

**COMMUNITY FOUNDATION OF  
THE EASTERN SHORE, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2009**

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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, 2009 and 2008, 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, 2009 and 2008, 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.

A handwritten signature in red ink that reads 'TGM Group LLC'.

Salisbury, Maryland  
September 30, 2009

**COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,837,259	\$ 2,016,394
Receivable from estate in settlement	-	511,952
Pledges and other receivables	102,414	190,717
Notes receivable	7,441	-
Prepaid expenses	5,241	8,417
<b>Total current assets</b>	<b>1,952,355</b>	<b>2,727,480</b>
INVESTMENTS, marketable securities, at fair value	51,782,859	64,080,338
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Buildings	1,280,938	1,251,013
Furnishings and equipment	140,786	140,786
	1,421,724	1,391,799
Less accumulated depreciation	144,839	96,102
	1,276,885	1,295,697
<b>OTHER ASSETS</b>		
Receivable from unitrust	79,000	107,000
Notes receivable, at fair value, less current maturities	3,997,499	-
Security deposits	360	1,360
<b>Other assets</b>	<b>4,076,859</b>	<b>108,360</b>
<b>Total assets</b>	<b>\$ 59,088,958</b>	<b>\$ 68,211,875</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 68,667	\$ 41,299
Agency payables	9,876,850	12,967,529
Charitable remainder trust benefit obligation	1,134	6,612
Charitable gift annuity obligation	9,340	9,340
Other	17,875	10,000
<b>Total current liabilities</b>	<b>9,973,866</b>	<b>13,034,780</b>
<b>OTHER LIABILITIES</b>		
Charitable gift annuity obligation, net of current portion	93,739	86,971
<b>COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS</b>		
<b>NET ASSETS</b>		
Unrestricted:		
Donor advised	3,324,117	6,700,077
Other unrestricted, net	320,648	8,715,258
<b>Total unrestricted net assets</b>	<b>3,644,765</b>	<b>15,415,335</b>
Restricted:		
Temporarily restricted	4,004,940	511,952
Permanently restricted	41,371,648	39,162,837
<b>Total net assets</b>	<b>49,021,353</b>	<b>55,090,124</b>
<b>Total liabilities and net assets</b>	<b>\$ 59,088,958</b>	<b>\$ 68,211,875</b>

*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, 2009**

	Donor Advised	Other Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Contributions and grants	\$ 464,275	\$ 157,215	\$ 621,490	\$ 4,146,343	\$ 1,585,908	\$ 6,353,741
Investment income (loss), net	(2,616,502)	(6,677,573)	(9,294,075)	12,038	-	(9,282,037)
Administrative fees from agency funds	-	85,687	85,687	-	-	85,687
	(2,152,227)	(6,434,671)	(8,586,898)	4,158,381	1,585,908	(2,842,609)
Net assets released from restrictions	153,441	-	153,441	(665,393)	511,952	-
<b>Total support and revenue</b>	<b>(1,998,786)</b>	<b>(6,434,671)</b>	<b>(8,433,457)</b>	<b>3,492,988</b>	<b>2,097,860</b>	<b>(2,842,609)</b>
<b>EXPENSES</b>						
Grants	1,103,683	1,306,935	2,410,618	-	-	2,410,618
Program expenses	-	102,092	102,092	-	-	102,092
Management and general expenses	-	713,452	713,452	-	-	713,452
<b>Total expenses</b>	<b>1,103,683</b>	<b>2,122,479</b>	<b>3,226,162</b>	<b>-</b>	<b>-</b>	<b>3,226,162</b>
<b>Increase (decrease) in net assets</b>	<b>(3,102,469)</b>	<b>(8,557,150)</b>	<b>(11,659,619)</b>	<b>3,492,988</b>	<b>2,097,860</b>	<b>(6,068,771)</b>
<b>Net assets, beginning of year</b>	<b>6,700,077</b>	<b>8,715,258</b>	<b>15,415,335</b>	<b>511,952</b>	<b>39,162,837</b>	<b>55,090,124</b>
<b>Transfers between funds</b>	<b>(273,491)</b>	<b>162,540</b>	<b>(110,951)</b>	<b>-</b>	<b>110,951</b>	<b>-</b>
<b>Net assets, end of year</b>	<b>\$ 3,324,117</b>	<b>\$ 320,648</b>	<b>\$ 3,644,765</b>	<b>\$ 4,004,940</b>	<b>\$ 41,371,648</b>	<b>\$ 49,021,353</b>

*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, 2008**

	Donor Advised	Other Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Contributions and grants	\$ 549,166	\$ 819,173	\$ 1,368,339	\$ 511,952	\$ 2,062,987	\$ 3,943,278
Investment income (loss), net	(369,031)	(858,364)	(1,227,395)	-	-	(1,227,395)
Administrative fees from agency funds	-	109,077	109,077	-	-	109,077
	180,135	69,886	250,021	511,952	2,062,987	2,824,960
Net assets released from restrictions	-	-	-	-	-	-
<b>Total support and revenue</b>	180,135	69,886	250,021	511,952	2,062,987	2,824,960
<b>EXPENSES</b>						
Grants	1,067,834	1,848,332	2,916,166	-	-	2,916,166
Program expenses	-	217,902	217,902	-	-	217,902
Management and general expenses	5,163	650,819	655,982	-	-	655,982
<b>Total expenses</b>	1,072,997	2,717,053	3,790,050	-	-	3,790,050
<b>Increase (decrease) in net assets</b>	(892,862)	(2,647,167)	(3,540,029)	511,952	2,062,987	(965,090)
<b>Net assets, beginning of year</b>	7,918,021	11,081,833	18,999,854	-	37,055,360	56,055,214
<b>Transfers between funds</b>	(325,082)	280,592	(44,490)	-	44,490	-
<b>Net assets, end of year</b>	\$ 6,700,077	\$ 8,715,258	\$ 15,415,335	\$ 511,952	\$ 39,162,837	\$ 55,090,124

*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, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (6,068,771)	\$ (965,090)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	48,737	35,968
Gains on sales of investments	(89,203)	(81,414)
Decrease in market values of investments and notes receivable	13,459,987	6,286,696
(Increase) decrease in assets:		
Receivable from estate in settlement	511,952	(511,952)
Pledges and other receivables	88,303	(190,717)
Prepaid expenses	3,176	1,954
Split-interest agreements	28,000	(29,000)
Notes receivable	(4,004,940)	-
Security deposits	1,000	10,666
Increase (decrease) in liabilities:		
Charitable remainder trust benefit obligation	(5,478)	(6,769)
Charitable gift annuity obligation	6,768	39,081
Agency payables	(3,090,679)	621,206
Unearned revenues	7,875	10,000
Accounts payable and accrued expenses	27,368	18,871
<b>Net cash provided by operating activities</b>	<b>924,095</b>	<b>5,239,500</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales or maturities of marketable securities	18,707,450	15,285,212
Purchases of marketable securities	(19,780,755)	(19,788,500)
Purchases of property and equipment	(29,925)	(1,247,198)
<b>Net cash used by investing activities</b>	<b>(1,103,230)</b>	<b>(5,750,486)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(179,135)</b>	<b>(510,986)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,016,394</b>	<b>2,527,380</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,837,259</b>	<b>\$ 2,016,394</b>
Supplemental cash flow information:		
Interest paid	\$ -	\$ 8,107

*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 certain donor advised endowment funds and accumulated losses below historic gift value on donor advised endowment funds of **\$871,226** and \$76,683 as of June 30, 2009 and 2008, respectively, in accordance with FASB No. 124, are 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 and accumulated losses below historic gift value on certain non donor advised endowment funds of **\$4,111,134** and \$244,145 as of June 30, 2009 and 2008, respectively, in accordance with FASB No. 124.

FASB No. 124 generally requires that losses on the investments of a donor-restricted endowment fund should reduce unrestricted net assets, and if losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law (generally, historic gift value), gains that restore the fair value of the assets of the endowment fund to the required level should be classified as increases in unrestricted net assets.

**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 consist primarily of notes receivable and receivables from estates 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:

## NOTES TO FINANCIAL STATEMENTS

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

#### Basis of Presentation (Continued):

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.

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.

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.

## NOTES TO FINANCIAL STATEMENTS

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

#### 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.

Investment income, net of management and custodial fees of **\$204,670** and \$242,977 for the years ended June 30, 2009 and 2008, respectively, has been allocated to all funds on a monthly basis based upon the actual earnings on the investments.

#### Property and Equipment:

Property and equipment represents a building and office equipment used by the Foundation and is recorded at cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful asset lives. Depreciation expense was **\$48,737** and \$35,968 for the years ended June 30, 2009 and 2008, respectively. Accumulated depreciation was **\$144,839** and \$96,102 at June 30, 2009 and 2008, respectively.

#### Pledges Receivable:

Pledges are recorded as contributions when the Foundation's management believes that the receivables are unconditional promises to give. As of June 30, 2009 and 2008, pledges receivable totaled **\$59,452** and \$131,905, respectively.

#### Notes Receivable:

Unsecured notes receivable from individuals are recorded at fair value, calculated utilizing interest rates for similar maturities for non-investment grade corporate bonds, 11.61% at June 30, 2009.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### Agency Payables (Continued):

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.

#### 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-Lived Assets*. As of June 30, 2009 and 2008, no long-lived assets existed which management considered impaired.

#### Financial Statement Presentation:

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

### 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:

	2009		
	Marketable Equity Securities	Marketable Debt Securities	Total
Historical Cost	\$ 49,388,104	\$ 9,851,240	\$ 59,239,344
Market	41,881,673	9,901,186	51,782,859
	2008		
	Marketable Equity Securities	Marketable Debt Securities	Total
Historical Cost	\$ 39,005,961	\$ 23,244,998	\$ 62,250,959
Market	40,894,626	23,185,712	64,080,338

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Investments and Investment Income (Continued)

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, 2009 and 2008:

	2009	2008
Interest and dividends	\$ 1,616,946	\$ 3,888,993
Unrealized (losses) gains, net	(10,805,997)	(4,985,443)
Realized gains, net	71,976	64,441
Management fees	(164,962)	(195,386)
	\$ (9,282,037)	\$ (1,227,395)

Total net unrealized and realized net (losses) gains on marketable securities (including agency payables) for the years ended June 30, 2009 and 2008 were \$(13,459,987) and \$89,203 and \$(6,257,696) and \$81,414, respectively.

Other receivables include accrued interest income on investment securities of \$42,962 and \$58,812 at June 30, 2009 and 2008, respectively.

### Note 3. Notes Receivable

Notes receivable, recorded at fair value, are due from individuals, with face amounts of \$8,524,510 at June 30, 2009, unsecured, with interest at 3.6%, being repaid monthly through December 2039.

### Note 4. Receivable From Unitrust

The receivable from a charitable remainder unitrust of \$79,000 and \$107,000 at June 30, 2009 and 2008 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:

	2009	2008
Estimated present value, beginning	\$ 107,000	\$ 78,000
Change in value	28,000	29,000
Estimated present value, ending	\$ 79,000	\$ 107,000

### Note 5. Permanently Restricted Net Assets

#### 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. Endowment assets are invested in a manner that is intended to produce results that meet or exceed the five-year consumer price index plus the Foundation's grant making rate and base administrative fee. Actual returns in any given year may vary from this amount.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Permanently Restricted Net Assets (Continued)

#### 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 quarter 1.25 percent of its endowment fund's average fair value over the prior 20 quarters. If investments depreciate below historic gift value of an endowment fund in a quarter, the Foundation acts to preserve historic gift value by appropriating interest and dividends only during the quarter up to the grant making limit. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity and to provide a stable stream of funding to programs.

Endowment funds with balances of \$30,717,251 at June 30, 2009 are currently below historic gift value by \$4,982,737. Endowment funds with balances of \$7,006,812 at June 30, 2008 were below historic gift value by \$321,331.

Permanently restricted net assets are as follows:

	2009	2008
Administrative endowment funds	\$ 773,158	\$ 762,958
Donor advised endowment funds	8,483,766	8,374,965
Designated endowment funds	7,988,285	6,747,097
Field of interest endowment funds	834,684	821,131
Scholarship endowment funds	5,348,785	4,539,777
Designated agency endowment funds	13,447,152	13,422,921
Expectancy endowment funds	125,804	125,804
Discretionary fund for community needs endowment fund	4,370,014	4,368,184
	<b>\$ 41,371,648</b>	<b>\$ 39,162,837</b>

### Note 6. 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 7. Agency Payables

The Foundation has agency payables of **\$9,876,850** and \$12,967,529 as of June 30, 2009 and 2008, 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:

	<b>2009</b>	2008
Beginning	<b>\$ 12,967,529</b>	\$ 12,346,323
Contributions	<b>235,018</b>	1,398,418
Investment income (loss)	<b>(2,320,262)</b>	(351,384)
Grants	<b>(919,748)</b>	(316,751)
Administrative fees	<b>(85,687)</b>	(109,077)
Ending	<b>\$ 9,876,850</b>	\$ 12,967,529

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

### Note 8. Contribution Revenue, Investment Income, and Grants Made

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

	<b>2009</b>	2008
Contributions	<b>\$ 6,554,799</b>	\$ 5,341,696
Grants made	<b>3,291,125</b>	3,232,854

Contributions for 2009 include notes receivable valued at \$4,146,343.

### Note 9. Facilities Arrangements

The Foundation moved into its new office facilities in October of 2006, which were rented until September 2007, when they were purchased for approximately \$780,000. Also, in May 2008 the Foundation purchased an adjoining unit for approximately \$456,000, which is to be shared with other non-profit organizations until the space may be needed for Foundation purposes. Total rent expense was **\$18,900** for the year ended June 30, 2008.

### Note 10. Leases

The following is a schedule, by fiscal years, of the approximate future minimum payments on agreements for equipment leased by the Foundation:

2010	\$ 5,555
2011	5,555
2012	4,847

Total expense relating to these agreements totaled approximately \$5,555 for each of the fiscal years ending June 30, 2009 and 2008.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Retirement Plan

The Foundation has a defined contribution retirement plan arrangement covering certain employees, with annual Foundation contributions equal to 6% of compensation. Total contributions were \$21,219 and \$19,491 for the years ended June 30, 2009 and 2008, respectively.

### Note 12. Charitable Gift Annuities

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

As of June 30, 2009, the Foundation has received contributions under three charitable gift annuity arrangements. Under these agreements, the donors have 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 rates used to compute the present value of the liabilities for these agreements ranged from 5.2% to 6.2%. The estimated remaining lives of the beneficiaries were obtained from life expectancy tables. At June 30, 2009, investments in marketable securities includes \$132,003 related to these arrangements.

The following is a summary of the Foundation's charitable gift annuity obligations at June 30, 2009 and 2008:

	Present Value of Payments to Beneficiaries	
	June 30, 2009	June 30, 2008
Total	\$ 103,079	\$ 96,311
Current portion	9,340	9,340
Long-term	<u>\$ 93,739</u>	<u>\$ 86,971</u>

### Note 13. Commitments, Contingencies and Subsequent Events

In June 2009, the Foundation entered into a construction contract for the renovation/completion of its new adjacent facilities for approximately \$180,000. To finance a portion of the construction costs, the Foundation borrowed \$125,000 from a financial institution on an unsecured note in July 2009, with interest fixed at 6% for ten years, to be repaid over twenty years, with a floating rate then not to exceed 12%.

The Foundation has evaluated subsequent events through September 30, 2009, the date the financial statements were available to be issued.

### Note 14. Fair Value Measurements

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standard "SFAS" No. 157, *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. SFAS No. 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

## NOTES TO FINANCIAL STATEMENTS

### Note 14. Fair Value Measurements (Continued)

#### *Fair Value Hierarchy*

Level 1 – 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)

In determining the appropriate levels, the Foundation performs a detailed analysis of assets and liabilities that subject to SFAS No. 157.

The following table presents fair value measurements on a recurring basis as of June 30, 2009:

	Level 1	Level 2	Level 3	Fair Value
Marketable securities	\$ 51,782,859	\$ -	\$ -	\$ 51,782,859
Notes receivable	-	-	4,004,940	4,004,940

The following table presents the activity for assets and liabilities valued using level 3 inputs during the year ended June 30, 2009:

	Notes Receivable
Balance, beginning of year	\$ -
Contributions	4,146,343
Change in fair value	(141,403)
Balance, end of year	\$ 4,004,940



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 2009 and 2008 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 2009 and 2008 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.

A handwritten signature in red ink that reads "TGM Group LLC". The signature is written in a cursive, stylized font.

Salisbury, Maryland  
September 30, 2009

**COMMUNITY FOUNDATION OF THE EASTERN SHORE, INC.**

**SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>Employee costs</b>		
Salaries	\$ 390,422	\$ 348,689
Temporary personnel	2,479	706
Payroll taxes	30,325	25,089
Employee benefits	60,840	47,344
<b>Total employee costs</b>	<b>484,066</b>	<b>421,828</b>
<b>Occupancy</b>		
Rent	-	18,900
Utilities and taxes	18,586	24,421
Telephone	3,959	3,896
Insurance	2,745	2,232
Building repair and maintenance	11,100	7,038
<b>Total occupancy costs</b>	<b>36,390</b>	<b>56,487</b>
<b>Other</b>		
Professional fees	14,000	13,000
Consultant	5,386	4,718
Development events	3,652	3,829
Office supplies	8,723	10,551
Postage and mailing	6,611	11,874
Printing and copying	16,431	16,175
Computer and copier support and repair	20,754	21,995
Advertisements and marketing	6,374	648
Dues and subscriptions	13,236	10,407
Education and travel	15,272	10,877
Meetings	24,502	18,353
Depreciation	48,737	35,968
Interest	-	8,107
Payroll administration	2,038	1,654
Miscellaneous	7,280	9,511
<b>Total other costs</b>	<b>192,996</b>	<b>177,667</b>
<b>Total management and general expenses</b>	<b>\$ 713,452</b>	<b>\$ 655,982</b>