

**AUDITED CONSOLIDATED FINANCIAL
STATEMENTS WITH SUPPLEMENTAL
INFORMATION**

**THE COMMUNITY FOUNDATION
FOR THE NATIONAL
CAPITAL REGION**

MARCH 31, 2009 AND 2008

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

MARCH 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Community Foundation for the National Capital Region
Washington, D.C.

We have audited the accompanying consolidated statements of financial position of The Community Foundation for the National Capital Region and its affiliates (collectively referred to as the Foundation) as of March 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation for the National Capital Region as of March 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating schedules as of and for the years ended March 31, 2009 and 2008 are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
September 23, 2009

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 46,343,500	\$ 35,363,833
Investments	247,686,450	324,463,465
Pledges and contributions receivable, net	2,624,122	1,256,331
Notes receivable - net of present value discount of \$123,482 and \$184,965; net of allowance for loan losses of \$5,365,875 and \$0	12,494,762	17,095,744
Charitable remainder trusts receivable	2,214,384	3,242,002
Interest and other receivables	725,742	1,513,633
Property and equipment, net	133,689	31,581
Prepaid expenses and other assets	<u>83,311</u>	<u>147,714</u>
 Total assets	 \$ <u>312,305,960</u>	 \$ <u>383,114,303</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,566,582	\$ 1,962,154
Grants and appropriations payable - net of present value discount of \$337,516 and \$871,800	28,252,147	16,243,103
Funds held in trust for others	<u>1,816,578</u>	<u>2,907,464</u>
 Total liabilities	 <u>31,635,307</u>	 <u>21,112,721</u>
Net assets		
Unrestricted		
Operating funds	6,182,104	8,865,477
Supporting organization funds	18,783,510	47,999,891
Donor-advised and other funds	<u>250,135,797</u>	<u>299,482,426</u>
 Total unrestricted	 275,101,411	 356,347,794
Temporarily restricted	<u>5,569,242</u>	<u>5,653,788</u>
 Total net assets	 280,670,653	 362,001,582
Commitments	<u> </u>	<u> </u>
 Total liabilities and net assets	 \$ <u>312,305,960</u>	 \$ <u>383,114,303</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets		
Support and revenue		
Contributions	\$ 72,542,376	\$ 121,252,502
Federal grants	211,092	0
Investment loss, net	(60,603,458)	(2,166,626)
Other income	679,367	593,210
Net assets released from restrictions	<u>2,124,755</u>	<u>1,071,201</u>
Total unrestricted support and revenue	<u>14,954,132</u>	<u>120,750,287</u>
Expenses		
Program grants and appropriations	<u>89,799,126</u>	<u>91,206,281</u>
Supporting services		
General and administrative	2,885,209	2,614,666
Fundraising	<u>3,516,180</u>	<u>3,084,466</u>
Total supporting services	<u>6,401,389</u>	<u>5,699,132</u>
Total expenses	<u>96,200,515</u>	<u>96,905,413</u>
(Decrease) increase in unrestricted net assets	<u>(81,246,383)</u>	<u>23,844,874</u>
Changes in temporarily restricted net assets		
Contributions	2,152,266	699,684
Net assets released from restrictions	(2,124,755)	(1,071,201)
Change in value of charitable remainder trusts	<u>(112,057)</u>	<u>(1,871,784)</u>
Decrease in temporarily restricted net assets	<u>(84,546)</u>	<u>(2,243,301)</u>
Changes in net assets	(81,330,929)	21,601,573
Net assets at the beginning of the year	<u>362,001,582</u>	<u>340,400,009</u>
Net assets at the end of the year	<u>\$ 280,670,653</u>	<u>\$ 362,001,582</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Changes in net assets	\$ <u>(81,330,929)</u>	\$ <u>21,601,573</u>
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation and amortization	31,477	18,397
Loss on disposal of property and equipment	0	1,200
Realized and unrealized losses on investments	68,575,495	13,403,990
Increase in allowance for loan losses	5,365,875	0
Change in value of charitable remainder trusts receivable and notes receivable	966,136	1,871,784
Donated investments received	(28,005,877)	(62,824,045)
Accrued interest on note receivable	(779,000)	(486,875)
(Increase) decrease in:		
Pledges and contributions receivable	(1,367,791)	921,237
Interest and other receivables	787,891	(440,965)
Prepaid expenses and other assets	64,403	(116,842)
Increase (decrease) in:		
Accounts payable and accrued expenses	(395,572)	743,665
Grants and appropriations payable	12,009,044	4,892,338
Funds held in trust for others	(1,090,886)	(86,223)
Total adjustments	<u>56,161,195</u>	<u>(42,102,339)</u>
Net cash used in operating activities	<u>(25,169,734)</u>	<u>(20,500,766)</u>
Cash flows from investing activities:		
Purchases of investments	(55,666,119)	(89,703,763)
Proceeds from sales of investments	91,873,516	136,650,093
Purchases of property and equipment	(133,585)	0
Payments received under notes receivable	<u>75,589</u>	<u>90,589</u>
Net cash provided by investing activities	<u>36,149,401</u>	<u>47,036,919</u>
Increase in cash and cash equivalents	10,979,667	26,536,153
Cash and cash equivalents at the beginning of the year	<u>35,363,833</u>	<u>8,827,680</u>
Cash and cash equivalents at the end of the year	<u>\$ 46,343,500</u>	<u>\$ 35,363,833</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2009 AND 2008

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Community Foundation for the National Capital Region (the Community Foundation) was organized in December 1973 as The Community Foundation of Greater Washington pursuant to the District of Columbia Nonprofit Corporation Act, and commenced operations in January 1974. The Community Foundation has a single program to strengthen the Washington metropolitan region by encouraging and promoting effective giving and by taking leadership on critical issues in its service area.

The Community Foundation is recognized as a not-for-profit, tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified the Foundation as a publicly supported organization.

The Community Foundation is comprised of a collection of component funds established by donors to the Community Foundation or internally designated by the Community Foundation. The Community Foundation service area is the greater Washington D.C. geographical region. To provide specific services to sub-parts of its service area, the Community Foundation has adopted an "area affiliate" organizational structure establishing three "area affiliate" designations, known as the Montgomery County Community Foundation (MCCF), the Prince Georges Community Foundation (PGCF) and the Alexandria Community Trust (ACT), to localize its exempt activities in Montgomery and Prince Georges counties, Maryland and Alexandria, Virginia.

The Summit Fund of Washington (the Summit Fund), and The Kristin and David Steinberg Foundation (the Steinberg Foundation), both District of Columbia nonprofit corporations, are supporting organizations in which the Community Foundation has significant control over the functions of the organizations. Each organization benefits the Community Foundation through support of their missions. The Summit Fund and Steinberg Foundation have been recognized by the Internal Revenue Service as not-for-profit, tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

The consolidated financial statements include the accounts of the Community Foundation, the Summit Fund and the Steinberg Foundation (collectively referred to as the Foundation). All material interorganization balances and transactions have been eliminated in consolidation.

The significant accounting policies followed by the Foundation are described below.

Basis of accounting

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

The Foundation reports contributions and grants in accordance with Statement of Financial Accounting Standards No. 116 (SFAS 116), *Accounting of Contributions Received and Contributions Made*. Under SFAS 116, the Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets. When the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the

consolidated statements of activities and changes in net assets as net assets released from restrictions. Revenue related to federal grants is recognized as the related costs are incurred. Other income is recognized when earned.

Cash equivalents

For the purposes of the consolidated statements of cash flows, the Foundation considers short-term investments with initial maturities of three months or less to be cash equivalents. Temporary cash positions in the investment portfolio are considered investments and are not included in cash and cash equivalents in the accompanying consolidated statements of financial position.

Investments

Equity securities with readily determinable fair values and debt securities are presented at fair value in the consolidated financial statements based on quoted market prices. Limited partnership interests are reported at fair value in the consolidated financial statements as determined by the general partner of the limited partnership. Real estate investments and investments in privately-held entities are reported at the fair value of the investment as determined by appraisal at the date of the original gift. Gains and losses on investments, including changes in market value, are reported in the consolidated statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation.

Notes receivable

Notes receivable are stated at the amount of unpaid principal, adjusted for a present value discount and an allowance for loan losses.

The Foundation records an allowance when management determines that collectability of all amounts is unlikely. Management's estimate is based on its review of the loans comprising the notes receivable balance and factors in known and inherent risks, the estimated fair value of the underlying collateral, and current economic conditions. During the year ended March 31, 2009, the Foundation recorded an allowance for loan losses of \$5,365,875. No allowance was recorded as of and for the year ended March 31, 2008.

Property and equipment

The Foundation capitalizes purchases of property and equipment in amounts greater than \$5,000. Property and equipment are recorded at cost and depreciated on a straight-line basis over an estimated useful life of five to ten years. Leasehold improvements are recorded at cost and amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the related leases. Donated equipment is recorded at its estimated fair value on the date it is received.

Charitable remainder trusts receivable

The fair values of the charitable remainder trusts receivable are estimated based on various assumptions using the present value of estimated future lump-sum cash flows.

Grants and appropriations payable

Grant commitments are recognized when the Board of Trustees approves a specific grant. To the extent that grant commitments are to be paid over several years, the Foundation records such commitments at their present values.

Net assets

The Foundation classifies net assets into two categories: unrestricted and temporarily restricted. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor.

Unrestricted net assets consist of the following types of internally-designated funds:

Operating funds - Funds used for the general operation of the Foundation.

Supporting organization funds - Net assets of the Summit Fund and Steinberg Foundation.

Donor-advised and other funds - Funds established by donor contributions that enable donors to make recommendations from time to time about the distributions from the funds. The donors' advice in the grant-making process is considered by the Board of Trustees in making grants from these resources. Other funds include field of interest funds used to support particular interests to the donor, designated funds intended to benefit designated charitable organizations, and scholarship funds intended to assist students in obtaining an education.

Temporarily restricted net assets are contributions or grants with temporary, donor-imposed time and/or program restrictions. Temporarily restricted net assets are reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions when the time restrictions expire or the funds are used for their restricted purpose. Temporarily restricted net assets are subject to the Foundation component fund requirements, including a variance provision, but are considered temporarily restricted until funds are available for use. Temporarily restricted net assets consist of funds that are unavailable for use in the current period due to donor-imposed time restrictions that would otherwise be classified as unrestricted donor-advised funds or other funds.

The Foundation's consolidated financial statements are prepared in accordance with the provisions of SFAS 116 and SFAS 117, *Financial Statements of Not-for-Profit Organizations*. These standards provide that if the governing body of an organization has the ability to remove a donor restriction, the contributions should be classified as unrestricted net assets. Under District of Columbia law and the Foundation's governing instruments, certain assets are held as endowment funds until such time (if ever) as the governing body deems it prudent and appropriate to expend some part of the principal or appreciation. Accordingly, the consolidated financial statements classify all net assets as unrestricted unless there is a time restriction.

Income taxes

The Foundation is not subject to income tax on its exempt activities. The Foundation has unrelated business income from certain investments that are subject to federal and state income taxes. For the years ended March 31, 2009 and 2008, cash paid for federal and state income taxes was \$25,000 and \$22,000, respectively.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which permits nonpublic entities to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008. FIN 48 must be applied to all existing tax positions upon initial adoption. The cumulative effect of applying FIN 48 at adoption, if any, is to be reported as an adjustment to opening net assets for the year of adoption. Implementation of FIN 48 will require management of the Foundation to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes federal and certain states. Open tax years are those that are open for examination by taxing authorities (i.e., generally the last four tax year ends and the interim tax period since then). The Foundation has no examinations in progress.

The Foundation has elected to defer the application of FIN 48 and will continue to follow SFAS No. 5, *Accounting for Contingencies*, until it adopts FIN 48. SFAS No. 5 requires the Foundation to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the

impact of FIN 48 on its financial position and results of operations but believes the adoption of FIN 48 will not have a material effect on its consolidated financial statements.

Recently adopted accounting pronouncements

SFAS No. 157

Effective April 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. See Note 11 – Financial Instruments. The adoption of SFAS No. 157 did not have a material impact on the Foundation’s results of operations or financial position.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP No. 157-2). The FSP amends SFAS 157 to delay the effective date for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. For items within its scope, the FSP defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008. As noted above, the Foundation adopted SFAS 157 effective April 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning April 1, 2009. The Foundation is currently assessing the potential effect of the adoption of the remaining provisions of SFAS 157 on its consolidated financial position, results of operations and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 gives the Foundation the irrevocable option to carry many financial assets and liabilities, on an instrument-by-instrument basis, at fair value, with changes in fair value recognized in earnings. SFAS 159 also requires additional disclosures that are intended to facilitate comparisons between entities that choose different measurement attributes for similar assets and liabilities, and between assets and liabilities in the financial statements of an entity that selects different measurement attributes for similar assets and liabilities. The Foundation has chosen not to elect the fair value option for any assets or liabilities, and therefore the adoption of SFAS 159 did not have a material effect on the Foundation’s results of operations or financial position.

NOTE 2 - INVESTMENTS

Investments consist of the following at March 31:

	<u>2009</u>	<u>2008</u>
Cash and money market accounts	\$ 32,098,254	\$ 44,208,602
Government securities	2,664,882	1,601,382
Fixed income securities	56,906,717	69,376,472
Marketable equity securities	87,954,303	115,098,160
Real estate	2,121,750	2,228,341
Interests in business entities and other alternatives	<u>65,940,544</u>	<u>91,950,508</u>
	<u>\$ 247,686,450</u>	<u>\$ 324,463,465</u>

Investment loss is comprised of the following for the years ended March 31:

	<u>2009</u>	<u>2008</u>
Dividends and interest	\$ 8,613,990	\$ 12,318,835
Net realized and unrealized losses	(68,575,495)	(13,403,990)
Less: investment management fees	<u>(641,953)</u>	<u>(1,081,471)</u>
	<u>\$ (60,603,458)</u>	<u>\$ (2,166,626)</u>

During fiscal years 2009 and 2008, the Foundation received unrestricted contributions of fixed income and marketable equity securities with a total fair value of \$28,005,877 and \$47,244,045, respectively, at the time of receipt. During fiscal year 2008, the Foundation also received an unrestricted contribution of a limited partnership interest with an estimated fair value of \$15,580,000. This interest was sold in exchange for a note receivable (see Note 4). Funds held in trust for others of \$1,816,578 and \$2,907,464, respectively, are invested in fixed income and marketable equity securities (see Note 8).

NOTE 3 - PLEDGES AND CONTRIBUTIONS RECEIVABLE

Pledges and contributions receivable consist of the following at March 31:

	<u>2009</u>	<u>2008</u>
Due in less than one year	\$ 1,372,774	\$ 919,680
Due in one to four years	<u>1,274,002</u>	<u>410,002</u>
	2,646,776	1,329,682
Less: discount to present value (from 1.93% to 4.74%)	<u>(22,654)</u>	<u>(73,351)</u>
	<u>\$ 2,624,122</u>	<u>\$ 1,256,331</u>

NOTE 4 - NOTES RECEIVABLE

The notes receivable balance consists of four notes. Three of the notes, with combined initial face values of \$1,568,000, are non-interest bearing and have varying maturities from one year to fifteen years. The notes are recorded at the present value of the future cash flows, utilizing an imputed interest rate of 1.93%.

The fourth note was issued in fiscal year 2008 with a principal balance of \$15,580,000. This note bears interest at 5.00% per annum and provides for annual interest payments. A balloon payment equal to the outstanding principal and accrued interest is due August 31, 2014. At March 31, 2009 and 2008, the note receivable balance includes \$1,265,875 and \$486,875, respectively, of accrued interest earned on this note.

NOTE 5 - CHARITABLE REMAINDER TRUSTS RECEIVABLE

During fiscal year 2006, The Community Foundation received a \$3,910,500 pledge to be received from the assets of a charitable remainder unitrust, payable on the termination date of the unitrust, or ten years from the date that the underlying assets were transferred to the trust. The underlying agreement calls for payments of 9.5% of the net fair market value of the trust assets to be paid quarterly to the income and/or successor beneficiary of the trust during the period of the trust. The Community Foundation does not have control over the underlying assets and is not a trustee. The estimated net value of the pledge totaled \$347,013 and \$660,432 at March 31, 2009 and 2008, respectively, and is included in the charitable remainder trusts receivable in the accompanying consolidated statements of financial position. This amount is revalued annually. The estimated net present value of the charitable remainder trust is currently considered to be temporarily restricted until the funds are received.

During fiscal year 1994, The Community Foundation received a \$3 million pledge to be received from the assets of a charitable remainder trust upon the termination of life interests retained by the donor. The estimated net value of the pledge totaled \$1,867,372 and \$2,581,570 at March 31, 2009 and 2008, respectively, and is included in the charitable remainder trusts receivable in the accompanying consolidated statements of financial position. The estimated net present value of the charitable remainder trust is currently considered to be temporarily restricted until the funds are received. Upon receipt of the ultimate pledge, \$503,946 will be reflected as an unrestricted endowment fund, and the remaining amount will be reflected as an unrestricted donor-advised fund in accordance with the donor's agreement and the variance powers of the Board of Trustees.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31:

	<u>2009</u>	<u>2008</u>
Furniture and office equipment	\$ 254,292	\$ 184,733
Computer software	85,150	65,046
Leasehold improvements	<u>49,035</u>	<u>8,733</u>
	388,477	258,512
Less: accumulated depreciation and amortization	<u>(254,788)</u>	<u>(226,931)</u>
	<u>\$ 133,689</u>	<u>\$ 31,581</u>

During the years ended March 31, 2009 and 2008, the Foundation recorded depreciation and amortization expense related to property and equipment of \$31,477 and \$18,397 respectively.

NOTE 7 - GRANTS AND APPROPRIATIONS PAYABLE

The Foundation generally makes grants to fund organizations that promote charitable, educational, civic and cultural needs primarily of the greater Washington metropolitan area. Scheduled future minimum payments for these grants as of March 31, 2009 are as follows:

<u>Years ending March 31,</u>		
2010		\$ 15,953,725
2011		9,349,500
2012		2,290,000
2013		<u>1,135,000</u>
		28,728,225
Less: amount representing interest		<u>(476,078)</u>
		<u>\$ 28,252,147</u>

NOTE 8 - FUNDS HELD IN TRUST FOR OTHERS

The Community Foundation has been appointed to serve as trustee for several charitable trusts. Funds held in this capacity are included as assets and liabilities in the consolidated statements of financial position.

NOTE 9 - DONOR-ADVISED AND OTHER FUNDS

Donor-advised and other funds consist of the following as of March 31:

	<u>2009</u>	<u>2008</u>
Donor-advised funds	\$ 176,563,662	\$ 213,598,505
Endowments funds	3,363,075	5,873,598
Field of interest funds	21,962,318	28,404,591
Designated funds	18,628,201	10,554,581
Scholarship funds	9,065,657	9,896,563
Funds designated as area affiliate funds		
Montgomery County Community Foundation	14,759,378	21,214,048
Prince George's County Community Foundation	1,944,907	2,779,549
Alexandria Community Trust	3,372,521	5,338,153
Survivors' Fund	<u>0</u>	<u>762,088</u>
	249,659,719	298,421,676
Plus: unallocated net present value of interest on grants payable (see Note 7)	<u>476,078</u>	<u>1,060,750</u>
	<u>\$ 250,135,797</u>	<u>\$ 299,482,426</u>

NOTE 10 - RETIREMENT PLAN

The Community Foundation maintains a defined contribution retirement plan (the Plan) for eligible employees. The Community Foundation contributes up to ten percent of each eligible employee's compensation to the Plan. Employees who commenced employment after April 1992 are eligible to participate immediately, while Community Foundation contributions vest ratably over three years of employment. Employees who commenced employment prior to April 1992 were eligible to participate after one year of service, while Community Foundation contributions for these employees vest immediately. The Foundation recorded contributions to the Plan of \$244,663 and \$217,381 for the years ended March 31, 2009 and 2008, respectively.

NOTE 11 - FAIR VALUE MEASUREMENTS

Effective April 1, 2008, the Foundation adopted SFAS No. 157. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Under SFAS No. 157, fair value should be based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

With the adoption of SFAS No. 157, the Foundation's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels under SFAS No. 157, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets. The Foundation's Level 1 instruments are described below.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can

be corroborated by observable market data for substantially the full term of the investment. The Foundation's Level 2 instruments are described below.

- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. The Foundation's Level 3 instruments are described below.

The following section describes the valuation methodologies the Foundation uses to measure different financial assets at fair value.

Investments

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to Level 1 investments such as certain cash and money market accounts, government securities, certain fixed income securities, and certain marketable equity securities. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Foundation uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2 and consist primarily certain fixed income securities and certain marketable equity securities. The Foundation's Level 3 assets primarily include investments in real estate interests, other business entities, and other alternatives. The Foundation values the Level 3 corporate investments using internally-developed valuation models, whose inputs include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair value of the investments.

Investments measured at fair value on a recurring basis are summarized below:

Description	As of March 31, 2009			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Cash and money market accounts	\$ 32,098,254	\$ 32,098,254	\$ 0	\$ 0
Government securities	2,664,882	2,664,882	0	0
Fixed income securities	56,906,717	36,804,212	20,102,505	0
Marketable equity securities	87,954,303	87,155,247	799,056	0
Real estate	2,121,750	0	0	2,121,750
Interests in business entities and other alternatives	<u>65,940,544</u>	<u>0</u>	<u>0</u>	<u>65,940,544</u>
	\$ <u>247,686,450</u>	\$ <u>158,722,595</u>	\$ <u>20,901,561</u>	\$ <u>68,062,294</u>

The following table presents a reconciliation of instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended March 31, 2009:

Balance at April 1, 2008	\$ 94,191,958
Total realized and unrealized losses	(16,759,202)
Purchases, issuances, and settlements	8,000,000
Transfers in (out) of Level 3	<u>(17,370,462)</u>
Balance at March 31, 2009	\$ <u>68,062,294</u>

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets held at March 31, 2009

\$ (15,970,982)

NOTE 12 - CONCENTRATIONS OF CREDIT RISK

The Foundation is subject to credit risk concentrations principally from cash and cash equivalents, investments, pledges receivable, and notes receivable. The Foundation believes the risk of loss associated with cash and cash equivalents is very low since cash and cash equivalents are maintained in financial institutions. However, at times, the Foundation had cash and cash equivalents on deposit with financial institutions that exceeded federally insured limits. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position. The Foundation's pledges and notes receivable balances consist primarily of amounts due from individuals and corporations. The Foundation's management reviews the notes and the pledges receivable balances as a whole to determine the adequacy of its allowance for doubtful accounts.

At March 31, 2009 and 2008, the Foundation held approximately 1% and 2%, respectively, of its total investment portfolio in the common stock of one company. As this common stock investment represents a significant proportion of the entity's total investment portfolio and assets, declines in the fair value of the related stock could significantly affect the value of the investment portfolio and its net assets.

NOTE 13 - SUPPORTING SERVICES

Supporting services expenses are comprised of the following for the years ended March 31:

	<u>2009</u>	<u>2008</u>
Special fundraising events	\$ 3,516,180	\$ 2,345,524
Salaries and fringe benefits	1,974,608	2,177,118
Office and equipment lease expenses	377,038	478,368
Professional fees and consultant	169,733	190,166
Office supplies	127,513	155,614
Other	97,477	144,357
Telephone	44,323	48,691
Travel and meetings	40,292	98,874
Depreciation and amortization	31,447	18,397
Postage	<u>22,778</u>	<u>42,023</u>
	<u>\$ 6,401,389</u>	<u>\$ 5,699,132</u>

Included in supporting services is \$1,499,234 and \$1,419,356 for program administration services for the years ended March 31, 2009 and 2008, respectively.

NOTE 14 - FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities are summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and activities benefitted.

NOTE 15 - COMMITMENTS

Operating leases

The Foundation leases office space in Washington, D.C. under the terms of a noncancelable operating lease that expires in June 2012. In addition, the Foundation leases office space for its affiliate fund in Montgomery County under the terms of a noncancelable operating lease that also expires in June 2012. These lease and sublease agreements contain escalation clauses and provisions for the payment of taxes and operating expenses.

The following is a schedule by year of the future minimum lease payments required under the operating leases as of March 31, 2009:

Years ending March 31,

2010	\$ 433,000
2011	450,000
2012	468,000
2013	<u>118,000</u>
	\$ <u>1,469,000</u>

In accordance with accounting principles generally accepted in the United States of America, the Foundation is recognizing the total cost of its office lease ratably over the lease period. The difference between rent paid and that expensed is reflected as deferred rent, which is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position, and is being amortized over the term of the lease.

The Foundation subleases a portion of its office space under the terms of an annual operating sublease with annual extension options through June 2012. Rent expense, net of sublease income of \$134,618 and \$127,554, respectively, totaled \$286,587 and \$297,344 for the years ended March 31, 2009 and 2008, respectively.

Lease of donated property

In November 1997, The Community Foundation received donated property in the District of Columbia with an appraised value of \$605,735 that it leased to the D.C. Metropolitan Police Department to establish a police substation. The original lease term was ten years and The Community Foundation received rental payments thereon of \$1 per year. Under the terms of the donor agreement, at the end of the ten-year period, The Community Foundation had the option to sell or lease the property at its fair market value. In February 2008, The Community Foundation renewed its lease with the D.C. Metropolitan Police Department for an additional three years at below fair market value.

NOTE 16 - RELATED PARTY TRANSACTIONS

The Summit Fund received \$333,079 and \$350,467 in donated support for office space and administrative support from a related organization during the years ended March 31, 2009 and 2008, respectively. One founder and the President of this related organization are also on the Board of Trustees of the Summit Fund, and the President is a trustee emeritus of The Community Foundation.

The President of the Community Foundation serves on the Board of Directors of several not-for-profit organizations. During 2009 and 2008, the Community Foundation paid grants totaling \$225,000 and \$690,880, respectively, as well as membership fees of \$2,000 and \$22,100, respectively, to these organizations.

**THE COMMUNITY FOUNDATION FOR THE NATIONAL
CAPITAL REGION**

SUPPLEMENTAL INFORMATION

MARCH 31, 2009 AND 2008

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

MARCH 31, 2009

	<u>The</u> <u>Community</u> <u>Foundation</u>	<u>The Summit</u> <u>Fund of</u> <u>Washington</u>	<u>Kristin</u> <u>and David</u> <u>Steinberg</u> <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 39,685,205	\$ 6,571,402	\$ 86,893	\$ 0	\$ 46,343,500
Investments	217,807,584	28,326,854	1,552,012	0	247,686,450
Pledges and contributions receivable, net	2,624,122	0	0	0	2,624,122
Notes receivable, net	12,494,762	0	0	0	12,494,762
Charitable remainder trusts receivable	1,867,371	0	347,013	0	2,214,384
Interest and other receivables	911,680	7,371	0	(193,309)	725,742
Property and equipment, net	133,689	0	0	0	133,689
Prepaid expenses and other assets	<u>81,195</u>	<u>2,116</u>	<u>0</u>	<u>0</u>	<u>83,311</u>
Total assets	<u>\$ 275,605,608</u>	<u>\$ 34,907,743</u>	<u>\$ 1,985,918</u>	<u>\$ (193,309)</u>	<u>\$ 312,305,960</u>
Liabilities					
Accounts payable and accrued expenses	\$ 1,565,549	\$ 1,033	\$ 126,552	\$ (126,552)	\$ 1,566,582
Grants and appropriations payable, net	10,683,350	17,635,554	0	(66,757)	28,252,147
Funds held in trust for others	<u>1,816,578</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,816,578</u>
Total liabilities	<u>14,065,477</u>	<u>17,636,587</u>	<u>126,552</u>	<u>(193,309)</u>	<u>31,635,307</u>
Net assets					
Unrestricted	256,317,902	17,271,156	1,512,353	0	275,101,411
Temporarily restricted	<u>5,222,229</u>	<u>0</u>	<u>347,013</u>	<u>0</u>	<u>5,569,242</u>
Total net assets	<u>261,540,131</u>	<u>17,271,156</u>	<u>1,859,366</u>	<u>0</u>	<u>280,670,653</u>
Total liabilities and net assets	<u>\$ 275,605,608</u>	<u>\$ 34,907,743</u>	<u>\$ 1,985,918</u>	<u>\$ (193,309)</u>	<u>\$ 312,305,960</u>

See independent auditor's report.

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

MARCH 31, 2008

	<u>The</u> <u>Community</u> <u>Foundation</u>	<u>The Summit</u> <u>Fund of</u> <u>Washington</u>	<u>Kristin</u> <u>and David</u> <u>Steinberg</u> <u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 26,398,467	\$ 8,723,661	\$ 241,705	\$ 0	\$ 35,363,833
Investments	279,138,919	43,507,843	1,816,703	0	324,463,465
Pledges and contributions receivable, net	1,256,331	0	0	0	1,256,331
Notes receivable, net	17,095,744	0	0	0	17,095,744
Charitable remainder trusts receivable	2,581,570	0	660,432	0	3,242,002
Interest and other receivables	1,592,812	9,427	0	(88,606)	1,513,633
Property and equipment, net	31,581	0	0	0	31,581
Prepaid expenses and other assets	<u>147,714</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>147,714</u>
Total assets	<u>\$ 328,243,138</u>	<u>\$ 52,240,931</u>	<u>\$ 2,718,840</u>	<u>\$ (88,606)</u>	<u>\$ 383,114,303</u>
Liabilities					
Accounts payable and accrued expenses	\$ 1,918,812	\$ 43,342	\$ 0	\$ 0	\$ 1,962,154
Grants and appropriations payable, net	10,075,603	6,248,606	7,500	(88,606)	16,243,103
Funds held in trust for others	<u>2,907,464</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,907,464</u>
Total liabilities	<u>14,901,879</u>	<u>6,291,948</u>	<u>7,500</u>	<u>(88,606)</u>	<u>21,112,721</u>
Net assets					
Unrestricted	308,347,903	45,948,983	2,050,908	0	356,347,794
Temporarily restricted	<u>4,993,356</u>	<u>0</u>	<u>660,432</u>	<u>0</u>	<u>5,653,788</u>
Total net assets	<u>313,341,259</u>	<u>45,948,983</u>	<u>2,711,340</u>	<u>0</u>	<u>362,001,582</u>
Total liabilities and net assets	<u>\$ 328,243,138</u>	<u>\$ 52,240,931</u>	<u>\$ 2,718,840</u>	<u>\$ (88,606)</u>	<u>\$ 383,114,303</u>

See independent auditor's report.

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2009

	<u>The Community Foundation</u>	<u>The Summit Fund of Washington</u>	<u>Kristin and David Steinberg Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Changes in unrestricted net assets					
Support and revenue					
Contributions	\$ 60,992,635	\$ 11,812,242	\$ 0	\$ (262,501)	\$ 72,542,376
Federal grants	211,092	0	0	0	211,092
Investment loss, net	(45,021,195)	(15,191,832)	(390,431)	0	(60,603,458)
Other income	730,640	260	0	(51,533)	679,367
Net assets released from restrictions	<u>2,124,755</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,124,755</u>
Total unrestricted support and revenue	<u>19,037,927</u>	<u>(3,379,330)</u>	<u>(390,431)</u>	<u>(314,034)</u>	<u>14,954,132</u>
Expenses					
Program grants and appropriations	<u>65,113,977</u>	<u>24,825,760</u>	<u>121,890</u>	<u>(262,501)</u>	<u>89,799,126</u>
Supporting services					
General and administrative	2,437,772	472,737	26,233	(51,533)	2,885,209
Fundraising	<u>3,516,180</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,516,180</u>
Total supporting services	<u>5,953,952</u>	<u>472,737</u>	<u>26,233</u>	<u>(51,533)</u>	<u>6,401,389</u>
Total expenses	<u>71,067,929</u>	<u>25,298,497</u>	<u>148,123</u>	<u>(314,034)</u>	<u>96,200,515</u>
Decrease in unrestricted net assets	<u>(52,030,002)</u>	<u>(28,677,827)</u>	<u>(538,554)</u>	<u>0</u>	<u>(81,246,383)</u>
Changes in temporarily restricted net assets					
Contributions	2,152,266	0	0	0	2,152,266
Net assets released from restrictions	(2,124,755)	0	0	0	(2,124,755)
Change in value of charitable remainder trusts	<u>201,362</u>	<u>0</u>	<u>(313,419)</u>	<u>0</u>	<u>(112,057)</u>
Increase (decrease) in temporarily restricted net assets	<u>228,873</u>	<u>0</u>	<u>(313,419)</u>	<u>0</u>	<u>(84,546)</u>
Changes in net assets	(51,801,129)	(28,677,827)	(851,973)	0	(81,330,929)
Net assets at the beginning of year	<u>313,341,259</u>	<u>45,948,983</u>	<u>2,711,340</u>	<u>0</u>	<u>362,001,582</u>
Net assets at the end of year	<u>\$ 261,540,130</u>	<u>\$ 17,271,156</u>	<u>\$ 1,859,367</u>	<u>\$ 0</u>	<u>\$ 280,670,653</u>

See independent auditor's report.

THE COMMUNITY FOUNDATION FOR THE NATIONAL CAPITAL REGION
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2008

	<u>The Community Foundation</u>	<u>The Summit Fund of Washington</u>	<u>Kristin and David Steinberg Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Changes in unrestricted net assets					
Support and revenue					
Contributions	\$ 118,120,614	\$ 3,565,900	\$ 0	\$ (434,012)	\$ 121,252,502
Investment (loss) income, net	(5,122,806)	3,272,883	(316,703)	0	(2,166,626)
Other income	652,730	4,758	0	(64,278)	593,210
Net assets released from restrictions	<u>1,071,201</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,071,201</u>
Total unrestricted support and revenue	<u>114,721,739</u>	<u>6,843,541</u>	<u>(316,703)</u>	<u>(498,290)</u>	<u>120,750,287</u>
Expenses					
Program grants and appropriations	<u>82,692,983</u>	<u>8,793,280</u>	<u>154,030</u>	<u>(434,012)</u>	<u>91,206,281</u>
Supporting services					
General and administrative	2,204,551	447,615	26,778	(64,278)	2,614,666
Fundraising	<u>3,084,466</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,084,466</u>
Total supporting services	<u>5,289,017</u>	<u>447,615</u>	<u>26,778</u>	<u>(64,278)</u>	<u>5,699,132</u>
Total expenses	<u>87,982,000</u>	<u>9,240,895</u>	<u>180,808</u>	<u>(498,290)</u>	<u>96,905,413</u>
Increase (decrease) in unrestricted net assets	<u>26,739,739</u>	<u>(2,397,354)</u>	<u>(497,511)</u>	<u>0</u>	<u>23,844,874</u>
Changes in temporarily restricted net assets					
Contributions	699,684	0	0	0	699,684
Net assets released from restrictions	(1,071,201)	0	0	0	(1,071,201)
Change in value of charitable remainder trusts	<u>186,793</u>	<u>0</u>	<u>(2,058,577)</u>	<u>0</u>	<u>(1,871,784)</u>
Decrease in temporarily restricted net assets	<u>(184,724)</u>	<u>0</u>	<u>(2,058,577)</u>	<u>0</u>	<u>(2,243,301)</u>
Changes in net assets	26,555,015	(2,397,354)	(2,556,088)	0	21,601,573
Net assets at the beginning of year	<u>286,786,244</u>	<u>48,346,337</u>	<u>5,267,428</u>	<u>0</u>	<u>340,400,009</u>
Net assets at the end of year	<u>\$ 313,341,259</u>	<u>\$ 45,948,983</u>	<u>\$ 2,711,340</u>	<u>\$ 0</u>	<u>\$ 362,001,582</u>

See independent auditor's report.