

COMMUNITY FOUNDATION
OF THE EASTERN SHORE, INC.

FINANCIAL REPORT

JUNE 30, 2007

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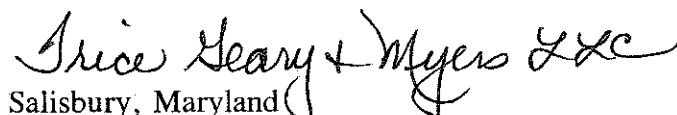
INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Foundation of the Eastern Shore, Inc.
Salisbury, Maryland

We have audited the accompanying statements of financial position of the Community Foundation of the Eastern Shore, Inc. (the "Foundation") as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation of the Eastern Shore, Inc. as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


Salisbury, Maryland
August 30, 2007

COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006**

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,527,380	\$ 1,889,835
Receivable from estate in settlement	-	33,028
Prepaid expenses	10,371	4,885
Total current assets	2,537,751	1,927,748
INVESTMENTS , marketable securities at fair value	65,782,332	54,467,340
EQUIPMENT , at cost, less accumulated depreciation	84,467	17,849
OTHER ASSETS		
Receivable from unitrust	78,000	63,000
Security deposit	12,026	11,666
Other assets	90,026	74,666
Total assets	\$ 68,494,576	\$ 56,487,603
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 22,428	\$ 46,081
Agency payables	12,346,323	8,674,102
Charitable remainder trust benefit obligation	6,700	6,700
Charitable gift annuity obligation	5,400	-
Total current liabilities	12,380,851	8,726,883
OTHER LIABILITIES		
Charitable remainder trust benefit obligation, net of current portion	6,681	13,522
Charitable gift annuity obligation, net of current portion	51,830	-
Total other liabilities	58,511	13,522
COMMITMENTS		
NET ASSETS		
Unrestricted:		
Donor advised	7,918,021	7,635,883
Other unrestricted	11,081,833	7,645,864
Total unrestricted net assets	18,999,854	15,281,747
Restricted:		
Temporarily restricted	-	33,028
Permanently restricted	37,055,360	32,432,423
Total net assets	56,055,214	47,747,198
Total liabilities and net assets	\$ 68,494,576	\$ 56,487,603

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

COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007

	Donor Advised	Other Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE						
Contributions and grants	\$ 712,421	\$ 416,348	\$ 1,128,769	\$ -	\$ 3,945,503	\$ 5,074,272
Change in value of receivable from charitable remainder trust	-	15,000	15,000	-	-	15,000
Investment income, net	1,995,901	4,771,981	6,767,882	-	-	6,767,882
	2,708,322	5,203,329	7,911,651	-	3,945,503	11,857,154
Net assets released from restrictions	-	-	-	(33,028)	33,028	-
Total support and revenue	2,708,322	5,203,329	7,911,651	(33,028)	3,978,531	11,857,154
EXPENSES						
Grants	1,547,948	1,328,849	2,876,797	-	-	2,876,797
Program expenses	-	128,525	128,525	-	-	128,525
Management and general expenses	6,553	570,509	577,062	-	-	577,062
Total expenses	1,554,501	2,027,883	3,582,384	-	-	3,582,384
Increase (decrease) in net assets	1,153,821	3,175,446	4,329,267	(33,028)	3,978,531	8,274,770
Net assets, beginning of year	7,635,883	7,645,864	15,281,747	33,028	32,432,423	47,747,198
Transfers between funds	(871,683)	260,523	(611,160)	-	644,406	33,246
Net assets, end of year	\$ 7,918,021	\$ 11,081,833	\$ 18,999,854	\$ -	\$ 37,055,360	\$ 56,055,214

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

COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006

	Donor Advised	Other Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE						
Contributions and grants	\$ 831,451	\$ 303,541	\$ 1,134,992	\$ 23,113	\$ 970,818	\$ 2,128,923
Change in value of receivable from charitable remainder trust	-	7,000	7,000	-	-	7,000
Investment income, net	1,433,079	3,053,372	4,486,451	-	-	4,486,451
	2,264,530	3,363,913	5,628,443	23,113	970,818	6,622,374
Net assets released from restrictions	-	23,695	23,695	(838,780)	815,085	-
Total support and revenue	2,264,530	3,387,608	5,652,138	(815,667)	1,785,903	6,622,374
EXPENSES						
Grants	1,027,759	1,343,050	2,370,809	-	-	2,370,809
Program expenses	-	6,221	6,221	-	-	6,221
Management and general expenses	3,754	485,930	489,684	-	-	489,684
Total expenses	1,031,513	1,835,201	2,866,714	-	-	2,866,714
Increase (decrease) in net assets	1,233,017	1,552,407	2,785,424	(815,667)	1,785,903	3,755,660
Net assets, beginning of year	6,935,596	5,969,047	12,904,643	848,695	30,250,279	44,003,617
Transfers between funds	(532,730)	124,410	(408,320)	-	396,241	(12,079)
Net assets, end of year	\$ 7,635,883	\$ 7,645,864	\$ 15,281,747	\$ 33,028	\$ 32,432,423	\$ 47,747,198

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

COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 8,274,770	\$ 3,755,660
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	16,443	5,193
(Gains) losses on sales of investments	(56,642)	54,604
Increase in market values of investments	(4,738,342)	(2,662,109)
Increase in value of split-interest agreements	(15,000)	(7,000)
(Increase) decrease in other assets	(5,846)	9
Decrease in receivable from estate in settlement	33,028	791,973
Decrease in charitable remainder trust benefit obligation	(6,841)	(6,679)
Increase in charitable gift annuity obligation	57,230	-
Increase in agency payables	3,672,221	1,327,291
(Decrease) increase in accounts payable and accrued expenses	(23,653)	20,741
Net cash provided by operating activities	7,207,368	3,279,683
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales or maturities of marketable securities	13,239,214	24,774,884
Purchases of marketable securities	(19,725,976)	(29,414,529)
Purchases of equipment	(83,061)	(7,724)
Net cash used by investing activities	(6,569,823)	(4,647,369)
Net increase (decrease) in cash and cash equivalents	637,545	(1,367,686)
Cash and cash equivalents, beginning of year	1,889,835	3,257,521
Cash and cash equivalents, end of year	\$ 2,527,380	\$ 1,889,835

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

NOTES TO FINANCIAL STATEMENTS

Note 1. The Foundation and its Significant Accounting Policies

The Community Foundation of the Eastern Shore, Inc. (the Foundation) is a publicly supported non-profit organization, which receives contributions from individuals, local businesses, and other charitable organizations. These contributions are used to enrich the communities on the Eastern Shore through grants to non-profit organizations. The Foundation is exempt from Federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code.

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

Basis of Presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

Donor Advised Funds - Donors have contributed to the Foundation whereby principal and income from these funds are available for donor recommendations, with the ultimate discretion remaining available with the Board of Directors. Also, accumulated undistributed income on donor advised endowment funds is included in this category.

Unrestricted Funds - Funds which represent 1) income earned by the Discretionary Fund for Community Needs Endowment Fund, which may be used at the discretion of the Board of Directors for grant making, 2) accumulated income on donor advised nonendowment funds with account balances less than \$50,000, 3) management fees available for administrative purposes, and (4) accumulated undistributed income on non donor advised endowment funds.

Temporarily Restricted Net Assets - Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose, which has consisted primarily of a receivable from an estate in settlement.

Permanently Restricted Net Assets - Funds which have been restricted by donors (historic gift component) to be maintained by the Foundation in perpetuity and only the income is available for program operations in accordance with donor restrictions. Funds included in the category include the following:

Administrative Endowment Funds - The income earned may be used for administrative purposes.

Donor Advised Endowment Funds - The income from these funds are available for donor recommendations, with the ultimate discretion remaining with the Board of Directors.

Designated Endowment Funds - The income from these funds is awarded to specific charitable organizations named by donors.

Field of Interest Endowment Funds - The income from these funds will be distributed to a broad field of interest named by donors.

NOTES TO FINANCIAL STATEMENTS

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

Scholarship Endowment Funds - The income from these funds will be distributed to benefit individuals pursuing educational goals or to recognize individual excellence.

Discretionary Fund for Community Needs Endowment Fund - The income from this fund may be distributed at the discretion of the Board of Directors for support of charitable activities.

Charitable Gift Annuity Fund - The income from this fund may be used to create a new endowment fund, make a gift to an existing endowment fund, to add to a field of interest fund, or create an endowed donor-advised fund that a donor can give to their children or grandchildren.

Contribution Revenue:

The Foundation records contributions (including promises to give) when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time an unconditional promise to give is made. There were no unconditional promises to give at June 30, 2007 and 2006.

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.

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

Contributions made to the Foundation through charitable remainder trusts, 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, are 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.

The Foundation previously received a contribution under a charitable remainder trust arrangement in which the Foundation serves as the trustee. Under this agreement, the donor has transferred investments to the Foundation, with a specified percentage of the trust's fair market value as determined annually to be made to a specified beneficiary. Upon the death of the beneficiary, the investments become unrestricted net assets of the Foundation. The discount rate used to compute the present value of the liability for this arrangement was 7.4%. The estimated remaining life of the beneficiary was obtained from life expectancy tables.

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.

Investments and Investment Income:

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.

NOTES TO FINANCIAL STATEMENTS

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

Investments and Investment Income (Continued):

Investment income, net of management and custodial fees of \$309,865 and \$294,328 for the years ended June 30, 2007 and 2006, respectively, has been allocated to all funds on a monthly basis based upon the available fund balance at the end of the month utilizing a fixed rate of return as determined by the Board of Directors.

Equipment and Depreciation:

Equipment represents office equipment used by the Foundation and is recorded at cost. Depreciation on equipment is calculated on the straight-line method over the estimated useful asset lives. Depreciation expense was \$16,443 and \$5,193 for the years ended June 30, 2007 and 2006, respectively. Accumulated depreciation was \$60,134 and \$104,967 at June 30, 2007 and 2006, respectively.

Pledges Receivable:

Pledges are recorded as contributions when the Foundation's management believes that the receivables are unconditional promises to give. There were no pledges receivable at June 30, 2007 and 2006.

Credit Risk

The Foundation has deposits in a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Agency Payables

In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or a Charitable Trust that Raises or Holds Contributions for Others*, 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.

This statement 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. SFAS 136 specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or its affiliates as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

When a third-party donor explicitly grants the Foundation variance power, the Foundation will 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.

NOTES TO FINANCIAL STATEMENTS

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

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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Live Asset*. As of June 30, 2007 and 2006, no long-lived assets existed which management considered impaired.

Note 2. Investments and Investment Income

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

	2007		
	Marketable Equity Securities	Marketable Debt Securities	Total
Historical Cost	\$ 34,254,003	\$ 21,849,996	\$ 56,103,999
Market	43,794,181	21,988,151	65,782,332

	2006		
	Marketable Equity Securities	Marketable Debt Securities	Total
Historical Cost	\$ 34,184,843	\$ 13,409,904	\$ 47,594,747
Market	41,266,726	13,200,614	54,467,340

The following schedule summarizes the investment return and its classification in the statement of activities (which excludes agency payables) for the year ended June 30, 2007 and 2006:

	2007	2006
Interest and dividends	\$ 3,054,047	\$ 2,516,494
Unrealized gains, net	3,923,236	2,265,504
Realized losses, net	46,911	(45,861)
Management fees	(256,312)	(249,686)
	\$ 6,767,882	\$ 4,486,451

Total net unrealized and realized net gains (losses) on marketable securities (including agency payables) for the years ended June 30, 2007 and 2006 were \$4,706,256 and \$56,540 and \$2,662,109 and (\$54,604), respectively.

NOTES TO FINANCIAL STATEMENTS

Note 3. Receivable From Unitrusts

The receivable from a charitable remainder unitrust of \$78,000 and \$63,000 at June 30, 2007 and 2006 reflects the estimated present value of future asset distributions expected to be received from a unitrust utilizing a discount rate of 3.8% and life expectancy tables published by the Internal Revenue Service. Activity reflected in the financial statements is summarized as follows:

	2007	2006
Estimated present value, beginning	\$ 63,000	\$ 56,000
Change in value	15,000	7,000
Estimated present value, ending	\$ 78,000	\$ 63,000

Note 4. Permanently Restricted Net Assets

Permanently restricted net assets are as follows:

	2007	2006
Administrative endowment funds	\$ 761,958	\$ 760,958
Donor advised endowment funds	8,279,390	7,221,565
Designated endowment funds	6,386,813	3,957,406
Field of interest endowment funds	862,367	692,237
Scholarship endowment funds	3,194,352	2,848,910
Designated agency endowment funds	13,159,893	12,626,205
Expectancy endowment funds	102,478	64,512
Discretionary fund for community needs endowment fund	4,308,109	4,260,630
	\$ 37,055,360	\$ 32,432,423

Note 5. Foundation Programs

The Partners in Nursing Program is a nurse mentoring program serving the Lower Eastern Shore of Maryland. The Community Foundation is the lead partner and fiscal sponsor for this program.

The Community Experience Partnership is a national effort of the Atlantic Philanthropies to assess opportunities for civic engagement among older adults. The Community Foundation was a recipient of one of 30 grants awarded through the partnership and was the fiscal sponsor for a community assessment for the Lower Eastern Shore of Maryland.

NOTES TO FINANCIAL STATEMENTS

Note 6. Agency Payables

The Foundation has agency payables of \$12,346,323 and \$8,674,102 as of June 30, 2007 and 2006, respectively, recorded in the accompanying Statements of Financial Position, for funds held by the Foundation on behalf of area not-for-profit organizations. The following summarizes the activity in agency payables:

	2007	2006
Beginning	\$ 8,674,102	\$ 7,346,811
Contributions	2,706,964	766,181
Investment income	1,330,841	787,742
Grants	(332,338)	(238,711)
Transfers	(33,246)	12,079
Ending	\$ 12,346,323	\$ 8,674,102

The activity in agency payables is not reflected on the Statement of Activities on pages 5 and 6.

Note 7. Contribution Revenue, Investment Income, and Grants Made

The following summarizes the total contributions, investment income and grants of all funds, including agency payables, held at the Foundation:

	2007	2006
Contributions	\$ 7,596,775	\$ 2,895,104
Investment Income	8,098,723	5,274,192
Grants	3,209,135	2,609,520

Note 8. Facility Lease Arrangements

The Foundation moved into its new office facility in October of 2006. The Foundation leases the facility which is approximately 5,400 square feet. The lease agreement continues through fiscal year 2011, with a five year renewal option and annual increases of 3%. The Foundation retains the right to purchase the facility at any time during the period of the lease after the first 12 months of occupancy. Total rent expense was \$47,838 and \$10,584 for the years ended June 30, 2007 and 2006, respectively.

In January 2007 the Foundation began a capital campaign intended to ultimately fund the acquisition of this new facility. As of June 30, 2007, the Foundation has received gifts under this capital campaign of approximately \$325,000.

Note 9. Retirement Plan

The Foundation has a defined contribution retirement plan arrangement covering certain employees, with annual Foundation contributions equal to 4% of compensation. Total contributions were \$11,972 and \$11,013 for the years ended June 30, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 10. Charitable Gift Annuities

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

As of June 30, 2007, the Foundation has received a contribution under a charitable gift annuity arrangement. Under this agreement, the donor has transferred investments to the Foundation, with fixed quarterly annuity payments being made to a specified beneficiary. Upon the death of the beneficiary, the investments become unrestricted net assets of the Foundation. The discount rate used to compute the present value of the liability for this agreement was 6.2%. The estimated remaining life of the beneficiary was obtained from life expectancy tables. At June 30, 2007, investments in marketable securities includes \$101,940 related to this arrangement.

The following is a summary of the Foundation's charitable gift annuity obligation as of June 30, 2007:

	June 30, 2007	
	Present Value of	
	Payments to Beneficiary	
	<hr/>	
Total	\$	57,230
Current portion		5,400
Long-term	\$	<hr/> 51,830

INDEPENDENT AUDITORS' REPORT ON
THE ADDITIONAL FINANCIAL INFORMATION

Board of Directors
Community Foundation of the Eastern Shore, Inc.
Salisbury, Maryland

Our report on our audits of the basic financial statements of the Community Foundation of the Eastern Shore, Inc. for 2007 and 2006 appears on page 3. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2007 and 2006 schedules of management and general expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Trice Geary & Myers LLC
Salisbury, Maryland
August 30, 2007

COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.

**SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
Employee costs		
Salaries	\$ 297,537	\$ 286,955
Temporary personnel	6,000	-
Payroll taxes	23,182	21,931
Employee benefits	31,581	33,642
Total employee costs	358,300	342,528
Occupancy		
Rent	47,838	10,584
Telephone	4,200	3,389
Insurance	1,978	1,959
Building repair and maintenance	10,738	4,936
Total occupancy costs	64,754	20,868
Other		
Professional fees	11,000	13,200
Consultant	4,908	5,868
Development events	4,005	2,117
Office supplies	17,246	6,460
Postage and mailing	7,523	7,351
Printing and copying	21,352	16,571
Computer and copier support and repair	14,478	19,143
Advertisements and marketing	5,364	4,336
Dues and subscriptions	10,747	9,913
Education and travel	8,242	12,159
Meetings	14,001	12,343
Depreciation	16,443	5,193
Payroll administration	1,505	2,596
Miscellaneous	17,194	9,038
Total other costs	154,008	126,288
Total management and general expenses	\$ 577,062	\$ 489,684