

**THE COMMUNITY FOUNDATION OF  
FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION  
HOLDING COMPANY, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

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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.

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Community Foundation of Frederick County, Maryland, Inc. and The Community Foundation Holding Company, Inc. (collectively referred to as the Foundation), which comprise the Consolidated Statements of Financial Position as of June 30, 2015 and 2014, the related Consolidated Statements of Activities and Cash Flows for the years then ended and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT, CONTINUED

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2015 and 2014, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the accompanying Consolidated Schedules of Operating Revenue and Administrative Expenses is presented for purposes of additional analysis and is 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.

*Ellin & Tucker, Chartered*

ELLIN TUCKER, CHARTERED  
Certified Public Accountants

Frederick, Maryland  
October 15, 2015

**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2015 and 2014**

	<b><u>ASSETS</u></b>	
	<u>2015</u>	<u>2014</u>
<b><u>ASSETS:</u></b>		
Cash and Cash Equivalents	\$ 454,550	\$ 1,632,195
Promises to Give (Note 3)	177,589	256,376
Contributions Receivable (Note 4)	9,773,114	8,932,634
Prepaid Expenses	29,698	36,122
Investments, at Fair Value (Note 2)	94,147,011	88,567,332
Present Value of Remainder Interests	1,766,169	1,746,135
Cash Surrender Value of Life Insurance	157,194	143,570
Property and Equipment, Net of Accumulated Depreciation of \$369,946 and \$351,417	<u>155,651</u>	<u>41,824</u>
Total Assets	<u><u>\$ 106,660,976</u></u>	<u><u>\$ 101,356,188</u></u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>LIABILITIES:</u></b>		
Accounts Payable	\$ 1,087,445	\$ 593,969
Other Liabilities	41,485	56,998
Liabilities Under Split-Interest Agreements	1,270,729	1,336,774
Funds Held for Others	<u>6,362,301</u>	<u>6,203,446</u>
Total Liabilities	<u>8,761,960</u>	<u>8,191,187</u>
 COMMITMENTS (Notes 2 and 7)		
<b><u>NET ASSETS:</u></b>		
Unrestricted	77,776,000	73,708,542
Temporarily Restricted	10,641,622	9,782,513
Permanently Restricted (Note 5)	<u>9,481,394</u>	<u>9,673,946</u>
Total Net Assets	<u>97,899,016</u>	<u>93,165,001</u>
Total Liabilities and Net Assets	<u><u>\$ 106,660,976</u></u>	<u><u>\$ 101,356,188</u></u>

**(See Independent Auditors' Report and Accompanying Notes)**

**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>SUPPORT AND REVENUE:</u></b>				
Contributions and Bequests Raised	\$ 5,794,872	\$ 2,528,770	\$ 259,067	\$ 8,582,709
Less: Amounts Received on Behalf of Others	(101,827)	(205,415)	-	(307,242)
Net Contributions and Bequests Received	5,693,045	2,323,355	259,067	8,275,467
<b><u>Revenue:</u></b>				
Change in Present Value of Remainder Interests	39,647	-	-	39,647
Investment Income - Realized	3,565,209	1,289,325	-	4,854,534
Net Unrealized Depreciation of Investments	(1,221,600)	(827,002)	-	(2,048,602)
Management Fee Income (Expense), Net	331,374	(266,474)	-	64,900
Increase in Cash Surrender Value of Life Insurance	13,624	-	-	13,624
Revenue before Allocation of Investment Income	2,728,254	195,849	-	2,924,103
Investment Income Allocated to Funds Held for Others	(149,222)	(37,346)	-	(186,568)
Net Revenue	2,579,032	158,503	-	2,737,535
<b><u>Net Assets Released from Restrictions:</u></b>				
Satisfaction of Restrictions	1,612,501	(1,612,501)	-	-
Total Support and Revenue	9,884,578	869,357	259,067	11,013,002
<b><u>GRANT AND EXPENSES:</u></b>				
Grant and Philanthropic Distributions	4,825,101	-	-	4,825,101
Less: Amounts Distributed on Behalf of Others	(236,854)	-	-	(236,854)
Total Grants and Philanthropic Distributions	4,588,247	-	-	4,588,247
Administrative Expenses	1,249,480	-	-	1,249,480
Endowment Expenses - Investment Management	473,506	-	-	473,506
Less: Amounts Paid on Behalf of Others	(32,246)	-	-	(32,246)
Total Grants and Expenses	6,278,987	-	-	6,278,987
Changes in Net Assets	3,605,591	869,357	259,067	4,734,015
RECLASSIFICATION OF NET ASSETS (Note 10)	461,867	(10,248)	(451,619)	-
NET ASSETS - JULY 1, 2014	73,708,542	9,782,513	9,673,946	93,165,001
NET ASSETS - JUNE 30, 2015	\$77,776,000	\$ 10,641,622	\$ 9,481,394	\$97,899,016

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>SUPPORT AND REVENUE:</u></b>				
Contributions and Bequests Raised	\$ 4,533,150	\$ 1,579,396	\$ 42,352	\$ 6,154,898
Less: Amounts Received on Behalf of Others	(111,243)	(129,656)	-	(240,899)
Net Contributions and Bequests Received	4,421,907	1,449,740	42,352	5,913,999
<b><u>Revenue:</u></b>				
Change in Present Value of Remainder Interests	266,512	-	-	266,512
Investment Income - Realized	2,999,318	878,002	-	3,877,320
Net Unrealized Appreciation of Investments	5,841,735	1,183,859	-	7,025,594
Management Fee Income (Expense), Net	295,528	(233,805)	-	61,723
Increase in Cash Surrender Value of Life Insurance	14,341	-	-	14,341
Revenue before Allocation of Investment Income	9,417,434	1,828,056	-	11,245,490
Investment Income Allocated to Funds Held for Others	(570,552)	(146,983)	-	(717,535)
Net Revenue	8,846,882	1,681,073	-	10,527,955
<b><u>Net Assets Released from Restrictions:</u></b>				
Satisfaction of Restrictions	1,403,209	(1,403,209)	-	-
Total Support and Revenue	14,671,998	1,727,604	42,352	16,441,954
<b><u>GRANT AND EXPENSES:</u></b>				
Grant and Philanthropic Distributions	3,396,081	-	-	3,396,081
Less: Amounts Distributed on Behalf of Others	(289,308)	-	-	(289,308)
Total Grants and Philanthropic Distributions	3,106,773	-	-	3,106,773
Administrative Expenses	1,022,727	-	-	1,022,727
Endowment Expenses - Investment Management	407,356	-	-	407,356
Less: Amounts Paid on Behalf of Others	(28,134)	-	-	(28,134)
Total Grants and Expenses	4,508,722	-	-	4,508,722
Changes in Net Assets	10,163,276	1,727,604	42,352	11,933,232
RECLASSIFICATION OF NET ASSETS (Note 9)	(11,045)	111,775	(100,730)	-
NET ASSETS - JULY 1, 2013	63,556,311	7,943,134	9,732,324	81,231,769
NET ASSETS - JUNE 30, 2014	\$73,708,542	\$9,782,513	\$9,673,946	\$93,165,001

(See Independent Auditors' Report and Accompanying Notes)

**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b><u>OPERATING ACTIVITIES:</u></b>		
Change in Net Assets	\$ 4,734,015	\$ 11,933,232
<b><u>Adjustments to Reconcile Change in Net Assets to</u></b>		
<b><u>Net Cash Provided by Operating Activities:</u></b>		
Depreciation	19,107	18,758
Cash Surrender Value of Life Insurance	(13,624)	(14,341)
Net Unrealized Depreciation (Appreciation) of Investments	2,048,602	(7,025,594)
Realized Gain on Sale of Investments	(2,504,445)	(1,627,778)
Contributions to Permanent Endowments	(259,067)	(42,352)
<b><u>Decrease (Increase) in Assets:</u></b>		
Promises to Give	78,787	(74,650)
Contributions Receivable	(840,480)	(951,340)
Prepaid Expenses	6,424	(15,757)
Present Value of Remainder Interests	(20,034)	(206,400)
<b><u>Increase (Decrease) in Liabilities:</u></b>		
Accounts Payable	493,476	462,540
Other Liabilities	(15,513)	3,460
Liabilities Under Split-Interest Agreements	(66,045)	21,733
Funds Held for Others	158,855	579,327
 Net Cash Provided by Operating Activities	 <u>3,820,058</u>	 <u>3,060,838</u>
<b><u>INVESTING ACTIVITIES:</u></b>		
Purchases of Property and Equipment	(132,934)	(13,231)
Proceeds from Sale of Investments	32,070,739	10,140,235
Purchases of Investments	(37,194,575)	(11,861,335)
 Net Cash Used in Investing Activities	 <u>(5,256,770)</u>	 <u>(1,734,331)</u>
<b><u>FINANCING ACTIVITIES:</u></b>		
Contributions to Permanent Endowments	259,067	42,352
 Net (Decrease) Increase in Cash and Cash Equivalents	 (1,177,645)	 1,368,859
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>1,632,195</u>	 <u>263,336</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 454,550</u>	 <u>\$ 1,632,195</u>

**(See Independent Auditors' Report and Accompanying Notes)**



**THE COMMUNITY 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 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 15, 2015, 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 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 a 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 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 recorded the present value of the remainder interest discounted at the rate of 2% and 2.4% for the years ended June 30, 2015 and 2014, respectively.

Property and Equipment

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

**(See Independent Auditors' Report)**

**THE COMMUNITY 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 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, 2015, the distribution of invested assets was as follows:

	Equities	Cash Equivalents	Bonds	Investment Funds	Mutual Funds	Total
PNC Bank, N.A.	\$ 15,533	\$ 88,742	\$ -	\$ -	\$ 4,770,273	\$ 4,874,548
M & T Bank	21,054,080	3,535,018	-	-	31,744,809	56,333,907
Morgan Stanley	-	956,552	-	-	228,842	1,185,394
Maryland Financial Planners	-	-	-	-	5,476,728	5,476,728
Merrill Lynch	581,819	72,320	-	-	398,238	1,052,377
First United	-	252,560	-	-	29,136	281,696
Morgan Stanley PWM	1,502,749	151,604	-	-	501,439	2,155,792
Family Heritage Trust	-	10,015	-	-	1,833,053	1,843,068
Wells Fargo	-	-	-	-	2,041,448	2,041,448
Sandy Spring Bank	-	578,594	-	-	-	578,594
Woodsboro Bank	-	278,185	-	-	-	278,185
Sona Bank	-	250,000	-	-	-	250,000
Frederick County Bank	-	283,194	-	-	-	283,194
Middletown Valley Bank	-	251,346	-	-	-	251,346
Fidelity Investments	463,165	25,961	62,535	-	-	551,661
Edward Jones	251,701	6,378	26,753	-	35,629	320,461
WMS Fairmount Fund	-	-	-	992,320	-	992,320
Ironsides Partnership Fund II, LP	-	-	-	812,354	-	812,354
Ironsides Partnership Fund III, LP	-	-	-	21,497	-	21,497
Ironsides Co-Investment Fund III, LP	-	-	-	462,694	-	462,694
Permal Private Equity Opportunities IV, LP	-	-	-	755,192	-	755,192
Mackay Shields Core Plus Opportunities Fund LP	-	-	-	5,556,581	-	5,556,581
Prudential Inst. Core Plus Bond-NQ	-	-	-	5,525,562	-	5,525,562
Crestline Offshore Recovery Fund II, LP	-	-	-	575,254	-	575,254
Titan Masters International Fund LTD	-	-	-	1,687,158	-	1,687,158
June 30, 2015 Totals	<u>\$ 23,869,047</u>	<u>\$ 6,740,469</u>	<u>\$ 89,288</u>	<u>\$ 16,388,612</u>	<u>\$ 47,059,595</u>	<u>\$ 94,147,011</u>
Percentage of Total	<u>25.4%</u>	<u>7.2%</u>	<u>0.1%</u>	<u>17.4%</u>	<u>49.9%</u>	<u>100.0%</u>
June 30, 2014 Totals	<u>\$ 19,408,193</u>	<u>\$ 6,907,546</u>	<u>\$ 71,281</u>	<u>\$ 16,607,521</u>	<u>\$ 45,572,791</u>	<u>\$ 88,567,332</u>
Percentage of Total	<u>21.9%</u>	<u>7.8%</u>	<u>0.1%</u>	<u>18.8%</u>	<u>51.4%</u>	<u>100.0%</u>

(See Independent Auditors' Report)

**THE COMMUNITY 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 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, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Cash Equivalents	\$6,740,469	\$ -	\$ -	\$6,740,469
<u>Bonds:</u>				
Corporate	-	32,895	-	32,895
Municipal	-	56,393	-	56,393
Mortgages	-	-	-	-
Total Bonds	-	89,288	-	89,288
<u>Mutual Funds:</u>				
Fixed Income	11,436,738	-	-	11,436,738
Foreign	16,890,621	-	-	16,890,621
Large Cap	7,464,902	-	-	7,464,902
Mid Cap	6,237,050	-	-	6,237,050
Equity	678,952	-	-	678,952
Other	800,514	-	-	800,514
Real Estate	225,281	-	-	225,281
Small Cap	1,351,085	-	-	1,351,085
Balanced	1,974,452	-	-	1,974,452
Total Mutual Funds	47,059,595	-	-	47,059,595
<u>Equities:</u>				
Consumer Discretionary	3,807,903	-	-	3,807,903
Consumer Staples	2,684,185	-	-	2,684,185
Energy	1,427,250	-	-	1,427,250
Financial	4,283,820	-	-	4,283,820
Health Care	2,845,383	-	-	2,845,383
Industrials	2,978,779	-	-	2,978,779
Information Technology	4,250,639	-	-	4,250,639
Materials	1,308,916	-	-	1,308,916
Telecommunications	166,068	-	-	166,068
Utilities	116,104	-	-	116,104
Total Equities	23,869,047	-	-	23,869,047

(See Independent Auditors' Report)

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

	2015			
	Level 1	Level 2	Level 3	Total
<u>Investment Funds:</u>				
Structured Annuity				
Contracts	-	-	992,320	992,320
Buyout and Late Stage				
Opportunities	-	-	2,051,737	2,051,737
Fixed Income	-	-	11,082,143	11,082,143
Liquidating Funds	-	-	575,254	575,254
Long/Short, Event Driven and				
Global Macro Equity Funds	-	-	1,687,158	1,687,158
 Total Investment Funds	-	-	16,388,612	16,388,612
 Total	<u>\$ 77,669,111</u>	<u>\$ 89,288</u>	<u>\$ 16,388,612</u>	<u>\$ 94,147,011</u>
	2014			
	Level 1	Level 2	Level 3	Total
Cash Equivalents	\$ 6,907,546	\$ -	\$ -	\$ 6,907,546
<u>Bonds:</u>				
Corporate	-	34,041	-	34,041
Municipal	-	31,632	-	31,632
Mortgages	-	5,608	-	5,608
 Total Bonds	-	71,281	-	71,281
<u>Mutual Funds:</u>				
Fixed Income	12,116,478	-	-	12,116,478
Foreign	16,365,215	-	-	16,365,215
Large Cap	5,016,302	-	-	5,016,302
Mid Cap	8,409,768	-	-	8,409,768
Equity	1,806,583	-	-	1,806,583
Other	679,791	-	-	679,791
Real Estate	126,575	-	-	126,575
Small Cap	1,052,079	-	-	1,052,079
 Total Mutual Funds	<u>45,572,791</u>	<u>-</u>	<u>-</u>	<u>45,572,791</u>

(See Independent Auditors' Report)



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

	2014			
	Level 1	Level 2	Level 3	Total
Consumer Discretionary	2,070,656	-	-	2,070,656
Consumer Staples	2,743,547	-	-	2,743,547
Energy	2,094,191	-	-	2,094,191
Financial	3,186,435	-	-	3,186,435
Health Care	2,584,057	-	-	2,584,057
Industrials	2,169,232	-	-	2,169,232
Information Technology	3,406,817	-	-	3,406,817
Materials	1,060,263	-	-	1,060,263
Telecommunications	9,314	-	-	9,314
Utilities	83,681	-	-	83,681
<b>Total Equities</b>	<b>19,408,193</b>	<b>-</b>	<b>-</b>	<b>19,408,193</b>
<b>Investment Funds:</b>				
Structured Annuity				
Contracts	-	-	986,323	986,323
Buyout and Late				
Stage Opportunities	-	-	2,096,060	2,096,060
Fixed Income	-	-	10,999,694	10,999,694
Liquidating Funds	-	-	920,220	920,220
Long/Short, Event Driven and				
Global Macro Equity Funds	-	-	1,605,224	1,605,224
<b>Total Investment Funds</b>	<b>-</b>	<b>-</b>	<b>16,607,521</b>	<b>16,607,521</b>
<b>Total</b>	<b>\$ 71,888,530</b>	<b>\$ 71,281</b>	<b>\$ 16,607,521</b>	<b>\$ 88,567,332</b>

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 consolidated financial statements.

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

The following table presents activity for the Level 3 investments for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fair Value at Beginning of Year	\$ 16,607,521	\$ 15,629,224
Purchases of Investments	233,207	2,523,338
Distributions Received from Investments	(747,101)	(2,512,324)
Net Gain on Investments	<u>294,985</u>	<u>967,283</u>
 Fair Value at End of Year	 <u><u>\$ 16,388,612</u></u>	 <u><u>\$ 16,607,521</u></u>

As of June 30, 2015, 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 \$16,388,612. The table below summarizes such investments and certain attributes as of June 30, 2015:

	<u>Fair Value</u>	<u>Future Commitments</u>	<u>Redemption Provision</u>
WMS Fairmount Fund	\$ 992,320	\$ -	None *
Ironsides Partnership Fund II, LP	812,354	202,790	None *
Ironsides Partnership Fund III, LP	21,497	423,093	None *
Ironsides Co-Investment Fund III, LP	462,694	455,189	None *
Permal Private Equity Opportunities IV, LP	755,192	248,000	None *
Crestline Offshore Recovery Fund II, LP	575,254	-	None *
Mackay Shields Core Plus Opportunities Fund LP	5,556,581	-	30 Days
Prudential Inst. Core Plus Bond-NQ	5,525,562	-	Monthly **
Titan Masters International Fund LTD	<u>1,687,158</u>	<u>-</u>	Quarterly
	<u><u>\$ 16,388,612</u></u>	<u><u>\$ 1,329,072</u></u>	

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

\*\* Requires five days notice.

(See Independent Auditors' Report)

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

**3. PROMISES TO GIVE**

Promises to give at June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
<u>Promises to Give Expected to be Collected in:</u>		
Less than One Year	\$ 118,238	\$ 185,164
One to Five Years	71,773	84,527
Greater than Five Years	<u>3,000</u>	<u>14,000</u>
	193,011	283,691
 Less: Allowance for Uncollectible Promises to Give	 (9,347)	 (13,494)
Less: Discount on Promises to Give	<u>(6,075)</u>	<u>(13,821)</u>
 Net Promises to Give	 <u><u>\$ 177,589</u></u>	 <u><u>\$ 256,376</u></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 approximately \$19,400,000. The Foundation received \$12,526,800 during the year ended June 30, 2013 and increased the estimated value of the contribution by approximately \$1,587,000. The Foundation received \$864,600 during the year ended June 30, 2014 and increased the estimated value of the contribution by \$614,600. The remaining amounts are expected to be received as follows:

Year Ending June 30, 2016	\$ 401,792
2017	<u>7,004,692</u>
	7,406,484
Less: Present Value Discount	<u>(413,563)</u>
	<u><u>\$ 6,992,921</u></u>

As of June 30, 2015, the Foundation is the beneficiary of other estates with an estimated value of approximately \$2,780,000. The Foundation expects to receive this amount during the year ended June 30, 2016.

As of June 30, 2014, the Foundation was the sole remainder beneficiary of a liquidating trust estimated to be approximately \$1,753,000. The Foundation received these funds during the year ended June 30, 2015, with the exception of \$100,000 which the Foundation expects to receive during the year ended June 30, 2016.

**(See Independent Auditors' Report)**

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

**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

**Endowment Fund Composition by Type of Fund as of June 30, 2015 and 2014:**

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	<u>\$ 2,412,678</u>	<u>\$ 9,481,394</u>	<u>\$ 11,894,072</u>

**(See Independent Auditors' Report)**

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

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Donor–Restricted Endowment Funds	<u>\$ 2,647,670</u>	<u>\$ 9,673,946</u>	<u>\$ 12,321,616</u>

Changes in Endowment Funds for the Years Ended June 30, 2015 and 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2013	<u>\$ 1,705,700</u>	<u>\$ 9,732,324</u>	<u>\$ 11,438,024</u>
<u>Investment Return:</u>			
Investment Income – Realized	361,465	-	361,465
Net Unrealized Appreciation	<u>666,651</u>	<u>-</u>	<u>666,651</u>
Total Investment Return	<u>1,028,116</u>	<u>-</u>	<u>1,028,116</u>
Contributions	<u>-</u>	<u>42,352</u>	<u>42,352</u>
Net Assets Reclassified	<u>(24,727)</u>	<u>(100,730)</u>	<u>(125,457)</u>
Appropriation of Endowment Assets for Expenditure	<u>(61,419)</u>	<u>-</u>	<u>(61,419)</u>
Endowment Net Assets, June 30, 2014	<u>2,647,670</u>	<u>9,673,946</u>	<u>12,321,616</u>
<u>Investment Return:</u>			
Investment Income – Realized	721,756	-	721,756
Net Unrealized Depreciation	<u>(726,361)</u>	<u>-</u>	<u>(726,361)</u>
Total Investment Return	<u>(4,605)</u>	<u>-</u>	<u>(4,605)</u>
Contributions	<u>-</u>	<u>259,067</u>	<u>259,067</u>
Net Assets Reclassified	<u>(131,808)</u>	<u>(451,619)</u>	<u>(583,427)</u>
Appropriation of Endowment Assets for Expenditure	<u>(98,579)</u>	<u>-</u>	<u>(98,579)</u>
Endowment Net Assets, June 30, 2015	<u>\$ 2,412,678</u>	<u>\$ 9,481,394</u>	<u>\$ 11,894,072</u>

(See Independent Auditors' Report)

**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND 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 the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2015 and 2014, 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.

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.

**(See Independent Auditors' Report)**

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

**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, 2015 and 2014, contributions were \$19,078 and \$14,200, respectively.

**7. COMMITMENTS**

The Foundation rents office space under an agreement through April 2018. Rent expense was \$52,774 and \$48,676 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments as of June 30, 2015 are as follows:

Year Ending June 30, 2016	\$ 73,764
2017	73,764
2018	<u>61,470</u>
	<u><u>\$208,998</u></u>

The Foundation has agreed to make additional investments in Investment Funds. At June 30, 2015, the Foundation has commitments of \$1,329,072 (Note 2).

**8. DONATED SERVICES**

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

**9. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for programs intended to enrich the quality of life in Frederick County in the amount of \$10,641,622 and \$9,782,513 as of June 30, 2015 and 2014, respectively.

**10. RECLASSIFICATION OF NET ASSETS**

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

**(See Independent Auditors' Report)**

## **SUPPLEMENTARY INFORMATION**



**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED SCHEDULES OF OPERATING REVENUE  
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Management Fees, Gross	<u>\$ 1,064,435</u>	<u>\$ 912,863</u>

(See Independent Auditors' Report)

**THE COMMUNITY OF FREDERICK COUNTY, MARYLAND, INC.  
AND THE COMMUNITY FOUNDATION HOLDING COMPANY, INC.  
CONSOLIDATED SCHEDULES OF ADMINISTRATIVE EXPENSES  
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Salaries	\$ 731,358	\$ 580,912
Payroll Taxes	53,484	43,602
Advertising	18,750	17,500
Annual Report	15,143	13,244
Consulting	34,809	-
Contract Labor	2,824	352
Depreciation	19,107	18,758
Employee Health Insurance	70,238	59,642
Events	44,745	50,971
Facility Lease	53,274	48,676
General Insurance	12,094	10,366
Graphics, Printing and Brochures	11,989	14,375
Legal and Accounting	16,862	8,873
Meetings	8,561	2,711
Memberships, Dues and Subscriptions	15,576	13,350
Newsletter	10,081	9,421
Office Expense	60,460	66,896
Other	16,503	6,915
Photography and Website	9,271	5,407
Postage	9,216	12,598
Recovery of Uncollectible Promises to Give	(4,147)	-
Repairs and Maintenance	5,103	7,719
Retirement Contributions	19,078	14,200
Storage Rental	3,067	2,709
Telephone	2,089	2,104
Travel	2,543	1,146
Uncollectible Promises to Give	-	3,929
Utilities	6,871	5,751
Volunteer and Donor Recognition	531	600
	<u>\$ 1,249,480</u>	<u>\$ 1,022,727</u>

(See Independent Auditors' Report)