

THE COMMUNITY FOUNDATION OF
FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION
HOLDING COMPANY, INC.
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

Ellin & Tucker, Chartered



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS



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June 30, 2012 and 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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.

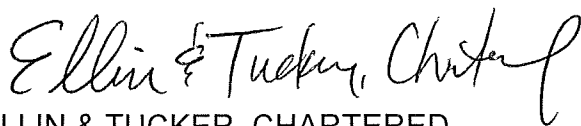
INDEPENDENT MEMBER OF



WITH AFFILIATED OFFICES WORLDWIDE

INDEPENDENT AUDITORS' REPORT, CONTINUED

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

ELLIN & TUCKER, CHARTERED
Certified Public Accountants

Frederick, Maryland
October 17, 2012

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 766,902	\$ 299,047
Promises to Give (Note 3)	183,110	152,971
Contributions Receivable (Note 4)	19,702,000	-
Prepaid Expenses	24,044	15,355
Investments, at Fair Value (Note 2)	59,632,143	59,903,422
Present Value of Remainder Interests	1,463,182	2,156,331
Cash Surrender Value of Life Insurance	112,839	111,954
Property and Equipment, Net of Accumulated Depreciation of \$296,757 and \$244,612	<u>58,241</u>	<u>116,650</u>
Total Assets	<u><u>\$ 81,942,461</u></u>	<u><u>\$ 62,755,730</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts Payable	\$ 101,548	\$ 71,877
Other Liabilities	69,468	60,103
Liabilities Under Split-Interest Agreements	1,190,044	1,233,589
Funds Held for Others	<u>5,527,393</u>	<u>5,600,973</u>
Total Liabilities	<u>6,888,453</u>	<u>6,966,542</u>

COMMITMENTS (Notes 2 and 7)

NET ASSETS:

Unrestricted	58,860,862	40,557,391
Temporarily Restricted	6,491,294	5,833,412
Permanently Restricted (Note 5)	<u>9,701,852</u>	<u>9,398,385</u>
Total Net Assets	<u>75,054,008</u>	<u>55,789,188</u>
Total Liabilities and Net Assets	<u><u>\$ 81,942,461</u></u>	<u><u>\$ 62,755,730</u></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, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>SUPPORT AND REVENUE:</u>				
Contributions and Bequests Raised	\$ 21,118,709	\$ 1,530,341	\$ 217,647	\$ 22,866,697
Less: Amounts Received on Behalf of Others	(26,654)	(118,027)	(2,000)	(146,681)
Net Contributions and Bequests Received	21,092,055	1,412,314	215,647	22,720,016
<u>Revenue:</u>				
Change in Present Value of Remainder Interests	(83,007)	-	-	(83,007)
Investment Income - Realized	1,799,155	704,071	-	2,503,226
Net Unrealized Depreciation of Investments	(1,746,402)	(423,693)	-	(2,170,095)
Management Fee Income (Expense), Net	255,613	(203,385)	-	52,228
Increase in Cash Surrender Value of Life Insurance	17,195	-	-	17,195
Revenue before Allocation of Investment Income	242,554	76,993	-	319,547
Investment Income Allocated to Funds Held for Others	(4,247)	(22,032)	-	(26,279)
Net Revenue	238,307	54,961	-	293,268
<u>Net Assets Released from Restrictions:</u>				
Satisfaction of Restrictions	1,052,560	(1,052,560)	-	-
Total Support and Revenue	22,382,922	414,715	215,647	23,013,284
<u>GRANT AND EXPENSES:</u>				
Grant and Philanthropic Distributions	2,623,369	-	-	2,623,369
Less: Amounts Distributed on Behalf of Others	(154,058)	-	-	(154,058)
Total Grants and Philanthropic Distributions	2,469,311	-	-	2,469,311
Administrative Expenses	967,168	-	-	967,168
Endowment Expenses - Investment Management	347,890	-	-	347,890
Less: Amounts Paid on Behalf of Others	(35,905)	-	-	(35,905)
Total Grants and Expenses	3,748,464	-	-	3,748,464
Changes in Net Assets	18,634,458	414,715	215,647	19,264,820
RECLASSIFICATION OF NET ASSETS (Note 9)	(330,987)	243,167	87,820	-
NET ASSETS - JULY 1, 2011	40,557,391	5,833,412	9,398,385	55,789,188
NET ASSETS - JUNE 30, 2012	\$ 58,860,862	\$ 6,491,294	\$ 9,701,852	\$ 75,054,008

(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 9)	(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 STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<u>OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 19,264,820	\$ 11,367,965
<u>Adjustments to Reconcile Change in Net Assets to</u>		
<u>Net Cash Provided by Operating Activities:</u>		
Depreciation	62,290	61,731
Cash Surrender Value of Life Insurance	(885)	(14,735)
Net Unrealized Depreciation (Appreciation)		
of Investments	2,170,095	(7,036,055)
Realized Gain on Sale of Investments	(1,256,767)	(1,191,146)
Contributions to Permanent Endowments	(215,647)	(2,598,384)
<u>Decrease (Increase) in Assets:</u>		
Promises to Give	(30,139)	21,727
Contributions Receivable	(19,702,000)	-
Prepaid Expenses	(8,689)	(3,076)
Present Value of Remainder Interests	693,149	(674,819)
<u>(Decrease) Increase in Liabilities:</u>		
Accounts Payable	29,671	57,423
Other Liabilities	9,365	(6,899)
Liabilities Under Split-Interest Agreements	(43,545)	(46,166)
Funds Held for Others	<u>(73,580)</u>	<u>1,325,439</u>
Net Cash Provided by Operating Activities	<u>898,138</u>	<u>1,263,005</u>
<u>INVESTING ACTIVITIES:</u>		
Purchases of Property and Equipment	(3,881)	(35,134)
Net Purchases of Investments	<u>(642,049)</u>	<u>(6,688,380)</u>
Net Cash Used in Investing Activities	<u>(645,930)</u>	<u>(6,723,514)</u>
<u>FINANCING ACTIVITIES:</u>		
Contributions to Permanent Endowments	<u>215,647</u>	<u>2,598,384</u>
Net Increase (Decrease) in Cash and		
Cash Equivalents	467,855	(2,862,125)
CASH AND CASH EQUIVALENTS - BEGINNING		
OF YEAR	<u>299,047</u>	<u>3,161,172</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 766,902</u>	<u>\$ 299,047</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 GAAP 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 October 17, 2012, 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. 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 1.6% and 2.8% for the years ended June 30, 2012 and 2011, 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.

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.

(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**

2. INVESTMENTS

The Foundation utilizes professional investment services to manage all assets held for investment purposes. At June 30, 2012, the distribution of invested assets was as follows:

	Equities	Cash Equivalents	Bonds	Investment Funds	Mutual Funds	Total
PNC Bank, N.A.	\$ 1,025,985	\$ 410,061	\$ -	\$ -	\$ 6,230,101	\$ 7,666,147
M & T Bank	-	981,459	5,295,550	-	21,844,958	28,121,967
Morgan Stanley	-	754,542	-	-	190,602	945,144
Brown Advisory Maryland Financial Planners	3,415,450	-	1,445,181	-	2,797,931	7,658,562
Merrill Lynch	-	-	-	-	4,310,132	4,310,132
First United	110,979	13,649	-	-	503,304	627,932
Morgan Stanley PWM	-	253,294	-	-	23,554	276,848
Family Heritage Trust	1,414,483	19,659	-	-	455,181	1,889,323
Wells Fargo	-	5,038	-	-	1,031,471	1,036,509
Sandy Spring Bank	-	66,469	-	-	1,682,302	1,748,771
Woodsboro Bank	-	824,223	-	-	-	824,223
Blue Ridge Bank	-	260,038	-	-	-	260,038
Sona Bank	-	252,647	-	-	-	252,647
Frederick County Bank	-	250,000	-	-	-	250,000
Fidelity Investments	-	262,050	-	-	-	262,050
Edward Jones	322,150	8,663	86,109	-	-	416,922
WMS Fairmount Fund	183,183	1,517	113,392	-	-	298,092
Ironsides Partnership Fund II, LP	-	-	-	971,290	-	971,290
Permal Private Equity Opportunities IV, LP	-	-	-	592,100	-	592,100
Crestline Offshore Recovery Fund II, LP	-	-	-	429,459	-	429,459
	-	-	-	793,987	-	793,987
June 30, 2012 Totals	<u>\$ 6,472,230</u>	<u>\$ 4,363,309</u>	<u>\$ 6,940,232</u>	<u>\$ 2,786,836</u>	<u>\$ 39,069,536</u>	<u>\$ 59,632,143</u>
Percentage of Total	<u>10.8%</u>	<u>7.3%</u>	<u>11.6%</u>	<u>4.7%</u>	<u>65.6%</u>	<u>100.0%</u>
June 30, 2011 Totals	<u>\$ 6,872,063</u>	<u>\$ 4,130,346</u>	<u>\$ 7,731,574</u>	<u>\$ -</u>	<u>\$ 41,169,439</u>	<u>\$ 59,903,422</u>
Percentage of Total	<u>11.5%</u>	<u>6.9%</u>	<u>12.9%</u>	<u>-</u>	<u>68.7%</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 investments.

The Fair Value Measurements and Disclosures Section of the Codification establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace as well as the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories.

- Level 1 Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments in Level 1 include listed equities and listed derivatives. As required by the Codification, the Foundation does not adjust the quoted price for these investments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.
- Level 2 Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Generally, investments in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.
- Level 3 Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Generally, investments in this category include general and limited partnership interests in corporate private equity and real estate funds, mezzanine funds, funds of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

(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 following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total
Cash Equivalents	\$ 4,363,309	\$ -	\$ -	\$ 4,363,309
<u>Bonds:</u>				
Agency	-	1,875,239	-	1,875,239
Corporate	-	2,943,221	-	2,943,221
Municipal	-	78,271	-	78,271
Treasury	-	2,043,501	-	2,043,501
Total Bonds	-	6,940,232	-	6,940,232
<u>Mutual Funds:</u>				
Fixed Income	14,632,012	-	-	14,632,012
Foreign	7,465,272	-	-	7,465,272
Large Cap	13,206,908	-	-	13,206,908
Long Term	181,898	-	-	181,898
Mid Cap	785,845	-	-	785,845
Other	167,640	-	-	167,640
Real Estate	77,788	-	-	77,788
Small Cap	2,552,173	-	-	2,552,173
Total Mutual Funds	39,069,536	-	-	39,069,536
<u>Equities:</u>				
Consumer Discretionary	424,487	-	-	424,487
Consumer Staples	666,511	-	-	666,511
Energy	832,209	-	-	832,209
Financial	754,459	-	-	754,459
Health Care	968,520	-	-	968,520
Industrials	782,223	-	-	782,223
Information Technology	1,551,312	-	-	1,551,312
Materials	108,774	-	-	108,774
Telecommunications	263,244	-	-	263,244
Utilities	120,491	-	-	120,491
Total Equities	6,472,230	-	-	6,472,230

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

	2012			
	Level 1	Level 2	Level 3	Total
<u>Investment Funds:</u>				
Structured Annuity Contracts	-	-	971,290	971,290
Buyout and Late Stage Opportunities	-	-	1,021,559	1,021,559
Liquidating Funds	-	-	793,987	793,987
Total Investment Funds	-	-	2,786,836	2,786,836
Total	<u>\$ 49,905,075</u>	<u>\$ 6,940,232</u>	<u>\$ 2,786,836</u>	<u>\$ 59,632,143</u>
		2011		
		Level 1	Level 2	Total
Cash Equivalents		<u>\$ 4,130,346</u>	<u>\$ -</u>	<u>\$ 4,130,346</u>
<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

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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	\$ 52,171,848	\$ 7,731,574	\$ 59,903,422

Level 3 investments include various investments in private investment funds (Investment Funds). Fair value is generally based on the Foundation's equity method ownership of the net assets of the underlying Investment Funds, as reported by the Investment Funds manager. Investment Funds report their underlying net assets at fair value. Underlying assets of Investment Funds may include other investment funds, private placements and other securities for which market values are not readily ascertainable. Fair values of such investments are determined by Investment Funds managers. The Foundation may adjust the equity method investment as reported by Investment Funds managers when circumstances support such adjustments to properly reflect the fair value of alternative investments as the amount the Foundation would expect to receive if it were to liquidate the investment. Due to the inherent uncertainty of the fair value of alternative investments, the Foundation's estimate of values may differ significantly from the values that would have been used had a readily ascertainable market value for the alternative investments existed, and the differences could have a material effect on the financial statements.

The following table presents activity for the Level 3 investments for the year ended June 30, 2012:

Fair Value at Beginning of Year	\$ -
Purchases of Investments	2,191,538
Distributions Received from Investments	(81,569)
Net Gain on Investments	<u>676,867</u>
Fair Value at End of Year	<u>\$ 2,786,836</u>

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**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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As of June 30, 2012, the fair value of the investments within the scope of the Fair Value Measurements and Disclosures Topic of the Codification, and for which the Foundation has estimated fair value using net asset value or partners' capital, aggregated \$2,786,836. The table below summarizes such investments and certain attributes as of June 30, 2012:

	Fair Value	Future Commitments
WMS Fairmount Fund	\$ 971,290	\$ -
Ironsides Partnership Fund II, LP	592,100	489,089
Permal Private Equity Opportunities IV, LP	429,459	700,000
Crestline Offshore Recovery Fund II, LP	793,987	619,373
	<u>\$ 2,786,836</u>	<u>\$ 1,808,462</u>

There is no redemption provision for these investments prior to funds liquidating the underlying investments.

3. PROMISES TO GIVE

Promises to give at June 30, 2012 and 2011 are as follows:

	2012	2011
<u>Promises to Give Expected to be Collected in:</u>		
Less than One Year	\$ 103,310	\$ 104,824
One to Five Years	78,815	62,659
Greater than Five Years	21,000	1,000
	<u>203,125</u>	<u>168,483</u>
Less: Allowance for Uncollectible Promises to Give	9,637	7,844
Less: Discount on Promises to Give	<u>10,378</u>	<u>7,668</u>
Net Promises to Give	<u>\$ 183,110</u>	<u>\$ 152,971</u>

4. CONTRIBUTIONS RECEIVABLE

During the year ended June 30, 2012, the Foundation was notified that it was the beneficiary of an estate with an estimated value of \$19,400,000. The Foundation expects to receive this amount during the year ended June 30, 2013.

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**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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The Foundation is the sole remainder beneficiary of a liquidating trust estimated to be approximately \$300,000. The Foundation expects to receive this amount during the year ended June 30, 2013.

5. 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.

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

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**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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Endowment Fund Composition by Type of Fund as of June 30, 2012 and 2011:

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	<u>\$ 1,234,969</u>	<u>\$ 9,701,852</u>	<u>\$ 10,936,821</u>
	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>

Changes in Endowment Funds for the Years Ended June 30, 2012 and 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2010	<u>\$ 371,195</u>	<u>\$ 4,968,012</u>	<u>\$ 5,339,207</u>
<u>Investment Return:</u>			
Investment Income – Realized	185,272	-	185,272
Net Unrealized Appreciation	<u>755,572</u>	<u>-</u>	<u>755,572</u>
Total Investment Return	<u>940,844</u>	<u>-</u>	<u>940,844</u>
Contributions	<u>-</u>	<u>2,598,384</u>	<u>2,598,384</u>
Net Assets Reclassified	<u>(66,712)</u>	<u>1,831,989</u>	<u>1,765,277</u>
Appropriation of Endowment Assets for Expenditure	<u>(22,003)</u>	<u>-</u>	<u>(22,003)</u>
Endowment Net Assets, June 30, 2011	<u>1,223,324</u>	<u>9,398,385</u>	<u>10,621,709</u>
<u>Investment Return:</u>			
Investment Income – Realized	239,916	-	239,916
Net Unrealized Depreciation	<u>(213,911)</u>	<u>-</u>	<u>(213,911)</u>
Total Investment Return	<u>26,005</u>	<u>-</u>	<u>26,005</u>

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**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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	Temporarily Restricted	Permanently Restricted	Total
Contributions	-	215,647	215,647
Net Assets Reclassified	32,476	87,820	120,296
Appropriation of Endowment Assets for Expenditure	(46,836)	-	(46,836)
Endowment Net Assets, June 30, 2012	\$ 1,234,969	\$ 9,701,852	\$ 10,936,821

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, 2012 and 2011, there were no funds with deficiencies.

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.

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

6. 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, 2012 and 2011, contributions were \$12,143 and \$9,652, respectively.

7. COMMITMENTS

The Foundation rents office space under an agreement through August 2015. Rent expense was \$48,676 and \$49,176 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments as of June 30, 2012 are as follows:

Year Ending June 30,	2013	\$	49,176
	2014		49,176
	2015		49,176
	2016		<u>8,196</u>
		\$	<u>155,724</u>

The Foundation has agreed to make additional investments in Investment Funds. At June 30, 2012, the Foundation has commitments of \$1,808,462 (Note 2).

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

8. 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.

9. RECLASSIFICATION OF NET ASSETS

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

10. 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.

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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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Management Fees, Gross	<u>\$ 652,232</u>	<u>\$ 596,777</u>

(See Independent Auditors' Report)

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.
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CONSOLIDATED SCHEDULES OF ADMINISTRATIVE EXPENSES
For the Years Ended June 30, 2012 and 2011**

	2012	2011
Salaries	\$ 504,541	\$ 505,112
Payroll Taxes	36,562	36,921
Advertising	29,883	3,844
Annual Report	16,878	12,991
Consultants	6,143	101,491
Contract Labor	1,209	8,096
Depreciation	62,290	61,731
Employee Health Insurance	46,258	42,244
Events	43,494	31,411
Facility Lease	48,676	49,176
General Insurance	8,787	9,254
Graphics, Printing and Brochures	8,381	10,646
Legal and Accounting	7,667	9,600
Meetings	4,200	2,151
Memberships, Dues and Subscriptions	12,017	12,609
Newsletter	11,022	13,338
Office Expense	56,741	48,432
Other	20,051	8,232
Photography and Website	1,277	24,480
Postage	9,015	8,278
Recovery of Uncollectible Promises to Give	-	(1,886)
Repairs and Maintenance	6,385	5,753
Retirement Contributions	12,936	10,092
Storage Rental	1,104	1,104
Telephone	2,521	3,393
Travel	1,122	1,032
Uncollectible Promises to Give	1,793	-
Utilities	5,794	7,009
Volunteer and Donor Recognition	421	186
	<u>\$ 967,168</u>	<u>\$ 1,026,720</u>

(See Independent Auditors' Report)