

# ELLIN & TUCKER

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**THE COMMUNITY FOUNDATION OF FREDERICK COUNTY,  
MARYLAND, INC. AND THE COMMUNITY FOUNDATION  
HOLDING COMPANY, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**



**THE COMMUNITY FOUNDATION  
of FREDERICK COUNTY**

*For Good. Forever. For Frederick County.*

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**The Community Foundation Holding Company, Inc.**  
**June 30, 2017 and 2016**

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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 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, 2017 and 2016, 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 consolidated 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.

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

INDEPENDENT AUDITORS' REPORT, CONTINUED

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, 2017 and 2016, 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  
Certified Public Accountants

Baltimore, Maryland  
October 18, 2017

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**  
**June 30, 2017 and 2016**

	<b><u>ASSETS</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,132,894	\$ 1,989,085
Promises to Give (Note 3)	142,737	175,977
Contributions Receivable (Note 4)	346,739	7,380,051
Prepaid Expenses	44,995	44,634
Investments, at Fair Value (Note 2)	110,063,844	93,044,129
Present Value of Remainder Interests	1,799,898	1,695,039
Cash Surrender Value of Life Insurance	180,972	169,783
Property and Equipment, Net of Accumulated Depreciation of \$418,672 and \$387,896	197,809	196,872
<b>Total Assets</b>	<b><u>\$ 113,909,888</u></b>	<b><u>\$ 104,695,570</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 1,374,496	\$ 1,318,785
Other Liabilities	79,312	111,471
Liabilities Under Split-Interest Agreements	1,781,259	1,396,090
Funds Held for Others	6,693,101	6,152,425
<b>Total Liabilities</b>	<b><u>9,928,168</u></b>	<b><u>8,978,771</u></b>
<b>COMMITMENTS (Notes 2 and 7)</b>		
<b>NET ASSETS</b>		
Unrestricted	81,959,286	75,800,881
Temporarily Restricted	12,363,682	10,309,439
Permanently Restricted (Note 5)	9,658,752	9,606,479
<b>Total Net Assets</b>	<b><u>103,981,720</u></b>	<b><u>95,716,799</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 113,909,888</u></b>	<b><u>\$ 104,695,570</u></b>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**The Community Foundation of Frederick County, Maryland, Inc.**  
**and The Community Foundation Holding Company, Inc.**  
**For the Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions and Bequests Raised	\$ 2,691,446	\$ 1,797,459	\$ 68,273	\$ 4,557,178
Less: Amounts Received on Behalf of Others	(92,500)	(115,025)	-	(207,525)
Net Contributions and Bequests Received	2,598,946	1,682,434	68,273	4,349,653
<b>Revenue:</b>				
Change in Present Value of Remainder Interests	283,079	-	-	283,079
Investment Income - Realized	3,555,603	995,817	-	4,551,420
Net Unrealized Appreciation of Investments	5,808,263	866,142	-	6,674,405
Management Fee Income (Expense), Net	372,145	(306,285)	-	65,860
Increase in Cash Surrender Value of Life Insurance	11,189	-	-	11,189
Revenue before Allocation of Investment Income to Funds Held for Others	10,030,279	1,555,674	-	11,585,953
Investment Income Allocated to Funds Held for Others	(546,763)	(124,526)	-	(671,289)
Net Revenue	9,483,516	1,431,148	-	10,914,664
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of Restrictions	2,778,943	(2,778,943)	-	-
Total Support and Revenue	14,861,405	334,639	68,273	15,264,317
<b>GRANT AND EXPENSES</b>				
Grant and Philanthropic Distributions	5,367,593	-	-	5,367,593
Less: Amounts Distributed on Behalf of Others	(239,497)	-	-	(239,497)
Total Grants and Philanthropic Distributions	5,128,096	-	-	5,128,096
Administrative Expenses	1,389,944	-	-	1,389,944
Endowment Expenses - Investment Management	513,032	-	-	513,032
Less: Amounts Paid on Behalf of Others	(31,676)	-	-	(31,676)
Total Grants and Expenses	6,999,396	-	-	6,999,396
Changes in Net Assets	7,862,009	334,639	68,273	8,264,921
<b>RECLASSIFICATION OF NET ASSETS (Note 10)</b>	(1,703,604)	1,719,604	(16,000)	-
<b>NET ASSETS - JULY 1, 2016</b>	75,800,881	10,309,439	9,606,479	95,716,799
<b>NET ASSETS - JUNE 30, 2017</b>	\$ 81,959,286	\$ 12,363,682	\$ 9,658,752	\$ 103,981,720

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**  
**For the Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions and Bequests Raised	\$ 2,454,523	\$ 2,502,046	\$ 125,085	\$ 5,081,654
Less: Amounts Received on Behalf of Others	(99,858)	(188,953)	-	(288,811)
Net Contributions and Bequests Received	2,354,665	2,313,093	125,085	4,792,843
<b>Revenue:</b>				
Change in Present Value of Remainder Interests	(39,334)	-	-	(39,334)
Investment Income - Realized	3,594,622	731,558	-	4,326,180
Net Unrealized Depreciation of Investments	(3,736,781)	(553,667)	-	(4,290,448)
Management Fee Income (Expense), Net	351,695	(286,814)	-	64,881
Increase in Cash Surrender Value of Life Insurance	12,589	-	-	12,589
Revenue (Loss) before Allocation of Investment Loss to Funds Held for Others	182,791	(108,923)	-	73,868
Investment Loss Allocated to Funds Held for Others	68,410	1,186	-	69,596
Net Revenue (Loss)	251,201	(107,737)	-	143,464
<b>Net Assets Released from Restrictions:</b>				
Satisfaction of Restrictions	2,585,527	(2,585,527)	-	-
Total Support and Revenue	5,191,393	(380,171)	125,085	4,936,307
<b>GRANT AND EXPENSES</b>				
Grant and Philanthropic Distributions	5,737,239	-	-	5,737,239
Less: Amounts Distributed on Behalf of Others	(333,264)	-	-	(333,264)
Total Grants and Philanthropic Distributions	5,403,975	-	-	5,403,975
Administrative Expenses	1,280,252	-	-	1,280,252
Endowment Expenses - Investment Management	464,146	-	-	464,146
Less: Amounts Paid on Behalf of Others	(29,849)	-	-	(29,849)
Total Grants and Expenses	7,118,524	-	-	7,118,524
Changes in Net Assets	(1,927,131)	(380,171)	125,085	(2,182,217)
<b>RECLASSIFICATION OF NET ASSETS (Note 10)</b>	(47,988)	47,988	-	-
<b>NET ASSETS - JULY 1, 2015</b>	77,776,000	10,641,622	9,481,394	97,899,016
<b>NET ASSETS - JUNE 30, 2016</b>	\$ 75,800,881	\$ 10,309,439	\$ 9,606,479	\$ 95,716,799

(See Independent Auditors' Report and Accompanying Notes)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**The Community Foundation of Frederick County, Maryland, Inc.**  
**and The Community Foundation Holding Company, Inc.**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 8,264,921	\$ (2,182,217)
<b>Adjustments to Reconcile Change in Net Assets to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation	31,934	23,317
Cash Surrender Value of Life Insurance	(11,189)	(12,589)
Net Unrealized (Appreciation) Depreciation of Investments	(6,674,405)	4,290,448
Realized Gain on Sale of Investments	(1,806,715)	(1,770,177)
Contributions to Permanent Endowments	(68,273)	(125,085)
<b>Net Changes in:</b>		
Promises to Give	33,240	1,612
Contributions Receivable	7,033,312	2,393,063
Prepaid Expenses	(361)	(14,936)
Present Value of Remainder Interests	(104,859)	71,130
Accounts Payable	55,711	231,340
Other Liabilities	(32,159)	69,986
Liabilities Under Split-Interest Agreements	385,169	125,361
Funds Held for Others	540,676	(209,876)
Net Cash Provided by Operating Activities	<u>7,647,002</u>	<u>2,891,377</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(32,871)	(64,538)
Proceeds from Sale of Investments	25,073,617	9,600,754
Purchases of Investments	(33,612,212)	(11,018,143)
Net Cash Used in Investing Activities	<u>(8,571,466)</u>	<u>(1,481,927)</u>
<b>FINANCING ACTIVITIES</b>		
Contributions to Permanent Endowments	<u>68,273</u>	<u>125,085</u>
Net Change in Cash and Cash Equivalents	(856,191)	1,534,535
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,989,085</u>	<u>454,550</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 1,132,894</u></u>	<u><u>\$ 1,989,085</u></u>

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**The Community Foundation of Frederick County, Maryland, Inc.**  
**and The Community Foundation Holding Company, Inc.**

**NOTE 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 (FASB). 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)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

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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 18, 2016, 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)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

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**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 1.8% and 2% for the years ended June 30, 2017 and 2016, 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)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

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**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)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

**NOTE 2 INVESTMENTS**

The Foundation utilizes professional investment services to manage all assets held for investment purposes. At June 30, 2017, the distribution of invested assets was as follows:

	Equities	Cash Equivalents	Bonds	Investment Funds	Mutual Funds	Total
PNC Bank, N.A.	\$ 66,126	\$ 190,025	\$ -	\$ -	\$ 4,399,994	\$ 4,656,145
M & T Bank	24,083,459	8,115,474	-	-	32,814,647	65,013,580
Morgan Stanley	-	1,166,063	-	-	244,019	1,410,082
Maryland Financial Planners	-	-	-	-	5,583,593	5,583,593
Merrill Lynch	808,504	64,360	-	-	595,681	1,468,545
First United	-	253,178	-	-	30,557	283,735
Morgan Stanley PWM	1,285,722	133,986	-	-	905,870	2,325,578
Family Heritage Trust	-	16,584	-	-	1,920,341	1,936,925
Wells Fargo	-	124,377	-	-	2,071,291	2,195,668
Sandy Spring Bank	-	866,974	-	-	-	866,974
Sona Bank	-	250,000	-	-	-	250,000
Frederick County Bank	-	254,627	-	-	-	254,627
Middletown Valley Bank	-	260,812	-	-	-	260,812
Fidelity Investments	472,945	4,444	63,011	-	-	540,400
Edward Jones	113,910	17,220	27,033	-	169,653	327,816
BB&T	644,527	18,528	-	-	109,132	772,187
WMS Partners	-	-	-	982,146	-	982,146
Constitution Capital Partners	-	-	-	2,773,015	-	2,773,015
Crestline Management LP	-	-	-	769,089	-	769,089
Golub Capital	-	-	-	1,441,112	-	1,441,112
Mackay Shields	-	-	-	6,933,556	-	6,933,556
Prudential	-	-	-	7,018,513	-	7,018,513
Glouster Capital Partners	-	-	-	420,197	-	420,197
Intrinsic Edge Capital Management	-	-	-	1,579,549	-	1,579,549
June 30, 2017 Totals	<u>\$ 27,475,193</u>	<u>\$ 11,736,652</u>	<u>\$ 90,044</u>	<u>\$ 21,917,177</u>	<u>\$ 48,844,778</u>	<u>\$ 110,063,844</u>
Percentage of Total	<u>25.0%</u>	<u>10.7%</u>	<u>0.1%</u>	<u>19.9%</u>	<u>44.3%</u>	<u>100.0%</u>
June 30, 2016 Totals	<u>\$ 23,613,932</u>	<u>\$ 7,892,990</u>	<u>\$ 93,215</u>	<u>\$ 17,178,926</u>	<u>\$ 44,265,066</u>	<u>\$ 93,044,129</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>

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

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

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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.

In May 2015, FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (ASU 2015-07). ASU 2015-07 removes the requirement to categorize investments for which fair value is measured using the net asset value (NAV) of the investment as a practical expedient within the fair value hierarchy. ASU 2015-07 also removes the requirement to make certain disclosures for investments that are eligible to be measured at fair value using the NAV practical expedient. Investments for which the practical expedient is not applied will continue to be included in the fair value hierarchy. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, with earlier application permitted. The Foundation has chosen to early adopt this change in the consolidated financial statements and accompanying notes and retrospectively applied this change.

The Foundation's investments in investment funds are measured at fair value using the NAV as a practical expedient. In accordance with ASU 2015-07, these investments are no longer required to be categorized within the fair value hierarchy.

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017 and 2016:

	2017		
	Level 1	Level 2	Total
Cash Equivalents	\$ 11,736,652	\$ -	\$ 11,736,652
<b>Bonds:</b>			
Corporate	-	8,378	8,378
Municipal	-	81,666	81,666
Total Bonds	-	90,044	90,044
<b>Mutual Funds:</b>			
Fixed Income	9,192,973	-	9,192,973
Foreign	18,956,823	-	18,956,823
Large Cap	6,010,850	-	6,010,850
Mid Cap	5,060,398	-	5,060,398
Equity	589,992	-	589,992
Other	372,318	-	372,318
Real Estate	359,002	-	359,002
Small Cap	2,610,307	-	2,610,307
Intermediate	26,176	-	26,176
Balanced	5,665,939	-	5,665,939
Total Mutual Funds	48,844,778	-	48,844,778
<b>Equities:</b>			
Consumer Discretionary	4,354,969	-	4,354,969
Consumer Staples	1,891,774	-	1,891,774
Energy	850,661	-	850,661
Financial	5,180,345	-	5,180,345
Health Care	3,438,689	-	3,438,689
Industrials	3,730,429	-	3,730,429
Information Technology	6,575,372	-	6,575,372
Materials	1,108,359	-	1,108,359
Other	110,437	-	110,437
Telecommunications	91,863	-	91,863
Utilities	142,295	-	142,295
Total Equities	27,475,193	-	27,475,193
	\$ 88,056,623	\$ 90,044	88,146,667
Investment Funds			21,917,177
Total			\$ 110,063,844

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

	2016		
	Level 1	Level 2	Total
Cash Equivalents	\$ 7,892,990	\$ -	\$ 7,892,990
<b>Bonds:</b>			
Corporate	-	8,670	8,670
Municipal	-	84,545	84,545
Total Bonds	-	93,215	93,215
<b>Mutual Funds:</b>			
Fixed Income	9,043,558	-	9,043,558
Foreign	15,415,487	-	15,415,487
Long Term	176,238	-	176,238
Large Cap	7,311,504	-	7,311,504
Mid Cap	4,374,571	-	4,374,571
Equity	565,907	-	565,907
Other	350,198	-	350,198
Real Estate	359,659	-	359,659
Small Cap	2,297,692	-	2,297,692
Intermediate	2,151,337	-	2,151,337
High Yield	280,540	-	280,540
Balanced	1,938,375	-	1,938,375
Total Mutual Funds	44,265,066	-	44,265,066
<b>Equities:</b>			
Consumer Discretionary	3,971,649	-	3,971,649
Consumer Staples	2,366,628	-	2,366,628
Energy	892,920	-	892,920
Financial	4,498,197	-	4,498,197
Health Care	2,583,292	-	2,583,292
Industrials	2,825,349	-	2,825,349
Information Technology	5,032,221	-	5,032,221
Materials	1,113,834	-	1,113,834
Telecommunications	183,988	-	183,988
Utilities	145,854	-	145,854
Total Equities	23,613,932	-	23,613,932
	\$ 75,771,988	\$ 93,215	75,865,203
Investment Funds			17,178,926
Total			\$ 93,044,129

*(See Independent Auditors' Report)*



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

As of June 30, 2017, 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 \$21,917,177. The table below summarizes such investments and certain attributes as of June 30, 2017:

	Fair Value	Future Commitments	Redemption Provision
WMS Fairmount Fund	\$ 982,146	\$ -	None *
Ironsides Partnership Fund II, LP	647,576	188,664	None *
Ironsides Partnership Fund III, LP	184,120	334,424	None *
Ironsides Co-Investment Fund III, LP	1,254,508	88,472	None *
Ironsides Offshore Direct Investment Fund IV	686,811	764,886	None *
Glouster Private Equity Opportunities IV, LP	420,197	248,000	None *
Crestline Offshore Recovery Fund II, LP	343,095	-	None *
Crestline Associates Fund III	425,994	1,068,106	None *
Mackay Shields Core Plus Opportunities Fund LP	6,933,556	-	30 Days
Prudential Inst. Core Plus Bond-NQ	7,018,513	-	Monthly **
Golub Capital Partners International 10, LP	1,072,472	450,000	With consent ***
Golub Capital Partners International 11, LP	368,640	840,000	With consent ***
Intrinsic Edge Plus Offshore LTD	1,579,549	-	Monthly ^
	<u>\$ 21,917,177</u>	<u>\$ 3,982,552</u>	

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

\*\* Requires five days notice.

\*\*\* Requires general partner consent

^ Subject to one year lockup period ending February 1, 2018

**NOTE 3 PROMISES TO GIVE**

Promises to give at June 30, 2017 and 2016 are as follows:

	2017	2016
<b>Promises to Give Expected to be Collected in:</b>		
Less than One Year	\$ 119,516	\$ 109,103
One to Five Years	36,816	74,737
Greater than Five Years	-	12,000
	<u>156,332</u>	<u>195,840</u>
Less: Allowance for Uncollectible Promises to Give	(6,083)	(9,262)
Less: Discount on Promises to Give	(7,512)	(10,601)
	<u>\$ 142,737</u>	<u>\$ 175,977</u>
Net Promises to Give		

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

**NOTE 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. During 2017, the remaining amount was received from the estate.

As of June 30, 2017, the Foundation is the beneficiary of other estates with an estimated value of approximately \$348,000. The Foundation expects to receive this amount during the year ended June 30, 2018.

**NOTE 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

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

**ENDOWMENT FUND COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2017 AND 2016:**

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ 1,911,272	\$ 9,658,752	\$ 11,570,024
	2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ 2,068,880	\$ 9,606,479	\$ 11,675,359

**CHANGES IN ENDOWMENT FUNDS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016:**

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2015	\$ 2,412,678	\$ 9,481,394	\$ 11,894,072
<b>Investment Return:</b>			
Investment Income – Realized	\$ 141,197	\$ -	\$ 141,197
Net Unrealized Depreciation	(150,077)	-	(150,077)
Total Investment Return	(8,880)	-	(8,880)
Contributions	-	125,085	125,085
Net Assets Reclassified	-	-	-
Appropriation of Endowment Assets for Expenditure	(334,918)	-	(334,918)
Endowment Net Assets, June 30, 2016	2,068,880	9,606,479	11,675,359
<b>Investment Return:</b>			
Investment Income – Realized	345,605	-	345,605
Net Unrealized Appreciation	200,353	-	200,353
Total Investment Return	545,958	-	545,958

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions	-	68,273	68,273
Net Assets Reclassified	(1,399)	(16,000)	(17,399)
Appropriation of Endowment Assets for Expenditure	(702,167)	-	(702,167)
Endowment Net Assets, June 30, 2017	<u>\$ 1,911,272</u>	<u>\$ 9,658,752</u>	<u>\$ 11,570,024</u>

**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, 2017 and 2016, 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

*(See Independent Auditors' Report)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**

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.

**NOTE 6**      **EMPLOYEE RETIREMENT PLAN**

The Foundation has a 401k Plan for eligible employees. The 401k Plan requires the Foundation to contribute up to 3% of employee's compensation plus 50% of each employees' contributions that exceed 3% of employee's compensation up to 5% of employee's compensation. For the years ended June 30, 2017 and 2016, contributions were \$21,792 and \$19,757, respectively.

**NOTE 7**      **COMMITMENTS**

The Foundation rents office space under an agreement through April 2018. Rent expense was \$73,104 for each of the years ended June 30, 2017 and 2016.

Future minimum lease payments as of June 30, 2017 are as follows:

Year Ending June 30, 2018	\$      61,470
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The Foundation has agreed to make additional investments in investment funds. At June 30, 2017, the Foundation has commitments of \$3,982,582 (Note 2).

**NOTE 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.

**NOTE 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 amounts of \$12,363,682 and \$10,309,439 as of June 30, 2017 and 2016, respectively.

**NOTE 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

**CONSOLIDATED SCHEDULES OF OPERATING REVENUE**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Management Fees, Gross	<u>\$ 1,197,234</u>	<u>\$ 1,116,509</u>

*(See Independent Auditors' Report)*

**CONSOLIDATED SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**The Community Foundation of Frederick County, Maryland, Inc. and**  
**The Community Foundation Holding Company, Inc.**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Salaries	\$ 779,442	\$ 735,738
Payroll Taxes	61,758	54,433
Advertising	23,279	20,254
Annual Report	14,209	14,908
Contract Labor	6,135	10,040
Depreciation	31,934	23,317
Employee Health Insurance	78,158	66,483
Events	46,396	42,803
Facility Lease	73,104	73,104
General Insurance	12,022	11,510
Graphics, Printing and Brochures	10,631	9,464
Legal and Accounting	15,000	15,888
Meetings	5,985	6,172
Memberships, Dues and Subscriptions	24,622	22,427
Newsletter	18,256	18,654
Office Expense	69,899	69,906
Other	18,005	13,102
Photography and Website	41,287	10,886
Postage	12,261	11,547
Recovery of Uncollectible Promises to Give	(1,750)	(85)
Repairs and Maintenance	9,114	7,675
Retirement Contributions	21,792	19,757
Storage Rental	3,875	4,092
Telephone	2,499	2,277
Travel	3,949	7,518
Utilities	7,495	6,453
Volunteer and Donor Recognition	587	1,929
	<u>\$ 1,389,944</u>	<u>\$ 1,280,252</u>

(See Independent Auditors' Report)