

**THE COMMUNITY FOUNDATION OF
FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION
HOLDING COMPANY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008**

Ellin & Tucker, Chartered



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS



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CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Community Foundation of Frederick County, Maryland, Inc. and
The Community Foundation Holding Company, Inc.

We have audited the accompanying Consolidated Statements of Financial Position of The Community Foundation of Frederick County, Maryland, Inc. and The Community Foundation Holding Company, Inc., a nonprofit organization, (collectively referred to as Foundation) as of June 30, 2009 and 2008, and the related Consolidated Statements of Activities and Cash Flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Frederick County, Maryland, Inc. and The Community Foundation Holding Company, Inc. as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Consolidated Schedules of Operating Revenue and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in cursive script that reads 'Ellin & Tucker, Chartered'.

ELLIN & TUCKER, CHARTERED
Certified Public Accountants

Frederick, Maryland
October 20, 2009

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008**

	<u>ASSETS</u>	
	2009	2008
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 2,671,311	\$ 1,104,518
Promises to Give (Note 3)	221,044	180,593
Prepaid Expenses	12,575	10,057
Investments, at Fair Value (Note 2)	37,324,066	41,344,930
Present Value of Remainder Interests	1,448,233	2,164,407
Cash Surrender Value of Life Insurance	103,592	90,600
Property and Equipment, Net of Accumulated Depreciation of \$124,325 and \$67,750	197,204	249,370
Total Assets	<u>\$ 41,978,025</u>	<u>\$ 45,144,475</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES:</u>		
Accounts Payable	\$ 4,730	\$ 12,299
Other Liabilities	56,690	50,968
Liabilities Under Split-Interest Agreements	1,146,394	1,357,211
Funds Held for Others	3,598,515	4,177,255
Total Liabilities	<u>4,806,329</u>	<u>5,597,733</u>
COMMITMENTS (Note 6)		
<u>NET ASSETS:</u>		
Unrestricted	31,127,653	32,752,027
Temporarily Restricted	4,077,111	4,849,535
Permanently Restricted (Note 4)	1,966,932	1,945,180
Total Net Assets	<u>37,171,696</u>	<u>39,546,742</u>
Total Liabilities and Net Assets	<u>\$ 41,978,025</u>	<u>\$ 45,144,475</u>

(See Independent Auditors' Report and Accompanying Notes)

THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>SUPPORT AND REVENUE:</u>				
Contributions and Bequests Raised	\$ 5,931,082	\$ 1,324,310	\$ 49,350	\$ 7,304,742
Less: Amounts Received on Behalf of Others	(568,711)	(142,304)	-	(711,015)
Net Contributions and Bequests Received	5,362,371	1,182,006	49,350	6,593,727
<u>Revenue:</u>				
Change in Present Value of Remainder Interests	(888,317)	-	-	(888,317)
Investment Loss - Realized	(1,637,936)	(229,517)	-	(1,867,453)
Net Unrealized Depreciation of Investments	(2,224,124)	(500,670)	-	(2,724,794)
Management Fee Income (Expense)	114,968	(74,835)	-	40,133
Increase in Cash Surrender Value of Life Insurance	12,992	-	-	12,992
Revenue Before Allocation of Investment Income	(4,622,417)	(805,022)	-	(5,427,439)
Investment Loss Allocated to Fund for Others	315,507	14,863	-	330,370
Net Revenue	(4,306,910)	(790,159)	-	(5,097,069)
<u>Net Assets Released from Restrictions:</u>				
Satisfaction of Restrictions	1,708,802	(1,708,802)	-	-
Total Support and Revenue	2,764,263	(1,316,955)	49,350	1,496,658
<u>GRANT AND EXPENSES:</u>				
Grant and Philanthropic Distributions	3,839,528	-	-	3,839,528
Less: Amounts Distributed on Behalf of Others	(906,054)	-	-	(906,054)
Total Grants and Philanthropic Distributions	2,933,474	-	-	2,933,474
Administrative Expenses	807,099	-	-	807,099
Endowment Expenses - Investment Management	142,240	-	-	142,240
Less: Amounts Paid on Behalf of Others	(11,109)	-	-	(11,109)
Total Grants and Expenses	3,871,704	-	-	3,871,704
Changes in Net Assets	(1,107,441)	(1,316,955)	49,350	(2,375,046)
RECLASSIFICATION OF NET ASSETS (Note 8)	(114,149)	141,747	(27,598)	-
NET ASSET RECLASSIFICATION BASED ON CHANGE IN LAW	(402,784)	402,784	-	-
NET ASSETS - JULY 1, 2008	32,752,027	4,849,535	1,945,180	39,546,742
NET ASSETS - JUNE 30, 2009	\$ 31,127,653	\$ 4,077,111	\$ 1,966,932	\$ 37,171,696

(See Independent Auditors' Report and Accompanying Notes)

THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>SUPPORT AND REVENUE:</u>				
Contributions and Bequests Raised	\$ 4,370,914	\$ 1,527,111	\$ 87,520	\$ 5,985,545
Less: Amounts Received on Behalf of Others	(99,605)	(173,734)	(1,000)	(274,339)
Net Contributions and Bequests Received	4,271,309	1,353,377	86,520	5,711,206
<u>Revenue:</u>				
Change in Present Value of Remainder Interests	(938,804)	-	-	(938,804)
Investment Income - Realized	2,258,608	367,085	-	2,625,693
Net Unrealized Depreciation of Investments	(3,996,905)	(431,672)	-	(4,428,577)
Management Fee Income (Expense)	94,378	(50,318)	-	44,060
Life Insurance Proceeds in Excess of Cash Value	14,866	-	-	14,866
Revenue Before Allocation of Investment Income	(2,567,857)	(114,905)	-	(2,682,762)
Investment Loss (Income) Allocated to Funds for Others	160,091	(31,079)	-	129,012
Net Revenue	(2,407,766)	(145,984)	-	(2,553,750)
<u>Net Assets Released from Restrictions:</u>				
Satisfaction of Restrictions	1,096,425	(1,096,425)	-	-
Total Support and Revenue	2,959,968	110,968	86,520	3,157,456
<u>GRANT AND EXPENSES:</u>				
Grant and Philanthropic Distributions	2,677,289	-	-	2,677,289
Less: Amounts Distributed on Behalf of Others	(417,419)	-	-	(417,419)
Total Grants and Philanthropic Distributions	2,259,870	-	-	2,259,870
Administrative Expenses	698,672	-	-	698,672
Endowment Expenses - Investment Management	183,650	-	-	183,650
Less: Amounts Paid on Behalf of Others	(17,092)	-	-	(17,092)
Total Grants and Expenses	3,125,100	-	-	3,125,100
Changes in Net Assets	(165,132)	110,968	86,520	32,356
RECLASSIFICATION OF NET ASSETS (Note 8)	(115,488)	115,488	-	-
NET ASSETS - JULY 1, 2007	33,032,647	4,623,079	1,858,660	39,514,386
NET ASSETS - JUNE 30, 2008	\$ 32,752,027	\$ 4,849,535	\$ 1,945,180	\$ 39,546,742

(See Independent Auditors' Report and Accompanying Notes)

THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ (2,375,046)	\$ 32,356
<u>Adjustments to Reconcile Change in Net Assets</u>		
<u>to Net Cash Provided by Operating Activities:</u>		
Depreciation	58,404	33,213
In-kind Contributions	-	(55,650)
Cash Surrender Value of Life Insurance	(12,992)	(14,866)
Net Unrealized Depreciation of Investments	2,724,794	4,428,577
Realized (Gain) Loss on Sale of Investments	3,191,387	(1,383,460)
Contributions to Permanent Endowments	(49,350)	(86,520)
<u>Decrease (Increase) in Assets:</u>		
Promises to Give	(40,451)	(77,297)
Receivables and Prepaid Expenses	(2,518)	(1,001)
Present Value of Remainder Interests	(356,980)	800,950
<u>(Decrease) Increase in Liabilities:</u>		
Accounts Payable	(7,569)	9,934
Other Liabilities	5,722	11,837
Liabilities Under Split-Interest Agreements	(1,661,315)	(201,319)
Funds Held for Others	(578,740)	(336,265)
 Net Cash Provided by Operating Activities	 <u>895,346</u>	 <u>3,160,489</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of Property and Equipment	(6,238)	(207,932)
Net (Purchases) Sales of Investments	<u>628,335</u>	<u>(2,616,144)</u>
 Net Cash Provided by (Used in) Investing Activities	 <u>622,097</u>	 <u>(2,824,076)</u>
<u>FINANCING ACTIVITIES:</u>		
Contributions to Permanent Endowments	<u>49,350</u>	<u>86,520</u>
 Net Increase in Cash and Cash Equivalents	 1,566,793	 422,933
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>1,104,518</u>	 <u>681,585</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 2,671,311</u>	 <u>\$ 1,104,518</u>

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Community Foundation of Frederick County, Maryland, Inc. (Community Foundation) and The Community Foundation Holding Company, Inc. (Holding Company) are public charities formed to attract contributions and distribute funds for community betterment. Together, they match the charitable intentions of many donors with community needs, bringing philanthropy within as broad a reach of Frederick County's citizenry as possible. Community Foundation and Holding Company were incorporated under the laws of Maryland in 1986 and 1997, respectively. The Holding Company is a supporting organization of the Community Foundation.

Basis of Accounting

The accompanying consolidated financial statements include the accounts of Community Foundation and Holding Company (collectively referred to as the Foundation). Community Foundation appoints the majority of the Board of Trustees for the Holding Company. All material intercompany accounts and transactions have been eliminated in the consolidation.

Basis of Presentation

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting whereby revenues are recognized when they are earned and expenditures are recognized when they are incurred, without regard to receipt or payment of cash. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, 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.

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions.

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

Temporarily restricted net assets result from:

- Contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by action of the Foundation pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or used for specific purposes; and
- Net earnings on permanently restricted endowment funds that have not been appropriated for expenditure in accordance with the Foundation's spending policy.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation's actions. All investment income or loss on permanently restricted net assets is temporarily restricted until those amounts are appropriated for expenditure by the board for the donor-specific restrictions.

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 certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and certain reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 20, 2009, the date the financial statements were issued.

Cash and Cash Equivalents

The Foundation maintains its cash in money market funds and bank deposit accounts which may exceed federally insured limits. The Foundation believes its cash and cash equivalents are not exposed to any significant credit risk.

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

Promises to Give

Contributions are recognized when the donor makes a written promise to give to the Foundation amounts that are in substance unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. The allowance for doubtful promises to give is based on management's evaluation of the status of existing promises to give and historical results.

Promises to give in a future period are discounted to their net present value at the time the revenue is recorded. The Foundation's promises to give are generally receivable over a five-year period and discounted at a rate of 3%.

Investments

The Foundation invests in various equity and debt securities. All investments are stated at fair value at the financial position date (see Note 2 for discussion of fair value measurements). Income is recognized in the period credited to the Foundation's account. Unrealized appreciation (depreciation) of investments is reflected in revenue as a component of changes in net assets.

The Foundation's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Remainder Interests – Charitable Remainder Trusts

The Foundation has been named beneficiary of various charitable remainder trusts. A qualifying charitable remainder trust provides lifetime income to the donor and/or the donor's family members, with the remaining trust assets passing to the Foundation when the trust ends. These trusts are created by donors independently of the Foundation and are neither in the possession nor under the control of the Foundation. However, the Holding Company is the trustee of a number of the trusts. The trusts are administered by outside fiscal agents as designated by the donor. The Foundation records the present value of the remainder interest discounted at the rate of 2.8% and 3.8% for the years ended June 30, 2009 and 2008, respectively.

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

Property and Equipment

Property and equipment in excess of \$500 are recorded at cost. Depreciation is provided for using the straight-line method over estimated useful lives of 5 to 10 years.

Funds Held for Others

These amounts represent funds established by various not-for-profit organizations for their benefit and held and administered by the Foundation.

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restriction.

Unconditional promises to give are recognized as revenue or gain in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depended are substantially met. Promises to give are reviewed at the end of each year, and any amounts deemed uncollectible by management are reserved.

As a donee, the Foundation records the assets received as contribution revenue. If the Foundation is considered an agent, trustee or intermediary, a liability rather than contribution revenue is recorded.

Income Taxes

Community Foundation and Holding Company are generally exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Community Foundation qualifies for charitable contributions deductions under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Income, which is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes.

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

The Foundation has elected to defer implementation of FIN 48, Accounting for Uncertainty in Income Taxes, an implementation of FASB Statement No. 109, Accounting for Income Taxes. The Organization has evaluated uncertain tax positions in accordance with FASB Statement No. 5, Accounting for Contingencies.

2. INVESTMENTS

The Foundation utilizes professional investment services to manage 100% of assets held for investment purposes. At June 30, 2009, the distribution of invested assets was as follows:

	Equities	Cash Equivalents	Government Obligations	Debt Obligations	Equity Funds	Total
PNC Bank, N.A. ^^	\$ 1,003,719	\$ 209,251	\$ 362,581	\$ 887,050	\$ 1,225,484	\$ 3,688,085
M & T Bank	-	1,783,919	3,043,259	3,774,094	12,616,829	21,218,101
Morgan Stanley Smith Barney	86,457	1,375,974	-	-	121,901	1,584,332
Brown Advisory	2,117,029	436,674	360,178	1,195,951	1,435,422	5,545,254
PNC Bank, N.A.*	117,906	13,282	-	47,095	60,637	238,920
Maryland Financial Planners	-	-	-	-	3,907,548	3,907,548
Merrill Lynch	83,197	11,642	-	-	403,567	498,406
First United	-	-	-	-	19,686	19,686
Fidelity Investments	272,871	20,031	-	110,494	-	403,396
RBC Wealth Management	116,732	21,262	-	59,292	23,052	220,338
June 30, 2009 Total	<u>\$ 3,797,911</u>	<u>\$ 3,872,035</u>	<u>\$ 3,766,018</u>	<u>\$ 6,073,976</u>	<u>\$ 19,814,126</u>	<u>\$ 37,324,066</u>
Percentage of Total	10.1%	10.4%	10.1%	16.3%	53.1%	100.0%
June 30, 2008 Totals	<u>\$ 3,952,843</u>	<u>\$ 5,370,445</u>	<u>\$ 4,176,900</u>	<u>\$ 7,560,244</u>	<u>\$ 20,284,498</u>	<u>\$ 41,344,930</u>
Percentage of Total	9.5%	13.0%	10.1%	18.3%	49.1%	100.0%

^^ In the equity funds for this PNC account, there are Real Estate Investment Trust funds in the amount of \$23,340.

* Assets held for Holding Company. In the equity funds amount for this account, there are Real Estate Investment Trust funds in the amount of \$6,356.

Investment income realized in the Consolidated Statements of Activities is comprised of interest, dividends and realized gains and losses on sales of marketable securities.

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

International funds of \$5,886,758 are included in the equity funds section.

Mortgage backed funds of \$756,996 are included in the debt obligations section.

Effective July 1, 2008, the Foundation adopted Financial Accounting Standards Board Statement No. 157, Fair Value Measurements (FAS 157), which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

(See Independent Auditors' Report)

THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Common Stocks, Equity Funds and U.S. Corporate and Treasury Bond Funds: Valued at quoted prices in an active market.

U.S. Corporate and Treasury Bonds: Valued using inputs, listed in approximate order of priority for use when available, including benchmark yields, reporting trades, broker/dealer quotes, and issuer spreads.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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 fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investment Securities, at Fair Value	<u>\$ 27,484,072</u>	<u>\$ 9,839,994</u>	<u>\$ 37,324,066</u>

3. PROMISES TO GIVE

Promises to give at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
<u>Promises to Give Expected to be Collected in:</u>		
Less than One Year	\$ 122,479	\$ 109,632
One to Five Years	117,241	97,382
Greater than Five Years	4,250	-
	<u>243,970</u>	<u>207,014</u>
Less: Allowance for Uncollectible Promises to Give	11,394	9,505
Less: Discount on Promises to Give	<u>11,532</u>	<u>16,916</u>
Net Unconditional Promises to Give	<u>\$ 221,044</u>	<u>\$ 180,593</u>

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

4. ENDOWMENT FUNDS

The Foundation's permanent endowment consists of various donor restricted funds established to provide a source of income for ongoing grants and scholarships. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 UPMIFA). Earnings and investment gains which exceed the Foundation's Board-approved spending limit are classified as temporarily restricted until such time as those funds are appropriated. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) Duration and preservation of the fund
- (2) Purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) Investment policies of the Foundation

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

Endowment Fund Composition by Type of Fund as of June 30, 2009:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ 140,015	\$ 1,966,932	\$ 2,106,947

Changes in Endowment Funds for the Year Ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 402,784	\$ -	\$ 1,945,180	\$ 2,347,964
Net Asset Reclassification Based on Change in Law	(402,784)	402,784	-	-
Endowment Net Assets after reclassification	-	402,784	1,945,180	2,347,964
<u>Investment Return:</u>				
Investment Loss - Realized	-	(102,129)	-	(102,129)
Net Unrealized Depreciation	-	(103,607)	-	(103,607)
Total Investment Return	-	(205,736)	-	(205,736)
Contributions	-	-	49,350	49,350
Net Assets Reclassified	-	15,610	(27,598)	(11,988)
Appropriation of Endowment Assets for Expenditure	-	(72,643)	-	(72,643)
Endowment Net Assets, End of Year	\$ -	\$ 140,015	\$ 1,966,932	\$ 2,106,947

(See Independent Auditors' Report)

THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2009.

Return Objectives and Risk Parameters

The Foundation has established 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 preserve 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 donor-specified periods. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the portfolio's benchmark index, as defined by the indices represented by the portfolio's asset allocation, while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an annual average rate of return that exceeds the spending rate. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a Trustee-approved Endowment Spending Policy that targets the lesser of net income or 5% of its endowment fund's fair market value as of December 31 of the previous fiscal year for scholarship funds and June 30 of the previous fiscal year for all other funds. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Annually, the Investment Committee debates the prudence of continuing the spending policy, keeping in mind the seven prudence guidelines for appropriation as outlined in UPMIFA. Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate of return that exceeds the spending rate. This is consistent with the objective to maintain the purchasing power of the endowment assets in perpetuity or for a donor specified term as well as to provide additional real growth through new gifts and investment return.

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

5. EMPLOYEE RETIREMENT PLAN

The Foundation has established a Savings Incentive Match Plan for Employees (SIMPLE) for eligible employees. The plan requires the Foundation to contribute a maximum amount equal to 3% of eligible employees' salaries and permits elective salary deferral contributions on the part of the employee. For the years ended June 30, 2009 and 2008, contributions were \$10,403 and \$8,621, respectively.

6. COMMITMENTS

The Foundation rents office space under an agreement through August 2012. Rent expense was \$48,938 and \$43,843 for the years ended June 30, 2009 and 2008, respectively.

Future minimum lease payments as of June 30, 2009 are as follows:

Year Ending June 30,	2010	49,176
	2011	51,566
	2012	53,234
	2013	8,912
		<hr/>
		\$ 162,888

7. DONATED SERVICES

No amounts have been reflected in the financial statements for donated services, as no objective basis is available to measure the value of such services. However, a substantial number of volunteers donate significant amounts of time to the Foundation's program services, scholarship committees, and general administration.

8. RECLASSIFICATION OF NET ASSETS

Certain net assets have been reclassified as a result of revisions to the fund agreements.

(See Independent Auditors' Report)

ADDITIONAL FINANCIAL INFORMATION

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED SCHEDULES OF OPERATING REVENUE
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Management Fees	<u>\$ 399,316</u>	<u>\$ 435,025</u>

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Salaries	\$ 471,723	\$ 407,858
Payroll Taxes	32,979	28,538
Employee Health Insurance	19,865	20,986
Retirement Contributions	10,403	8,621
Facility Lease	48,938	43,843
Events	24,071	21,272
Annual Report	15,357	14,172
Depreciation	58,404	33,213
Graphics, Printing and Brochures	5,227	5,826
Provision for Uncollectible Promises to Give	1,854	3,918
Office Expense	36,787	35,682
Repairs and Maintenance	4,924	3,038
Photography and Website	3,723	2,157
Legal and Accounting	10,300	8,500
Postage	6,415	8,701
Newsletter	9,369	7,348
Contract Labor	745	1,135
Memberships, Dues and Subscriptions	5,199	5,761
Telephone	3,337	3,026
General Insurance	5,021	5,658
Utilities	6,591	5,401
Advertising	12,869	11,043
Volunteer and Donor Recognition	2,535	189
Travel	3,024	3,203
Storage Rental	990	990
Other	6,449	8,593
	<u>\$ 807,099</u>	<u>\$ 698,672</u>

(See Independent Auditors' Report)