The Baltimore Community Foundation, Inc. and Affiliates

Combined Financial Report
December 31, 2016

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Trustees
The Baltimore Community Foundation, Inc. and Affiliates
Baltimore, Maryland

Report on the Financial Statements
We have audited the accompanying combined statements of financial position of The Baltimore Community Foundation, Inc. and Affiliates (the Foundation) as of December 31, 2016, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined 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 audit. We conducted our audit 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 combined 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 Foundation'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 Foundation'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 Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Baltimore, Maryland
May 31, 2017

The Baltimore Community Foundation, Inc. and Affiliates

Combined Statement of Financial Position
December 31, 2016

Assets	
Cash	$ 1,615,687
Contributions receivable, net (Note 6)	8,564,382
Investments (Notes 2, 3 and 14)	145,902,868
Cash surrender value of life insurance (Notes 2 and 5)	529,755
Grants and other receivables, net	47,514
Property and equipment, net (Note 7)	25,822
Prepaid expenses	162,616
Total assets	$ 156,848,644
Liabilities and net assets	
Accounts payable and accrued expenses	$ 412,539
Grants payable, net (Note 9)	4,413,932
Deferred rent	75,978
Annuities payable (Notes 2 and 10)	319,383
Liability under trust agreements (Note 2)	375,764
Line of credit (Note 8)	300,000
Endowment funds held for benefit of other nonprofit organizations (Note 2)	6,223,578
Total liabilities	12,121,174
Commitments and contingencies (Notes 10, 11 and 13)	
Net assets (Note 12):	
Unrestricted:	
Endowed (Note 4)	87,393,927
Non-endowed	46,980,366
Total unrestricted	134,374,293
Temporarily restricted	10,353,177
Total net assets	144,727,470
Total liabilities and net assets	$ 156,848,644

See notes to combined financial statements.

The Baltimore Community Foundation, Inc. and Affiliates

Combined Statements of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Donor contributions (Note 6)	$ 20,232,647	$ 2,681,876	$ 22,914,523
Investment income (Notes 3 and 4)	6,889,189	111,464	7,000,653
Other income (Notes 5 and 13)	311,462	15,474	326,936
Net assets released from restrictions (Note 12)	3,598,508	(3,598,508)	-
Total revenue and other support	31,031,806	(789,694)	30,242,112
Grants and expenses:			
Program activity:			
Grants (Note 9)	20,186,221	-	20,186,221
Other charitable expenditures	4,936,689	-	4,936,689
Grant administration	796,945	-	796,945
Total program activity	25,919,855	-	25,919,855
Supporting services:			
Development and donor services	1,431,150	-	1,431,150
Management and general	2,947,607	-	2,947,607
Total supporting services	4,378,757	-	4,378,757
Trust activity:			
Beneficiary payments	92,369	-	92,369
Change in net assets	640,825	(789,694)	(148,869)
Change in net assets:			
Beginning of year	133,733,468	11,142,871	144,876,339
End of year	$ 134,374,293	$ 10,353,177	$ 144,727,470

See notes to combined financial statements.

The Baltimore Community Foundation, Inc. and Affiliates

Combined Statement of Cash Flows
Year Ended December 31, 2016

Cash flows from operating activities:		
Change in net assets	$	(148,869)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Cash surrender value gain		(15,473)
Net realized and unrealized gain on investments		(4,990,602)
Depreciation		14,429
Decrease in allowance for doubtful accounts		(5,000)
Decrease in present value discounts		(213,991)
Loss on fixed assets disposal		151
Noncash contributions		(8,126,107)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Contributions receivable		791,202
Grants and other receivables		144,453
Prepaid expenses		(66,417)
Increase in liabilities:		
Accounts payable and accrued expenses		42,819
Grants payable		2,605,824
Deferred rent		16,764
Net cash used in operating activities		(9,950,817)
Cash flows from investing activities:		
Proceeds from sale/redemption of investments		86,704,131
Collection on notes receivable		2,500
Purchase of investments		(72,974,171)
Purchase of property and equipment		(11,634)
Net cash provided by investing activities		13,720,827
Cash flows from financing activities:		
Activity of endowment funds held for benefit of nonprofit organizations:		
Contributions received		426,620
Interest and dividends, net		317,920
Grants paid		(5,194,056)
Principal payments of trust obligations		(25,558)
Proceeds from line of credit		300,000
Principal payments of annuity obligations		(96,986)
Net cash used by financing activities		(4,272,060)
Net decrease in cash		(502,050)
Cash:		
Beginning		2,117,737
Ending	$	1,615,687
Supplemental disclosures of cash flow information:		
Cash paid for interest	$	546
Stock contributions received	$	8,126,107

See notes to combined financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

The primary purpose of the Foundation is to manage a permanent community endowment and to make charitable grants to qualifying recipients in Baltimore City and County. The Foundation receives its support directly from the public.

The Foundation is composed of the following organizations:

The Baltimore Community Foundation, Inc. (BCF) has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization as defined by §501(c)(3) and 509(a)(1) of the Internal Revenue Code (IRC) that is publicly supported and, therefore, not a private foundation. BCF was incorporated under the laws of Maryland in 1972.

The Eddie C. and C. Sylvia Brown Family Foundation, Inc., Youse-Corrigan Foundation, Inc. and FAHOLO Foundation Inc. are Type 1 supporting organizations of BCF and BCF's board has the ability to appoint the majority of the board members. They have been recognized by the IRS as tax-exempt organizations as defined by IRC §501(c)(3) and were incorporated in 1994, 1995 and 1998, respectively.

Healthy Neighborhoods, Inc. (HNI) was one of the Type 1 supporting organizations of BCF in 2015. Effective January 1, 2016, HNI becomes fully independent and is no longer a supporting organization of BCF. Therefore, HNI's financial statements are not included within the Foundation's 2016 combined financial statements. The Foundation's combined financial statements for 2015 included $1,658,476 of unrestricted net assets and $2,674,663 of temporarily restricted net assets from HNI.

Principles of combination: The combined financial statements include the component funds of BCF and the three supporting organizations described above, which are under common control of the Board of Trustees of BCF. All intercompany transactions and balances have been eliminated in consolidation.

Basis of accounting: The combined financial statements of the Foundation are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation: The Foundation reports information regarding its combined 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: All contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance power gives the Foundation the ability to modify donor restrictions that are incapable of fulfillment or are no longer consistent with the charitable needs of the community. As a result of the variance power, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Temporarily restricted net assets: These consist of irrevocable charitable trusts, pooled income funds, cash surrender value of life insurance contracts and contribution receivables. Contributions received with a temporary restriction are classified as an increase in temporarily restricted net assets in the combined statement of activities.

When the donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction has been fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the combined statement of activities as net assets released from restrictions.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Permanently restricted net assets: These are net assets subject to donor-imposed stipulations that the funds be maintained permanently by the Foundation. The Foundation has no permanently restricted net assets as of December 31, 2016.

Use of estimates in preparing financial statements: The preparation of combined 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, disclosures of contingent assets and liabilities at the date of the combined financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: For purposes of the combined statement of cash flows, the Foundation considers demand deposits, sweep investment instruments and U.S. treasury obligations with an original maturity of three months or less at the date of purchase to be cash and cash equivalents.

Concentration of credit risk: The Foundation maintains cash with various financial institutions. Deposits are insured by the FDIC up to specified limits.

Investments: Investments consist of equity securities, mutual funds, hedge funds, money market funds, private equity funds and a private company. Investments are presented in the combined financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. BCF invests in the asset classes stated above to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power.

Purchases and sales of securities are recorded on a trade-date basis. Pending investment redemption receivable represents amounts due on redemption of investments. Interest, dividends and realized gains and losses are recorded as revenue when earned on the accrual basis. Changes in the fair value are reflected in current revenue.

Impairment of long-lived assets: The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Contributions, grants and donated assets: Contributions, donated marketable securities and other noncash donations received by the Foundation are presented at their fair values on the date of such gifts.

Unconditional pledges to give support are recognized as receivables and as corresponding contribution revenue in the year the pledges are made. Conditional pledges to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as revenue until the conditions have been met.

The Foundation uses the allowance method to determine the uncollectible amounts of contributions receivable. The allowance is based upon prior years' experience and management's analysis of subsequent collections. The allowance for uncollectible amounts for contributions receivable was $19,794 at December 31, 2016.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Unconditional promises by the Foundation to give (grant commitments) are recognized as payables and corresponding grant expenses in the year the promises or commitments are made. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as expenses until the conditions have been met.

Trusts: The Foundation is the sole or partial beneficiary of a number of irrevocable trust and pooled income fund agreements and acts as trustee for many of them. The fair values of the trust or pooled income assets are reflected as assets of the Foundation when it acts as a trustee. The net present value of the anticipated benefit to be received from these agreements is recorded as contribution revenue in the year the agreement is created. The difference between the total trust assets and the contribution revenue recognized is recorded as a liability during the lifetime of the income beneficiaries. As required distributions are made to these beneficiaries, the liability is reduced. For trusts where the Foundation does not act as a trustee, the net present value of the anticipated benefit to be received is recognized as a contribution receivable and corresponding revenue in the year the irrevocable trust is created.

Property and depreciation: Property is recorded at cost. The Foundation capitalizes all items with an individual cost in excess of $500 and a useful life of at least three years. Depreciation is computed utilizing the straight-line method over useful lives ranging from three to five years for equipment and furniture. Leasehold improvements are depreciated over the shorter of the life of the asset or the remaining term of the office space lease.

Advertising: Advertising costs are charged to operations when incurred. Advertising expense was $62,775 for the year ended December 31, 2016.

Component funds: Contributions received by the Foundation are classified and administered according to the donor's instructions at the time the gift is made. The administrative fund represents expendable funds that are available for the administration of the Foundation. The leasehold improvements, furniture and equipment owned by the Foundation are recorded in a fixed asset fund.

Contributions can be made to one of the following component funds of the Foundation:

- Discretionary funds are expended in any charitable field at the discretion of the Board of Trustees.

- Field-of-interest funds are expended for some broadly defined charitable purpose such as education or neighborhood development.

- Donor-advised funds are expended at the discretion of the Board of Trustees, which from time to time considers grant recommendations offered by donors.

- Scholarship funds are expended in support of educational scholarship programs.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Designated funds are expended for the charitable purposes specified by donors at the time the component fund is created.

Supporting organization funds are expended at the discretion of the respective supporting organizations' boards of trustees. The Foundation appoints less than 50% of each Type 1 supporting organization's trustees.

Each of the six kinds of funds previously listed may be created as endowed or non-endowed funds. Grants from endowed funds are limited to an amount calculated by the Foundation's spending policy. Grants from non-endowed funds are not limited. For the purpose of these combined financial statements, and to avoid confusion with the accounting terms unrestricted and temporarily restricted, funds that are referred to in the Foundation's marketing literature as unrestricted, are referred to here as discretionary because they are completely at the discretion of the Foundation's Board.

Income taxes: The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation had no net unrelated business income for the year ended December 31, 2016.

The Foundation adopted the accounting standard on accounting for uncertainty in income taxes. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740-10, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

Generally, the Foundation is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for years before December 31, 2013.

Risks and uncertainties: The Foundation invests, directly and indirectly through affiliated entities, in a variety of alternative investment funds managed by third-party managers. The fund managers estimate the fair value of the investments for which observable market prices in active markets do not exist or market data is insufficiently liquid or transparent. The fund managers make estimates based on the best available information to them at the time of valuation, and these estimates may differ significantly from values that would have been used had a ready market for the investments existed and the differences could be material. These estimates may also prove to differ from actual fair value due to the uncertainty of certain factors that affect the value of the alternative investment funds. These factors include, but are not limited to: 1) the cost and availability of credit for the alternative funds; 2) predictability of future cash flows and earnings of portfolio companies; 3) liquidity discounts for positions intended to be held for long periods of time; 4) access to capital markets; and, 5) trading limitations due to size, insider status or general lack of liquidity in the specific investment.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Endowment fund management policy: The Foundation follows the guidance, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This guidance requires that the amount classified as permanently restricted shall be the amount of the fund: (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, determined by the Foundation's governing board, must be retained permanently consistent with the relevant law. It also expands the disclosures required for both donor-restricted and board- designated endowment funds.

Endowment Funds Held for Benefit of Nonprofit Organizations: In accordance with the guidance, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, if a not-for-profit organization establishes an endowment fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as endowment funds held for benefit of nonprofit organizations.

The Foundation maintains legal ownership of these funds and, as such, continues to report the funds as assets of the Foundation. However, a liability has been established for the fair value of the funds.

Deferred rent: The Foundation's office space leases, which are described in Note 13, have lease payment provisions with fixed annual increases. In accordance with generally accepted accounting principles, the total rent commitment is to be recognized on a straight-line basis over the term of the leases. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as deferred rent.

Accounting pronouncement adopted: In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07*, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the combined statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The amendments in this update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Foundation adopted this ASU in 2016.

Pending accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. The impact of adopting ASU 2014-09 on the Foundation's combined financial statements for subsequent periods has not yet been determined.

Note 1. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*), which requires that lessees recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Foundation for the year ending December 31, 2019. The adoption of this standard is expected to result in the Foundation recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on the Foundation's combined financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The amendments in this ASU are effective for the year ending December 31, 2018. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The impact of adopting ASU 2016-14 on the Foundation's combined financial statements for subsequent periods has not yet been determined.

Subsequent events: The Foundation evaluated subsequent events through May 31, 2017, which is the date the combined financial statements were available to be issued. There are no subsequent events that are required to be recorded or disclosed in the combined financial statements.

Note 2. Fair Value Measurements

The accounting guidance, *Fair Value Measurements and Disclosures,* is a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the assets or liabilities
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 2. Fair Value Measurements (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the valuation methodologies used at December 31, 2016. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Money market accounts: Money market accounts are valued at a stable $1.00 net asset value which is the value at which the fund is traded and approximates fair value based on the fair value of the underlying investment.

Equity securities and mutual funds: Equity securities and mutual funds listed on a national market or exchange are valued at the last sales price, or, if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange.

Investment in private equity fund: This investment consists of a limited partnership equity interest in a private equity fund. The Foundation's investment in this fund is stated at fair value by evaluating the fair value of total net assets of the fund. The net assets of a private equity fund are valued based on each underlying investment within the private equity fund incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions and performance multiples, among other factors.

Investments in hedge funds: The Foundation's investments in hedge funds consist of limited partnership equity interests in hedge funds, which are comprised of either offshore private investment companies or United States corporations or partnerships that invest directly or indirectly through joint ventures or United States limited liability companies in complex, hard-to-value instruments, including derivative products and private or illiquid positions. The Foundation's investments in hedge funds are stated at fair value by evaluating the fair values of the net assets of each hedge fund. The net assets of each fund are valued based on each underlying investment, with the hedge fund incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions and performance multiples, among other factors.

Investment in private company: The Foundation holds shares of stock of a private company. The private company hires an independent valuation group to determine the fair value as of the end of each year. The discounted cash flow method was applied by projecting the company's net cash flow during the interim period and estimating the company value at the terminal year. The interim net cash flows and terminal value were then discounted to present value based on an appropriate required rate of return (or discount rate). The following table provides the quantitative information about this Level 3 investment at December 31, 2016.

Investment	Fair Value	Valuation Technique	Unobservable Input	Range
Private company	$ 3,775,669	Discounted cash flow	Revenue multiple EBITDA multiple	4.10 13.00

Note 2. Fair Value Measurements (Continued)

Cash surrender value of life insurance: The cash surrender value of life insurance was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions and dividend accumulations. The cash surrender value represents the guaranteed value that would be received upon surrender of these policies held on key employees at December 31, 2016. These assets are included in Level 3 of the fair value hierarchy.

Funds held for benefit of other non-profits: The fair value of endowment fund liabilities is based on revenues and expenses, including investment returns, related to the endowment fund.

Trust agreements: The fair value of trust agreement liabilities is based on the net present value of the anticipated benefit payments from the trusts for which the Foundation is both a beneficiary and trustee. As beneficiary payments are made, the life expectancy of the beneficiary decreases and discount rates fluctuate from year-to-year, the Foundation adjusts the liability accordingly.

Annuity obligations: The fair value of the Foundation's annuity obligations is based on the net present value of the anticipated benefit using the difference between the assets received and the original contribution. As beneficiary payments are made, the liability is adjusted based on an amortization schedule.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 2. Fair Value Measurements (Continued)

The following table summarizes assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31, 2016:

	Balance as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money markets	$ 30,012,389	$ 30,012,389	$ -	$ -
Mutual funds				
Equity fund	39,685,626	39,685,626	-	-
Bond fund	22,684,513	22,684,513	-	-
International fund	29,970,634	29,970,634	-	-
Fixed income	1,850,866	1,850,866	-	-
Common stocks	1,496,903	1,496,903	-	-
Investment in private company	3,775,669	-	-	3,775,669
Cash surrender value of life insurance	529,755	-	-	529,755
Total investments at fair value	130,006,355	$ 125,700,931	$ -	$ 4,305,424
Investments in private equity (a)	1,289,584			
Investments in hedge funds (a)	15,136,684			
Total assets	$ 146,432,623			
Liabilities:				
Annuity obligations	$ 319,383	$ -	$ 319,383	$ -
Trust agreements	$ 375,764	$ -	$ 375,764	$ -
Endowment funds held for benefits of other nonprofits	$ 6,223,578	$ -	$ 6,223,578	$ -

(a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the combined statement of financial position.

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended December 31, 2016:

	Beginning Balance January 1, 2016	Gains	New Gifts or Purchases	Redemptions	Ending Balance December 31, 2016
Investment in private company	$ 3,702,935	$ -	$ 3,545,783	$ (3,473,049)	$ 3,775,669
Cash surrender value of life insurance	514,281	15,474	-	-	529,755
Total	$ 4,217,216	$ 15,474	$ 3,545,783	$ (3,473,049)	$ 4,305,424

Note 3. Investments

The table below summarizes such investments and certain attributes as of December 31, 2016.

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	$ 1,289,584	$ -	None	None
Hedge funds	15,136,684	-	Quarterly, Semi-annually, Annually	60 days
Total	$ 16,426,268	$ -		

Investments consisted of the following at December 31, 2016:

Equity securities and mutual funds	$ 95,688,542
Money market funds	30,012,389
Hedge funds	15,136,684
Private equity funds	1,289,584
Private company	3,775,669
Total investments	$ 145,902,868

Investment income, net of related expenses, was composed of the following for the year ended December 31, 2016.

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 2,147,755	$ 64,688	$ 2,212,443
Net realized and unrealized gain	4,926,294	64,308	4,990,602
Investment expenses	(184,860)	(17,532)	(202,392)
Total	$ 6,889,189	$ 111,464	$ 7,000,653

Note 4. Endowments

Endowments consist of designated, discretionary, donor-advised, field of interest, and scholarship funds which are designated by the Board of Trustees (the Board) to function as endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As a result of the Foundation's variance power, all contributions not classified as temporarily restricted or permanently restricted, are classified as unrestricted net assets for financial statement purposes.

Interpretation of relevant law: The Board of the Foundation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) 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 of December 31, 2016, the Foundation did not hold any endowment funds classified as permanently restricted due to the variance power vested in the Board of Trustees.

Note 4. Endowments (Continued)

Return objectives and risk parameters: The Foundation has adopted an investment and spending policy for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowment funds as follows:

Asset Class	Target Allocation	Allowable Range
U.S. equity	38.00%	32-44%
Non-U.S. developed	25.00%	21-29%
Emerging markets	7.00%	5-9%
Real return	0.00%	0-5%
Hedge funds	0.00%	0-25%
Bonds/cash	30.00%	25-38%
Opportunistic	0.00%	0-2%

Spending policy: The Foundation's Board has adopted a "Total Return" approach to determine the annual amount available for grant-making from the Foundation's endowment funds. Under this philosophy, the policy for the year ended December 31, 2016, of the Foundation is to appropriate either 4% (discretionary and field-of-interest funds) or 5% (for all other endowment funds) of the market value of assets calculated on the average of the trailing 12 quarters.

Endowment net asset composition as of December 31, 2016, was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Discretionary	$ 26,728,752	$ -	$ -	$ 26,728,752
Field of interest	23,936,146	-	-	23,936,146
Donor-advised	25,591,619	-	-	25,591,619
Scholarship	1,845,432	-	-	1,845,432
Designated	9,291,978	-	-	9,291,978
Total funds	$ 87,393,927	$ -	$ -	$ 87,393,927

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ 82,812,348	$ -	$ -	$ 82,812,348
Investment gain	5,207,093	-	-	5,207,093
Transfers, net	(1,475,507)	-	-	(1,475,507)
Contributions	2,372,502	-	-	2,372,502
Appropriation of endowment assets for expenditures	(1,522,509)	-	-	(1,522,509)
Total	$ 87,393,927	$ -	$ -	$ 87,393,927

Note 5. Cash Surrender Value of Life Insurance

The Foundation is the designated beneficiary of three life insurance policies. The increase in cash surrender value has been recorded as temporarily restricted other income in the combined statement of activities. Total gain was $15,474 for the year ended December 31, 2016.

Note 6. Contributions Receivable

The Foundation has received unconditional promises to give from individuals, foundations, and corporations. Unconditional promises to give outstanding at December 31, 2016, are generally due as follows:

Receivable in less than 1 year	$	3,768,732
Receivable in 1 to 5 years		3,980,193
Receivable in greater than 5 years		830,000
Total unconditional promises to give		8,578,925
Less allowance for uncollectible promises to give receivable		(19,794)
Less present value discount		(287,928)
Net promises to give receivable		8,271,203
Trust proceeds receivable		293,179
Total contributions receivable	$	8,564,382

Unconditional promises to give due in more than one year are recorded at the present value of future cash flows using the ten-year U.S. Treasury Bill rate on December 31, 2016, which was 2.45%.

Note 7. Property and Equipment

Property and equipment consisted of the following at December 31, 2016:

Leasehold improvements	$	338,554
Furniture and equipment		314,079
		652,633
Less accumulated depreciation		(626,811)
Total property and equipment	$	25,822

Depreciation expense for the year ended December 31, 2016 was $14,429.

Note 8. Line of Credit

The Foundation has a revolving note agreement with PNC Bank with a maximum limit of $1,000,000. Interest is charged at 30-day London Interbank Offered Rate (LIBOR) plus .85% (1.47% at December 31, 2016). The note is secured by assets of the Foundation and is renewable annually. The outstanding balance at December 31, 2016, was $300,000.

Note 9. Grants Payable

The Foundation has made unconditional promises to various charitable organizations to make grant payments over future years. Unconditional grant commitments outstanding at December 31, 2016, are generally due as follows:

Years ending December 31:		
2017	$	4,149,199
2018		189,500
2019		50,364
2020		30,364
Total grant commitments		4,419,427
Less present value discount		(5,495)
Total	$	4,413,932

Payables due in more than one year are recorded at the present value of future cash flows using the three-year U.S. Treasury Bill rate on December 31, which was 1.47% at December 31, 2016.

Note 10. Annuities Payable

Charitable gift annuities: The Foundation enters into annuity agreements with donors as part of its fund-raising efforts under a special permit, in accordance with the Annotated Code of Maryland, Article 48A, Section 487. As required by law, the Foundation must maintain assets at least equal to the sum of the reserves on its outstanding annuity agreements, which are segregated from the Foundation's other assets. At December 31, 2016, the Foundation's annuity assets exceeded its annuity liabilities.

Note 11. Pension Plan

The Foundation has a 401(k) plan covering all eligible employees. The semi-monthly contribution to the Plan is based on a specified percentage of the eligible employees' compensation. The Foundation's contribution percentage is currently 5%, plus an additional percentage as a match against employee voluntary contributions. The additional matching percentage for 2016 was 3%. The total pension expense for this Plan for 2016, was $196,743.

Note 12. Net Assets

As of December 31, 2016, net assets included the following categories:

Unrestricted:	
Endowed:	
Discretionary	$ 26,728,752
Field of interest	23,936,146
Donor-advised	25,591,619
Scholarship	1,845,432
Designated	9,291,978
Total endowed	87,393,927
Non-endowed:	
Discretionary	2,410,012
Field of interest	1,489,661
Donor-advised	36,845,139
Scholarship	276,429
Supporting organizations	3,245,128
Designated	2,713,997
Total non-endowed	46,980,366
Total unrestricted	134,374,293
Temporarily restricted:	
Discretionary	5,170,601
Field of interest	2,283,614
Donor-advised	1,227,615
Designated	119,128
Trusts	1,552,219
Total temporarily restricted	10,353,177
Total net assets	$ 144,727,470

Temporarily restricted net assets released from restrictions for the year ended December 31, 2016, were from the following funds:

Discretionary	$ 2,014,770
Field of interest	1,290,332
Designated	147,359
Trusts	86,047
Donor-advised	60,000
Total	$ 3,598,508

Note 13. Commitment and Contingencies

The Foundation entered into a lease agreement that provides for future minimum annual rental on December 6, 2013, for office space which is scheduled to expire in March 2024. The Foundation has the option to renew the lease for two renewal periods of five years each. The Foundation's rent expense was $234,988 for the year ended December 31, 2016.

The following is a schedule of future minimum rental payments under the operating lease agreement:

Years ending December 31:	
2017	$ 213,865
2018	220,272
2019	226,898
2020	233,661
2021	240,698
Thereafter	567,587
Total	$ 1,702,981

The Foundation subleased a portion of office space. Rental income from these subleases was $52,724 for the year ended December 31, 2016, and is included in other income in the combined statement of activities.

Note 14. Related Party Transactions

The Foundation encourages donors to make gifts of both privately and publically held securities. The program includes shares of stock donated by certain employees of a privately held company including its Chief Executive Officer (CEO). The CEO of this company is also a member of the Foundation's Board of Trustees. The fair value of these investments were $3,775,669 as of December 31, 2016. Consistent with the Foundation's policy, the CEO will not vote in his role as a trustee of the Foundation on any matters relating to the disposition of or voting of these shares. The CEO of this company was rotated off the Board of Trustees in March 2016.