

**THE BALTIMORE COMMUNITY
FOUNDATION, INC. AND AFFILIATES**
Baltimore, Maryland

COMBINED FINANCIAL REPORT
December 31, 2008 and 2007

TABLE OF CONTENTS

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

Independent Auditor's Report

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

We have audited the combined statements of financial position of The Baltimore Community Foundation, Inc. and Affiliates (the Foundation) as of December 31, 2008 and 2007, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the management of The Baltimore Community Foundation, Inc. and Affiliates. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Baltimore Community Foundation, Inc. and Affiliates as of December 31, 2008 and 2007, and the combined changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Clifton Gunderson LLP

Baltimore, Maryland
April 8, 2009

FINANCIAL STATEMENTS

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash	\$ 1,259,807	\$ 4,733,200
Contributions receivable, net, Note 6	10,163,244	9,448,617
Investments, Note 3	130,038,302	178,318,653
Cash surrender value of life insurance, Note 5	350,506	321,986
Note receivable, Note 8	450,000	175,000
Property and equipment, net of accumulated depreciation, Note 7	194,114	210,709
Other assets	563,755	556,870
TOTAL ASSETS	\$ 143,019,728	\$ 193,765,035
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 525,000	\$ 474,568
Line of credit, Note 10	-	200,000
Grants payable, net, Note 11	10,215,146	9,603,832
Deferred rent, Note 12	48,374	51,801
Annuities payable, Note 13	559,276	446,337
Liability under trust agreements, Note 1	276,477	502,447
Note payable, Note 9	-	342,500
Endowment funds held for benefit of nonprofit organizations	7,585,189	11,022,517
Total liabilities	19,209,462	22,644,002
NET ASSETS, Note 14		
Unrestricted:		
Endowed	41,532,838	63,022,111
Non-endowed	70,221,077	96,215,620
Total unrestricted	111,753,915	159,237,731
Temporarily restricted	12,056,351	11,883,302
Total net assets	123,810,266	171,121,033
TOTAL LIABILITIES AND NET ASSETS	\$ 143,019,728	\$ 193,765,035

The accompanying notes are an integral part of the combined financial statements.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2008 and 2007

	<u>2008</u>			<u>2007</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT						
Donor contributions	\$ 35,396,222	\$ 4,879,720	\$ 40,275,942	\$ 37,050,693	\$ 657,481	\$ 37,708,174
Investment income (loss), Note 1	(51,853,015)	(543,418)	(52,396,433)	9,981,875	189,189	10,171,064
Special event income (net of related expenses of \$639,703 and \$545,768 for 2008 and 2007, respectively)	391,399	-	391,399	46,037	-	46,037
Other income	347,898	229,602	577,500	390,909	193,579	584,488
Net assets released from restrictions	<u>4,392,855</u>	<u>(4,392,855)</u>	<u>-</u>	<u>9,999,228</u>	<u>(9,999,228)</u>	<u>-</u>
Total revenue and other support	<u>(11,324,641)</u>	<u>173,049</u>	<u>(11,151,592)</u>	<u>57,468,742</u>	<u>(8,958,979)</u>	<u>48,509,763</u>
GRANTS AND EXPENSES						
Program activity:						
Grants	28,315,629	-	28,315,629	29,990,076	-	29,990,076
Other charitable expenditures	2,797,305	-	2,797,305	2,072,565	-	2,072,565
Grant administration	<u>2,007,404</u>	<u>-</u>	<u>2,007,404</u>	<u>1,368,266</u>	<u>-</u>	<u>1,368,266</u>
Total program activity	<u>33,120,338</u>	<u>-</u>	<u>33,120,338</u>	<u>33,430,907</u>	<u>-</u>	<u>33,430,907</u>
Supporting services:						
Development and donor services	1,241,805	-	1,241,805	1,356,802	-	1,356,802
Management and general	<u>1,704,581</u>	<u>-</u>	<u>1,704,581</u>	<u>1,631,510</u>	<u>-</u>	<u>1,631,510</u>
Total supporting services	<u>2,946,386</u>	<u>-</u>	<u>2,946,386</u>	<u>2,988,312</u>	<u>-</u>	<u>2,988,312</u>
Trust activity:						
Beneficiary payments	89,291	-	89,291	118,048	-	118,048
Management and general	<u>3,160</u>	<u>-</u>	<u>3,160</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total trust activity	<u>92,451</u>	<u>-</u>	<u>92,451</u>	<u>121,048</u>	<u>-</u>	<u>121,048</u>
Total grants and expenses	<u>36,159,175</u>	<u>-</u>	<u>36,159,175</u>	<u>36,540,267</u>	<u>-</u>	<u>36,540,267</u>
CHANGE IN NET ASSETS	(47,483,816)	173,049	(47,310,767)	20,928,475	(8,958,979)	11,969,496
NET ASSETS, BEGINNING OF YEAR	<u>159,237,731</u>	<u>11,883,302</u>	<u>171,121,033</u>	<u>138,309,256</u>	<u>20,842,281</u>	<u>159,151,537</u>
NET ASSETS, END OF YEAR	<u>\$ 111,753,915</u>	<u>\$ 12,056,351</u>	<u>\$ 123,810,266</u>	<u>\$ 159,237,731</u>	<u>\$ 11,883,302</u>	<u>\$ 171,121,033</u>

The accompanying notes are an integral part of the combined financial statements.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (47,310,767)	\$ 11,969,496
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Noncash contributions	(25,290,370)	(21,756,072)
Noncash other income, cash surrender value	(28,520)	(27,738)
Net (gains)/ losses on investments	55,557,336	(7,479,160)
Depreciation	69,631	68,250
Loss on disposal of fixed assets	-	3,713
Change in value of split interest agreement	(225,970)	(165,841)
Changes in operating assets and liabilities:		
Contributions receivable	(714,627)	8,944,450
Other assets	(6,885)	(349,365)
Accounts payable and accrued expenses	50,432	(55,637)
Grants payable	611,314	4,947,745
Deferred rent	(3,427)	766
Net cash used in operating activities	(17,291,853)	(3,899,393)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/redemption of investments	25,527,865	55,269,737
Note receivable	(275,000)	(175,000)
Purchase of investments	(11,349,154)	(48,475,529)
Acquisition of property	(53,036)	(52,281)
Net cash provided by investing activities	13,850,675	6,566,927
CASH FLOWS FROM FINANCING ACTIVITIES		
Activity of endowment funds held for benefit of nonprofit organizations:		
Contributions received	612,369	451,012
Interest and dividends, net	212,812	128,752
Grants paid	(427,835)	(384,206)
Net change in line of credit	(200,000)	200,000
Principal payments on note payable	(342,500)	(262,500)
Proceeds from annuity obligations	176,268	6,051
Principal payments of annuity obligations	(63,329)	(49,420)
Net cash provided by (used in) financing activities	(32,215)	89,689
NET INCREASE (DECREASE) IN CASH	(3,473,393)	2,757,223
CASH, BEGINNING OF YEAR	4,733,200	1,975,977
CASH, END OF YEAR	\$ 1,259,807	\$ 4,733,200
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 2,616	\$ 7,359
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash contributions:		
Stock and other security gifts	\$ 25,290,370	\$ 21,756,072

The accompanying notes are an integral part of the combined financial statements.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The primary purpose of The Baltimore Community Foundation, Inc. and Affiliates (the Foundation) is 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.

Howard P. Colhoun Family Foundation, Inc., The Eddie C. and C. Sylvia Brown Family Foundation, Inc., Youse-Corrigan Foundation, Inc., The Kyle Family Foundation, Inc., FAHOLO Foundation, Inc., Kids-R-VIPS Foundation, Inc., and Healthy Neighborhoods, Inc. have been recognized by the IRS as tax-exempt organizations as defined by IRC §501(c)(3) and were incorporated in 1993, 1994, 1995, 1996, 1998, 1999, and 2004, respectively. These organizations are supporting organizations of BCF. The Kyle Family Foundation, Inc. and Kids-R-VIPS Foundation, Inc. were liquidated during 2007.

Principles of Combination

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

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily 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 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 Statements 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 Statements of Activities as net assets released from restrictions.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The majority of the cash as of December 31, 2008 and 2007 was invested in various interest-bearing accounts. Periodically during the year, cash has exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation. Non-interest bearing accounts are fully insured through December 31, 2009 and interest bearing accounts are insured up to \$250,000.

Investments

Investments in money market funds and marketable securities are reported at their fair market values based upon published quotations. The fair value of the Foundation's investments in various hedge funds is based on information provided by the applicable hedge fund managers. Investments received as contributions are recorded at their fair market value as determined at the time of the gift. Gains and losses on investments for the year are reported in the Combined Statements of Activities as part of investment income (loss).

The Foundation's investment objectives are to maximize the return on endowment funds, taking into consideration preservation of capital while generating a certain level of total return. These objectives are accomplished through three portfolios with varying allocations to equity and fixed income securities.

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 market values on the date of such gifts.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, Grants and Donated Assets (Continued)

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.

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 trust and pooled income fund agreements and acts as trustee for many of them. The fair market 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 trust is created.

Property and Depreciation

Property is recorded at cost. The Foundation capitalizes all items over \$500 that have a useful life of at least 1 year. Depreciation is computed utilizing the straight-line method over useful lives ranging from 5 years for the vehicles, and 3 to 5 years for equipment and furniture. Leasehold improvements are depreciated over the life of the office space lease.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was \$84,411 and \$84,225 for the years ended December 31, 2008 and 2007, respectively.

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.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Funds (Continued)

The other component funds of the Foundation are as follows:

Discretionary funds are expended in any charitable field.

Field-of-interest funds are expended for some broadly defined charitable purpose such as mental health or aid to the aged.

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.

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

Charter Foundation (supporting organization) funds are expended at the discretion of the respective charter foundation's board of trustees. The Foundation appoints more than 50% of each charter foundation's trustees.

Each of the six kinds of funds previously listed may be created as endowed or nonendowed funds. Grants from endowed funds are limited to an amount calculated by the Foundation's spending policy. Grants from nonendowed funds are not limited. For the purpose of these 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.

Endowment Fund Management Policy

The Foundation's Board of Trustees has adopted a "Total Return" approach to determine the annual amount available for grantmaking from the Foundation's endowed component funds. Under this philosophy, it is the current policy of the Foundation to appropriate either 4.5% (discretionary and field-of-interest funds) or up to a maximum of 5.0% (for all other endowed fund types) of the market value of assets calculated on the average of the trailing 12 quarters in the current year.

Endowment Funds Held for Benefit of Nonprofit Organizations

In accordance with Statement of Financial Accounting Standards (SFAS) No. 136, "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 established 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 BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds Held for Benefit of Nonprofit Organizations (Continued)

The Foundation maintains legal ownership of these funds and, as such, continues to report the funds as assets of the Foundation. However, in accordance with SFAS No. 136, a liability has been established for the fair value of the funds.

Adoption of New Accounting Standard

Effective January 1, 2008, the Foundation adopted the provisions of SFAS No. 157, "Fair Value Measurements," for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, 'Effective Date of FASB Statement No. 157,' the Foundation will delay application of SFAS 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

NOTE 2 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the Foundation uses various valuation approaches within the FAS 157 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

FAS 157 established a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, discount rates, volatilities, prepayment speeds, credit risks, etc.), or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the valuation hierarchy.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS
(CONTINUED)

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. The Foundation's interests in such investments are categorized as corporate stock/equity funds, money market funds, corporate bond funds and government obligation funds. Such securities are classified within Level 1 of the valuation hierarchy.

Investments in Private Equity

The Foundation's investments in private equity consist of limited partnership equity interests in private equity funds. The Foundation's investments in these types of funds are stated at fair value by evaluating the fair value of total net assets of the funds. The net assets of the 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. These nonpublic investments are included in Level 3 of the fair value hierarchy.

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. Investments in hedge funds are included in Level 3 of the fair value hierarchy.

**Investments in Private Companies, Private Investment Companies,
Limited Liability Companies and Limited Partnerships**

Investments in private companies, private investment companies, limited liability companies and limited partnerships are typically valued utilizing the net asset valuations provided by the companies, general partners and/or their administrators. Foundation management considers subscription and redemption rights, including any restrictions on the disposition of the interest in its determination of fair value. Investments in private companies, private investment companies, limited liability companies and limited partnerships are included in Level 3 of the fair value hierarchy.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS
(CONTINUED)

**Investments in Private Companies, Private Investment Companies,
Limited Liability Companies and Limited Partnerships (Continued)**

During 2008, the Foundation received a \$20 million gift in the form of a special member interest in the equity of a privately held LLC. The \$20 million was based on an independent appraisal of the Foundation's special member interest at the time of the gift. The gift represents approximately 57% of total unrestricted contributions during the year. As of December 31, 2008, the fair value of the gift was determined to be \$13,607,000.

Liabilities at Fair Value

Endowment Funds – 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 of irrevocable trust assets, for which the Foundation is both a beneficiary and trustee. The difference between the total trust assets and the contribution revenue is recorded as a liability to the Foundation. As beneficiary payments are made, the life expectancy of the beneficiary decreases and discount rates fluctuate year to year, the Foundation evaluates the net present value of the anticipated benefit and 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 following table summarizes assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31, 2008:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
Assets				
Investments in securities and mutual funds, at fair value	\$ 98,497,838	\$ -	\$ -	\$ 98,497,838
Investments in private equity funds, at fair value	-	-	1,193,893	1,193,893
Investments in hedge funds, at fair value	-	-	11,027,669	11,027,669
Investments in private investment companies, at fair value	-	-	4,208,785	4,208,785
Investments in private companies, limited liability companies and limited partnerships, at fair value	-	-	15,110,117	15,110,117
Total assets, at fair value	<u>\$ 98,497,838</u>	<u>\$ -</u>	<u>\$ 31,540,464</u>	<u>\$130,038,302</u>

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS
(Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
Liabilities				
Endowment funds, at fair value	\$ -	\$ 7,585,189	\$ -	\$ 7,585,189
Trust agreements, at fair value	-	276,477	-	276,477
Annuity obligations, at fair value	-	559,276	-	559,276
Total liabilities, at fair value	<u>\$ -</u>	<u>\$ 8,420,942</u>	<u>\$ -</u>	<u>\$ 8,420,942</u>

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, 2008:

	Level 3 Beginning Balance January 1, 2008	Realized and Unrealized Gains (losses)	Purchases, Sales and Settlement, net	Net Transfer In and/or (Out) Level 3	Level 3 Ending Balance December 31, 2008
Assets					
Investments in hedge funds, at fair value	\$ 15,927,855	\$ (3,128,457)	\$ (1,771,729)	\$ -	\$ 11,027,669
Investments in private equity funds, at fair value	-	(86,107)	1,280,000	-	1,193,893
Investments in private investment companies, at fair value	-	(791,215)	5,000,000	-	4,208,785
Investments in private companies, limited liability companies and limited partnerships, at fair value	<u>4,308,455</u>	<u>(6,401,491)</u>	<u>17,203,153</u>	<u>-</u>	<u>15,110,117</u>
Total	<u>\$ 20,236,310</u>	<u>\$ (10,407,270)</u>	<u>\$ 21,711,424</u>	<u>\$ -</u>	<u>\$ 31,540,464</u>

NOTE 3 – INVESTMENTS

Investments consisted of the following at December 31:

	2008	2007
Hedge funds	\$ 11,027,669	\$ 15,927,855
Private equity funds	1,193,893	-
Corporate stocks/equity funds	54,139,824	110,162,514
Private investment companies	4,208,785	-
Private companies, limited liability companies and limited partnerships	15,110,117	4,308,455
Money market funds	29,866,489	24,158,728
Corporate bonds/bond funds	12,776,362	21,051,807
Government obligation funds	96,994	383,953
Mutual funds and equity securities under trust agreements	1,487,291	2,158,099
Annuity contracts – cash surrender value	<u>130,878</u>	<u>167,242</u>
Total investments	<u>\$130,038,302</u>	<u>\$178,318,653</u>

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 3 – INVESTMENTS (CONTINUED)

Classification of investments between current and long-term portions:

	<u>2008</u>	<u>2007</u>
Investments, current portion	<u>\$121,617,360</u>	<u>\$166,347,352</u>
Investments, long-term portion		
Investments restricted to:		
Endowment funds held for benefit of nonprofit organizations	\$ 7,585,189	\$ 11,022,517
Liability under trust agreements	276,477	502,447
Annuity obligations	<u>559,276</u>	<u>446,337</u>
Total	<u>\$ 8,420,942</u>	<u>\$ 11,971,301</u>

Investment income, net of related expenses, was composed of the following:

	<u>Year Ended December 31, 2008</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 3,538,511	\$ 74,441	\$ 3,612,952
Net losses	(54,956,880)	(600,456)	(55,557,336)
Investment expenses	<u>(434,646)</u>	<u>(17,403)</u>	<u>(452,049)</u>
Total	<u>\$ (51,853,015)</u>	<u>\$ (543,418)</u>	<u>\$ (52,396,433)</u>

	<u>Year Ended December 31, 2007</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 3,133,171	\$ 104,129	\$ 3,237,300
Net gains	7,374,094	105,066	7,479,160
Investment expenses	<u>(525,390)</u>	<u>(20,006)</u>	<u>(545,396)</u>
Total	<u>\$ 9,981,875</u>	<u>\$ 189,189</u>	<u>\$ 10,171,064</u>

NOTE 4 – DECLINES IN INVESTMENT VALUES

During 2008, financial markets as a whole have incurred significant declines in values. As of April 8, 2009, the Foundation's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because values of individual investments fluctuate with market conditions, the amount of investment losses that the Foundation will recognize in its future financial statements, if any, cannot be determined.

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 Statements of Activities for the years ended December 31, 2008 and 2007.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 6 – CONTRIBUTIONS RECEIVABLE

The Foundation has received unconditional pledges from individuals, foundations, and corporations. Unconditional pledges outstanding at December 31, 2008 are generally due as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than 1 year	\$ 3,342,438	\$ 3,324,503
Receivable in 1 to 5 years	6,681,981	6,211,167
Receivable greater than 5 years	<u>104,147</u>	<u>89,622</u>
Total unconditional pledges	10,128,566	9,625,292
Less present value discounting	<u>(258,500)</u>	<u>(469,853)</u>
Total pledges receivable	9,870,066	9,155,439
Trust proceeds receivable	<u>293,178</u>	<u>293,178</u>
Total contributions receivable	<u>\$ 10,163,244</u>	<u>\$ 9,448,617</u>

Unconditional promises to give due in more than one year are recorded at the present value of future cash flows using the one to ten-year U.S. Treasury Bill rate on December 31, which ranged from 0.37% to 2.25% and 3.34% to 4.04% on December 31, 2008 and 2007, respectively.

Management anticipates that all unconditional pledges are collectible. Accordingly, no allowance for uncollectible pledges has been established.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 332,916	\$ 332,916
Furniture and equipment	<u>346,842</u>	<u>309,854</u>
	679,758	642,770
Less accumulated depreciation	<u>(485,644)</u>	<u>(432,061)</u>
Total property and equipment	<u>\$ 194,114</u>	<u>\$ 210,709</u>

Depreciation expense for 2008 and 2007 was \$69,631 and \$68,250, respectively.

NOTE 8 – NOTE RECEIVABLE

In August 2008, the Foundation entered into an agreement with the Baltimore School for the Arts Foundation, Inc. to lend it \$350,000 at an interest rate of 4%. The note is due and payable in six annual principal and interest payments starting on June 1, 2009 and ending on June 1, 2014. The outstanding receivable balance was \$350,000 at December 31, 2008.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 8 – NOTE RECEIVABLE (CONTINUED)

In June 2007, one of the Foundation’s supporting organizations entered into an agreement with the PPCDC Financing, LLC to lend it \$175,000 at an interest rate of 5%. The loan was guaranteed by the Patterson Park Community Development Corporation. The principal amount is due in June 2009. The borrower defaulted on the agreement and its guarantor filed for Chapter 11 bankruptcy protection in February 2009. The note receivable has been written down to its net realizable value of \$100,000.

NOTE 9 – NOTE PAYABLE

In September 2004, the Foundation entered into a recoverable grant agreement with The Annie E. Casey Foundation (the Casey Foundation) in the amount of \$1,220,000. Under this agreement, the Foundation is required to use the grant proceeds to fund its commitment to the *Reason to Believe* campaign (the Campaign). Interest payments are made quarterly at the annual rate of 2%. Principal payments are made when pledges to the Campaign are collected from donors. Payments commenced in 2004 with the final payment due on September 15, 2008.

The balance due to the Casey Foundation as of December 31, 2008 and 2007 was \$0 and \$342,500, respectively.

Interest expense related to the note payable was \$1,200 and \$6,850 for the years ended December 31, 2008 and 2007, respectively.

NOTE 10 – LINE OF CREDIT

In April 2008, the Foundation renewed a revolving note agreement with a bank with a maximum limit of \$1,000,000. Interest is charged at 30-day LIBOR rate plus .85% (1.97% and 6.09% at December 31, 2008 and 2007, respectively). The note is secured by assets of the Foundation and is renewable annually on April 30. The outstanding balance was \$0 and \$200,000 at December 31, 2008 and 2007, respectively.

NOTE 11 – 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, 2008 are generally due as follows:

2009	\$ 4,618,308
2010	3,347,229
2011	1,233,250
2012	608,250
2013	228,000
Thereafter	<u>375,000</u>
Total grant commitments	10,410,037
Less present value discounting	<u>(194,891)</u>
Total	<u>\$ 10,215,146</u>

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 11 – GRANTS PAYABLE (CONTINUED)

Payables due in more than one year are recorded at the present value of future cash flows using the one to ten-year U.S. Treasury Bill rate on December 31, which ranged from 0.37% to 2.25% and 3.34% to 4.04% on December 31, 2008 and 2007, respectively.

NOTE 12 – DEFERRED RENT

The Foundation's office space leases, which are described in Note 17, have lease payment provisions with fixed annual increases. In accordance with generally accepted accounting principles, the total rent commitment should 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. Future amortization of deferred rent for the next five years and thereafter is as follows for December 31:

2009	\$	601
2010		(1,886)
2011		(9,151)
2012		(16,474)
2013		<u>(21,464)</u>
Total	\$	<u>(48,374)</u>

NOTE 13 – ANNUITIES PAYABLE

Charitable Gift Annuities

The Foundation issues annuity agreements to 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, 2008 and 2007, the Foundation's annuity assets exceeded its annuity liabilities.

NOTE 14 – NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Unrestricted		
Endowed:		
Discretionary	\$ 12,058,139	\$ 18,033,421
Field of interest	9,245,655	14,056,164
Donor advised	13,123,769	20,079,601
Scholarship	1,632,341	2,615,247
Designated	<u>5,472,934</u>	<u>8,237,678</u>
Total endowed	<u>41,532,838</u>	<u>63,022,111</u>

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 14 – NET ASSETS (CONTINUED)

	<u>2008</u>	<u>2007</u>
Unrestricted - continued		
Non-endowed:		
Discretionary	\$ 3,382,381	\$ 3,225,755
Field of interest	591,637	713,248
Donor advised	51,149,593	67,946,145
Scholarship	314,685	486,844
Designated	2,984,117	3,069,550
Charter Foundations	<u>11,798,664</u>	<u>20,774,078</u>
Total non-endowed	<u>70,221,077</u>	<u>96,215,620</u>
Total unrestricted	<u>111,753,915</u>	<u>159,237,731</u>
Temporarily restricted		
Discretionary	3,539,194	4,185,392
Field of interest	265,000	480,000
Donor advised	3,006,487	3,029,018
Designated	2,308,677	1,840,060
Charter Foundations	1,433,000	400,000
Trusts	<u>1,503,993</u>	<u>1,948,832</u>
Total temporarily restricted	<u>12,056,351</u>	<u>11,883,302</u>
Total net assets	<u>\$123,810,266</u>	<u>\$171,121,033</u>

NOTE 15 – PENSION PLAN

The Foundation has a 401(k) plan covering eligible employees. The bi-weekly 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 matching percentage has been phased in at 1% per year over five years, commencing in 2003. The additional matching percentages for both 2008 and 2007 was 5%. The total pension expense for this plan for 2008 and 2007 was \$169,242 and \$168,377 respectively.

The Foundation also has a 403(b) plan covering all eligible employees. The Foundation does not contribute to this plan.

NOTE 16 – CONCENTRATION OF CREDIT RISK

The Foundation maintains cash with a single financial institution. Deposits are insured by the FDIC to specified limits. At December 31, 2008, approximately \$702,727 was held at the financial institution.

Approximately 71% of contributions receivable is due from four donors. If any of these donors failed to honor its pledge, it could have a material effect on the Foundation's financial statements.

THE BALTIMORE COMMUNITY FOUNDATION, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 17 – COMMITMENTS

Operating Lease, Office Space

The Foundation entered into a lease agreement for office space which commenced on December 1, 2003, and is scheduled to expire on December 1, 2013. The Foundation has the option to renew this lease for two renewal periods of three years each.

The Foundation entered into another lease for additional space in the same building. This lease also commenced on December 1, 2003, and is scheduled to expire on December 1, 2013. The Foundation has the option to renew this lease for two renewal periods of three years each. The first nine months of this additional lease were rent free.

On November 1, 2008, the Foundation entered into another lease for additional space in the same building. The lease is scheduled to expire on December 1, 2013. The Foundation has the option to renew this lease for two renewal periods of three years each.

The minimum annual lease payments under these leases for the years ending December 31 are as follows:

2009	\$ 222,793
2010	225,281
2011	232,546
2012	239,869
2013	<u>226,061</u>
Total future payments	<u>\$ 1,146,550</u>

The Foundation's rent expense was \$211,660 and \$211,108 for 2008 and 2007, respectively. Rent expense includes the Foundation's pro-rata share of common area maintenance charges.

NOTE 18 – RELATED PARTY TRANSACTION

The Foundation utilized the management services of an organization owned by one of its trustees to operate one of its special events. Management fees incurred under this arrangement were \$150,000 for each of the years ended December 31, 2008 and 2007. The Foundation believes that this arrangement is commercially reasonable.

The Foundation encourages donors to make gifts of privately held securities as well as publicly held securities. The program includes shares of stock donated by certain employees of a privately held company including its CEO. The CEO of this company is also a member of the Foundation's board of trustees. The fair value of these stock donations was \$496,875 and \$338,047 for the years ended December 31, 2008 and 2007, respectively. 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.

NOTE 19 – RENTAL INCOME

The Foundation entered into sublease agreements in 2004 to sublease a portion of office space on a month-to-month basis. Rental income from these subleases was \$7,800 and \$15,000 for the years ended December 31, 2008 and 2007, respectively, and is included in other income in the Combined Statements of Activities.

This information is an integral part of the accompanying combined financial statements.