and expenses	832,307	1,228,226
Management and general	188,954	197,266
Total grants and expenses	<u>1,021,261</u>	<u>1,425,492</u>
Change in net assets	1,351,394	(833,317)
Net assets at beginning of year	7,034,841	7,868,158
Net assets at end of year	<u>\$ 8,386,235</u>	<u>\$ 7,034,841</u>

Community Foundation of Greater Rochester

Statements of Cash Flows

	Year Ended December 31	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 1,351,394	\$ (833,317)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gain) loss on investments	(251,178)	73,842
Change in operating assets and liabilities:		
Life insurance policy	(16,101)	(17,661)
Prepaid expenses	(1,042)	(249)
Grants payable	(7,259)	(199)
Administrative expenses payable	-	(3,865)
Net cash from (used by) operating activities	<u>1,075,814</u>	<u>(781,449)</u>
Cash flows from investing activities		
Purchases of investments	(1,683,561)	(2,261,832)
Proceeds from the sale of investments	<u>1,582,333</u>	<u>2,491,123</u>
Net cash from (used by) investing activities	<u>(101,228)</u>	<u>229,291</u>
Change in cash and cash equivalents	974,586	(552,158)
Cash and cash equivalents at beginning of year	477,246	1,029,404
Cash and cash equivalents at end of year	<u>\$ 1,451,832</u>	<u>\$ 477,246</u>

See accompanying notes.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Organization

The Community Foundation of Greater Rochester (Foundation) is a Michigan not-for-profit 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.

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.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

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

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 as of 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 2013 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.

Functional Allocation of Expenses

The cost of providing the program and support services has been reported in the statement of activities. Indirect costs have been allocated among 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.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

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

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.

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, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

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

Subsequent Events

Subsequent events have been evaluated through April 10, 2017 which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts in 2015 have been reclassified to conform to the 2016 presentation.

2. Investments

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

	December 31, 2016		
	Cost	Fair Value	Unrealized Gain (Loss)
Fixed income	\$ 1,728,603	\$ 1,715,245	\$ (13,358)
Equity securities	3,178,673	3,804,892	626,219
Alternative funds	469,407	474,804	5,397
Equity real estate investments	863,832	810,139	(53,693)
	\$ 6,240,515	\$ 6,805,080	\$ 564,565

	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
Equity real estate investments	597,954	561,681	(36,273)
	\$ 6,029,362	\$ 6,452,674	\$ 423,312

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.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

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 \$124,472 as of December 31, 2016 and \$108,371 as of December 31, 2015 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 \$1,027 as of December 31, 2016 and \$8,286 as of December 31, 2015.

5. Concentration of Credit Risk

The Foundation maintains cash in checking accounts at two 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, 2016. At times during the year and at year end, the Foundation's account balances exceeded the amount of FDIC coverage. To date, the Foundation has not experienced any losses in such accounts. Management and the Board of Trustees believe the Foundation is not exposed to any significant credit risk on cash and cash equivalents.

6. 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 October 14, 2017. For the rental of this facility, the Foundation paid \$21,657 for the year ended December 31, 2016 and \$19,884 for the year ended December 31, 2015.

Future minimum lease payments under this non-cancelable operating lease agreement as of December 31, 2016 are as follows:

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

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

7. Fair Value Measurements

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

	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)
2016				
Fixed income	\$ 1,715,245	\$ 1,715,245	\$ -	\$ -
Equity securities	3,804,892	3,804,892	-	-
Alternative funds	474,804	-	474,804	-
Equity real estate investments	810,139	-	810,139	-
	\$ 6,805,080	\$ 5,520,137	\$ 1,284,943	\$ -

	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)
2015				
Fixed income	\$ 1,849,316	\$ 1,849,316	\$ -	\$ -
Equity securities	3,555,389	3,555,389	-	-
Alternative funds	486,288	-	486,288	-
Equity real estate investments	561,681	-	561,681	-
	\$ 6,452,674	\$ 5,404,705	\$ 1,047,969	\$ -

8. 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.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

8. Endowment (continued)

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, 2016 or 2015.

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.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

8. Endowment (continued)

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

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

	December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 8,386,235	\$ -	\$ -	\$ 8,386,235
Total funds	\$ 8,386,235	\$ -	\$ -	\$ 8,386,235

	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

Changes in board-designated endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Endowment net assets, beginning of period	\$ 7,034,841	\$ 7,868,158
Investment return:		
Investment income	149,626	164,671
Investment fees	(36,364)	(32,746)
Net realized and unrealized gain (loss)	251,178	(73,842)
Total investment return	364,440	58,083
Contributions	2,008,215	534,092
Grants and expenses	(1,021,261)	(1,425,492)
Endowment net assets, end of period	\$ 8,386,235	\$ 7,034,841

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2016

9. 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	
	2016	2015
Designated for field of interest	\$ 201,359	\$ 193,157
Designated for agency	1,526,740	1,406,799
Designated for scholarship	621,082	631,131
Designated for donor advised	3,906,580	3,270,956
Designated for other	2,130,474	1,532,798
Total net assets	<u>\$ 8,386,235</u>	<u>\$ 7,034,841</u>