

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

FINANCIAL REPORT

JUNE 30, 2020 and 2019

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Herbert J. Geary III
Roy J. Geiser
Chris A. Hall
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Mark A. Welsh



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Mid-Shore Community Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. 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 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 auditor's 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.

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 2020 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, 2020, 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.

Prior Period Financial Statements

The financial statements of the Mid-Shore Community Foundation, Inc. as of June 30, 2019, were audited by other auditors whose report dated February 11, 2020, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
December 8, 2020

MID-SHORE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,862,147	\$ 2,934,759
Receivable from estates in settlement	56,206	1,548,125
Other receivables	14,374	-
Prepaid expenses and other current assets	7,329	23,856
Total current assets	2,940,056	4,506,740
INVESTMENTS, marketable securities, at fair value	89,275,656	86,387,145
PROPERTY AND EQUIPMENT, net	1,629,888	1,661,257
OTHER ASSETS		
Receivables from charitable remainder trusts	778,095	784,919
Other assets	19,840	46,439
Mortgage notes receivable	5,855	7,455
Total other assets	803,790	838,813
Total assets	\$ 94,649,390	\$ 93,393,955
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 161,667	\$ 132,284
Grants payable, current portion	1,553,284	920,833
Charitable gift annuity obligations, current portion	29,608	85,477
Agency payables	5,861,242	10,121,760
Total current liabilities	7,605,801	11,260,354
OTHER LIABILITIES		
Grants payable, net of current portion	416,672	705,232
Charitable gift annuity obligations, net of current portion	153,243	276,002
Total other liabilities	569,915	981,234
Total liabilities	8,175,716	12,241,588
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
NET ASSETS		
Without donor restrictions		
Designated for donor advised grants	7,097,167	8,173,898
Designated for fiscal sponsorships	908,643	1,048,099
Designated by board for grant making	991,250	750,000
Designated for operations	1,813,689	1,862,489
Invested in property and equipment, net	1,629,888	1,661,257
Total without donor restrictions	12,440,637	13,495,743
With donor restrictions		
Restricted in perpetuity - endowments	63,149,516	63,746,947
Restricted for specific purpose	10,883,521	3,909,677
Total with donor restrictions	74,033,037	67,656,624
Total net assets	86,473,674	81,152,367
Total liabilities and net assets	\$ 94,649,390	\$ 93,393,955

The Notes to Financial Statements are an integral part of these statements.

MID-SHORE COMMUNITY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,368,854	\$ 7,068,539	\$ 9,437,393
Investment income, net	366,370	2,330,542	2,696,912
Change in value of split interest agreements	-	16,107	16,107
Other income	73,496	-	73,496
Total support, revenues and gains	2,808,720	9,415,188	12,223,908
Net assets released from restrictions	3,038,775	(3,038,775)	-
Total support and revenue	5,847,495	6,376,413	12,223,908
EXPENSES			
Program services:			
Grants	4,440,160	-	4,440,160
Fiscal sponsor expenses	1,526,276	-	1,526,276
Total program services	5,966,436	-	5,966,436
Supporting services:			
MSCF	687,238	-	687,238
Fundraising	169,398	-	169,398
Bullitt House	79,529	-	79,529
Total supporting services	936,165	-	936,165
Total expenses	6,902,601	-	6,902,601
(Decrease) increase in net assets	(1,055,106)	6,376,413	5,321,307
Net assets, beginning of year	13,495,743	67,656,624	81,152,367
Net assets, end of year	\$ 12,440,637	\$ 74,033,037	\$ 86,473,674

The Notes to Financial Statements are an integral part of this statement.

MID-SHORE COMMUNITY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 3,848,488	\$ 1,798,798	\$ 5,647,286
Investment income, net	661,201	3,259,676	3,920,877
Change in value of split interest agreements	-	222,223	222,223
Other income	73,558	-	73,558
Total support, revenues and gains	4,583,247	5,280,697	9,863,944
Net assets released from restrictions	3,111,578	(3,111,578)	-
Total support and revenue	7,694,825	2,169,119	9,863,944
EXPENSES			
Program services:			
Grants	3,728,008	-	3,728,008
Fiscal sponsor expenses	1,150,108	-	1,150,108
Total program services	4,878,116	-	4,878,116
Supporting services:			
MSCF	568,274	-	568,274
Fundraising	162,574	-	162,574
Bullitt House	87,925	-	87,925
Total supporting services	818,773	-	818,773
Total expenses	5,696,889	-	5,696,889
Increase in net assets	1,997,936	2,169,119	4,167,055
Net assets, beginning of year, as restated	11,497,807	65,487,505	76,985,312
Net assets, end of year	\$ 13,495,743	\$ 67,656,624	\$ 81,152,367

The Notes to Financial Statements are an integral part of this statement.

MID-SHORE COMMUNITY FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020**

	Program Services		Supporting Services			Total
	Grants	Fiscal Sponsor	Management and General	Bullitt House	Fundraising	
Advertising	\$ -	\$ -	\$ 2,249	\$ -	\$ 3,243	\$ 5,492
Annual report	-	-	1,375	-	1,375	2,750
Bank and payroll fees	-	7,014	3,210	-	-	10,224
Casual labor	-	301,346	-	-	-	301,346
Consulting services	-	598	51,848	-	-	52,446
Depreciation	-	-	-	31,369	-	31,369
Direct mail campaign	-	-	1,696	-	565	2,261
Employee benefits	-	23,835	52,058	-	3,086	78,979
Equipment rental/lease	-	-	5,500	-	-	5,500
Grants awarded	4,440,160	372	-	-	-	4,440,532
Insurance	-	8,105	3,294	6,288	-	17,687
Legal and professional	-	7,660	34,674	-	-	42,334
Marketing	-	165,440	-	-	-	165,440
Meetings, luncheons, and dinners	-	3,909	4,189	-	4,189	12,287
Membership, subscriptions, and dues	-	1,194	19,500	-	5,153	25,847
Office expenses	-	14,008	22,751	-	2,036	38,795
Payroll taxes	-	13,603	25,525	-	9,662	48,790
Program support	-	645,524	-	-	-	645,524
Rent	-	72,101	-	-	-	72,101
Repair and maintenance	-	-	90	33,358	-	33,448
Retirement plan	-	-	29,328	-	9,729	39,057
Seminars and events	-	-	21,213	-	3,743	24,956
Software	-	15,994	72,718	-	-	88,712
Staff education/training	-	-	450	-	-	450
Staff salaries	-	220,967	334,362	-	125,811	681,140
Supplies	-	13,145	-	-	-	13,145
Taxes	-	645	300	-	-	945
Travel and meals	-	5,489	1,032	-	806	7,327
Utilities	-	5,327	(124)	8,514	-	13,717
Total functional expenses	\$ 4,440,160	\$ 1,526,276	\$ 687,238	\$ 79,529	\$ 169,398	\$ 6,902,601

The Notes to Financial Statements are an integral part of this statement.

MID-SHORE COMMUNITY FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services		Supporting Services			Total
	Grants	Fiscal Sponsor	Management and General	Bullitt House	Fundraising	
Advertising	\$ -	\$ -	\$ 2,148	\$ -	\$ 3,098	\$ 5,246
Annual report	-	-	2,724	-	2,724	5,448
Bank and payroll fees	-	435	3,788	-	-	4,223
Depreciation	-	-	-	31,369	-	31,369
Direct mail campaign	-	-	1,603	-	534	2,137
Employee benefits	-	12,676	33,740	-	2,000	48,416
Equipment rental/lease	-	6,137	4,734	-	-	10,871
Fundraising	-	43,691	-	-	-	43,691
Grants awarded	3,728,008	202,893	-	-	-	3,930,901
Insurance	-	7,439	3,164	5,808	-	16,411
Legal and professional	-	2,172	22,900	-	-	25,072
Marketing	-	61,297	-	-	-	61,297
Meetings, luncheons, and dinners	-	37,754	5,294	-	5,294	48,342
Membership, subscriptions, and dues	-	5,434	21,434	-	5,664	32,532
Office expenses	-	-	17,242	-	1,543	18,785
Payroll taxes	-	17,241	23,669	-	8,959	49,869
Program support	-	255,562	-	-	-	255,562
Rent	-	73,722	-	-	-	73,722
Repair and maintenance	-	4,851	48,113	41,518	-	94,482
Retirement plan	-	3,632	23,436	-	7,774	34,842
Seminars and events	-	5,114	33,475	-	5,907	44,496
Software	-	6,340	7,032	-	-	13,372
Staff education/training	-	27	(451)	-	-	(424)
Staff salaries	-	161,687	311,238	-	117,110	590,035
Supplies	-	201,766	175	-	-	201,941
Taxes	-	2,764	300	-	-	3,064
Travel and meals	-	23,786	2,516	-	1,967	28,269
Utilities	-	13,688	-	9,230	-	22,918
Total functional expenses	\$ 3,728,008	\$ 1,150,108	\$ 568,274	\$ 87,925	\$ 162,574	\$ 5,696,889

The Notes to Financial Statements are an integral part of this statement.

MID-SHORE COMMUNITY FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,321,307	\$ 4,167,055
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,369	31,369
Noncash donations	(318,239)	(687,675)
Gain on sale of investments	(827,743)	(680,403)
Increase in market values of investments	(126,796)	(1,761,448)
Decrease (increase) in assets:		
Estates receivable	1,491,919	6,843,246
Other receivables	(14,374)	-
Split-interest agreements	(171,804)	409,563
Prepaid expenses and other assets	43,126	(3,384)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	29,383	(25,772)
Grants payable	343,891	13,495
Net cash provided by operating activities	5,802,039	8,306,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	15,396,486	12,655,965
Purchases of investments	(17,012,219)	(25,192,323)
Purchase of property and equipment	-	(11,373)
Collections on mortgage notes receivable	1,600	2,300
(Decrease) increase in agency payables	(4,260,518)	5,237,178
Net cash used by investing activities	(5,874,651)	(7,308,253)
Net (decrease) increase in cash and cash equivalents	(72,612)	997,793
Cash and cash equivalents, beginning of year	2,934,759	1,936,966
Cash and cash equivalents, end of year	\$ 2,862,147	\$ 2,934,759

The Notes to Financial Statements are an integral part of these statements.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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, 2020 AND 2019

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 **\$286,711** and \$245,976 for the years ended June 30, 2020 and 2019, respectively, has been allocated to all eligible funds on a monthly basis based upon the actual earnings on the investments.

Property and Equipment:

Property and equipment represents 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 **\$31,369** for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 AND 2019

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 are fully insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2020 and 2019, the Foundation's deposits in financial institutions did not exceed the FDIC insured limit. The amounts held in brokerage firm accounts are neither insured nor guaranteed by the FDIC or any other government agency. At June 30, 2020 and 2019, the cash held by the Foundation in brokerage firm accounts were **\$2,355,348** and **\$1,648,000**, respectively. 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, 2020 AND 2019

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.

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, 2020 AND 2019

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:

2020		
	Market Value	Cost
Domestic and foreign common stock	\$ 16,714,448	\$ 13,544,038
Taxable bonds and bond funds	4,345,021	4,161,790
Exchange traded funds and closed end funds	47,706,060	36,922,321
Fixed income	3,675,903	3,594,786
Mutual funds	16,834,224	16,451,343
Total	\$ 89,275,656	\$ 74,674,278

2019		
	Market Value	Cost
Domestic and foreign common stock	\$ 16,389,674	\$ 13,732,610
Taxable bonds and bond funds	5,340,229	5,155,380
Exchange traded funds and closed end funds	44,300,979	34,622,725
Fixed income	3,581,681	3,546,040
Mutual funds	16,774,582	16,292,219
Total	\$ 86,387,145	\$ 73,348,974

The following schedule summarizes the investment return and its classification in the statement of activities the years ended June 30, 2020 and 2019:

	2020	2019
Investment income	\$ 2,029,085	\$ 1,725,002
Realized and unrealized gains	954,538	2,441,851
Investment fees, net	(286,711)	(245,976)
Total	\$ 2,696,912	\$ 3,920,877

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, 2020 and 2019 are summarized as follows:

	2020	2019
Administrative fee revenue	\$ 1,073,592	\$ 1,024,526
Administrative fee expense	(1,027,768)	(971,799)
Net administrative fees	\$ 45,824	\$ 52,727

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

Note 3. Property and Equipment

At June 30, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
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	(605,480)	(574,111)
	\$ 1,629,888	\$ 1,661,257

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, 2020, endowment funds with historic gift balances of **\$14,313,325** were below historic gift value by **\$460,049**. At June 30, 2018, endowment funds with historic gift balances of \$4,464,388 were below historic gift value by \$266,335.

Endowment funds with donor restrictions are as follows:

Year Ended June 30, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 63,149,516	\$ 63,149,516
Board Designated	4,455,390	2,681,048	7,136,438
Total	\$ 4,455,390	\$ 65,830,564	\$ 70,285,954

Year Ended June 30, 2019			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 63,746,947	\$ 63,746,947
Board Designated	4,628,218	605,872	5,234,090
Total	\$ 4,628,218	\$ 64,352,819	\$ 68,981,037

Changes in endowment funds with donor restrictions are as follows:

Year Ended June 30, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,628,218	\$ 64,352,819	\$ 68,981,037
Contributions	27	733,094	733,121
Investment income	130,692	2,109,717	2,240,409
Appropriated for expenditure	(52,249)	(2,051,586)	(2,103,835)
Net transfers/fees	(251,298)	686,520	435,222
Endowment net assets, end of year	\$ 4,455,390	\$ 65,830,564	\$ 70,285,954

Year Ended June 30, 2019			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 5,233,756	\$ 62,137,549	\$ 67,371,305
Contributions	380	970,597	970,977
Investment income	180,187	3,157,976	3,338,163
Appropriated for expenditure	(47,605)	(2,177,656)	(2,225,261)
Net transfers/fees	(738,500)	264,353	(474,147)
Endowment net assets, end of year	\$ 4,628,218	\$ 64,352,819	\$ 68,981,037

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

The Foundation holds a mortgage note collateralized by property in Talbot County, Maryland. Periodic payments, principal and interest (6%), are being made on the obligation. The balance due at June 30, 2020 and 2019 was \$5,855 and \$7,455, respectively. The balance is expected to be paid in full during calendar year 2021.

Note 6. Charitable Remainder Trusts

At June 30, 2020 and 2019, the receivables from charitable remainder trusts were \$778,095 and \$784,919, 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:

	2020	2019
Estimated present value at beginning of year	\$ 784,919	\$ 1,048,622
Settlements	-	(375,000)
Change in value	(6,824)	111,297
Estimated present value at end of year	\$ 778,095	\$ 784,919

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, 2020 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 1.40% 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, 2020 and 2019, investments in marketable securities include \$374,076 and \$694,806 related to these arrangements.

The following is a summary of the Foundation's charitable gift annuity obligations June 30, 2020 and 2019:

	2020	2019
Present Value of Payments to Beneficiaries:		
Total	\$ 182,851	\$ 361,479
Current portion	(29,608)	(85,477)
Long-term	\$ 153,243	\$ 276,002

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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,	
2021	\$ 1,553,284
2022	288,772
2023	125,900
2024	<u>2,000</u>
	\$ 1,969,956

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, 2020 and 2019 designated by the board for operating purposes totaled **\$1,813,689** and \$1,862,489, 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 **\$1,073,592** for fiscal year 2020 and \$1,024,526 for fiscal year 2019 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 2021.

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 **\$38,557** and \$30,711 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 was **\$16,000** and \$16,250, 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, 2020 and 2019.

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, 2020 and 2019:

Assets at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Total
Investments				
Domestic and foreign common stock	\$ 16,714,448	\$ -	\$ -	\$ 16,714,448
Taxable bonds and bond funds	4,345,021	-	-	4,345,021
Exchange traded and closed end funds	47,706,060	-	-	47,706,060
Fixed income	3,675,903	-	-	3,675,903
Mutual funds	16,834,224	-	-	16,834,224
Total	\$ 89,275,656	\$ -	\$ -	\$ 89,275,656
Net assets (liabilities) related to split-interest agreements				
Receivables from charitable remainder trusts	\$ -	\$ -	\$ 778,095	\$ 778,095
Charitable gift annuity obligations	-	-	(182,851)	(182,851)
Total	\$ -	\$ -	\$ 595,244	\$ 595,244

Assets at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Total
Investments				
Domestic and foreign common stock	\$ 16,389,674	\$ -	\$ -	\$ 16,389,674
Taxable bonds and bond funds	5,340,229	-	-	5,340,229
Exchange traded and closed end funds	44,300,979	-	-	44,300,979
Fixed income	3,581,681	-	-	3,581,681
Mutual funds	16,774,582	-	-	16,774,582
Total	\$ 86,387,145	\$ -	\$ -	\$ 86,387,145
Net assets (liabilities) related to split-interest agreements				
Receivables from charitable remainder trusts	\$ -	\$ -	\$ 784,919	\$ 784,919
Charitable gift annuity obligations	-	-	(361,479)	(361,479)
Total	\$ -	\$ -	\$ 423,440	\$ 423,440

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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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, 2020 and 2019, respectively:

	Split-Interest		Total
	Investments	Agreements, Net	
Ending balance, June 30, 2019	\$ -	\$ 423,440	\$ 423,440
Present value of new annuity payments	-	(5,341)	(5,341)
Purchases, sales, issuances, and settlements (net)	-	140,213	140,213
Change in value of trusts	-	(6,824)	(6,824)
Payments to trust beneficiaries	-	43,756	43,756
Ending balance, June 30, 2020	\$ -	\$ 595,244	\$ 595,244

	Split-Interest		Total
	Investments	Agreements, Net	
Ending balance, June 30, 2018	\$ 39,744	\$ 500,403	\$ 540,147
Present value of new annuity payments	-	(11,297)	(11,297)
Purchases, sales, issuances, and settlements (net)	(39,744)	(375,000)	(414,744)
Change in value of trusts	-	222,223	222,223
Payments to trust beneficiaries	-	87,111	87,111
Ending balance, June 30, 2019	\$ -	\$ 423,440	\$ 423,440

Note 14. Estates in Settlement

The Foundation had been named as a beneficiary in two estates as of June 30, 2019. At June 30, 2019 the Foundation anticipated receiving \$1,548,125 from the estates. During 2020, the Foundation received **\$1,491,919** in total from both estates. The Foundation expects to receive additional transfers of **\$56,206** from the remaining estate in the future. The amounts received from these estates are used to establish endowed funds that will be reflected in net assets with donor restrictions.

Note 15. Advertising

Production costs of future media advertising are expensed the first time the advertising takes place. Advertising expense totaled **\$5,492** and \$5,246 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2017 through June 30, 2019.

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Note 17. Net Asset Reclassification

Net assets at June 30, 2018 have been reclassified from net assets without donor restrictions to net assest with donor restrictions to account for donations with specific purpose as follows:

	Balance, as previously reported	Reclassification	Balance, as reclassified
Without Donor Restrictions	\$ 12,388,116	\$ (890,309)	\$ 11,497,807
With Donor Restrictions	64,597,196	890,309	65,487,505
Total	\$ 76,985,312	\$ -	\$ 76,985,312

Note 18. Commitments and Contingencies

On March 11, 2020 the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global disruptions have caused significant economic uncertainty and volatility in financial markets. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 19. Date of Management's Review

Management has evaluated subsequent events through December 8, 2020, the date the financial statements were available to be issued.