



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Mid-Shore Community Foundation, Inc.  
Easton, MD 21601

We have audited the accompanying financial statements of Mid-Shore Community Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Board of Directors  
Mid-Shore Community Foundation, Inc.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mid-Shore Community Foundation, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

November 19, 2015  
Easton, Maryland

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,181,552	\$ 1,127,215
Receivable from estates in settlement	2,583,573	1,405,221
TOTAL CURRENT ASSETS	3,765,125	2,532,436
<b>INVESTMENTS</b>		
Marketable securities, at fair value	50,580,625	47,668,592
<b>PROPERTY AND EQUIPMENT, at cost,</b>		
less accumulated depreciation	1,773,729	1,807,978
<b>OTHER ASSETS</b>		
Receivables from charitable remainder trusts	594,042	568,193
Mortgage notes receivable	22,286	26,759
Prepays	16,702	11,362
Cash value of life insurance	13,760	12,727
TOTAL OTHER ASSETS	646,790	619,041
TOTAL ASSETS	\$ 56,766,269	\$ 52,628,047
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 106,721	\$ 89,300
Grants payable, current portion	896,781	694,316
Charitable gift annuity obligations, current portion	187,151	241,081
Agency payables	2,495,886	2,302,191
TOTAL CURRENT LIABILITIES	3,686,539	3,326,888
<b>LONG-TERM LIABILITIES</b>		
Grants payable, net of current portion	397,930	404,034
Charitable gift annuity obligations, net of current portion	647,178	654,780
TOTAL LONG-TERM LIABILITIES	1,045,108	1,058,814
TOTAL LIABILITIES	4,731,647	4,385,702
<b>NET ASSETS</b>		
Unrestricted		
Board designated for endowment purposes	7,133,144	7,017,158
Other	479,971	922,915
Temporarily restricted	7,606,463	8,634,247
Permanently restricted	36,815,044	31,668,025
TOTAL NET ASSETS	52,034,622	48,242,345
TOTAL LIABILITIES AND NET ASSETS	\$ 56,766,269	\$ 52,628,047

See Notes to Financial Statements

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2015

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,340,435	\$ 84,337	\$ 4,895,187	\$ 6,319,959
Investment results	1,034,501	62,571	-	1,097,072
Change in value of split interest agreements	-	(7,901)	-	(7,901)
Rental income	28,050	-	-	28,050
Sub-Total	2,402,986	139,007	4,895,187	7,437,180
Net Assets Released From Restrictions	914,959	(1,166,791)	251,832	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,317,945</b>	<b>(1,027,784)</b>	<b>5,147,019</b>	<b>7,437,180</b>
<b>PROGRAM SERVICES</b>				
Grants	2,347,524	-	-	2,347,524
Fund expenses	653,840	-	-	653,840
<b>TOTAL PROGRAM SERVICES</b>	<b>3,001,364</b>	<b>-</b>	<b>-</b>	<b>3,001,364</b>
<b>SUPPORTING SERVICES</b>				
MSCF	431,328	-	-	431,328
Fundraising	134,754	-	-	134,754
Bullitt House	77,457	-	-	77,457
<b>TOTAL SUPPORTING SERVICES</b>	<b>643,539</b>	<b>-</b>	<b>-</b>	<b>643,539</b>
<b>TOTAL EXPENSES</b>	<b>3,644,903</b>	<b>-</b>	<b>-</b>	<b>3,644,903</b>
<b>CHANGE IN NET ASSETS</b>	<b>(326,958)</b>	<b>(1,027,784)</b>	<b>5,147,019</b>	<b>3,792,277</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>7,940,073</b>	<b>8,634,247</b>	<b>31,668,025</b>	<b>48,242,345</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 7,613,115</b>	<b>\$ 7,606,463</b>	<b>\$ 36,815,044</b>	<b>\$ 52,034,622</b>

See Notes to Financial Statements

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,708,147	\$ 50,638	\$ 548,338	\$ 2,307,123
Investment results	3,037,130	3,600,884	-	6,638,014
Change in value of split interest agreements	-	(23,341)	-	(23,341)
Rental income	25,925	-	-	25,925
Sub-Total	<u>4,771,202</u>	<u>3,628,181</u>	<u>548,338</u>	<u>8,947,721</u>
Net Assets Released From Restrictions	<u>40,070</u>	<u>(40,070)</u>	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>4,811,272</u>	<u>3,588,111</u>	<u>548,338</u>	<u>8,947,721</u>
<b>PROGRAM SERVICES</b>				
Grants	1,989,861	-	-	1,989,861
Fund expenses	637,353	-	-	637,353
<b>TOTAL PROGRAM SERVICES</b>	<u>2,627,214</u>	<u>-</u>	<u>-</u>	<u>2,627,214</u>
<b>SUPPORTING SERVICES</b>				
MSCF	421,724	-	-	421,724
Fundraising	123,140	-	-	123,140
Bullitt House	77,527	-	-	77,527
<b>TOTAL SUPPORTING SERVICES</b>	<u>622,391</u>	<u>-</u>	<u>-</u>	<u>622,391</u>
<b>TOTAL EXPENSES</b>	<u>3,249,605</u>	<u>-</u>	<u>-</u>	<u>3,249,605</u>
<b>CHANGE IN NET ASSETS</b>	1,561,667	3,588,111	548,338	5,698,116
NET ASSETS, BEGINNING OF YEAR	<u>6,378,406</u>	<u>5,046,136</u>	<u>31,119,687</u>	<u>42,544,229</u>
NET ASSETS, END OF YEAR	<u>\$ 7,940,073</u>	<u>\$ 8,634,247</u>	<u>\$ 31,668,025</u>	<u>\$ 48,242,345</u>

See Notes to Financial Statements

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,792,277	\$ 5,698,116
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	34,250	36,023
Noncash donations	(477,038)	(1,381,667)
Realized and unrealized gains on investments	(118,994)	(5,645,564)
Change in value of estate receivable	(1,178,352)	1,446,985
Contributions under split-interest agreements	(84,337)	(50,638)
Increase in contributions receivable from remainder trusts	(28,023)	(85,363)
Increase in agency payables	193,695	285,809
Increase in grants payable	196,361	372,952
Increase (decrease) in accounts payable	17,421	(3,920)
Decrease in charitable gift annuity obligations	(61,532)	(97,458)
Other	(6,373)	(868)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,279,355	574,407
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	10,041,541	8,779,548
Purchases of investments	(12,257,912)	(9,251,147)
Collections on mortgage notes receivable	4,473	4,004
NET CASH FLOWS FROM INVESTING ACTIVITIES	(2,211,898)	(467,595)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from new contributions under split-interest agreements	200,467	80,078
Payments to beneficiaries under split-interest agreements	(213,587)	(235,782)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(13,120)	(155,704)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 54,337	 (48,892)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 1,127,215	 1,176,107
 CASH AND CASH EQUIVALENTS, END OF YEAR	 \$ 1,181,552	 \$ 1,127,215

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

The Foundation received contributions of real estate valued at \$420,000 during the year ended June 30, 2014. The real estate is included in property and equipment in the statements of financial position.

See Notes to Financial Statements

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(1) Basis of presentation and summary of significant accounting policies**

**Nature of operations** – The Mid-Shore Community Foundation, Inc. (“Foundation”) is a community foundation serving the Eastern Shore of Maryland counties of Caroline, Kent, Dorchester, Talbot and Queen Anne’s. The Foundation was incorporated under the laws of Maryland on June 25, 1992, and is qualified as a publicly supported tax-exempt charity under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is the creation and management of endowments and other funds through the accumulation of private capital for the public good.

**Basis of presentation** – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

A description of the three categories of net assets is as follows:

Unrestricted Net Assets are free from donor-imposed restrictions and are presently available for use by the Foundation at the discretion of the Board of Directors.

Temporarily Restricted Net Assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Undistributed income and appreciation on endowment funds, receivables from estates in settlement, and charitable remainder trusts are reflected in the financial statements as temporarily restricted.

Permanently Restricted Net Assets are funds that have been restricted by donors to be maintained by the Foundation in perpetuity. Only the income is available for program operations in accordance with donor restrictions. This category reflects the historic gift component of endowment funds.

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

**Cash and cash equivalents** – Cash equivalents include amounts in a custodial bank and brokerage firms, and consist of investments in bank obligations and money market accounts.

**Pledges receivable** – Pledges are recorded as contributions when the Foundation’s management believes that the receivables are unconditional promises to give.

MID-SHORE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Basis of presentation and summary of significant accounting policies – continued**

**Contributions** – The Foundation records contributions (including promises to give) when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of assets or at the time an unconditional promise to give is made. There were no unconditional promises to give at June 30, 2015 and 2014.

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of the assets or promise to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is met. There were no conditional promises to give at June 30, 2015 and 2014.

Contributions of cash and other assets are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When the temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets, and are reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

The Foundation is party to various split-interest agreements, including charitable gift annuities and charitable remainder trusts. Contribution revenues for split-interest agreements are recognized at the dates the agreements are established. Revenues are recorded at fair value, net of the present value of the estimated future payments to be made to donors and/or other beneficiaries.

**Property and equipment** – Property and equipment with significant costs and useful lives are capitalized when acquired and carried at cost or, if donated, at fair value on the date of donation. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

**Depreciation** – Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings	10 – 50 years
Bullitt House capital improvements	10 – 30 years
Bullitt House land improvements	15 years
Furniture and fixtures	3 – 10 years



**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(1) Basis of presentation and summary of significant accounting policies – continued**

**Investments and investment income** – Investments are stated at current market value. Donated securities are stated at the lower of the estimated fair market value at the date of donation or current market value.

Investment income, net of management and custodial fees, is allocated to all funds on a quarterly basis based upon the available fund balance at the end of the quarter utilizing a fixed rate of return as determined by the Board of Directors.

Alternative investments consist of those investments that are not valued based upon a quoted market price and include non-marketable hedge fund assets. Hedge funds invest in various partnership interests, managed accounts, and other vehicles to generate investment return. These hedge funds are reported at estimated fair value as measured by their net asset value as reported by fund managers. That amount represents the Foundation's proportionate interest in the capital of the invested funds.

**Fair value measurements** – FASB ASC 820-10 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

**Income taxes** – The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined the Foundation is not a private foundation within the meaning of Section 509(a) of the Code.

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(1) Basis of presentation and summary of significant accounting policies – continued**

FASB ASC 740-10 requires the evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a “more-likely-than-not” threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold.

The Foundation files federal and state information returns and is no longer subject to income tax examinations by major tax authorities for years prior to 2011.

**Agency payables** – In accordance with FASB ASC 958-605-25-23, the Foundation recognizes a liability when it receives a transfer of assets and the resource provider (for example, a not-for-profit organization) specifies itself or an affiliate as the beneficiary.

FASB ASC 958-605-25-23 establishes standards for transfers of assets to a not-for-profit organization that raises or holds contributions for other organizations. The standard requires, in certain circumstances, the recipient organization to recognize an asset and a liability, rather than contribution revenue, if it accepts cash or other financial assets from a donor and agrees to disburse them, the return from investing them, or both to a specific beneficiary. FASB ASC 958-605-25-23 specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliates as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

When a third-party donor explicitly grants the Foundation variance power, the Foundation will recognize the fair value of any assets it receives as contribution revenue even when the designated beneficiary is a not-for-profit organization.

**Fund expenses** – Fund expenses include actual expenses incurred within individual funds maintained by MSCF for community organizations and close out distributions within the funds to those organizations.

**Fundraising expenses** – Costs associated with promoting the Foundation and raising contributions are recorded as fundraising expenses.

**Net asset classifications and endowments** – FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). FASB ASC 958-205 also requires enhanced disclosures about the Foundation’s endowment funds.

**Donated services** – The Foundation benefits from the services of unpaid volunteers. The value of these services is not reflected in the financial statements of the Foundation since the value of volunteer services cannot be estimated and the services do not meet the criteria for recognition under FASB ASC 958-605-25.

MID-SHORE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

(2) **Concentration of risk**

The Foundation maintains its cash at a local bank and in money market funds maintained at brokerages. The bank accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The brokerage account is subject to coverage provided by the Securities Investor Protection Corporation. At June 30, 2015 and 2014, the balance at one bank exceeded the FDIC limit by approximately \$75,000 and \$580,000, respectively. Brokerage account cash balances were approximately \$1,121,000 and \$875,000 at June 30, 2015 and 2014, respectively.

The Foundation invests in professionally managed portfolios that contain common shares and bonds of publicly traded companies, U.S. government securities and money market funds. Such investments are exposed to various risks such as interest rate, market, and credit risk. 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.

(3) **Property and equipment**

Investment in property and equipment, at cost, consists of the following at June 30, 2015 and 2014, respectively:

	<b>2015</b>	<b>2014</b>
Land	\$ 811,268	\$ 811,268
Buildings	1,180,637	1,180,637
Bullitt House capital improvements	103,459	103,459
Bullitt House land improvements	23,978	23,978
Furniture and fixtures	106,469	106,469
Sub-Total	<u>2,225,811</u>	<u>2,225,811</u>
Less: accumulated depreciation	<u>(452,082)</u>	<u>(417,833)</u>
TOTAL	<u>\$ 1,773,729</u>	<u>\$ 1,807,978</u>

Depreciation expense was \$34,250 and \$36,023 in 2015 and 2014, respectively.

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(4) Investments and investment income**

The following summarizes the relationship between market values and costs of investments in marketable equity and debt securities:

	<b>2015</b>	
	<b>Market Value</b>	<b>Cost</b>
Fixed income	\$ 10,189,513	\$ 10,159,198
Equity securities including mutual funds	39,203,826	30,995,681
Hedge fund	1,187,286	1,000,000
TOTAL	\$ 50,580,625	\$ 42,154,879

  

	<b>2014</b>	
	<b>Market Value</b>	<b>Cost</b>
Fixed income	\$ 9,921,904	\$ 9,903,703
Equity securities including mutual funds	36,559,829	27,961,359
Hedge fund	1,186,859	1,000,000
TOTAL	\$ 47,668,592	\$ 38,865,062

The following summarizes investment results for the years ended June 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Investment income	\$ 1,119,521	\$ 1,104,868
Realized and unrealized gains	118,994	5,645,564
Investment fees	(141,443)	(112,418)
TOTAL	\$ 1,097,072	\$ 6,638,014

MID-SHORE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Fair value measurements

The Foundation's financial instruments are recorded at fair value measured on a recurring basis and consist of the following at June 30, 2015 and 2014:

	<u>Fair Value</u>	<u>2015</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Input (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Investments:				
Fixed income:				
Mutual and closed end bond funds	\$ 10,189,513	\$ 10,189,513	\$ -	\$ -
Equity securities:				
Mutual and closed end funds	39,203,826	39,203,826	-	-
Hedge fund	<u>1,187,286</u>	<u>-</u>	<u>-</u>	<u>1,187,286</u>
<b>TOTAL</b>	<u>\$ 50,580,625</u>	<u>\$ 49,393,339</u>	<u>\$ -</u>	<u>\$ 1,187,286</u>
Net assets (liabilities) related to split- interest agreements:				
Receivables from charitable remainder trusts	\$ 977,460	\$ -	\$ -	\$ 977,460
Charitable gift annuity obligations payable	<u>(834,329)</u>	<u>-</u>	<u>-</u>	<u>(834,329)</u>
<b>TOTAL</b>	<u>\$ 143,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,131</u>

The receivables from charitable remainder trusts of \$977,460 include \$383,418 reflected within "Receivable from estates in settlement" in the *Statements of Financial Position*.

MID-SHORE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Fair value measurements – continued

	2014			
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Input (Level 2)</u>	<u>Significant Unobservable Input (Level 3)</u>
Investments:				
Fixed income:				
Mutual and closed end bond funds	\$ 9,921,904	\$ 9,921,904	\$ -	\$ -
Equity securities:				
Mutual and closed end funds	36,559,829	36,559,829	-	-
Hedge fund	<u>1,186,859</u>	<u>-</u>	<u>-</u>	<u>1,186,859</u>
TOTAL	<u>\$ 47,668,592</u>	<u>\$ 46,481,733</u>	<u>\$ -</u>	<u>\$ 1,186,859</u>
Net assets (liabilities) related to split- interest agreements:				
Receivables from charitable remainder trusts	\$ 949,436	\$ -	\$ -	\$ 949,436
Charitable gift annuity obligations payable	<u>(895,861)</u>	<u>-</u>	<u>-</u>	<u>(895,861)</u>
TOTAL	<u>\$ 53,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,575</u>

The receivables from charitable remainder trusts of \$949,436 include \$381,243 reflected within "Receivable from estates in settlement" on the *Statements of Financial Position*.

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(5) Fair value measurements – continued**

The following is a reconciliation of the beginning and ending balances for the Foundation’s financial instruments recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2015 and 2014:

	<u>Investments</u>	<u>Split-Interest Agreements, net</u>	<u>Total</u>
Ending balance, June 30, 2013	\$ 1,143,663	\$ (129,246)	\$ 1,014,417
Realized and unrealized gains	43,196	-	43,196
Present value of new annuities payable	-	(29,439)	(29,439)
Change in value of trusts	-	(23,522)	(23,522)
Payments to trust beneficiaries	<u>-</u>	<u>235,782</u>	<u>235,782</u>
Ending balance, June 30, 2014	\$ 1,186,859	\$ 53,575	\$ 1,240,434
Realized and unrealized gains	427	-	427
Present value of new annuities payable	-	(116,130)	(116,130)
Change in value of trusts	-	(7,901)	(7,901)
Payments to trust beneficiaries	<u>-</u>	<u>213,587</u>	<u>213,587</u>
Ending balance, June 30, 2015	<u>\$ 1,187,286</u>	<u>\$ 143,131</u>	<u>\$ 1,330,417</u>

**(6) Endowment**

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

**Interpretation of relevant law** – The Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(6) Endowment – continued**

In accordance with the UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the organization and the donor-restricted endowment funds.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

Endowment net assets consist of invested financial assets that are presented in the statements of financial position at June 30, 2015 and 2014 as follows:

	<b>2015</b>	<b>2014</b>
Assets		
Cash	\$ 1,121,007	\$ 875,476
Investments	48,090,358	45,366,401
Liabilities		
Charitable gift annuity obligations	(834,329)	(895,861)
<b>TOTAL</b>	<b>\$ 48,377,036</b>	<b>\$ 45,346,016</b>

Endowment net assets summarized by donor-restricted and board-designated are:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
June 30, 2015				
Donor-restricted	\$ -	\$ 6,629,003	\$ 34,614,889	\$ 41,243,892
Board-designated	7,133,144	-	-	7,133,144
<b>TOTAL</b>	<b>\$ 7,133,144</b>	<b>\$ 6,629,003</b>	<b>\$ 34,614,889</b>	<b>\$ 48,377,036</b>
June 30, 2014				
Donor-restricted	\$ -	\$ 7,684,811	\$ 30,644,047	\$ 38,328,858
Board-designated	7,017,158	-	-	7,017,158
<b>TOTAL</b>	<b>\$ 7,017,158</b>	<b>\$ 7,684,811</b>	<b>\$ 30,644,047</b>	<b>\$ 45,346,016</b>



**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(6) Endowment – continued**

Changes in endowment net assets for the fiscal year ended June 30, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,017,158	\$ 7,684,811	\$ 30,644,047	\$ 45,346,016
Investment return:				
Investment income	143,610	47,368	-	190,978
Net appreciation (realized and unrealized)	<u>15,492</u>	<u>15,203</u>	<u>-</u>	<u>30,695</u>
Total investment return	<u>159,102</u>	<u>62,571</u>	<u>-</u>	<u>221,673</u>
Contributions	-	84,337	2,523,793	2,608,130
Realized estate receivable	-	-	961,662	961,662
Amounts appropriated for expenditure	(748,230)	(214,878)	-	(963,108)
Interfund grants	(233,555)	-	233,555	-
In transit at year end	25,000	-	-	25,000
Release of restrictions	748,511	(748,511)	-	-
Other changes:				
Charitable gift annuity realized	165,158	(416,990)	251,832	-
Change in charitable gift annuity obligations payable	<u>-</u>	<u>177,663</u>	<u>-</u>	<u>177,663</u>
Endowment net assets, end of year	<u>\$ 7,133,144</u>	<u>\$ 6,629,003</u>	<u>\$ 34,614,889</u>	<u>\$ 48,377,036</u>

-Continued-

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(6) Endowment – continued**

Changes in endowment net assets for the fiscal year ended June 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,099,366	\$ 4,182,062	\$ 28,619,903	\$ 37,901,331
Investment return:				
Investment income	1,544,179	172,843	-	1,717,022
Net appreciation (realized and unrealized)	<u>4,033,831</u>	<u>274,759</u>	<u>-</u>	<u>4,308,590</u>
Total investment return	<u>5,578,010</u>	<u>447,602</u>	<u>-</u>	<u>6,025,612</u>
Contributions	-	50,638	548,338	598,976
Realized estate receivable	-	-	1,475,806	1,475,806
Amounts appropriated for expenditure	(847,006)	(235,782)	-	(1,082,788)
In transit at year end	300,000	-	-	300,000
Reclassification of:				
Donor-restricted endowment funds	(3,153,282)	3,153,282	-	-
Release of restrictions	40,070	(40,070)	-	-
Other changes:				
Change in charitable gift annuity obligations payable	<u>-</u>	<u>127,079</u>	<u>-</u>	<u>127,079</u>
Endowment net assets, end of year	<u>\$ 7,017,158</u>	<u>\$ 7,684,811</u>	<u>\$ 30,644,047</u>	<u>\$ 45,346,016</u>

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature reported in unrestricted net assets were \$177,142 and \$30,928 as of June 30, 2015 and 2014, respectively.

MID-SHORE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

(6) Endowment – continued

**Return objectives and risk parameters** – The Foundation has adopted investment and spending policies for endowed assets to provide a predictable stream of funding for programs supported by its endowments, while seeking to maintain the purchasing power of gift values at the time they are received. Endowed assets include donor restricted funds that the Foundation will hold in perpetuity or for a donor specified period, as well as Board designated funds. Under this policy, as approved by the Board, the primary investment objective is to earn a real return of 6.9% per year (comprised of investment fees, spending policy, and administrative fees), to be measured over a 10 year period.

**Strategies employed for achieving objectives** – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy** – The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund’s average fair value over the previous 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow relative to the rate of inflation annually. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(7) Receivables from charitable remainder trusts

At June 30, 2015 and 2014, the receivables from charitable remainder trusts of \$977,460 and \$949,436, respectively, include \$383,418 and \$381,243 at June 30, 2015 and 2014, respectively, of a charitable remainder trust included within “Receivable from estates in settlement” in the *Statements of Financial Position*. The receivables from charitable remainder trusts reflect the estimated present value of future asset distributions expected to be received from the various charitable remainder trusts utilizing discount rates ranging from 5% to 10% and life expectancy tables. Activity reflected in the accompanying financial statements is summarized as follows:

	<u>2015</u>	<u>2014</u>
Estimated present value at beginning of year	\$ 949,436	\$ 864,073
Change in value	<u>28,024</u>	<u>85,363</u>
Estimated present value at end of year	<u>\$ 977,460</u>	<u>\$ 949,436</u>

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(8) Mortgage notes receivable**

The Foundation holds a mortgage note collateralized by property in Talbot County, Maryland. Monthly payments of \$473, principal and interest (6%), are being made on the obligation, which is scheduled to be paid in full in 2019.

**(9) Charitable gift annuities**

As of June 30, 2015, the Foundation has received several contributions under charitable gift annuity arrangements. Under these agreements, the donors have transferred investments to the Foundation, with fixed quarterly annuity payments being made to specified beneficiaries. Upon the death of the beneficiaries, the investments become unrestricted net assets of the Foundation, or if requested by the donor, they will be remitted to another non-profit organization. The discount rate used to compute the present value of the liability for these agreements is 6%. The estimated remaining lives of the beneficiaries were obtained from life expectancy tables. The Foundation's assets include adequate reserves to fund these obligations.

The following is a summary of the Foundation's charitable gift annuity obligations as of June 30, 2015 and 2014:

	<b>Present Value of Payments to Beneficiaries</b>	
	<u>2015</u>	<u>2014</u>
Total	\$ 834,329	\$ 895,861
Current portion	<u>(187,151)</u>	<u>(241,081)</u>
Long-term	<u>\$ 647,178</u>	<u>\$ 654,780</u>

**(10) Restricted net assets**

Temporarily restricted net assets of the Foundation are related to the following:

	<u>2015</u>	<u>2014</u>
Split-interest agreements	\$ 1,634,781	\$ 1,926,597
Trust terminating in 2031	1,552,534	1,613,165
Fund values of permanently restricted net assets in excess of historical cost	4,035,730	4,713,242
Reynolds estate – Johnson trust	<u>383,418</u>	<u>381,243</u>
<b>TOTAL</b>	<u><b>\$ 7,606,463</b></u>	<u><b>\$ 8,634,247</b></u>

MID-SHORE COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

(10) **Restricted net assets – continued**

Permanently restricted net assets are restricted to investment in perpetuity. The income from the assets is used in accordance with the donors' wishes. Permanently restricted net assets at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Endowment funds	\$ 34,614,889	\$ 30,644,047
Receivable from estates in settlement	<u>2,200,155</u>	<u>1,023,978</u>
	<u>\$ 36,815,044</u>	<u>\$ 31,668,025</u>

(11) **Grants payable**

Grants payable consist primarily of multiyear unconditional grants that are generally payable over one to four years. Management estimates these grants will be paid as follows:

<u>Year Ending June 30,</u>	
2016	\$ 896,781
2017	214,833
2018	145,530
2019	<u>37,566</u>
	<u>\$ 1,294,710</u>

Payments on authorized but unpaid grants may be modified upon mutual agreement between the Foundation and the grantees.

(12) **Leases**

The Foundation leases office space to tenants under noncancelable operating leases with terms of up to one year. Rental income for the years ended June 30, 2015 and 2014 was \$28,050 and \$25,925, respectively.

(13) **Line of credit**

The Foundation has a \$100,000 line of credit available from The Talbot Bank. The interest rate on any borrowings is variable. There were no borrowings under this facility at June 30, 2015 and 2014, respectively.

**MID-SHORE COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(14) Retirement plan**

The Foundation made a discretionary contribution to employee SEP IRA accounts. The retirement expense was \$18,212 and \$18,661 for years ended June 30, 2015 and 2014, respectively.

The Foundation may make discretionary contributions to the plan up to 7% of compensation. Employees are eligible to defer a portion of their compensation to their retirement account.

**(15) Subsequent events**

Subsequent to June 30, 2015, the Foundation was informed that the value of an estate in settlement had declined approximately \$350,000 due to market fluctuations in the estate's investment portfolio. The valuation decline will be recognized in the Foundation's fiscal year 2016 statement of activities.

Subsequent events were evaluated through November 19, 2015, which is the date the financial statements were available to be issued.