



ANDREWS HOOPER PAVLIK PLC

**Audited Financial Statements**

**Community Foundation  
of Greater Rochester**

*Years Ended December 31, 2012 and 2011  
with Report of Independent Auditors*

Community Foundation of Greater Rochester

Audited Financial Statements

Years Ended December 31, 2012 and 2011

**Contents**

Report of Independent Auditors.....	1
Statements of Financial Position.....	3
Statements of Activities .....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6

## 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, 2012 and 2011 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, 2012 and 2011, 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 Faulstich PLC*

Auburn Hills, Michigan  
July 23, 2013

Community Foundation of Greater Rochester

Statements of Financial Position

	December 31	
	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 1,943,308	\$ 1,791,570
Investments	5,080,509	4,723,345
Pledges receivable	150,000	-
Life insurance policy	79,166	60,700
Prepaid expenses	4,587	4,264
Total assets	<u>\$ 7,257,570</u>	<u>\$ 6,579,879</u>
<b>Liabilities</b>		
Grants payable	\$ 57,356	\$ 58,592
<b>Net assets</b>		
Unrestricted	7,200,214	6,521,287
Total net assets	<u>7,200,214</u>	<u>6,521,287</u>
Total liabilities and net assets	<u>\$ 7,257,570</u>	<u>\$ 6,579,879</u>

Community Foundation of Greater Rochester

Statements of Financial Position

	December 31	
	2012	2011
<b>Assets</b>		
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Total liabilities and net assets	<u>\$ 7,257,570</u>	<u>\$ 6,579,879</u>

Community Foundation of Greater Rochester

Statements of Activities

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue and support</b>		
Contributions	\$ 1,094,578	\$ 729,966
Investment income, net	108,358	153,189
Donated facilities	18,000	18,000
Realized and unrealized gain (loss) on investments	374,258	(221,206)
Total revenue and support	<u>1,595,194</u>	<u>679,949</u>
<b>Grants and expenses</b>		
Program grants and expenses	748,759	669,687
Management and general	167,508	149,960
Total grants and expenses	<u>916,267</u>	<u>819,647</u>
<b>Change in net assets</b>	678,927	(139,698)
Net assets at beginning of period	6,521,287	6,660,985
Net assets at end of period	<u>\$ 7,200,214</u>	<u>\$ 6,521,287</u>



Community Foundation of Greater Rochester

Statements of Cash Flows

	December 31	
	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 678,927	\$ (139,698)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain) loss on investments	(374,258)	221,206
(Increase) decrease in assets:		
Pledges receivable	(150,000)	60,000
Life insurance policy	(18,466)	(18,420)
Prepaid expenses	(323)	(173)
Decrease in liabilities:		
Grants payable	(1,236)	(4,244)
Net cash provided by operating activities	<u>134,644</u>	<u>118,671</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(2,601,877)	(383,938)
Proceeds from the sale of investments	2,618,971	301,028
Net cash provided by (used in) investing activities	<u>17,094</u>	<u>(82,910)</u>
Net increase in cash and cash equivalents	151,738	35,761
Cash and cash equivalents at beginning of period	1,791,570	1,755,809
Cash and cash equivalents at end of period	<u>\$ 1,943,308</u>	<u>\$ 1,791,570</u>

# Community Foundation of Greater Rochester

## Notes to Financial Statements

December 31, 2012

### **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, 2012

### **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 2009 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, 2012

### 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 to perform a variety of tasks that assist with specific programs or assignments. No amounts have been reflected in the financial statements for donated services since it 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 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

# Community Foundation of Greater Rochester

## Notes to Financial Statements

December 31, 2012

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

#### Fair Value Measurements (continued)

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. All investments, for fair value measurement purposes, are classified as Level 1.

#### Reclassification

Certain 2011 amounts have been reclassified to conform with the current year presentation.

#### Subsequent Events

Subsequent events have been evaluated through July 23, 2013, which is the date the financial statements were available to be issued.

### 2. Grants Payable

Grants authorized but unpaid at year end are reported as liabilities. Grants payable were \$57,356 at December 31, 2012 and \$58,592 at December 31, 2011, which are to be paid within one year.

### 3. 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 at December 31, 2012. At times during the year and at year end, the Foundation's account balance exceeded the amount of FDIC coverage.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2012

**4. Investment**

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

	December 31, 2012		
	Cost	Fair Value	Unrealized Gain (Loss)
Fixed income	\$ 1,412,591	\$ 1,484,585	\$ 71,994
Equity securities	2,370,827	2,581,969	211,142
Alternative funds	623,104	650,017	26,913
Real assets	357,128	363,938	6,810
	<u>\$ 4,763,650</u>	<u>\$ 5,080,509</u>	<u>\$ 316,859</u>

	December 31, 2011		
	Cost	Fair Value	Unrealized Gain (Loss)
Fixed income	\$ 1,269,076	\$ 1,307,073	\$ 37,997
Equity securities	2,124,192	2,304,396	180,204
Alternative funds	897,275	880,859	(16,416)
Real assets	243,791	231,017	(12,774)
	<u>\$ 4,534,334</u>	<u>\$ 4,723,345</u>	<u>\$ 189,011</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.

**5. Pledges Receivable**

During 2012, the Foundation received an unconditional pledge for \$250,000, of which \$100,000 was received in 2012. The remaining balance of \$150,000 as of December 31, 2012 is due to be received within the next year. The Foundation has not deemed any amount to be uncollectible.

# Community Foundation of Greater Rochester

## Notes to Financial Statements

December 31, 2012

### **6. 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 \$79,166 at December 31, 2012 and \$60,700 at December 31, 2011 was included in the financial statements representing the net cash surrender value of the policy.

### **7. Donated Facilities**

During 2012 and 2011, the Foundation was allowed free use of office space provided by one of its members, on a month-to-month basis. At December 31, 2012 and 2011, the estimated fair market value of the rental space was determined to be \$18,000. The donated rental space was recorded at fair market value in the statements of activities.

### **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.

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 are no donor-restricted contributions held by the Foundation at December 31, 2012 and 2011.

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2012

**8. Endowment (continued)**

The Foundation has adopted investment and spending policies, approved by the Board of Trustees, 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 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	0% - 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 the objectives of donors' philosophies and 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, 2012

**8. 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, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 7,200,214	\$ -	\$ -	\$ 7,200,214
Total funds	\$ 7,200,214	\$ -	\$ -	\$ 7,200,214

	December 31, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment funds	\$ 6,521,287	\$ -	\$ -	\$ 6,521,287
Total funds	\$ 6,521,287	\$ -	\$ -	\$ 6,521,287

Changes in Board-designated endowment net assets for the fiscal years ended December 31, 2012 and 2011 are as follows:

	December 31	
	2012	2011
Endowment net assets, beginning of period	\$ 6,521,287	\$ 6,660,985
Investment return:		
Investment income	134,937	179,979
Investment fees	(26,579)	(26,790)
Net realized and unrealized gain (loss)	374,258	(221,206)
Total investment return	482,616	(68,017)
Contributions	1,094,578	729,966
Grants and expenses	(898,267)	(801,647)
Endowment net assets, end of period	\$ 7,200,214	\$ 6,521,287

Community Foundation of Greater Rochester

Notes to Financial Statements

December 31, 2012

**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:

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
	<b>Total Net Assets</b>	<b>Total Net Assets</b>
Designated for field of interest	\$ 285,250	\$ 284,919
Designated for agency	1,773,418	1,379,251
Designated for scholarship	553,789	537,242
Designated for donor advised	3,294,596	3,192,798
Designated for other	1,293,161	1,127,077
	<b>\$ 7,200,214</b>	<b>\$ 6,521,287</b>