

THE COMMUNITY FOUNDATION OF
FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION
HOLDING COMPANY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

Ellin & Tucker, Chartered



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS



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CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010**

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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., nonprofit organizations, (collectively referred to as the Foundation) as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 MEMBER OF



WITH AFFILIATED OFFICES WORLDWIDE

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 dark ink that reads 'Ellin & Tucker, Chartered' in a cursive, flowing script.

ELLIN & TUCKER, CHARTERED
Certified Public Accountants

Frederick, Maryland
September 8, 2011

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010**

	<u>ASSETS</u>	
	2011	2010
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 299,047	\$ 3,161,172
Promises to Give (Note 3)	152,971	174,698
Prepaid Expenses	15,355	12,279
Investments, at Fair Value (Note 2)	59,903,422	44,987,841
Present Value of Remainder Interests	2,156,331	1,481,512
Cash Surrender Value of Life Insurance	111,954	97,219
Property and Equipment, Net of Accumulated Depreciation of \$244,612 and \$183,298	116,650	143,247
Total Assets	<u>\$ 62,755,730</u>	<u>\$ 50,057,968</u>

LIABILITIES AND NET ASSETS

<u>LIABILITIES:</u>		
Accounts Payable	\$ 71,877	\$ 14,454
Other Liabilities	60,103	67,002
Liabilities Under Split-Interest Agreements	1,233,589	1,279,755
Funds Held for Others	5,600,973	4,275,534
Total Liabilities	<u>6,966,542</u>	<u>5,636,745</u>

COMMITMENTS (Note 6)

<u>NET ASSETS:</u>		
Unrestricted	40,557,391	35,453,870
Temporarily Restricted	5,833,412	3,999,341
Permanently Restricted (Note 4)	9,398,385	4,968,012
Total Net Assets	<u>55,789,188</u>	<u>44,421,223</u>
Total Liabilities and Net Assets	<u>\$ 62,755,730</u>	<u>\$ 50,057,968</u>

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>SUPPORT AND REVENUE:</u>				
Contributions and Bequests Raised	\$ 1,904,364	\$ 2,596,615	\$ 2,598,534	\$ 7,099,513
Less: Amounts Received on Behalf of Others	(258,107)	(802,105)	(150)	(1,060,362)
Net Contributions and Bequests Received	1,646,257	1,794,510	2,598,384	6,039,151
<u>Revenue:</u>				
Change in Present Value of Remainder Interests	382,612	-	-	382,612
Investment Income - Realized	1,970,960	523,446	-	2,494,406
Net Unrealized Appreciation of Investments	5,824,974	1,211,081	-	7,036,055
Management Fee Income (Expense), Net	231,835	(154,946)	-	76,889
Increase in Cash Surrender Value of Life Insurance	14,735	-	-	14,735
Revenue before Allocation of Investment Income	8,425,116	1,579,581	-	10,004,697
Investment Income Allocated to Funds Held for Others	(754,569)	(122,231)	-	(876,800)
Net Revenue	7,670,547	1,457,350	-	9,127,897
<u>Net Assets Released from Restrictions:</u>				
Satisfaction of Restrictions	1,455,001	(1,455,001)	-	-
Total Support and Revenue	10,771,805	1,796,859	2,598,384	15,167,048
<u>GRANT AND EXPENSES:</u>				
Grant and Philanthropic Distributions	2,821,488	-	-	2,821,488
Less: Amounts Distributed on Behalf of Others	(286,711)	-	-	(286,711)
Total Grants and Philanthropic Distributions	2,534,777	-	-	2,534,777
Administrative Expenses	1,026,720	-	-	1,026,720
Endowment Expenses - Investment Management	265,014	-	-	265,014
Less: Amounts Paid on Behalf of Others	(27,428)	-	-	(27,428)
Total Grants and Expenses	3,799,083	-	-	3,799,083
Changes in Net Assets	6,972,722	1,796,859	2,598,384	11,367,965
RECLASSIFICATION OF NET ASSETS (Note 8)	(1,869,201)	37,212	1,831,989	-
NET ASSETS - JULY 1, 2010	35,453,870	3,999,341	4,968,012	44,421,223
NET ASSETS - JUNE 30, 2011	\$ 40,557,391	\$ 5,833,412	\$ 9,398,385	\$ 55,789,188

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>SUPPORT AND REVENUE:</u>				
Contributions and Bequests Raised	\$ 3,575,935	\$ 1,562,674	\$ 2,557,127	\$ 7,695,736
Less: Amounts Received on Behalf of Others	(208,887)	(305,562)	-	(514,449)
Net Contributions and Bequests Received	3,367,048	1,257,112	2,557,127	7,181,287
<u>Revenue:</u>				
Change in Present Value of Remainder Interests	121,439	-	-	121,439
Investment Income - Realized	1,007,365	183,602	-	1,190,967
Net Unrealized Appreciation of Investments	2,794,015	452,073	-	3,246,088
Management Fee Income (Expense), Net	133,371	(91,959)	-	41,412
Decrease in Cash Surrender Value of Life Insurance	(6,373)	-	-	(6,373)
Revenue before Allocation of Investment Income	4,049,817	543,716	-	4,593,533
Investment Income Allocated to Funds Held for Others	(366,754)	(43,170)	-	(409,924)
Net Revenue	3,683,063	500,546	-	4,183,609
<u>Net Assets Released from Restrictions:</u>				
Satisfaction of Restrictions	1,925,016	(1,925,016)	-	-
Total Support and Revenue	8,975,127	(167,358)	2,557,127	11,364,896
<u>GRANT AND EXPENSES:</u>				
Grant and Philanthropic Distributions	3,583,610	-	-	3,583,610
Less: Amounts Distributed on Behalf of Others	(436,609)	-	-	(436,609)
Total Grants and Philanthropic Distributions	3,147,001	-	-	3,147,001
Administrative Expenses	802,272	-	-	802,272
Endowment Expenses - Investment Management	183,075	-	-	183,075
Less: Amounts Paid on Behalf of Others	(16,979)	-	-	(16,979)
Total Grants and Expenses	4,115,369	-	-	4,115,369
Changes in Net Assets	4,859,758	(167,358)	2,557,127	7,249,527
RECLASSIFICATION OF NET ASSETS (Note 8)	(533,541)	89,588	443,953	-
NET ASSETS - JULY 1, 2009	31,127,653	4,077,111	1,966,932	37,171,696
NET ASSETS - JUNE 30, 2010	\$ 35,453,870	\$ 3,999,341	\$ 4,968,012	\$ 44,421,223

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<u>OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 11,367,965	\$ 7,249,527
<u>Adjustments to Reconcile Change in Net Assets to</u>		
<u>Net Cash Provided by Operating Activities:</u>		
Depreciation	61,731	58,923
Cash Surrender Value of Life Insurance	(14,735)	6,373
Net Unrealized Appreciation of Investments	(7,036,055)	(3,246,088)
Realized Gain on Sale of Investments	(1,191,146)	(274,468)
Contributions to Permanent Endowments	(2,598,384)	(2,557,127)
<u>Decrease (Increase) in Assets:</u>		
Promises to Give	21,727	46,346
Prepaid Expenses	(3,076)	296
Present Value of Remainder Interests	(674,819)	(33,279)
<u>(Decrease) Increase in Liabilities:</u>		
Accounts Payable	57,423	9,724
Other Liabilities	(6,899)	10,312
Liabilities Under Split-Interest Agreements	(46,166)	133,361
Funds Held for Others	<u>1,325,439</u>	<u>677,019</u>
Net Cash Provided by Operating Activities	<u>1,263,005</u>	<u>2,080,919</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of Property and Equipment	(35,134)	(4,966)
Net Purchases of Investments	<u>(6,688,380)</u>	<u>(4,143,219)</u>
Net Cash Used in Investing Activities	<u>(6,723,514)</u>	<u>(4,148,185)</u>
<u>FINANCING ACTIVITIES:</u>		
Contributions to Permanent Endowments	<u>2,598,384</u>	<u>2,557,127</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,862,125)	489,861
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,161,172</u>	<u>2,671,311</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 299,047</u></u>	<u><u>\$ 3,161,172</u></u>

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND 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.

Accounting Standards Codification

All references in the consolidated financial statements to the Codification refer to the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board. The Codification is the single source of authoritative GAAP in the United States.

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.

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

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

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND 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 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 of Trustees for the donor-specific restrictions.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements through September 8, 2011, the date the consolidated financial statements were available to be 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.
AND 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 amounts that are unconditional in substance to the Foundation. Contributions 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 3.2% for the years ended June 30, 2011 and 2010, respectively.

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.

(See Independent Auditors' Report)

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

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

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined the Foundation is not a private foundation within the meaning of Section 509(a) of the Code.

The Foundation follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a "more-likely-than-not" threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold.

(See Independent Auditors' Report)

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

The Foundation files federal and state information returns and is no longer subject to income tax examinations by major tax authorities for years prior to 2008.

2. INVESTMENTS

The Foundation utilizes professional investment services to manage 100% of assets held for investment purposes. At June 30, 2011, the distribution of invested assets was as follows:

	Equities	Cash Equivalents	Government Obligations	Debt Obligations	Mutual Funds	Total
PNC Bank, N.A.	\$ 1,406,951	\$ 482,837	\$ 873,544	\$ 443,629	\$ 4,824,681	\$ 8,031,642
M & T Bank	-	469,884	2,504,828	2,128,104	25,025,323	30,128,139
Morgan Stanley Smith Barney	-	965,702	-	-	256,705	1,222,407
Brown Advisory Maryland Financial Planners	3,384,648	261,821	557,597	1,003,654	2,849,823	8,057,543
Merrill Lynch	-	-	-	-	4,524,089	4,524,089
First United	115,668	8,572	-	-	528,325	652,565
Morgan Stanley PWM	-	3,357	-	-	23,491	26,848
Family Heritage Trust	1,479,459	37,292	-	-	328,924	1,845,675
Wells Fargo	-	9,425	-	-	1,123,940	1,133,365
Sandy Spring Bank	-	43,939	-	-	1,684,138	1,728,077
Woodsboro Bank	-	821,754	-	-	-	821,754
Blue Ridge Bank	-	254,243	-	-	-	254,243
Harvest Bank	-	253,589	-	-	-	253,589
Frederick County Bank	-	253,441	-	-	-	253,441
Fidelity Investments	-	255,391	-	-	-	255,391
Edward Jones	327,608	1,669	30,026	76,521	-	435,824
	157,729	7,430	26,496	87,175	-	278,830
June 30, 2011 Totals	<u>\$ 6,872,063</u>	<u>\$ 4,130,346</u>	<u>\$ 3,992,491</u>	<u>\$ 3,739,083</u>	<u>\$ 41,169,439</u>	<u>\$ 59,903,422</u>
Percentage of Total	<u>11.5%</u>	<u>6.9%</u>	<u>6.7%</u>	<u>6.2%</u>	<u>68.7%</u>	<u>100.0%</u>
June 30, 2010 Totals	<u>\$ 5,447,078</u>	<u>\$ 2,203,443</u>	<u>\$ 3,013,749</u>	<u>\$ 3,753,380</u>	<u>\$ 30,570,191</u>	<u>\$ 44,987,841</u>
Percentage of Total	<u>12.1%</u>	<u>4.9%</u>	<u>6.7%</u>	<u>8.3%</u>	<u>68.0%</u>	<u>100.0%</u>

(See Independent Auditors' Report)

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

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

International funds of \$8,881,966 are included with mutual funds.

Mortgage backed bonds of \$1,830,265 are included with debt obligations.

The Fair Value Measurements and Disclosures Topic of the Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy which 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 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.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**

Equities and Mutual Funds: Valued at quoted prices in an active market.

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 methods 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, 2011 and 2010:

	2011		
	Level 1	Level 2	Total
Cash Equivalents	\$ 4,130,346	\$ -	\$ 4,130,346
<u>Bonds:</u>			
Agency	-	3,495,851	3,495,851
Corporate	-	3,159,978	3,159,978
Municipal	-	76,526	76,526
Treasury	-	999,219	999,219
Total Bonds	-	7,731,574	7,731,574
<u>Mutual Funds:</u>			
Fixed Income	11,705,544	-	11,705,544
Foreign	8,881,966	-	8,881,966
High Yield	134,295	-	134,295
Intermediate	288,560	-	288,560
Large Cap	14,738,834	-	14,738,834
Long Term	986,435	-	986,435
Mid Cap	1,318,375	-	1,318,375
Other	138,823	-	138,823
Real Estate	80,554	-	80,554
Small Cap	2,896,053	-	2,896,053
Total Mutual Funds	41,169,439	-	41,169,439

(See Independent Auditors' Report)

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

	2011		
	Level 1	Level 2	Total
<u>Equities:</u>			
Consumer Discretionary	530,162	-	530,162
Consumer Staples	739,620	-	739,620
Energy	721,301	-	721,301
Financial	844,721	-	844,721
Health Care	1,040,633	-	1,040,633
Industrials	857,047	-	857,047
Information Technology	1,578,359	-	1,578,359
Materials	153,474	-	153,474
Telecommunications	226,911	-	226,911
Utilities	179,835	-	179,835
Total Equities	6,872,063	-	6,872,063
Total	<u>\$ 52,171,848</u>	<u>\$ 7,731,574</u>	<u>\$ 59,903,422</u>
	2010		
	Level 1	Level 2	Total
Cash Equivalents	<u>\$ 2,203,443</u>	<u>\$ -</u>	<u>\$ 2,203,443</u>
<u>Bonds:</u>			
Agency	-	1,732,419	1,732,419
Corporate	-	3,753,380	3,753,380
Municipal	-	26,193	26,193
Treasury	-	1,255,137	1,255,137
Total Bonds	-	6,767,129	6,767,129
<u>Mutual Funds:</u>			
Fixed Income	7,367,876	-	7,367,876
Foreign	7,496,832	-	7,496,832
Large Cap	13,085,224	-	13,085,224
Mid Cap	1,724,234	-	1,724,234
Small Cap	896,025	-	896,025
Total Mutual Funds	<u>30,570,191</u>	<u>-</u>	<u>30,570,191</u>

(See Independent Auditors' Report)

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

	2010		
	Level 1	Level 2	Total
<u>Equities:</u>			
Consumer Discretionary	378,901	-	378,901
Consumer Staples	558,127	-	558,127
Energy	587,155	-	587,155
Financial	775,771	-	775,771
Health Care	846,839	-	846,839
Industrials	716,098	-	716,098
Information Technology	1,194,903	-	1,194,903
Materials	136,634	-	136,634
Telecommunications	170,014	-	170,014
Utilities	82,636	-	82,636
Total Equities	5,447,078	-	5,447,078
Total	<u>\$ 38,220,712</u>	<u>\$ 6,767,129</u>	<u>\$ 44,987,841</u>

3. PROMISES TO GIVE

Promises to give at June 30, 2011 and 2010 are as follows:

	2011	2010
<u>Promises to Give Expected to be Collected in:</u>		
Less than One Year	\$ 104,824	\$ 133,167
One to Five Years	62,659	68,089
Greater than Five Years	1,000	2,000
	168,483	203,256
Less: Allowance for Uncollectible Promises to Give	7,844	9,730
Less: Discount on Promises to Give	7,668	18,828
Net Promises to Give	<u>\$ 152,971</u>	<u>\$ 174,698</u>

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 GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(See Independent Auditors' Report)

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

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

Endowment Fund Composition by Type of Fund as of June 30, 2011 and 2010:

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	<u>\$ 1,223,324</u>	<u>\$ 9,398,385</u>	<u>\$ 10,621,709</u>
	2010		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	<u>\$ 371,195</u>	<u>\$ 4,968,012</u>	<u>\$ 5,339,207</u>

(See Independent Auditors' Report)

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

Changes in Endowment Funds for the Years Ended June 30, 2011 and 2010:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2009	\$ 140,015	\$ 1,966,932	\$ 2,106,947
<u>Investment Return:</u>			
Investment Income - Realized	66,521	-	66,521
Net Unrealized Appreciation	112,443	-	112,443
Total Investment Return	178,964	-	178,964
Contributions	-	2,557,127	2,557,127
Net Assets Reclassified	75,461	443,953	519,414
Appropriation of Endowment Assets for Expenditure	(23,245)	-	(23,245)
Endowment Net Assets, June 30, 2010	371,195	4,968,012	5,339,207
<u>Investment Return:</u>			
Investment Income – Realized	185,272	-	185,272
Net Unrealized Appreciation	755,572	-	755,572
Total Investment Return	940,844	-	940,844
Contributions	-	2,598,384	2,598,384
Net Assets Reclassified	(66,712)	1,831,989	1,765,277
Appropriation of Endowment Assets for Expenditure	(22,003)	-	(22,003)
Endowment Net Assets, June 30, 2011	\$ 1,223,324	\$ 9,398,385	\$ 10,621,709

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2011 and 2010, there were no funds with deficiencies.

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

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 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 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 an 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 net income as of June 30 of the previous fiscal year for all 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 provide additional real growth through new gifts and investment return.

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**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND 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 employees. For the years ended June 30, 2011 and 2010, contributions were \$9,652 and \$10,301, respectively.

6. COMMITMENTS

The Foundation rents office space under an agreement through August 2012. Rent expense was \$49,176 and \$49,186 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments as of June 30, 2011 are as follows:

Year Ending June 30,	2012	\$	49,176
	2013		<u>8,196</u>
		\$	<u>57,372</u>

7. DONATED SERVICES

The Foundation recorded approximately \$15,000 of donated website services during the year ended June 30, 2011. No other amounts have been reflected in the consolidated 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.

9. COMMUNITY NEEDS ASSESSMENT

During the year ended June 30, 2011, the Foundation incurred consulting expenses of approximately \$98,000 to conduct a study that identified the human service needs of Frederick County. The Foundation received contributions of approximately \$55,000 to help offset the cost of the study.

(See Independent Auditors' Report)

ADDITIONAL FINANCIAL INFORMATION

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED SCHEDULES OF OPERATING REVENUE
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Management Fees, Gross	<u>\$ 596,777</u>	<u>\$ 480,928</u>

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Salaries	\$ 505,112	\$ 459,558
Payroll Taxes	36,921	33,716
Employee Health Insurance	42,244	27,440
Retirement Contributions	10,092	10,301
Facility Lease	49,176	49,186
Events	31,411	26,837
Annual Report	12,991	11,184
Depreciation	61,731	58,923
Graphics, Printing and Brochures	10,646	1,766
Recovery of Uncollectible Promises to Give	(1,886)	(1,078)
Office Expense	48,432	39,784
Repairs and Maintenance	5,753	5,187
Photography and Website	24,480	4,856
Legal and Accounting	9,600	8,600
Postage	8,278	9,532
Newsletter	13,338	2,873
Contract Labor	8,096	2,475
Memberships, Dues and Subscriptions	12,609	10,661
Telephone	3,393	3,448
General Insurance	9,254	8,044
Utilities	7,009	7,151
Advertising	3,844	8,603
Volunteer and Donor Recognition	186	400
Travel	1,032	1,500
Storage Rental	1,104	1,078
Consultants	101,491	2,500
Meetings	2,151	-
Other	8,232	7,747
	<u>\$ 1,026,720</u>	<u>\$ 802,272</u>

(See Independent Auditors' Report)