

# Morris Goldseker Foundation Of Maryland, Inc.

Financial Report  
December 31, 2006

**McGladrey & Pullen**  
Certified Public Accountants

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Morris Goldseker Foundation of Maryland, Inc.  
Baltimore, Maryland

We have audited the accompanying statement of financial position of Morris Goldseker Foundation of Maryland, Inc. (the Foundation) as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Morris Goldseker Foundation of Maryland, Inc. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation for the year ended December 31, 2005, were audited by Walpert & Wolpoff, LLP (W&W), independent accountants, certain members of which became partners in McGladrey & Pullen, LLP on September 1, 2006. W&W's report, dated January 23, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Morris Goldseker Foundation of Maryland, Inc. as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Baltimore, Maryland  
November 30, 2007

Morris Goldseker Foundation Of Maryland, Inc.

Statements Of Financial Position  
December 31, 2006 And 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash (Note 1)	\$ 60,807	\$ 61,374
Investments, at market (Notes 1, 3, and 4)	103,073,781	97,635,335
Other assets (Note 1)	627	422
<b>Total assets</b>	<b>\$ 103,135,215</b>	<b>\$ 97,697,131</b>
<b>Liabilities And Net Assets</b>		
Liabilities		
Accrued expenses	\$ 67,518	\$ 76,002
Federal excise tax payable (Note 1)	35,937	77,072
Deferred federal excise tax payable (Note 1)	250,123	263,250
<b>Total liabilities</b>	<b>353,578</b>	<b>416,324</b>
Commitments (Notes 2, 4, and 5)		
Net Assets - Unrestricted (Note 1)	102,781,637	97,280,807
<b>Total liabilities and net assets</b>	<b>\$ 103,135,215</b>	<b>\$ 97,697,131</b>

See Notes To Financial Statements.

Morris Goldseker Foundation Of Maryland, Inc.

Statements Of Activities

Years Ended December 31, 2006 And 2005

	2006	2005
Unrestricted Net Assets		
Revenue and gains (Note 1):		
Investment income	\$ 1,799,030	\$ 2,095,391
Net gain on investments (Note 3)	8,932,636	3,855,064
<b>Total revenue and gains</b>	<b>10,731,666</b>	<b>5,950,455</b>
Expenses:		
Program services		
Grants	3,582,632	3,241,375
Foundation administrative expenses related to grant-making (Note 5)	930,636	918,060
<b>Total program services</b>	<b>4,513,268</b>	<b>4,159,435</b>
Supporting services, management, and general:		
General and administrative expenses related to revenue activity (Note 5)	497,830	506,615
Provision for federal excise tax (Note 6)	219,738	441,499
<b>Total management and general</b>	<b>717,568</b>	<b>948,114</b>
<b>Total expenses</b>	<b>5,230,836</b>	<b>5,107,549</b>
<b>Increase in unrestricted net assets</b>	<b>5,500,830</b>	<b>842,906</b>
Net assets at beginning of year (unrestricted)	97,280,807	96,437,901
Net assets at end of year (unrestricted)	<b>\$ 102,781,637</b>	<b>\$ 97,280,807</b>

See Notes To Financial Statements.

Morris Goldseker Foundation Of Maryland, Inc.

Statements Of Cash Flows  
Years Ended December 31, 2006 And 2005

	2006	2005
Cash Flows From Operating Activities		
Increase in unrestricted net assets	\$ 5,500,830	\$ 842,906
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:		
Net gain on investments	(8,932,636)	(3,855,064)
Changes in assets and liabilities:		
(Increase) decrease in:		
Other assets	(205)	47,383
Increase (decrease) in:		
Accrued expenses	(8,484)	91,415
Federal excise tax payable	(41,135)	33,659
Deferred federal excise tax payable	(13,127)	263,250
<b>Net cash used in operating activities</b>	<b>(3,494,757)</b>	<b>(2,576,451)</b>
Cash Flows From Investing Activities		
Proceeds from sales and distributions from investments	71,209,337	46,366,087
Purchases of investments	(67,715,147)	(43,823,995)
<b>Net cash provided by investing activities</b>	<b>3,494,190</b>	<b>2,542,092</b>
<b>Net decrease in cash</b>	<b>(567)</b>	<b>(34,359)</b>
Cash at beginning of year	61,374	95,733
<b>Cash at end of year</b>	<b>\$ 60,807</b>	<b>\$ 61,374</b>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for federal excise tax	\$ 274,000	\$ 54,000

See Notes To Financial Statements.

## Morris Goldseker Foundation Of Maryland, Inc.

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activity: Morris Goldseker Foundation of Maryland, Inc. (the Foundation) was organized and incorporated on May 8, 1973, for the purpose of promoting charitable undertakings.

A summary of the Foundation's significant accounting policies follows:

Financial statement presentation: The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2006 and 2005, the Foundation had only unrestricted net assets.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and concentrations of credit risk: The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash.

#### Investments:

Marketable securities: Marketable securities, consisting predominantly of stocks, bonds, U.S. Treasury obligations, and other short-term investments, are stated at market value. Cost is calculated as the price paid to acquire investment securities. Market value is based on published quoted market prices. Realized and unrealized gains and losses are recognized during the period in which they occur.

Alternative investments: Alternative investments, consisting predominantly of investments in certain managed hedge funds and real estate partnerships, are valued at fair value as determined in good faith by the managers of the respective investment.

Investment in partnership: The investment in The Baltimore Fund, LLC is recorded under the equity method of accounting, whereby, the investment is increased by capital contributions and the Foundation's proportional share of the partnership's income and is reduced by distributions and the Foundation's proportional share of the partnership's losses. (See Note 4.)

The Foundation invests in professionally managed portfolios that may contain common shares and bonds of publicly-traded companies, U.S. Government obligations, mutual funds, money market funds, and various alternative investments. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Morris Goldseker Foundation Of Maryland, Inc.

Notes To Financial Statements

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**Note 1. Nature Of Activities And Significant Accounting Policies (Continued)**

Furniture and equipment: Furniture and equipment are recorded at cost. The Foundation capitalizes all items over \$1,000 that have a useful life greater than one year. Depreciation is computed utilizing the straight-line method over the estimated useful lives of 5 to 10 years. All of the Foundation's furniture and equipment are fully depreciated. Accumulated depreciation was \$19,058 as of December 31, 2006 and 2005.

Grants: An unconditional promise to give (grant commitment) is recognized as a payable and corresponding grant expense in the year the promise or commitment is made. A conditional promise to give, which depends on the occurrence of a specified future and uncertain event, is not recognized until the condition has been met.

Federal income tax: The Foundation has been recognized by the Internal Revenue Service (IRS) as a private foundation exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes is reflected in these financial statements.

Federal excise tax: Generally, private foundations are subject to a 2% (reduced to 1% if certain requirements are met) excise tax on investment income, as defined by the IRC.

Deferred federal excise taxes: Deferred federal excise taxes are determined based upon the estimated future excise tax effects of differences between the financial statement and excise tax bases of assets and liabilities, as measured by the current enacted excise tax rates. Deferred excise tax expense is the result of changes in the deferred excise tax assets and liabilities. Temporary differences which give rise to the deferred excise tax liability consist primarily of the recognition of unrealized gains which are not recognized for excise tax purposes.

**Note 2. Distribution Requirement**

The Foundation is required to distribute its minimum investment return in order to avoid an excise tax for failure to distribute income. The minimum investment return is an income equivalent which is essentially determined by multiplying the aggregate average fair market value of a private foundation's assets by 5%. The distribution requirement can be met by making qualifying distributions (grants and expenses for exempt purposes), incurring the current year's excise tax and utilizing any excess distribution carryovers.

Morris Goldseker Foundation Of Maryland, Inc.

Notes To Financial Statements

Note 2. Distribution Requirement (Continued)

The following is an analysis of the distribution requirements and distributions made during the years ended December 31, 2006 and 2005:

	2006	2005
<u>Distribution requirement</u>		
Current year's distribution requirement	\$ 4,940,339	\$ 4,701,784
Prior year's remaining distribution requirement	4,360,191	3,997,071
	<u>9,300,530</u>	<u>8,698,855</u>
<u>Qualifying distributions</u>		
Current year's qualifying distributions	4,537,963	4,163,683
Current year's excise tax	232,865	174,981
	<u>4,770,828</u>	<u>4,338,664</u>
<b>Remaining distribution requirement (Must be distributed by December 31, 2007 and 2006, respectively).</b>	<b><u>\$ 4,529,702</u></b>	<b><u>\$ 4,360,191</u></b>

Note 3. Investments

Investments consisted of the following at December 31, 2006 and 2005:

	2006		2005	
	Fair Market Value	Cost	Fair Market Value	Cost
Common stocks	\$ 50,458,993	\$ 30,626,885	\$ 59,622,050	\$ 35,745,912
Money market funds	9,384,573	9,384,573	3,717,056	3,717,056
Bonds and treasury notes	11,783,954	11,884,676	14,728,692	14,770,054
Alternative investments	31,446,261	26,081,318	19,567,537	17,077,276
	<u>\$ 103,073,781</u>	<u>\$ 77,977,452</u>	<u>\$ 97,635,335</u>	<u>\$ 71,310,298</u>

Net gains on investments consisted of the following for the years ended December 31, 2006 and 2005:

	2006	2005
Unrealized loss on marketable securities	\$ (1,228,697)	\$ (3,252,131)
Realized gain on marketable securities	10,161,333	7,107,195
<b>Net gain on investments</b>	<b><u>\$ 8,932,636</u></b>	<b><u>\$ 3,855,064</u></b>

## Morris Goldseker Foundation Of Maryland, Inc.

### Notes To Financial Statements

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#### Note 4. Commitments

Office space: The Foundation has a five-year lease agreement for office space that currently expires on April 30, 2012. The Foundation is responsible for its proportionate share of real estate taxes and operating expenses. Rent expense was \$51,084 and \$49,596 for 2006 and 2005, respectively. Future minimum rents due under the lease are as follows:

Years Ending December 31,	
2007	\$ 52,486
2008	54,062
2009	55,684
2010	57,354
2011	59,075
2012	19,885
	<u>\$ 298,546</u>

Grants: In addition to the grants paid during the current period, the Foundation has conditional grant commitments scheduled for payment to specific organizations in the following years:

Years Ending December 31,	
2007	\$ 1,031,000
2008	734,500
2009	770,725
2010	808,761
2011	10,000
	<u>\$ 3,354,986</u>

The Baltimore Fund, LLC: As part of its socially responsible investment portfolio, the Foundation has committed \$400,000 to The Baltimore Fund, LLC (Baltimore Fund). Baltimore Fund was organized to purchase, hold, and exercise the rights of ownership with respect to an investment in TRF Urban Growth Partners, L.P. (TRF). TRF provides loans to, or invests in, expanding businesses that provide quality opportunities for low- and middle-income urban workers in the Mid-Atlantic region, while seeking a positive return on its investments. As of December 31, 2006 and 2005, the Foundation has funded \$262,500 and \$242,500, respectively, of its \$400,000 commitment.

Loan guarantee: Healthy Neighborhoods, Inc. created a \$38 million privately-financed loan pool in 2005, whose purpose is to provide mortgage assistance to homeowners in selected Baltimore City neighborhoods (Healthy Neighborhoods). The Foundation and several other foundations have agreed to guarantee, over a ten-year period, the first 10% of losses on any loan that goes into default. The Foundation's \$400,000 guarantee represents 20% of the guarantee pool.

## Morris Goldseker Foundation Of Maryland, Inc.

### Notes To Financial Statements

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#### Note 5. Employee Pension Plans

The Foundation has an annuity retirement plan under IRC §403(b) that covers employees who meet certain eligibility requirements. Under the terms of the plan, employees may contribute pretax dollars toward the purchase of the annuity. The Foundation does not make matching contributions.

The Foundation established a defined benefit pension plan (the Plan) which covers all employees who have completed one year of service, as defined in the plan documents, and who have attained the age of 21. The Plan's policy is to fund accrued pension costs, including past service costs, under the aggregate cost method of valuation. This method establishes a normal cost which spreads the total unfunded cost of the plan as a level percentage of the future payroll of covered employees. The normal cost is adjusted each year to reflect the experience under the plan, automatically spreading gains or losses over future years. The determination of the normal cost and plan liabilities is made independently for each individual participant. An annual net allocation of the trust fund assets is made by accounting for each participant's employer contributions and benefits paid. The investment earnings are allocated in proportion to each participant's share of the total fund. The Plan's funding standard account meets the minimum funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA).

As of January 1, 2006, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires that employers with defined benefit plans recognize the overfunded or underfunded status of a benefit plan as an asset or a liability in the statements of financial position. The cumulative effect of the change on prior years was insignificant.

The Foundation contributed \$85,000 and \$80,900 to the Plan for the years ended December 31, 2006 and 2005, respectively. The Foundation incurred pension expense of \$80,306 and \$119,152 for the years ended December 31, 2006 and 2005, respectively. The Foundation has accrued pension liabilities of \$33,558 and \$38,252 for the years ended December 31, 2006 and 2005, respectively, and is included in accrued expenses on the statements of financial position.

Morris Goldseker Foundation Of Maryland, Inc.

Notes To Financial Statements

Note 5. Employee Pension Plans (Continued)

The following table sets forth the pertinent information related to the Foundation's defined benefit plan:

	2006	2005
Employer contributions	\$ 85,000	\$ 80,900
Benefits paid	\$ -	\$ -
Fair value of plan assets at end of year	\$ 455,427	\$ 357,224
Projected benefit obligation	497,336	444,073
Funded status (plan assets less then benefit obligations)	\$ (41,909)	\$ (86,849)
Accumulated benefit obligation	\$ 496,411	\$ 395,475
Net periodic benefit cost	\$ 53,264	\$ 200,968

Weighted-average assumptions used to determine benefit obligations as of December 31

Discount rate	6.00%	6.00%
Average increase in future compensation levels	Excluded	Excluded

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31

Discount rate	6.00%	6.00%
Expected long-term return on plan assets	6.00%	6.00%
Average increase in future compensation levels	Excluded	Excluded

The Foundation considers various factors in estimating the expected long-term rate of return on Plan assets. Among the factors considered include the historical long-term returns on Plan assets, the current and expected allocation of Plan assets, input from actuaries and investment consultants, and long-term inflation assumptions.

The Foundation's defined benefit Plan weighted-average asset allocations at December 31, 2006 and 2005, are as follows:

Asset category	2006	2005
Equity securities	45%	41%
Fixed income	55%	59%
	100%	100%

Morris Goldseker Foundation Of Maryland, Inc.

Notes To Financial Statements

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**Note 5. Employee Pension Plans (Continued)**

The Foundation's investment policy for its defined benefit plan is to balance risk and return using a diversified portfolio consisting primarily of high quality equity and fixed income securities. To accomplish this goal, the Plan's assets are actively managed by an outside investment manager with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. The maturities of fixed income securities are monitored so there is sufficient liquidity to meet current benefit payment obligations. The Foundation's management provides oversight of the Plan investments and the performance of the investment manager.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years Ending December 31,	Amount
2007	\$ -
2008	21,911
2009	43,823
2010	43,823
2011	43,823
2012 to 2016	219,115

**Note 6. Provision For Federal Excise Tax**

The provision for federal excise tax was composed of the following for the year ended December 31, 2006:

	2006
Current federal excise tax	\$ 232,865
Deferred federal excise tax (benefit)	(13,127)
Provision for federal excise tax	<u>\$ 219,738</u>