

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

FINANCIAL REPORT

JUNE 30, 2022 AND 2021

MID-SHORE COMMUNITY FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mid-Shore Community Foundation, Inc.
Easton, Maryland

Opinion

We have audited the accompanying financial statements of the Mid-Shore Community Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of the Mid-Shore Community Foundation, Inc. as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mid-Shore Community Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements as of June 30, 2021, were audited by TGM Group LLC, who merged with UHY LLP as of January 3, 2022, and whose report dated November 5, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mid-Shore Community Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mid-Shore Community Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mid-Shore Community Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, handwritten font, with 'LLP' in a smaller, simpler font to the right.

Salisbury, Maryland
November 18, 2022

MID-SHORE COMMUNITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,723,634	\$ 1,863,617
Receivable from estates in settlement	6,587,032	549,973
Prepaid expenses and other current assets	20,954	7,329
Mortgage notes receivable, current portion	-	3,355
Total current assets	9,331,620	2,424,274
INVESTMENTS, marketable securities, at fair value	102,702,764	120,045,632
PROPERTY AND EQUIPMENT, net	1,570,602	1,599,656
OTHER ASSETS		
Receivables from charitable remainder trusts	802,114	910,463
Other assets	22,022	21,289
Total other assets	824,136	931,752
Total assets	\$ 114,429,122	\$ 125,001,314
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 251,759	\$ 124,439
Grants payable, current portion	2,021,329	1,144,005
Charitable gift annuity obligations, current portion	30,288	29,608
Agency payables	6,445,077	7,479,165
Total current liabilities	8,748,453	8,777,217
OTHER LIABILITIES		
Grants payable, net of current portion	1,732,674	850,456
Charitable gift annuity obligations, net of current portion	113,262	143,964
Total other liabilities	1,845,936	994,420
Total liabilities	10,594,389	9,771,637
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
NET ASSETS		
Without donor restrictions		
Designated for donor advised grants	7,763,355	9,883,663
Designated for fiscal sponsorships	1,564,657	1,361,927
Designated by board for grant making	1,688,645	1,428,129
Designated for operations	1,722,320	2,354,398
Invested in property and equipment, net	1,570,602	1,599,656
Total without donor restrictions	14,309,579	16,627,773
With donor restrictions		
Restricted in perpetuity - endowments	76,866,271	83,839,722
Restricted for specific purpose	12,658,883	14,762,182
Total with donor restrictions	89,525,154	98,601,904
Total net assets	103,834,733	115,229,677
Total liabilities and net assets	\$ 114,429,122	\$ 125,001,314

MID-SHORE COMMUNITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,855,055	\$ 9,008,782	\$ 11,863,837
Investment income, net	(1,481,939)	(12,454,643)	(13,936,582)
Change in value of split interest agreements	-	(108,349)	(108,349)
Other income	65,452	-	65,452
Total support, revenues and gains	1,438,568	(3,554,210)	(2,115,642)
Net assets released from restrictions	5,522,540	(5,522,540)	-
Total support and revenue	6,961,108	(9,076,750)	(2,115,642)
EXPENSES			
Program services:			
Grants	6,798,832	-	6,798,832
Fiscal sponsor expenses	1,409,116	-	1,409,116
Total program services	8,207,948	-	8,207,948
Supporting services:			
MSCF	783,092	-	783,092
Fundraising	178,724	-	178,724
Bullitt House	109,538	-	109,538
Total supporting services	1,071,354	-	1,071,354
Total expenses	9,279,302	-	9,279,302
Change in net assets	(2,318,194)	(9,076,750)	(11,394,944)
Net assets, beginning of year	16,627,773	98,601,904	115,229,677
Net assets, end of year	\$ 14,309,579	\$ 89,525,154	\$ 103,834,733

MID-SHORE COMMUNITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,606,927	\$ 1,632,240	\$ 4,239,167
Investment income, net	4,562,306	26,325,178	30,887,484
Change in value of split interest agreements	-	112,192	112,192
Other income	68,484	-	68,484
Total support, revenues and gains	7,237,717	28,069,610	35,307,327
Net assets released from restrictions	4,227,093	(4,227,093)	-
Total support and revenue	11,464,810	23,842,517	35,307,327
EXPENSES			
Program services:			
Grants	5,460,071	-	5,460,071
Fiscal sponsor expenses	862,060	-	862,060
Total program services	6,322,131	-	6,322,131
Supporting services:			
MSCF	705,160	-	705,160
Fundraising	169,978	-	169,978
Bullitt House	80,405	-	80,405
Total supporting services	955,543	-	955,543
Total expenses	7,277,674	-	7,277,674
Change in net assets	4,187,136	23,842,517	28,029,653
Net assets, beginning of year	12,440,637	74,759,387	87,200,024
Net assets, end of year	\$ 16,627,773	\$ 98,601,904	\$ 115,229,677

MID-SHORE COMMUNITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services		Supporting Services			Total
	Grants	Fiscal Sponsor	Management and General	Bullitt House	Fundraising	
Advertising	\$ -	\$ -	\$ 2,851	\$ -	\$ 2,851	\$ 5,702
Annual report	-	-	7,162	-	7,164	14,326
Bank and payroll fees	-	6,636	7,040	-	-	13,676
Casual labor	-	460,519	-	-	-	460,519
Investment consulting services	-	-	129,537	-	-	129,537
Depreciation	-	-	1,792	27,262	-	29,054
Direct mail campaign	-	-	2,106	-	2,106	4,212
Employee benefits	-	(417)	56,841	-	18,947	75,371
Equipment rental/lease	-	-	4,554	-	-	4,554
Grants awarded	6,798,832	-	-	-	-	6,798,832
Insurance	-	9,760	5,394	6,602	-	21,756
Legal and professional	-	2,376	30,025	-	-	32,401
Marketing	-	45,272	-	-	-	45,272
Meetings, luncheons, and dinners	-	4,666	5,105	20	5,126	14,917
Membership, subscriptions, and dues	-	1,343	18,267	-	6,089	25,699
Office expenses	-	34,828	22,332	-	2,481	59,641
Payroll taxes	-	3,197	26,383	-	8,794	38,374
Program support	-	742,902	2,662	-	-	745,564
Rent	-	21,581	5,600	-	-	27,181
Repair and maintenance	-	-	-	68,727	-	68,727
Retirement plan	-	-	23,458	-	7,820	31,278
Seminars and events	-	5,012	1,896	-	335	7,243
Software	-	24,593	80,159	-	-	104,752
Staff salaries	-	39,350	348,905	-	116,302	504,557
Taxes	-	591	314	-	-	905
Travel and meals	-	5,516	709	-	709	6,934
Utilities	-	1,391	-	6,927	-	8,318
Total functional expenses	\$ 6,798,832	\$ 1,409,116	\$ 783,092	\$ 109,538	\$ 178,724	\$ 9,279,302

MID-SHORE COMMUNITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program Services		Supporting Services				Total
	Grants	Fiscal Sponsor	Management and General	Bullitt House	Fundraising		
Advertising	\$ -	\$ 250	\$ 2,761	\$ -	\$ 3,981	\$ 6,992	
Annual report	-	-	5,123	-	5,124	10,247	
Bank and payroll fees	-	6,326	3,288	-	-	9,614	
Casual labor	-	188,524	-	-	-	188,524	
Investment consulting services	-	394	108,670	-	-	109,064	
Depreciation	-	-	-	30,232	-	30,232	
Direct mail campaign	-	-	1,271	-	424	1,695	
Employee benefits	-	14,297	64,604	-	3,829	82,730	
Equipment rental/lease	-	-	4,524	-	-	4,524	
Grants awarded	5,460,071	-	-	-	-	5,460,071	
Insurance	-	3,806	7,503	4,350	-	15,659	
Legal and professional	-	-	28,569	-	-	28,569	
Marketing	-	19,239	-	-	-	19,239	
Meetings, luncheons, and dinners	-	3,440	1,354	-	1,354	6,148	
Membership, subscriptions, and dues	-	878	17,966	-	4,747	23,591	
Office expenses	-	23,008	21,215	-	1,899	46,122	
Payroll taxes	-	8,276	24,179	-	9,152	41,607	
Program support	-	456,341	-	-	-	456,341	
Rent	-	22,660	-	-	-	22,660	
Repair and maintenance	-	30	-	45,823	-	45,853	
Retirement plan	-	-	22,670	-	7,520	30,190	
Seminars and events	-	-	17,083	-	3,014	20,097	
Software	-	12,430	26,601	-	-	39,031	
Staff salaries	-	100,628	340,347	-	128,063	569,038	
Taxes	-	416	336	-	-	752	
Travel and meals	-	-	1,115	-	871	1,986	
Utilities	-	1,117	5,981	-	-	7,098	
Total functional expenses	\$ 5,460,071	\$ 862,060	\$ 705,160	\$ 80,405	\$ 169,978	\$ 7,277,674	

MID-SHORE COMMUNITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,394,944)	\$ 28,029,653
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	29,054	30,232
Noncash donations	(1,650,324)	(830,105)
Gain on sale of investments	(1,010,746)	(9,608,598)
Decrease (increase) in market values of investments	18,833,363	(21,325,994)
Decrease (increase) in assets:		
Estates receivable	(6,037,059)	(55,029)
Other receivables	-	14,374
Split-interest agreements	78,327	(141,647)
Prepaid expenses and other assets	(11,003)	(2,304)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	127,320	(37,228)
Grants payable	1,759,542	24,505
Net cash provided (used) by operating activities	723,530	(3,902,141)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	11,950,473	44,383,418
Purchases of investments	(10,779,898)	(43,388,697)
Collections on mortgage notes receivable	-	3,355
(Decrease) increase in agency payables	(1,034,088)	1,905,535
Net cash provided by investing activities	136,487	2,903,611
Net increase (decrease) in cash and cash equivalents	860,017	(998,530)
Cash and cash equivalents, beginning of year	1,863,617	2,862,147
Cash and cash equivalents, end of year	\$ 2,723,634	\$ 1,863,617

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 1. The Foundation and its Significant Accounting Policies

The Mid-Shore Community Foundation, Inc. (the "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. As a 501(c)(3) not-for-profit organization, the Foundation creates and manages endowments and other funds through the accumulation of private capital for the public good.

Significant accounting policies not disclosed elsewhere in the financial statements are as follows:

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for general use and not subject to donor restrictions. Funds designated for donor advised grants are available for distribution upon recommendation of the donor. The Board of Directors has designated, from net assets without donor restrictions, net assets for operations and grant making. The Foundation's policy is to designate unrestricted donor gifts at the discretion of the Board of Directors. Net assets without donor restrictions also include investment in property and equipment net of accumulated depreciation.

Net Assets With Donor Restrictions - Net assets that are contributions and endowment investment earnings subject to donor imposed restrictions. The Foundation may report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. As of June 30, 2022 and 2021, the Foundation's net assets with donor restrictions are restricted for funding various community educational and philanthropic programs specified by the donors.

Cash and Cash Equivalents:

Cash equivalents include amounts held in a custodial account of a bank or brokerage firm and consist of investments in U.S. Government obligations, bank obligations, money market accounts, and certificates of deposit that have an original maturity date of three months or less.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 1. The Foundation and its Significant Accounting Policies (Continued)

Basis of Presentation (Continued):

Investments and Investment Income:

Investments include equities, exchange-traded and closed end funds, taxable bond and bond funds, fixed income funds, money market funds and mutual funds. Marketable securities are stated at current market value. Donated assets 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 of **\$369,802** and \$323,283 for the years ended June 30, 2022 and 2021, respectively, has been allocated to all eligible funds on a monthly basis based upon the actual earnings on the investments. In addition, the Foundation recorded approximately **\$130,000** and \$109,000 in investment consulting fees as of June 30, 2022 and June 30, 2021, respectively. Investment consulting fees are included in Mid-Shore Community Foundation (“MSCF”) supporting services expenses on the statement of activities and changes in net assets.

Property and Equipment:

Property and equipment represent a building, improvements and office equipment used by the Foundation and is recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful asset 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

Maintenance and repairs are charged to expense when incurred. Depreciation expense was **\$29,054** and \$30,232 for the years ended June 30, 2022 and 2021, respectively.

Long-Lived Assets:

The carrying value of long-lived assets is reviewed by the Foundation for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in ASC 360 *Property, Plant and Equipment*. As of June 30, 2022 and 2021, no long-lived assets existed which management considered impaired.

Pledges Receivable:

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

Contribution Revenue:

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. 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.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 1. The Foundation and its Significant Accounting Policies (Continued)

Contribution Revenue (Continued)

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. Where the Foundation has a remainder interest, the trust assets are controlled by a third-party designee, and the Foundation has information as to the donor and the assets held in trust, the remainder interest is recorded as contribution revenue with a corresponding receivable. The amount recorded is the estimated present value of the expected future distributions computed utilizing life expectancy tables and a discount rate commensurate with the risk associated with the expected future distribution.

Functional Allocation of Expenses:

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Employee costs, occupancy costs, and professional services are allocated based on estimates of time and effort. All other costs are reported under the function to which they are directly attributable.

The Foundation is a fiscal sponsor for various community organizations in the region. The Foundation provides the operating support that enables community organizations to receive grants, contracts and tax-deductible donations. Separate funds are established for each organization. Support and revenue are included in net assets without donor restrictions and the related costs are included in program services.

Concentration of Risk:

The Foundation maintains a portion of its cash and cash equivalents in financial institutions and the remainder in brokerage firm accounts. The Foundation's deposits in financial institutions exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC) at June 30, 2022. At June 30, 2021, the Foundation's deposits in financial institutions did not exceed the FDIC insured limit. At June 30, 2022 and 2021, the cash held by the Foundation in brokerage firm accounts were **\$2,377,672** and \$1,713,983, respectively. The amounts held in brokerage firm accounts are swept into separate accounts that are fully insured by the FDIC with the exception of **\$1,107,928** and \$437,061 at June 30, 2022 and 2021, respectively. Those amounts are either in excess of FDIC limits or held in money market mutual fund accounts that are neither insured nor guaranteed by the FDIC or any other government agency. The Foundation has not experienced, nor does it anticipate, any loss of these funds.

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, 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.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 1. The Foundation and its Significant Accounting Policies (Continued)

Agency Payables:

In accordance with ASC 958 *Not-For-Profit Entities*, 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.

ASC 958-605-25-24 establishes standards for transfers of assets to a not-for-profit organization that raises or holds contributions for other organizations and 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. ASC 958-605-25-24 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 to distribute the assets, the return on investment on those assets, or both, to a specified unaffiliated beneficiary, the Foundation will continue to recognize the fair value of any assets it receives as a contribution received when the designated beneficiary is a not-for-profit organization.

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 disclosures 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.

Accounting Pronouncements

The Foundation adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The ASU establishes a comprehensive, principles-based framework for recognizing revenue, superseding revenue guidance for exchange transactions.

The Foundation adopted FASB ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement on July 1, 2020. The objective of ASU 2018-13 is to improve the effectiveness in the disclosures regarding fair value. Among other things, the ASU requires the disclosure of transfers into and out of Level 3 of the fair value hierarchy and requires purchases and issues of Level 3 assets and liabilities be disclosed separately (see Note 13).

Reclassification:

Certain prior year amounts have been reclassified to conform to the current year presentation.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 2. Investments and Investment Income

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

	2022	
	Market Value	Cost
Domestic and foreign common stock	\$ 11,272,922	\$ 9,452,369
Taxable bonds and bond funds	4,152,714	4,462,844
Exchange traded funds and closed end funds	65,973,320	50,161,156
Fixed income	8,639,475	9,105,822
Mutual funds	12,664,333	13,500,531
Total	\$ 102,702,764	\$ 86,682,722

	2021	
	Market Value	Cost
Domestic and foreign common stock	\$ 19,404,310	\$ 13,250,617
Taxable bonds and bond funds	2,964,089	2,924,554
Exchange traded funds and closed end funds	75,976,073	49,222,951
Fixed income	4,457,983	4,395,892
Mutual funds	17,243,177	13,906,461
Total	\$ 120,045,632	\$ 83,700,475

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2022 and 2021:

	2022	2021
Investment income	\$ 3,185,850	\$ 2,247,124
Realized and unrealized gains (losses)	(16,752,630)	28,963,643
Investment fees, net	(369,802)	(323,283)
Total	\$ (13,936,582)	\$ 30,887,484

The Foundation assesses each fund an administrative fee to help support its operations. The fee is a small percentage of the fund assets and creates an internal revenue and an offsetting expense. The net amount is reported in the Statement of Activities as a component of investment income. The amounts recorded as revenue and expense for the years ended June 30, 2022 and 2021 are summarized as follows:

	2022	2021
Administrative fee revenue	\$ 1,393,057	\$ 1,239,720
Administrative fee expense	(1,332,195)	(1,186,942)
Net administrative fees	\$ 60,862	\$ 52,778

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 3. Property and Equipment

At June 30, 2022 and 2021, property and equipment consisted of the following:

	2022	2021
Land	\$ 811,268	\$ 811,268
Buildings	1,180,637	1,180,637
Bullitt House capital improvements	103,459	103,459
Bullitt House land improvements	29,248	29,248
Furniture and fixtures	110,756	110,756
	2,235,368	2,235,368
Less: accumulated depreciation	(664,766)	(635,712)
	\$ 1,570,602	\$ 1,599,656

Note 4. Endowed Net Assets

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (“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 well as any additional gifts and the resulting investment return on those funds until the funds are appropriated for expenditure. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the investment return on those funds until the funds are appropriated for expenditure. Funds are considered appropriated for expenditure when the expenditure is approved, unless approval is for a future period. Until such time, the funds remain net assets with donor restrictions.

Return Objectives and Risk Parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must 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. Actual returns in any given year may vary from this amount.

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:

The Foundation has a policy of appropriating for distribution each year 5% of each endowment fund's average fair value over the prior 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.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 4. Endowed Net Assets (Continued)

Spending Policy (Continued):

At June 30, 2022, endowment funds with historic gift balances of \$5,580,212 were below historic gift value by \$395,789. At June 30, 2021, there were no endowment funds with a fair value or historic gift balance below historic gift value.

Endowment funds with donor restrictions are as follows:

Year Ended June 30, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 76,866,271	\$ 76,866,271
Board Designated	4,634,987	3,241,129	7,876,116
Total	\$ 4,634,987	\$ 80,107,400	\$ 84,742,387

Year Ended June 30, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 83,839,722	\$ 83,839,722
Board Designated	6,135,805	3,597,634	9,733,439
Total	\$ 6,135,805	\$ 87,437,356	\$ 93,573,161

Changes in endowment funds with donor restrictions are as follows:

Year Ended June 30, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 6,135,805	\$ 87,437,356	\$ 93,573,161
Contributions	375	7,909,482	7,909,857
Investment loss	(789,177)	(10,957,771)	(11,746,948)
Appropriated for expenditure	(1,124,734)	(2,728,759)	(3,853,493)
Net transfers/fees	412,718	(1,552,908)	(1,140,190)
Endowment net assets, end of year	\$ 4,634,987	\$ 80,107,400	\$ 84,742,387

Year Ended June 30, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,455,390	\$ 65,830,564	\$ 70,285,954
Contributions	5	1,098,932	1,098,937
Investment income	1,799,440	22,759,635	24,559,075
Appropriated for expenditure	(119,565)	(2,625,130)	(2,744,695)
Net transfers/fees	535	373,355	373,890
Endowment net assets, end of year	\$ 6,135,805	\$ 87,437,356	\$ 93,573,161

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 5. Mortgage Notes Receivable

The Foundation held a mortgage note collateralized by property in Talbot County, Maryland. Periodic payments, principal and interest (6%), were being made on the obligation. The balance due at June 30, 2021 was \$3,355. The balance was paid in full during 2022..

Note 6. Charitable Remainder Trusts

At June 30, 2022 and 2021, the receivables from charitable remainder trusts were **\$802,114** and \$910,463, respectively. The receivables 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:

	2022	2021
Estimated present value at beginning of year	\$ 910,463	\$ 778,095
Change in value	(108,349)	132,368
Estimated present value at end of year	\$ 802,114	\$ 910,463

Note 7. Charitable Gift Annuities

The Foundation is approved by the State of Maryland to enter into charitable gift annuity contracts.

As of June 30, 2022 the Foundation has received contributions under several charitable gift annuity arrangements. Under these agreements, the donors have transferred investments to the Foundation, with fixed annuity payments being made to specified beneficiaries. Upon the death of the respective beneficiaries, the investments become assets with donor restrictions of the Foundation, or if requested by the donor, they will be remitted to another non-profit organization. The discount rates used to compute the present value of the liabilities for these agreements ranges from 1.00% to 5.80%. The estimated remaining lives of the beneficiaries were obtained from life expectancy tables. The Foundation's assets include adequate reserves to fund these obligations. At June 30, 2022 and 2021, investments in marketable securities include **\$334,914** and \$403,592 related to these arrangements.

The following is a summary of the Foundation's charitable gift annuity obligations June 30, 2022 and 2021:

	2022	2021
Present Value of Payments to Beneficiaries:		
Total	\$ 143,550	\$ 173,572
Current portion	(30,288)	(29,608)
Long-term	\$ 113,262	\$ 143,964

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 8. Grants Payable

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

Year Ending June 30,	
2023	\$ 2,021,329
2024	747,102
2025	547,680
2026	437,892
	<hr/>
	\$ 3,754,003

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

Note 9. Liquidity and Availability

The Foundation manages its cash available to meet general expenditures and grants by operating within a prudent range of financial soundness and stability and by maintaining adequate liquid assets. General expenditures include management and general expenses and fundraising.

Financial assets at June 30, 2022 and 2021 designated by the board for operating purposes totaled **\$1,722,320** and \$2,354,398, respectively. In addition, the Board maintains a 5 percent annual spending rate for granting at the Board's discretion each year.

In addition to these funds available for general expenditures and grants, the Foundation's Board of Directors has chosen to charge an administrative fee to most funds. This fee may vary depending on the fund founding documents and the rates approved by the Board. Administrative fees of **\$1,393,057** for fiscal year 2022 and \$1,239,720 for fiscal year 2021 were charged to specific funds. Administrative fee income (operations fund) and administrative fee expense (other funds) is netted in the presentation of the statements of activities. The Foundation does not anticipate a significant decrease in administrative fee income for fiscal year 2023.

A committed line of credit in the amount of \$100,000 is also available in the event of an unanticipated liquidity need.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. In addition, the Foundation manages its cash available for grant purposes by examining the purpose for which the fund was established, whether the fund is endowed or not. The Foundation maintains an investment portfolio that includes a mixture of both short term and long term investments. Funds held in the short term are subject to withdrawal at any time. Capital preservation and liquidity are paramount.

Note 10. Retirement Plan

The Foundation made a discretionary contribution to employee SEP IRA accounts. The retirement expense was **\$29,484** and \$29,039 for the years ended June 30, 2022 and 2021, 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.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 11. 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, 2022 and 2021 was **\$8,000** and \$11,800, respectively.

Note 12. Line of Credit

The Foundation has a \$100,000 unsecured revolving line of credit available from Shore United Bank. The interest rate on any borrowings is variable based on the Wall Street Journal Prime Rate plus .50%. There were no borrowings on the line at June 30, 2022 and 2021.

Note 13. Fair Value Measurements

ASC 820 *Fair Value Measurements*, establishes the framework for measuring and disclosing fair value of assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Fair Value Hierarchy

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)
- Level 3 – Significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of assets or liabilities)

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

Following is a description of the valuation methodologies used for assets measured at fair value.

Marketable Securities: Valued at quoted prices in active markets for identical assets.

Split-Interest Agreements: Valued using discount rates and life expectancy tables.

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

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 13. Fair Value Measurements (Continued)

The following table presents fair value measurements on a recurring basis as of June 30, 2022 and 2021:

Assets at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Investments				
Domestic and foreign common stock	\$ 11,272,922	\$ -	\$ -	\$ 11,272,922
Taxable bonds and bond funds	4,152,714	-	-	4,152,714
Exchange traded and closed end funds	65,973,320	-	-	65,973,320
Fixed income	8,639,475	-	-	8,639,475
Mutual funds	12,664,333	-	-	12,664,333
Total	\$ 102,702,764	\$ -	\$ -	\$ 102,702,764
Net assets (liabilities) related to split-interest agreements				
Receivables from charitable remainder trusts	\$ -	\$ -	\$ 802,114	\$ 802,114
Charitable gift annuity obligations	-	-	(143,550)	(143,550)
Total	\$ -	\$ -	\$ 658,564	\$ 658,564

Assets at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Investments				
Domestic and foreign common stock	\$ 19,404,310	\$ -	\$ -	\$ 19,404,310
Taxable bonds and bond funds	2,964,089	-	-	2,964,089
Exchange traded and closed end funds	75,976,073	-	-	75,976,073
Fixed income	4,457,983	-	-	4,457,983
Mutual funds	17,243,177	-	-	17,243,177
Total	\$ 120,045,632	\$ -	\$ -	\$ 120,045,632
Net assets (liabilities) related to split-interest agreements				
Receivables from charitable remainder trusts	\$ -	\$ -	\$ 910,463	\$ 910,463
Charitable gift annuity obligations	-	-	(173,572)	(173,572)
Total	\$ -	\$ -	\$ 736,891	\$ 736,891

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

Note 13. Fair Value Measurements (Continued)

The following table presents the activity for assets and liabilities valued using level 3 inputs during the years ended June 30, 2022 and 2021, respectively:

	Split-Interest Agreements, Net	Total
Ending balance, June 30, 2021	\$ 736,891	\$ 736,891
Present value of new annuity payments	(266)	(266)
Change in value of trusts	(108,349)	(108,349)
Payments to trust beneficiaries	30,288	30,288
Ending balance, June 30, 2022	\$ 658,564	\$ 658,564

	Split-Interest Agreements, Net	Total
Ending balance, June 30, 2020	\$ 595,244	\$ 595,244
Present value of new annuity payments	(20,329)	(20,329)
Change in value of trusts	132,368	132,368
Payments to trust beneficiaries	29,608	29,608
Ending balance, June 30, 2021	\$ 736,891	\$ 736,891

Note 14. Estates in Settlement

The Foundation had been named as a beneficiary in several estates. The Foundation expects to receive additional transfers of **\$6,587,031** from these estates in the future. A portion of these estates are invested in level 1 and level 2 assets. Any related earnings (loss) is recognized in investment income (loss) on the statement of activities. The amounts received from these estates are subject to certain donor restrictions and are reflected in net assets with donor restrictions (see Note 17).

Note 15. Advertising

Production costs of future media advertising are expensed the first time the advertising takes place. Advertising expense totaled **\$10,715** and \$6,992 for the years ended June 30, 2022 and 2021, respectively.

Note 16. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Foundation is exempt from the payment of federal and state income taxes on income other than unrelated business income. The Foundation reviews and assesses all activities to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertain tax positions. For the years ended June 30, 2022 and 2021, no provision for income taxes was made for the Foundation, as the organization had no significant unrelated business income and did not identify any uncertain tax positions requiring recognition or disclosure in these financial statements. Tax years considered open and subject to examination include returns for the Foundation for the years ended June 30, 2019 through June 30, 2021.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 17. Prior Period Restatement

Certain amounts previously classified as restricted in perpetuity – endowments have been reclassified to restricted for specific purpose at June 30, 2021 and 2020. Net assets at June 30, 2021 have been adjusted as follows:

	Balance, as previously reported	Adjustments	Balance, as reclassified
Restricted in perpetuity - endowments	\$ 84,780,428	\$ (940,706)	\$ 83,839,722
Restricted for specific purpose	13,821,476	940,706	14,762,182
Net assets, end of year with donor restrictions	<u>\$ 98,601,904</u>	<u>\$ -</u>	<u>\$ 98,601,904</u>

Note 18. Date of Management's Review

Management has evaluated subsequent events through November 18, 2022, the date the financial statements were available to be issued.