

Audited
Financial
Statements

June 30,
2016



Community Foundation
of Washington County MD, Inc.
Looking forward...giving back

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-18



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Community Foundation of Washington County MD, Inc.
Hagerstown, Maryland

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Community Foundation of Washington County MD, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of Washington County MD, Inc. as of June 30, 2016 and 2015, and the changes 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.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
November 14, 2016

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 223,646	\$ 181,391
Investments	30,242,942	30,642,736
Equipment and leasehold improvements, net of accumulated depreciation	7,233	7,832
Cash surrender value of life insurance policy	22,570	-
Security deposit	<u>1,088</u>	<u>1,088</u>
TOTAL ASSETS	<u>\$ 30,497,479</u>	<u>\$ 30,833,047</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued payroll taxes	\$ 6,265	\$ 6,714
Deferred revenue	17,320	80,372
Annuity liability	3,433	3,896
Custodial liabilities	<u>1,767,380</u>	<u>1,889,988</u>
Total Liabilities	<u>1,794,398</u>	<u>1,980,970</u>
Net Assets		
Unrestricted	125,010	158,310
Temporarily restricted	8,888,067	10,440,821
Permanently restricted	<u>19,690,004</u>	<u>18,252,946</u>
Total Net Assets	<u>28,703,081</u>	<u>28,852,077</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,497,479</u>	<u>\$ 30,833,047</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Statements of Activities
Years Ended June 30, 2016 and 2015

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
SUPPORT AND REVENUES								
Support								
Contributions and bequests	\$ 533,519	\$ 473,007	\$ 270,719	\$ 553,341	\$ 1,417,589	\$ 720,115	\$ 2,221,827	\$ 1,746,463
Fundraising income	103,700	92,400	-	-	-	-	103,700	92,400
Total Support	637,219	565,407	270,719	553,341	1,417,589	720,115	2,325,527	1,838,863
Supplemental Revenue								
Endowment and management fees	285,082	289,371	-	-	-	-	285,082	289,371
Investment return	(5,505)	74	(161,226)	48,079	-	-	(166,731)	48,153
Miscellaneous revenue	361	-	-	-	-	-	361	-
Net assets transferred or released from restrictions	1,642,778	1,808,524	(1,662,247)	(1,832,531)	19,469	24,007	-	-
Total Support and Revenue	2,559,935	2,663,376	(1,552,754)	(1,231,111)	1,437,058	744,122	2,444,239	2,176,387
EXPENSES								
Grants	1,744,771	1,837,126	-	-	-	-	1,744,771	1,837,126
Program expenses	39,982	55,690	-	-	-	-	39,982	55,690
General and administrative	368,204	351,097	-	-	-	-	368,204	351,097
Investment expenses	377,565	381,966	-	-	-	-	377,565	381,966
Fundraising	62,713	60,792	-	-	-	-	62,713	60,792
Total Expenses	2,593,235	2,686,671	-	-	-	-	2,593,235	2,686,671
Increase (Decrease) In Net Assets	(33,300)	(23,295)	(1,552,754)	(1,231,111)	1,437,058	744,122	(148,996)	(510,284)
NET ASSETS, BEGINNING OF YEAR	158,310	181,605	10,440,821	11,671,932	18,252,946	17,508,824	28,852,077	29,362,361
NET ASSETS, END OF YEAR	\$ 125,010	\$ 158,310	\$ 8,888,067	\$ 10,440,821	\$ 19,690,004	\$ 18,252,946	\$ 28,703,081	\$ 28,852,077

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (148,996)	\$ (510,284)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	2,119	2,027
Gain on the sale of equipment and leasehold improvements	(345)	-
Net realized and unrealized loss on investments	1,138,635	1,057,299
Non-cash contribution of life insurance policy	(22,570)	-
Increase (decrease) in accrued payroll taxes	(449)	99
Increase (decrease) in deferred revenue	<u>(63,052)</u>	<u>32,775</u>
Net Cash Provided By Operating Activities	<u>905,342</u>	<u>581,916</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,799,632)	(9,505,128)
Proceeds from the sale of investments	4,060,791	8,778,389
Purchase of property and equipment	(2,126)	(4,442)
Proceeds from the sale of equipment and leasehold improvements	951	-
(Decrease) in annuity liability	(463)	(463)
Increase (decrease) in custodial liabilities	<u>(122,608)</u>	<u>149,549</u>
Net Cash (Used In) Investing Activities	<u>(863,087)</u>	<u>(582,095)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	42,255	(179)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>181,391</u>	<u>181,570</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 223,646</u></u>	<u><u>\$ 181,391</u></u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Community Foundation of Washington County MD, Inc. (the Foundation) is a nonprofit corporation classified by the Internal Revenue Service as tax exempt under Section 501(c)(3) and as a public charity under Section 509(a)(1) of the Internal Revenue Code of 1986. The Foundation is responsible for charitable funds and the income generated by funds of many donors. Revenues are provided by community donations, endowment income, and fundraising activities. The Foundation is committed to promoting the well-being of mankind and to serving the general charitable, educational and scientific needs of the inhabitants of Washington County, Maryland and the vicinity thereof.

Accounting Basis

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Under generally accepted accounting principles, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets have no donor restrictions placed on them and may be used at the discretion of the Board of Trustees. Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Permanently restricted net assets represent donated funds invested in perpetuity; however, the income from these funds may be used by the Foundation. Also, the Waltersdorf Henson Endowment agreement provides that the Foundation may distribute annually a limited amount of the endowment principal and the agreement stipulates that investment expenses can be paid from the principal of the fund.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Foundation considers all short-term investments with an original maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Credit and Market Risk

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation's management considers those circumstances to be a normal business risk.

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit and Market Risk (Continued)

The Foundation invests in a portfolio that contains mutual funds, government obligations, fixed income bonds and equity securities. Such investments are exposed to various risks, such as market and credit risk. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in fair value in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investments

As required by generally accepted accounting principles, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. All gains or losses arising from the sale, collection, or other disposition of investments are reported as increases or decreases in unrestricted or temporarily restricted assets, depending on the existence or nature of any donor restrictions.

Equipment and Leasehold Improvements

Equipment purchases and leasehold improvements with a cost of \$500 or more are capitalized and carried at cost. Depreciation is computed using the straight-line method over an estimated useful life of five years.

Life Insurance Policy

In January 2016, a donor signed a testamentary designated endowment fund agreement and assigned her \$250,000 life insurance policy to the Foundation. In accordance with the agreement, upon the death of the donor, the proceeds from the life insurance policy will be used to fund three specified endowment funds at the Foundation. At the time the policy was assigned, the Foundation recognized a contribution equal to the cash surrender value of the policy and recorded an asset on the statement of financial position. Subsequent changes in the cash surrender value of the policy until the donor's death will be recorded as part of the donor's existing temporarily restricted donor-advised fund held at the Foundation.

Contributions

As required by generally accepted accounting principles, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support which was not expended for its restricted purpose by year end 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 statement of activities as net assets released from restrictions.

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give are recognized as revenues in the period they are received, and correspondingly 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 depend are substantially met. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for income taxes has been made in these financial statements.

Grants

Grants are recorded as expenses when they are approved by the Board of Trustees for payment.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services.

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 2 INVESTMENTS

Investments are carried at fair value and consist of the following at June 30:

	2016	2015
Money market funds	\$ 358,491	\$ 693,922
US treasury securities	185,045	157,042
Government agency securities	39,030	98,841
Corporate bonds	297,945	270,953
Mutual funds	28,131,696	28,197,389
Stocks	1,230,735	1,224,589
	<u>\$ 30,242,942</u>	<u>\$ 30,642,736</u>

Investment return for 2016 and 2015 consists of the following:

	Unrestricted	Temporarily Restricted	Total
2016			
Interest and dividends	\$ 2,286	\$ 969,618	\$ 971,904
Net realized (loss) on investments	(155)	(115,298)	(115,453)
Net unrealized (loss) on investments	<u>(7,636)</u>	<u>(1,015,546)</u>	<u>(1,023,182)</u>
	<u>\$ (5,505)</u>	<u>\$ (161,226)</u>	<u>\$ (166,731)</u>
2015			
Interest and dividends	\$ 2,810	\$ 1,102,642	\$ 1,105,452
Net realized gain on investments	5,434	2,040,178	2,045,612
Net unrealized (loss) on investments	<u>(8,170)</u>	<u>(3,094,741)</u>	<u>(3,102,911)</u>
	<u>\$ 74</u>	<u>\$ 48,079</u>	<u>\$ 48,153</u>

NOTE 3 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following at June 30:

	Cost	Accumulated Depreciation	Book Value
2016			
Equipment	\$ 13,024	\$ (5,791)	\$ 7,233
Leasehold Improvements	11,079	(11,079)	-
	<u>\$ 24,103</u>	<u>\$ (16,870)</u>	<u>\$ 7,233</u>
2015			
Equipment	\$ 11,856	\$ (4,132)	\$ 7,724
Leasehold Improvements	11,079	(10,971)	108
	<u>\$ 22,935</u>	<u>\$ (15,103)</u>	<u>\$ 7,832</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 3 EQUIPMENT AND LEASEHOLD IMPROVEMENTS (CONTINUED)

Depreciation expense was \$2,119 and \$2,027 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 CHARITABLE GIFT ANNUITY

During the year ended June 30, 2012, the Foundation entered into a charitable gift annuity agreement with a donor. The gift annuity requires payment of fixed amounts periodically to the designated beneficiary. The present value of future annuity payments was calculated on the date of the gift and the excess of the amount of the gift over the liability for annuity payments was reported as temporarily restricted net assets. The net assets are released from restrictions and recognized as unrestricted revenue in the statements of activities when the terms of the annuity have been met. A reserve of cash and investments is maintained to assure that future payments under the annuity agreement can be met. At June 30, 2016 and 2015, the amount of such reserve met the applicable state requirements.

NOTE 5 CUSTODIAL LIABILITIES

Generally accepted accounting principles establish standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. Specifically, if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the community foundation must account for its obligation to transfer such assets as a liability. The liability has been established at the fair market value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

The gross receipts and disbursements for the custodial accounts, the interest and dividends earned, the realized and unrealized gains on investments, and the transfers to and from the custodial accounts for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Custodial receipts and transfers in	\$ 19,950	\$ 200,408
Custodial payments and transfers to	(131,166)	(54,484)
Interest and dividends	64,325	75,369
Net realized gain (loss) on investments	(3,716)	130,988
Net unrealized (loss) on investments	<u>(72,001)</u>	<u>(202,732)</u>
Net Increase (Decrease) in Custodial Liabilities	<u>\$ (122,608)</u>	<u>\$ 149,549</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

The Foundation's temporarily restricted net assets as of June 30, 2016 and 2015 consist of the following fund types:

	2016	2015
Hybrid agency funds	\$ 33,147	\$ 32,785
Field of interest	464,995	574,145
Non-endowment donor advised	3,062,512	3,206,606
Scholarship:		
Donor created	216,337	272,252
Agency designated - secondary	725,242	993,285
Agency designated - post secondary	659,780	857,152
Community endowment	884,449	898,506
Charitable gift annuities	5,859	6,232
Founders endowment	70,872	93,566
Donor advised	573,097	757,728
Designated for specific organization	2,191,777	2,748,564
	<u>\$ 8,888,067</u>	<u>\$ 10,440,821</u>

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS

The Foundation's permanently restricted net assets as of June 30, 2016 and 2015 consist of the following fund types:

	2016	2015
Founders endowment	\$ 250,000	\$ 250,000
Donor advised	2,592,424	2,524,543
Designated for specific organization	8,216,739	7,239,049
Field of interest	1,763,094	1,702,452
Scholarship:		
Donor created	1,420,523	1,090,618
Agency designated - secondary	3,148,194	3,147,254
Agency designated - post secondary	2,299,030	2,299,030
	<u>\$ 19,690,004</u>	<u>\$ 18,252,946</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 8 UNCERTAIN TAX POSITIONS

The Foundation follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in an entity's financial statements. The Foundation's policy is to charge penalties and interest to income tax expense as incurred. The Foundation's federal and state income tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

NOTE 9 FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, establish a three-level valuation hierarchy for disclosure of fair value measurements and enhance disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- **Level 1** – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities. Mutual funds are valued at their daily net asset value (NAV) and transact at that price. The mutual funds held by the Foundation and listed as level 1 are deemed to be actively traded.
- **Level 2** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed securities, swap agreements and mutual funds that are not actively traded.
- **Level 3** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement, including the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

For mutual funds valued at net asset value, the investment classes listed in the table on the following pages represent the significant investment strategy of the respective fund groupings. There are no unfunded commitments or withdrawal restrictions related to these investments.

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of assets measured on a recurring basis at June 30, 2016 and 2015 are as follows:

Description	Fair Value 6/30/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 358,491	\$ 358,491	\$ -	\$ -
US Treasury Securities	185,045	185,045	-	-
Government Agency Securities	39,030	-	39,030	-
Corporate Bonds	297,945	-	297,945	-
Mutual funds				
Aggressive International	735,142	735,142	-	-
Commodities	1,210,218	1,210,218	-	-
Developed International	116,137	116,137	-	-
Domestic Real Estate Growth	1,570,519	1,570,519	-	-
Energy	888,783	888,783	-	-
Global Real Estate Blend	38,754	38,754	-	-
Global Real Estate Growth	571,009	571,009	-	-
Intermediate Term Bond	1,313,184	1,313,184	-	-
International Bond	1,491,687	1,491,687	-	-
International Emerging Markets	112,726	112,726	-	-
International Large-Cap Blend	115,131	115,131	-	-
International Large-Cap Growth	1,611,085	1,611,085	-	-
International Large-Cap Value	2,348,977	2,348,977	-	-
International Small/Mid-Cap Blend	50,920	50,920	-	-
Large-Cap Value	5,835,446	5,835,446	-	-
Large-Cap Growth	2,918,325	2,918,325	-	-
Long/Short Equity Value	54,613	54,613	-	-
Managed Futures	23,725	23,725	-	-
Master Limited Partnerships	26,616	26,616	-	-
Mid-Cap Blend	192,268	192,268	-	-
Mid-Cap Value	137,506	137,506	-	-
Natural Resources	373,328	373,328	-	-
Short Term Bond	1,114,794	1,114,794	-	-
Small-Cap Growth	1,329,456	1,329,456	-	-
Small-Cap Value	2,878,020	2,878,020	-	-
Treasury Inflation Protected	975,784	975,784	-	-
Ultrashort Bond	30,869	30,869	-	-
World Bond	66,674	66,674	-	-
Stocks				
Consumer Discretionary	113,282	113,282	-	-
Consumer Staples	34,170	34,170	-	-
Energy	20,741	20,741	-	-
Financials	406,195	406,195	-	-
Healthcare	76,103	76,103	-	-
Industrials	208,480	208,480	-	-
Information Technology	162,063	162,063	-	-
Materials	13,452	13,452	-	-
Real Estate	3,641	3,641	-	-
Services	192,608	192,608	-	-
	<u>\$ 30,242,942</u>	<u>\$ 29,905,967</u>	<u>\$ 336,975</u>	<u>\$ -</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

Description	Fair Value 6/30/15	in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 693,922	\$ 693,922	\$ -	\$ -
US Treasury Securities	157,042	157,042	-	-
Government Agency Securities	98,841	-	98,841	-
Corporate Bonds	270,953	-	270,953	-
Mutual funds				
Aggressive International	784,012	784,012	-	-
Commodities	1,079,386	1,079,386	-	-
Developed International	122,198	122,198	-	-
Domestic Real Estate Growth	1,339,433	1,339,433	-	-
Energy	780,582	780,582	-	-
Global Real Estate Blend	36,540	36,540	-	-
Global Real Estate Growth	534,250	534,250	-	-
Intermediate Term Bond	1,321,138	1,321,138	-	-
International Bond	1,402,614	1,402,614	-	-
International Emerging Markets	146,283	146,283	-	-
International Large-Cap Blend	101,435	101,435	-	-
International Large-Cap Growth	1,751,273	1,751,273	-	-
International Large-Cap Value	2,338,105	2,338,105	-	-
International Small/Mid-Cap Blend	35,634	35,634	-	-
Large-Cap Value	5,774,244	5,774,244	-	-
Large-Cap Growth	3,152,231	3,152,231	-	-
Long/Short Equity Value	41,715	41,715	-	-
Market Neutral	59,441	59,441	-	-
Master Limited Partnerships	49,154	49,154	-	-
Mid-Cap Blend	172,060	172,060	-	-
Mid-Cap Value	86,754	86,754	-	-
Natural Resources	310,077	310,077	-	-
Nontraditional Bond	25,557	25,557	-	-
Short Term Bond	1,117,542	1,117,542	-	-
Small-Cap Growth	1,447,314	1,447,314	-	-
Small-Cap Value	3,055,681	3,055,681	-	-
Treasury Inflation Protected	1,061,197	1,061,197	-	-
Ultrashort Bond	49,760	49,760	-	-
World Bond	21,779	21,779	-	-
Stocks				
Consumer Discretionary	218,341	218,341	-	-
Consumer Staples	41,628	41,628	-	-
Energy	43,778	43,778	-	-
Financials	487,107	487,107	-	-
Healthcare	98,549	98,549	-	-
Industrials	115,997	115,997	-	-
Information Technology	156,948	156,948	-	-
Materials	7,410	7,410	-	-
Real Estate	3,209	3,209	-	-
Services	51,622	51,622	-	-
	<u>\$ 30,642,736</u>	<u>\$ 30,272,942</u>	<u>\$ 369,794</u>	<u>\$ -</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.

Notes to Financial Statements

Years Ended June 30, 2016 and 2015

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

The fair values of the Foundation's investments are measured using different techniques. The fair value measurement for investments is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from, or corroborated by, observable market data (Level 2).

NOTE 10 ENDOWMENTS

The Foundation's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Community Foundation of Washington County MD, Inc. has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as 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 SPMIFA.

The Foundation considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Foundation, the purpose of any donor-restrictions, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, the investment policies of the Foundation, and other resources.

The Foundation has a policy of appropriating for distribution each year 5 percent of the endowment funds' average fair value for the prior 20 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. Any undistributed income as well as all gains and losses are added to temporarily restricted net assets.

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Trustees. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The policy calls for investments in both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 10 ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund consisted of the following as of June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2016				
Board designated endowment funds	\$ 64,010	\$ -	\$ -	\$ 64,010
Donor restricted endowment funds	(5,248)	4,861,882	19,690,004	24,546,638
	<u>\$ 58,762</u>	<u>\$ 4,861,882</u>	<u>\$ 19,690,004</u>	<u>\$ 24,610,648</u>
2015				
Board designated endowment funds	\$ 68,538	\$ -	\$ -	\$ 68,538
Donor restricted endowment funds	-	6,255,794	18,252,946	24,508,740
	<u>\$ 68,538</u>	<u>\$ 6,255,794</u>	<u>\$ 18,252,946</u>	<u>\$ 24,577,278</u>

The changes in endowment net assets for the years ended June 30, 2016 and 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, at June 30, 2015	\$ 68,538	\$ 6,255,794	\$ 18,252,946	\$ 24,577,278
Investment Return				
Investment income	2,287	843,925	-	846,212
Net (depreciation)	(7,787)	(931,552)	-	(939,339)
Total Investment Return	(5,500)	(87,627)	-	(93,127)
Contributions	-	1,609	1,417,589	1,419,198
Transfers	(3,427)	(21,443)	19,469	(5,401)
Appropriations of Endowment				
Assets for Expenditure	(849)	(1,286,451)	-	(1,287,300)
Endowment Net Assets, at June 30, 2016	<u>\$ 58,762</u>	<u>\$ 4,861,882</u>	<u>\$ 19,690,004</u>	<u>\$ 24,610,648</u>
Endowment Net Assets, at June 30, 2014	\$ 73,317	\$ 7,506,380	\$ 17,508,824	\$ 25,088,521
Investment Return				
Investment income	2,808	965,417	-	968,225
Net (depreciation)	(2,999)	(951,338)	-	(954,337)
Total investment return	(191)	14,079	-	13,888
Contributions	-	10,373	720,115	730,488
Transfers	(3,666)	(40,823)	24,007	(20,482)
Appropriations of Endowment				
Assets for Expenditure	(922)	(1,234,215)	-	(1,235,137)
Endowment Net Assets, at June 30, 2015	<u>\$ 68,538</u>	<u>\$ 6,255,794</u>	<u>\$ 18,252,946</u>	<u>\$ 24,577,278</u>

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.

Notes to Financial Statements

Years Ended June 30, 2016 and 2015

NOTE 10 ENDOWMENTS (CONTINUED)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are included in unrestricted net assets were \$5,248 and \$0 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations.

NOTE 11 OPERATING LEASE

In February 2012, the Foundation entered into an operating lease agreement for the use of 1,630 square feet of building space. The lease was for a 36-month term, was set to expire in January 2015 and required monthly rental payments of \$1,558. Effective February 1, 2015, the Foundation renewed the lease for an additional 36-month term. The renewed lease is set to expire in January 2018 and requires monthly rental payments of \$1,558. On February 1st of each year of the lease term, the monthly rental payment is subject to a rate increase of 3%.

Total rental expense for this lease amounted to \$18,619 and \$18,707 for the years ended June 30, 2016 and 2015, respectively.

The future minimum lease payments at June 30, 2016 required on this lease agreement are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 19,499
2018	<u>11,571</u>
	<u>\$ 31,070</u>

NOTE 12 RETIREMENT PLAN

The Foundation participates in a SIMPLE IRA retirement savings plan for each of its eligible employees. To be eligible for the plan, full-time employees must be over the age of 18 and complete one year of service. Participants are immediately vested upon acceptance into the plan. The Foundation matches employee contributions on a dollar for dollar basis, up to 3% of the employee's annual compensation. The Foundation reserves the right to change the matching contribution annually, but it will not be less than 1% of the employee's annual salary. The retirement plan contribution expense for the years ended June 30, 2016 and 2015 was \$4,302 and \$3,617, respectively.

COMMUNITY FOUNDATION OF WASHINGTON COUNTY MD, INC.
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

NOTE 13 RELATED PARTY TRANSACTIONS

A member of the Foundation's Board of Trustees (Board) is also the Executive Director of the United Way of Washington County, MD (United Way). The United Way maintains an agency fund at the Foundation. These funds are recorded as part of the custodial liabilities on the statements of financial position. At June 30, 2016 and 2015 the value of the United Way custodial liability was \$849,684 and \$898,786, respectively. As described in Note 11, the United Way subleases a portion of their office space to the Foundation. The Foundation made lease payments to the United Way in the amounts of \$18,619 and \$18,707 during the years ended June 30, 2016 and 2015, respectively. In addition to rental payments for the shared office space, the Foundation made reimbursement payments to the United Way for the Foundation's share of utilities, janitorial services and postage in the amounts of \$5,206 and \$4,868 during the years ended June 30, 2016 and 2015, respectively.

A member of the Board is an officer of a company from which the Foundation purchased advertising services in the amounts of \$7,386 and \$6,961 during the years ended June 30, 2016 and 2015, respectively.

A member of the Board is an officer of a company from which the Foundation purchased printing services in the amounts of \$44,158 and \$40,076 during the years ended June 30, 2016 and 2015, respectively.

A member of the Board is a partner of an accounting firm that provided services to the Foundation in the amounts of \$3,620 and \$3,440 for the years ended June 30, 2016 and 2015, respectively.

A member of the Board is an officer of a company from which the Foundation purchased web hosting and website design services in the amounts of \$6,575 and \$8,765 for the years ended June 30, 2016 and 2015, respectively.

NOTE 14 SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2016 through November 14, 2016, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2016 through November 14, 2016, that require recognition or disclosure in the financial statements.