

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

FINANCIAL REPORT

JUNE 30, 2021 and 2020

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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 statements of financial position as of June 30, 2021 and 2020, 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.

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 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 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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company adopted Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.

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

Salisbury, Maryland
November 5, 2021

MID-SHORE COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,863,617	\$ 2,862,147
Receivable from estates in settlement	549,973	494,944
Other receivables	-	14,374
Prepaid expenses and other current assets	7,329	7,329
Mortgage notes receivable, current portion	3,355	2,500
Total current assets	2,424,274	3,381,294
INVESTMENTS, marketable securities, at fair value	120,045,632	89,275,656
PROPERTY AND EQUIPMENT, net	1,599,656	1,629,888
OTHER ASSETS		
Receivables from charitable remainder trusts	910,463	778,095
Other assets	21,289	19,840
Mortgage notes receivable, net of current portion	-	3,355
Total other assets	931,752	801,290
Total assets	\$ 125,001,314	\$ 95,088,128
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 124,439	\$ 161,667
Grants payable, current portion	1,144,005	1,553,284
Charitable gift annuity obligations, current portion	29,608	29,608
Agency payables	7,479,165	5,573,630
Total current liabilities	8,777,217	7,318,189
OTHER LIABILITIES		
Grants payable, net of current portion	850,456	416,672
Charitable gift annuity obligations, net of current portion	143,964	153,243
Total other liabilities	994,420	569,915
Total liabilities	9,771,637	7,888,104
COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS		
NET ASSETS		
Without donor restrictions		
Designated for donor advised grants	9,883,663	7,097,167
Designated for fiscal sponsorships	1,361,927	908,643
Designated by board for grant making	1,428,129	991,250
Designated for operations	2,354,398	1,813,689
Invested in property and equipment, net	1,599,656	1,629,888
Total without donor restrictions	16,627,773	12,440,637
With donor restrictions		
Restricted in perpetuity - endowments	84,780,428	63,875,866
Restricted for specific purpose	13,821,476	10,883,521
Total with donor restrictions	98,601,904	74,759,387
Total net assets	115,229,677	87,200,024
Total liabilities and net assets	\$ 125,001,314	\$ 95,088,128

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, 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

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, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 2,368,854	\$ 7,059,326	\$ 9,428,180
Investment income, net	366,370	2,337,922	2,704,292
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	9,413,355	12,222,075
Net assets released from restrictions	3,038,775	(3,038,775)	-
Total support and revenue	5,847,495	6,374,580	12,222,075
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
Change in net assets	(1,055,106)	6,374,580	5,319,474
Net assets, beginning of year, as restated	13,495,743	68,384,807	81,880,550
Net assets, end of year	\$ 12,440,637	\$ 74,759,387	\$ 87,200,024

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, 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	-	-	20,510	-	424	20,934
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

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
Investment 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.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 28,029,653	\$ 5,319,474
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,232	31,369
Noncash donations	(830,105)	(318,239)
Gain on sale of investments	(9,608,598)	(827,743)
Increase in market values of investments	(21,325,994)	(126,796)
Decrease (increase) in assets:		
Estates receivable	(55,029)	1,501,132
Other receivables	14,374	(14,374)
Split-interest agreements	(141,647)	(171,804)
Prepaid expenses and other assets	(2,304)	43,126
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(37,228)	29,383
Grants payable	24,505	343,891
Net cash (used) provided by operating activities	(3,902,141)	5,809,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	44,383,418	15,396,486
Purchases of investments	(43,388,697)	(17,012,219)
Collections on mortgage notes receivable	3,355	1,600
Increase (decrease) in agency payables	1,905,535	(4,267,898)
Net cash provided (used) by investing activities	2,903,611	(5,882,031)
Net decrease in cash and cash equivalents	(998,530)	(72,612)
Cash and cash equivalents, beginning of year	2,862,147	2,934,759
Cash and cash equivalents, end of year	\$ 1,863,617	\$ 2,862,147

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, 2021 AND 2020

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, 2021 and 2020, 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, 2021 AND 2020

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 **\$323,283** and \$286,711 for the years ended June 30, 2021 and 2020, 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 **\$109,000** and \$52,000 in investment consulting fees as of June 30, 2021 and June 30, 2020, 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 **\$30,232** and \$31,369 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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, 2021 AND 2020

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, 2021 and 2020, the Foundation's deposits in financial institutions did not exceed the FDIC insured limit. At June 30, 2021 and 2020, the cash held by the Foundation in brokerage firm accounts were **\$1,713,983** and **\$2,355,348**, respectively. The amounts held in brokerage firm accounts are swept into separate accounts that are fully insured by the FDIC with the exception of **\$437,061** and **\$502,328** at June 30, 2021 and 2020, respectively. Those amounts are 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, 2021 AND 2020

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, 2021 AND 2020

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:

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

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

The following schedule summarizes the investment return and its classification in the statement of activities the years ended June 30, 2021 and 2020:

	2021	2020
Investment income	\$ 2,247,124	\$ 2,036,465
Realized and unrealized gains	28,963,643	954,538
Investment fees, net	(323,283)	(286,711)
Total	\$ 30,887,484	\$ 2,704,292

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, 2021 and 2020 are summarized as follows:

	2021	2020
Administrative fee revenue	\$ 1,239,720	\$ 1,073,592
Administrative fee expense	(1,186,942)	(1,027,768)
Net administrative fees	\$ 52,778	\$ 45,824

MID-SHORE COMMUNITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

Note 3. Property and Equipment

At June 30, 2021 and 2020, property and equipment consisted of the following:

	2021	2020
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	(635,712)	(605,480)
	\$ 1,599,656	\$ 1,629,888

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.
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Note 4. Endowed Net Assets (Continued)

Spending Policy (Continued):

At June 30, 2021, there were no endowment funds with a fair value or historic gift balance below historic gift value. At June 30, 2020, endowment funds with historic gift balances of \$14,313,325 were below historic gift value by \$460,049.

Endowment funds with donor restrictions are as follows:

Year Ended June 30, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 84,780,428	\$ 84,780,428
Board Designated	6,135,805	3,597,634	9,733,439
Total	\$ 6,135,805	\$ 88,378,062	\$ 94,513,867

Year Ended June 30, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 63,875,866	\$ 63,875,866
Board Designated	4,455,390	2,681,048	7,136,438
Total	\$ 4,455,390	\$ 66,556,914	\$ 71,012,304

Changes in endowment funds with donor restrictions are as follows:

Year Ended June 30, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,455,390	\$ 66,556,914	\$ 71,012,304
Contributions	5	1,098,932	1,098,937
Investment income	1,799,440	22,976,479	24,775,919
Appropriated for expenditure	(119,565)	(2,625,130)	(2,744,695)
Net transfers/fees	535	370,867	371,402
Endowment net assets, end of year	\$ 6,135,805	\$ 88,378,062	\$ 94,513,867

Year Ended June 30, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,628,218	\$ 65,081,002	\$ 69,709,220
Contributions	27	723,881	723,908
Investment income	130,692	2,117,097	2,247,789
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	\$ 66,556,914	\$ 71,012,304

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, 2021 and 2020 was \$3,355 and \$5,855, respectively. The balance is expected to be paid in full during calendar year 2021.

Note 6. Charitable Remainder Trusts

At June 30, 2021 and 2020, the receivables from charitable remainder trusts were \$910,463 and \$778,095, 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:

	2021	2020
Estimated present value at beginning of year	\$ 778,095	\$ 784,919
Change in value	132,368	(6,824)
Estimated present value at end of year	\$ 910,463	\$ 778,095

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, 2021 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, 2021 and 2020, investments in marketable securities include \$403,592 and \$374,076 related to these arrangements.

The following is a summary of the Foundation's charitable gift annuity obligations June 30, 2021 and 2020:

	2021	2020
Present Value of Payments to Beneficiaries:		
Total	\$ 173,572	\$ 182,851
Current portion	(29,608)	(29,608)
Long-term	\$ 143,964	\$ 153,243

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,	
2022	\$ 1,144,005
2023	478,686
2024	233,954
2025	<u>137,816</u>
	\$ 1,994,461

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, 2021 and 2020 designated by the board for operating purposes totaled **\$2,354,398** and \$1,813,689, 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 **\$1,239,720** for fiscal year 2021 and \$1,073,592 for fiscal year 2020 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 2022.

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 **\$29,039** and \$38,557 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 was **\$11,800** and \$16,000, 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, 2021 and 2020.

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.
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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, 2021 and 2020:

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
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

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, 2021 and 2020, respectively:

	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

	Split-Interest Agreements, Net	Total
Ending balance, June 30, 2019	\$ 423,440	\$ 423,440
Present value of new annuity payments	(5,341)	(5,341)
Purchases	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

Note 14. Estates in Settlement

The Foundation had been named as a beneficiary in two estates. During 2021, the Foundation received a final transfer of \$56,206 from one of the estates. The Foundation expects to receive additional transfers of **\$549,973** from the remaining estate in the future. The remaining estate is invested in level 1 and level 2 assets with earnings (loss) of **\$111,235** and (\$9,213) at June 30, 2021 and 2020, respectively. The amounts received from these estates are used to establish endowed funds that will be 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 **\$6,992** and \$5,492 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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, 2018 through June 30, 2020.

MID-SHORE COMMUNITY FOUNDATION, INC.
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Note 17. Prior Period Restatement

Certain agency payables at June 30, 2020 and 2019 have been reclassified to net assets with donor restrictions based on specific terms of the founding agreements. In addition, the Foundation became aware that it was named as a beneficiary of an estate at June 30, 2020 and 2019 during the year (see Note 14). Net assets at June 30, 2019 have been adjusted as follows:

	Balance, as previously reported	Adjustments	Balance, as reclassified
Change in net assets with donor restrictions	\$ 6,376,413	\$ (1,833)	\$ 6,374,580
Net assets, beginning of year with donor restrictions	<u>67,656,624</u>	<u>728,183</u>	<u>68,384,807</u>
Net assets, end of year with donor restrictions	<u>\$ 74,033,037</u>	<u>\$ 726,350</u>	<u>\$ 74,759,387</u>

Note 18. Date of Management's Review

Management has evaluated subsequent events through November 5, 2021, the date the financial statements were available to be issued.