Maine Community Foundation and Supporting Organizations

Audited Consolidated Financial Statements

Year Ended December 31, 2011 With Comparative Information for the Year Ended December 31, 2010 With Independent Auditors' Report

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2011 With Comparative
Information for the Year Ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Maine Community Foundation

We have audited the accompanying consolidated statement of financial position of Maine Community Foundation and its Supporting Organizations as of December 31, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year's summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated August 26, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Maine Community Foundation and its Supporting Organizations as of December 31, 2011, and the consolidated changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
August 22, 2012

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and cash equivalents (note 9)	$ 12,025,360	$ 4,433,189
Investments (notes 3 and 9)	266,176,616	254,499,739
Contribution receivable (note 4)	1,133,652	1,677,532
Prepaid expenses and other receivables	186,197	186,212
Receivable from trusts	2,704,645	2,021,516
Loans receivable (note 5)	1,225,768	1,012,190
Annuity receivable (note 2)	–	1,297,574
Cash surrender value of life insurance	130,174	125,132
Property and equipment, net (note 6)	462,052	408,831
Assets held for sale	207,738	216,768
Total assets	$284,252,202	$265,878,683
LIABILITIES AND NET ASSETS		
Grants payable	$ 217,800	$ 5,000
Accounts payable and accrued expenses	93,648	64,005
Income beneficiaries payable	2,133,907	3,366,926
Funds held as agency funds	39,556,857	33,497,098
Total liabilities	42,002,212	36,933,029
Net assets (notes 2 and 7):		
Unrestricted net assets	239,189,201	226,530,274
Temporarily restricted net assets	3,060,789	2,415,380
	242,249,990	228,945,654
Total liabilities and net assets	$284,252,202	$265,878,683

See accompanying notes.

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31, 2011 With Comparative
Information for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	2011	2010
Revenue, gains and other support:				
Contributions	$ 41,620,808	$ 710,298	$ 42,331,106	$ 29,471,948
Less amounts received from agencies	(7,329,595)	–	(7,329,595)	(3,784,448)
Interest and dividend income	3,045,780	88	3,045,868	2,184,207
Less interest on amounts held for agencies	(410,729)	–	(410,729)	(310,863)
Net realized and unrealized (losses) gains on investments	(3,719,552)	3,553	(3,715,999)	26,480,713
Less losses (gains) on investments held for agencies	419,986	–	419,986	(3,086,330)
Remeasurement of charitable gift annuities and trusts receivables	(339,939)	65,979	(273,960)	(1,317,896)
Administrative revenue from amounts held for agencies	283,406	–	283,406	243,336
Other revenue	50,705	–	50,705	64,764
	33,620,870	779,918	34,400,788	49,945,431
Net assets released resulting from satisfaction of restrictions	134,509	(134,509)	–	–
Total revenue, gains and other support	33,755,379	645,409	34,400,788	49,945,431
Grants and expenses:				
Grants	18,438,132	–	18,438,132	16,573,367
Less amounts paid to agencies	(875,200)	–	(875,200)	(2,926,140)
Prior year grants canceled or returned	(61,106)	–	(61,106)	(107,103)
Administrative expenses:				
Program service	1,238,234	–	1,238,234	1,578,595
Management and general	868,626	–	868,626	800,739
Fundraising	768,989	–	768,989	690,403
Investment management fees	820,751	–	820,751	689,596
Less investment management fees on amounts held for agencies	(101,974)	–	(101,974)	(78,989)
Total grants and expenses	21,096,452	–	21,096,452	17,220,468
Increase in net assets	12,658,927	645,409	13,304,336	32,724,963
Net assets at beginning of year	226,530,274	2,415,380	228,945,654	196,220,691
Net assets at end of year	$239,189,201	$ 3,060,789	$242,249,990	$228,945,654

See accompanying notes.

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2011 With Comparative
Information for the Year Ended December 31, 2010

	2011	2010
Cash flow from operating activities:		
Increase in net assets:	$ 13,304,336	$ 32,724,963
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	33,615	34,638
Net unrealized and realized investment losses (gains)	3,715,999	(26,480,713)
Increase in value of life insurance policies	(5,042)	(7,313)
Increase in other noncash contributions	(4,256,934)	(122,190)
Decrease in contribution receivable	543,880	206,255
Decrease in prepaid expenses and other receivables	15	88,142
Increase in receivable from trusts	(683,129)	(206,738)
Increase (decrease) in grants payable	212,800	(415,000)
Increase (decrease) in accounts payable and accrued expenses	29,643	(82,450)
(Decrease) increase in income beneficiaries payable	(1,233,019)	1,260,120
Increase in funds held as agency funds	6,059,759	3,932,129
Net cash provided by operating activities	17,721,923	10,931,843
Cash flows from investing activities:		
Purchase of investments	(164,735,348)	(98,015,022)
Proceeds from sale of investments	150,467,633	86,776,633
Proceeds from sale of noncash contributions	3,140,803	–
Origination of loans	(213,578)	(500,239)
Loan payments received	–	10,000
Redemption (purchase) of annuity	1,297,574	(1,297,574)
Purchase of property and equipment	(86,836)	–
Net cash used by investing activities	(10,129,752)	(13,026,202)
Net increase in cash and cash equivalents	7,592,171	(2,094,359)
Cash and cash equivalents at beginning of year	4,433,189	6,527,548
Cash and cash equivalents at end of year	$ 12,025,360	$ 4,433,189

See accompanying notes.

1. Description of Organization

The accompanying consolidated financial statements of the Maine Community Foundation (MaineCF) include all accounts of MaineCF and its supporting organizations, the Maine Community Supporting Foundation, the Edward H. Daveis Benevolent Fund and the Vincent B. and Barbara G. Welch Supporting Organization (collectively referred to as the Foundation). MaineCF exercises significant control over the supporting organizations. Accordingly, consolidated financial statements are presented which include MaineCF and its supporting organizations. All significant balances and transactions between the entities have been eliminated in the consolidation.

Founded in 1983, MaineCF is a nonprofit community foundation that works with charitably minded citizens to strengthen Maine communities by building charitable funds, connecting donors to organizations and programs they care about, making effective grants and providing leadership to address community issues.

Incorporated in 1998, Maine Community Supporting Foundation provides support to MaineCF by receiving gifts of real estate and other unique charitable gifts.

The Edward H. Daveis Benevolent Fund became a supporting organization in 2007. Its purpose is to serve charitable organizations in the greater Portland, Maine area.

The Vincent B. and Barbara G. Welch Supporting Organization became a supporting organization in 2009. Its purpose is to support charitable and educational programs including those assisting youth, education, health care, substance abuse treatment and rehabilitation, and art and culture in the greater Portland, Maine area.

The total net assets of the supporting organizations were $7,290,637 and $8,043,409 as of December 31, 2011 and 2010, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), have been prepared to focus on the Foundation as a whole.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Foundation's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

The Foundation reports information regarding its financial position and activities in several classes of net assets. The Articles of Incorporation of the Foundation include a variance power provision which gives the Board of Directors the power to modify any restriction or conditions on the distribution of funds. See Note 7 for further explanation. The net asset classes are as follows:

- Unrestricted net assets effectively have no donor-imposed stipulations as to their use. Under the terms of the Governing Documents, the Board of Directors has the ability to distribute as much of the corpus of any separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

- Temporarily restricted net assets contain donor-imposed stipulations that restrict the use or the timing of expending the donated assets. Temporarily restricted net assets include irrevocable charitable trusts, contributions receivable, and the portion of donor-restricted endowment funds that are deemed to be restricted over the donor-specified period of the endowment by explicit donor stipulation. In addition, investment returns from permanently and temporarily restricted net assets are classified as temporarily restricted until appropriated for expenditure. Once appropriated, temporarily restricted assets are released to unrestricted assets. Such transfers are reported in the statement of activities as "net assets released resulting from satisfaction of restrictions".

- Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation had no permanently restricted net assets at December 31, 2011 or 2010.

Spending and Investment Policies

The Foundation has adopted investment and spending policies for all endowment assets including board designated endowments (see Note 8) that attempt to provide a predictable stream of funding to organizations, scholarships and other programs supported by the Foundation while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective.

2. Summary of Significant Accounting Policies (Continued)

The long-term investment objective of the Foundation is to preserve and enhance the real value of the assets of the Foundation over time, in order to provide a sufficient rate of return for fulfilling the philanthropic purposes of the Foundation. To accomplish this objective, endowment assets are invested for growth in principal and income and for protection against inflation, with a goal to achieve a minimum real total return (adjusted for inflation), net of investment management and administrative fees, of 5% over a rolling three to five year period. The Foundation recognizes that this goal may be easily achieved in some periods but much harder to achieve in other periods. The Foundation has established a policy portfolio with a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives. For more information, see Note 3.

The spending policy calculates the amount of money distributed annually from the Foundation's various endowed funds. The annual distribution is used for grant making. The 2011 spending policy is to distribute an amount equal to 4% of the average fund balance measured over a 12 quarter period ending September 30 of the prior year.

For endowed funds that are below their historic gift value (the original value of all endowed gifts into the fund) as of the September 30 measurement date, the spending rate in the next calendar year will be reduced in a manner that will allow the funds to recover the amount below the historic gift value.

Cash and Cash Equivalents

Cash and cash equivalents includes all highly liquid investments with an initial maturity of three months or less, except for those cash equivalents that are held as part of the investment portfolio.

Investments

The investment goal of the Foundation is to invest its assets in a manner that will achieve a total rate of return sufficient to replace the assets spent for grants and expenses and recoup any value lost due to inflation. To manage risk, the Foundation strives to diversify its investments among various financial instruments and asset categories and uses multiple investment strategies and managers. Key investment decisions are made by the Board of Directors' Investment Committee (Investment Committee), which has oversight responsibility for the Foundation's investment program. Investments are administered by investment managers chosen by the Investment Committee. The investment managers report the assigned values and market values of the investments and are responsible for custody and investment management under supervision of the Investment Committee.

Investment securities are stated at fair value. The fair value of debt securities and marketable equity securities are based on quoted market prices. The fair value of nonmarketable securities for which quoted market prices are not available are determined from information supplied by the investment managers based on the quoted market values of the underlying investments. The Foundation carries alternative investments at estimated fair value as determined by management based upon valuations provided by the respective investment managers. Gains and losses on investments are computed on a specific identification basis. Investment income, including realized and unrealized gains or losses, is allocated to the various funds based on a prorated average value of each fund relative to the entire value of the portfolio.

2. Summary of Significant Accounting Policies (Continued)

The Foundation has applied the accounting guidance in Accounting Standards Codification (ASC) Topic 820 which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying assets. However, it is possible that these redemption rights may be restricted by the fund manager in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds, and consequently, the fair value of the Foundation's interest in such funds. Although certain investments may be sold in a secondary market, the secondary market is not public and individual transactions are not necessarily observable. It is therefore possible that if the Foundation were to sell its interest in a fund in the secondary market, the sale could occur at an amount materially different from the reported value.

The Foundation's management is responsible for the fair value measurement of investments reported in the consolidated financial statements. The Foundation has implemented policies and procedures to assess the reasonableness of the fair values provided. Because of the inherent uncertainty of valuation for these investments, the estimate of the fund manager or general partner may differ from actual values, and the differences could be significant. The Foundation believes that reported fair values of its alternative investments at the statement of financial position dates are reasonable.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Contributions Receivable

Unconditional promises to give are recorded as contributions in the year the promise is received. Unconditional promises to give, other than those related to funds held as agency funds, that are expected to be received in future periods are discounted using a risk-free rate applicable to the years in which the promises are received, which approximates fair value. Amortization of the discount is recorded as contribution revenue. An allowance for uncollectible contributions receivable is provided as deemed necessary by management based on a review of the underlying pledges. Amounts are charged off when deemed uncollectible.

Receivable From Trusts

The Foundation is the beneficiary of certain irrevocable trusts. In cases where the Foundation does not act as trustee, the Foundation has recorded an asset at the present value of the estimated revenue to be received from the trusts.

2. Summary of Significant Accounting Policies (Continued)

Annuity Receivable

In 2010, a donor established a charitable gift annuity to benefit a family member. Due to the size of the annuity and the age of the beneficiary, the Foundation reinsured this gift annuity with a AAA-rated life insurance company. This asset is offset by a corresponding liability which is reported as part of income beneficiaries payable.

The beneficiary of the charitable gift annuity passed away in 2011. The asset and corresponding liability for the annuity were removed from the Foundation's consolidated statement of financial position in 2011. There was no significant impact on the Foundation's net assets.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. The Foundation's policy is to capitalize expenditures over $5,000 as major improvements or equipment and charge maintenance and repairs for expenditures that do not exceed that amount. Depreciation is provided by the straight-line method in a manner which is intended to amortize the cost of the assets over their estimated useful life.

Income Beneficiaries Payable

The Foundation has recorded a liability for the amount due to income beneficiaries of pooled income funds and charitable gift annuities when the Foundation acts as trustee. The present value of the estimated future payments to be distributed during the beneficiaries' expected life is recorded as a liability using a discount rate of 5% for the years ended December 31, 2011 and 2010.

Funds Held as Agency Funds

ASC 958-605-25, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, requires that if a community foundation accepts a contribution from a not-for-profit organization and the foundation agrees to transfer those assets, the return on investment of those assets, or both to the not-for-profit organization, then these contributions must be presented as a liability on the foundation's financial statements. The Foundation refers to these funds as agency funds.

The agency fund is reported by the Foundation as an asset on its consolidated statement of position offset by a corresponding liability. The not-for-profit organization that transferred the fund continues to report an asset on its statement of financial position.

In order to report all Foundation activity on the consolidated statement of activities, the Foundation includes agency fund activity in total revenue, grants, and expenses and then reduces revenue, grants, and expenses on a separate line for agency activity.

2. Summary of Significant Accounting Policies (Continued)

Investment Fees

The Foundation invests in several commingled funds and limited partnerships. Most of these funds and partnerships report income net of fees and the Foundation follows the same practice. As a result, some of the fees paid to investment managers are reflected as a reduction of investment income.

Income Taxes

MaineCF and two of its supporting organizations, Maine Community Supporting Foundation and the Vincent B. and Barbara G. Welch Supporting Organization are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are generally exempt from income taxes pursuant to Section 501(a) of the Code and qualify as public charities under Section 170(b)(1)(A)(vi) of the Code.

The Edward H. Daveis Benevolent Fund is exempt from federal income taxes under Section 507(b)(1)(B) of the Code. However, a notification of intent to terminate its private foundation status and to operate as a 509(a)(3) organization was filed with the Internal Revenue Service. An advance ruling period of 60 months began January 1, 2007 and ended December 31, 2011. The Foundation has requested a final ruling from the Internal Revenue Service.

MaineCF pays unrelated business income taxes on income from certain types of transactions within investment partnerships. Such amounts are not material to the Foundation's activities or financial position.

In certain circumstances, tax-exempt organizations may be required to record an obligation for income taxes as the result of a tax position they have historically taken on various tax exposure items including unrelated business income or tax status. Under guidance issued by the Financial Accounting Standards Board, assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense.

Management has evaluated the Foundation's tax positions and concluded that the Foundation has maintained its tax-exempt status, does not have any significant unrelated business income and has taken no uncertain tax positions that require adjustment to the consolidated financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. Federal or State tax authorities for years before 2008.

2. Summary of Significant Accounting Policies (Continued)

Functional Expenses

Expenses are allocated to both programs and support services. Salaries and wages are allocated based on estimates of time spent by the members of the staff. All other expenses are charged to each functional area based on direct expenditures incurred or based on allocation of staff time by functional area.

Disclosures About the Fair Value of Financial Instruments

The carrying value of the Foundation's cash and cash equivalents, contributions receivable, other receivables, cash surrender value of life insurance, accounts payable and accrued expenses approximate their fair values.

There is no market for loans receivable and fair value is not determinable. The Foundation carries loans at amortized cost.

The carrying value of receivable from trusts is based on the present value of estimated future cash flows from the trusts.

The carrying value of grants payable is based on the present value of the future payments of the grants.

The carrying value of income beneficiaries payable is based on the present value of future payments to beneficiaries based on their expected lives.

Fair Value Measurements

As required by ASC Topic 820, the Foundation classifies its investments into:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The levels relate to valuation only and do not necessarily indicate a measure of risk.

2. Summary of Significant Accounting Policies (Continued)

Subsequent Events

Events occurring after the date of the consolidated statement of financial position are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through August 22, 2012 which is the date the financial statements were available to be issued.

3. Investments

The following table summarizes the Foundation's investments within the fair value hierarchy as of December 31, 2011 and 2010:

3. Investments (Continued)

2011 Investment Hierarchy and Liquidity

	Level 1	Level 2	Level 3	Total	Liquidity Daily	Liquidity Semi-Monthly to Semi-Annual	Liquidity Greater Than Semi-Annual
Marketable equities:							
U.S. equities	$ 41,770,535	$ 34,597,673	$ –	$ 76,368,208	$ 63,630,256	$ 12,737,952	$ –
Non-U.S. developed markets	19,722,394	20,045,275	–	39,767,669	19,722,394	20,045,275	–
Emerging markets	3,051	15,979,456	2,489,177	18,471,684	3,051	15,979,456	2,489,177
Total marketable equities	61,495,980	70,622,404	2,489,177	134,607,561	83,355,701	48,762,683	2,489,177
Marketable alternatives:							
Multi-strategy	–	–	33,112,197	33,112,197	–	29,648,956	3,463,241
Distressed debt	–	–	9,085,045	9,085,045	–	9,085,045	–
Long/short equities	–	–	3,045,810	3,045,810	–	–	3,045,810
Global equities	–	–	2,315,980	2,315,980	–	–	2,315,980
Total marketable alternatives	–	–	47,559,032	47,559,032	–	38,734,001	8,825,031
Private equity and venture capital	–	–	13,031,131	13,031,131	–	–	13,031,131
Real assets:							
Real estate	1,624	2,915,097	7,162,576	10,079,297	2,916,721	–	7,162,576
Timber	–	17,678	869,353	887,031	17,678	–	869,353
Energy	–	1,042,982	5,003,697	6,046,679	1,042,982	–	5,003,697
Mining	–	341,768	401,264	743,032	341,768	–	401,264
Commodities	8,766	1,449,946	–	1,458,712	1,458,712	–	–
Other	–	70,711	498,695	569,406	70,711	–	498,695
Total real estate	10,390	5,838,182	13,935,585	19,784,157	5,848,572	–	13,935,585
Fixed income:							
U.S. Treasuries and Agency bonds	3,892,429	14,469,863	–	18,362,292	18,323,444	38,848	–
U.S. TIPs	5,400,650	–	–	5,400,650	5,400,650	–	–
Corporate credit and other fixed income	4,820,892	–	–	4,820,892	4,820,892	–	–
Certificates of deposit – FDIC insured	3,129,700	–	–	3,129,700	3,129,700	–	–
Other	575,330	–	–	575,330	575,330	–	–
Total fixed income	17,819,001	14,469,863	–	32,288,864	32,250,016	38,848	–
Cash and cash equivalents:							
Cash – FDIC insured	9,526,012	–	–	9,526,012	9,526,012	–	–
Money market funds	8,899,897	479,962	–	9,379,859	3,899,897	479,962	5,000,000
Total cash	18,425,909	479,962	–	18,905,871	13,425,909	479,962	5,000,000
Total investments	$ 97,751,280	$ 91,410,411	$ 77,014,925	$ 266,176,616	$ 134,880,198	$ 88,015,494	$ 43,280,924

3. Investments (Continued)

2010 Investment Hierarchy and Liquidity

	Level 1	Level 2	Level 3	Total	Liquidity Daily	Liquidity Semi-Monthly to Semi-Annual	Liquidity Greater Than Semi-Annual
Marketable equities:							
U.S. equities	$ 34,466,681	$ 44,148,217	$ –	$ 78,614,898	$ 66,478,743	$ 12,136,155	$ –
Non-U.S. developed markets	19,257,790	21,367,102	–	40,624,892	19,257,790	21,367,102	–
Emerging markets	10,133	20,453,987	2,182,878	22,646,998	10,133	20,453,987	2,182,878
Total marketable equities	53,734,604	85,969,306	2,182,878	141,886,788	85,746,666	53,957,244	2,182,878
Marketable alternatives:							
Multi-strategy	–	–	34,239,074	34,239,074	–	28,818,208	5,420,866
Distressed debt	–	–	8,981,735	8,981,735	–	8,981,735	–
Long/short equities	–	–	3,248,190	3,248,190	–	–	3,248,190
Total marketable alternatives	–	–	46,468,999	46,468,999	–	37,799,943	8,669,056
Private equity and venture capital	–	–	10,517,130	10,517,130	–	–	10,517,130
Real assets:							
Real estate	–	2,851,052	5,167,594	8,018,646	2,851,052	–	5,167,594
Timber	–	20,319	894,884	915,203	20,319	–	894,884
Energy	–	967,998	3,421,802	4,389,800	967,998	–	3,421,802
Mining	–	432,701	366,333	799,034	432,701	–	366,333
Commodities	197,296	1,433,739	–	1,631,035	1,631,035	–	–
Other	–	9,873	419,704	429,577	9,873	–	419,704
Total real estate	197,296	5,715,682	10,270,317	16,183,295	5,912,978	–	10,270,317
Fixed income:							
U.S. Treasuries and Agency bonds	1,860,822	18,234,287	–	20,095,109	1,821,974	18,273,135	–
U.S. TIPs	5,066,760	–	–	5,066,760	5,066,760	–	–
Corporate credit and other fixed income	4,713,774	–	–	4,713,774	4,713,774	–	–
Other	984,838	–	–	984,838	984,838	–	–
Total fixed income	12,626,194	18,234,287	–	30,860,481	12,587,346	18,273,135	–
Cash and cash equivalents:							
Cash – FDIC insured	2,583,890	–	–	2,583,890	2,583,890	–	–
Certificates of deposit - FDIC insured	2,255,248	–	–	2,255,248	2,255,248	–	–
Money market funds	3,743,908	–	–	3,743,908	3,743,908	–	–
Total cash	8,583,046	–	–	8,583,046	8,583,046	–	–
Total investments	$ 75,141,140	$ 109,919,275	$ 69,439,324	$ 254,499,739	$ 112,830,036	$ 110,030,322	$ 31,639,381

3. Investments (Continued)

For the fiscal year ended December 31, 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Level 3 Investment Activity

The following table presents the Foundation's activity for the fiscal years ended December 31, 2011 and 2010 for investments classified as Level 3:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Emerging Markets	Marketable Alternatives	Private Equity and Venture Capital	Real Assets	Total
2011					
Beginning balance	$2,182,878	$46,468,999	$10,517,130	$10,270,317	$69,439,324
Total gains or losses (realized/unrealized) recognized in statement of activities	(693,701)	735,798	1,197,306	1,212,807	2,452,210
Purchases and capital calls	1,000,000	5,307,670	2,505,000	3,158,081	11,970,751
Sales	–	(4,953,435)	(46,784)	(110,458)	(5,110,677)
Distributions	–	–	(1,141,521)	(595,162)	(1,736,683)
Ending balance	$2,489,177	$47,559,032	$13,031,131	$13,935,585	$77,014,925
Amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (693,701)	$ 793,780	$ 1,237,125	$ 1,212,806	$ 2,550,010
2010					
Beginning balance	$1,750,312	$44,950,760	$ 7,379,816	$ 6,767,599	$60,848,487
Total gains or losses (realized/unrealized) recognized in statement of activities	432,566	3,753,941	1,926,201	1,060,515	7,173,223
Purchases, issuances and settlements	–	(2,235,702)	1,211,113	2,442,203	1,417,614
Ending balance	$2,182,878	$46,468,999	$10,517,130	$10,270,317	$69,439,324
Amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 432,566	$ 3,753,941	$ 1,926,201	$ 928,884	$ 7,041,592

3. Investments (Continued)

Marketable Equities

The purpose of the equity allocation (broadly defined to include domestic stocks and foreign stocks) is to provide appreciation of principal that more than offsets inflation over the long run. It is recognized that pursuit of this objective could entail the assumption of greater return variability and risk within individual asset classes. However, the diversification benefits of combining various equity components should enhance the overall portfolio risk-return profile. U.S. equity managers are permitted to invest in publicly traded equity securities, both U.S. and non-U.S., and, where appropriate, fixed income securities as equity substitutes. Non-U.S. managers are permitted to hold equity securities traded in non-U.S. developed and emerging markets.

Marketable Alternative Investments

The role of marketable alternative (MALT) investments, often referred to as "hedge funds," is to increase portfolio diversification through offering sources of return that have a lower correlation to traditional equity and fixed income markets. The object of marketable alternative investments is to provide relatively consistent returns in most markets and principal protection in significantly down equity markets, reducing overall volatility of the portfolio. Investments in the MALT program may take the form of direct investment in a limited partnership of a single manager or fund-of-funds manager. MALT managers may engage in the use of derivatives (options/futures/forwards) as part of their investment strategy. MALT investments are generally less liquid than their traditional equity counterparts. MALT managers have entry/exit terms and capital lockup periods that range from quarterly to five years from the date of the original investment.

Private Equity and Venture Investments

The purpose of venture capital and private equity is to provide increased return potential and to reduce overall volatility of the portfolio through greater diversification. These investments can be made either in the form of direct investment, partnerships, fund-of-funds or with an investment manager. These assets are less liquid and require a longer investment horizon. Most require a multi-year commitment of capital for a minimum of ten years.

Real Assets

Real assets may include more liquid investments, such as inflation-linked bonds, real estate securities and commodity futures, in addition to nonmarketable investments in real estate, oil and gas producing properties, and timberland, either directly or through funds-of-funds. Investment in real assets is through direct ownership or investment in financial assets which are related to or strongly influenced by the value of the tangible asset.

3. Investments (Continued)

Fixed Income Investments

The purpose of the fixed income allocation is to provide a hedge against deflation, to increase current income relative to an all-equity fund, and to reduce overall volatility of the fund. The purpose of including opportunistic fixed income assets such as, but not limited to, inflation-linked bonds, global and high yield securities in the portfolio is to enhance the overall risk-return characteristics of the fund.

Liquidity

Following are additional details regarding the liquidity of investments at December 31:

	Fair Value		Redemption
	2011	2010	Notice Period
Daily	$134,880,198	$112,830,036	1-5 Days
Semi-monthly	11,262,279	31,030,308	2-5 Days
Monthly	15,979,456	20,453,986	30 Days
Quarterly	11,926,315	11,728,375	20-30 Days
Quarterly	29,648,955	28,818,208	60-65 Days
Semi-annual	19,198,489	17,999,445	30 Days
Total liquid investments	222,895,692	222,860,358	
Illiquid until 2012	5,534,987	5,431,068	
Illiquid	37,745,937	26,208,313	
Total illiquid investments	43,280,924	31,639,381	
	$266,176,616	$254,499,739	

The illiquid investments noted above generally are investments which require a long-term investment commitment, are not publicly traded, and are intended to be held for the life of the investment fund or partnership. Accordingly, any attempt to sell these investments before the end of their investment period could result in the Foundation realizing less than fair value at the time of any early redemptions. The Foundation intends to hold the investments until maturity, which is expected to be from 2012 to 2023.

3. Investments (Continued)

Net Asset Value (NAV) per Share

Certain investments measured at NAV are redeemable with the funds or limited partnerships at NAV under the original terms of the subscription agreement and/or partnership agreements. The majority of such redemptions require 90 days or less written notice prior to the redemption period. The following table discloses the fair value and redemption frequency of those assets whose fair value is estimated using the net asset value per share at December 31, 2011:

Investment	Fair Value	Unfunded Commit-ment	Redemp-tion Frequency	Redemption Notice Period
Global Equity Funds	$10,143,175	$ –	Semi-monthly	2 days
Global Equity Funds	15,979,455	–	Monthly	30 days
U.S. Equity Fund	22,413,251	–	Daily	N/A
Alternative investments:				
Marketable alternatives	3,045,810	–	N/A	12/31/12 : 65 days prior notice
Marketable alternatives	17,361,090	–	Quarterly	60 days per fiscal quarter 10% limit
Real Asset Fund	5,838,182	–	Daily	2 days
Fixed Income	14,469,863	–	Daily	2 days

Investment Income

The principal components of investment income consist of the following at December 31:

	2011	2010
Interest and dividend income	$ 3,045,868	$ 2,184,207
Net realized and unrealized (losses) gains	(3,715,999)	26,480,713
Return on investments	$ (670,131)	$28,664,920

The Foundation has an investment in three indexed products held in a common collective trust at a single institution which represents 20% and 19% of total investments at December 31, 2011 and 2010, respectively.

3. Investments (Continued)

Commitments

Private equity, venture capital, real estate and natural resource investments are generally made through limited partnerships. Under the terms of these agreements, the Foundation is obligated to remit additional funding periodically as capital calls are exercised by the manager. As a result, the timing and amount of future capital calls expected to be exercised in any particular future year is uncertain. These partnerships have a limited existence, generally around ten years and such agreements may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy and other factors, a manager may extend the term of a fund beyond its originally anticipated existence or may wind down the fund prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events, but should they occur, they may result in less liquidity or return from the investment than originally anticipated.

Unfunded commitments at December 31 were as follows:

	Number of Commitments	Year of First Commitment	2011	2010
Private equity and venture capital	11	1997	$ 7,316,955	$ 6,821,955
Real estate	6	2005	3,642,500	3,251,198
Natural resources	7	2005	10,371,000	5,791,000
Distressed opportunities	1	2011	4,500,000	–
Total unfunded commitments			$25,830,455	$15,864,153

These amounts are generally payable within ten days of the receipt of a capital call notice. The Foundation has no control as to when a request for funding will be received. It is currently anticipated that the Foundation will be required to fund these commitments within the next three years, but the specific timing is ultimately subject to the discretion of the fund managers.

Capital calls for the unfunded commitments for private equity, venture capital and distressed opportunities are made from cash and marketable investments in U.S. equities. Capital calls for the unfunded commitments to real estate and natural resources are made from cash and marketable investments in a real asset fund.

4. Contribution Receivable

At December 31, 2011 and 2010, contributions receivable includes $1,058,559 and $1,637,532, respectively, of amounts due under a fundraising campaign for building construction for which the Foundation is assisting a local school district. The Foundation is serving as an agent for the school district and amounts raised as part of the campaign are included in funds held as agency funds.

5. Loans Receivable

Loans receivable relate to investments made to the Foundation's philanthropic programs and are anticipated to have a less than market return. At December 31, 2011 and 2010, loans receivable consist of unsecured loans to four and two nonprofit organizations, respectively, in support of their charitable mission. These loans mature in 2012 through 2016.

6. Property and Equipment

Property and equipment consists of the following at December 31:

	2011	2010
Building and building improvements	$ 541,377	$ 454,541
Land	71,000	71,000
Furniture and office equipment	128,504	128,504
Computer equipment	36,547	36,547
Vehicles	22,243	22,243
Art	6,200	6,200
	805,871	719,035
Less accumulated depreciation	(343,819)	(310,204)
	$ 462,052	$ 408,831

7. Net Assets

In July 2006, The National Conference of Commissioners on Uniform State Laws approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In 2009, the State of Maine passed a version of UPMIFA, effective on July 1, 2009. The Board of Directors of the Foundation has interpreted the Maine *Uniform Prudent Management of Institutional Funds Act* as requiring the preservation of the fair value of the endowed gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Board of Directors, on the advice of legal counsel, has determined that substantially all of the Foundation's contributions are received subject to the terms of the Governing Documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the gift instruments and the Governing Documents, the Board of Directors has Variance Power, as delineated in the Foundation's Articles of Incorporation, to:

> *Modify, consistent with State law including seeking approval of the appropriate court or the Attorney General, where applicable, any restriction or condition on the distribution of funds for any specified organization if in the sole judgment of the Board of Directors (without the necessity of the approval of any participating trustee, custodian, or agent), that such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community*

Because this broad Variance Power gives the Foundation the legal authority to modify "any restriction or condition on the distribution of funds," institutional funds held by the Foundation are not "endowed funds" as a legal matter, even if the gift instrument specifies that distributions will be made according to a board-designated spending policy or from the fund's income. Accordingly, there are no donor restricted endowment funds or permanently restricted assets as of December 31, 2011 or 2010.

During the years ended December 31, 2011 and 2010, the board did not modify any restrictions or conditions placed on gifts subject to its Variance Power.

As of December 31, 2011, the Foundation holds approximately 1,350 funds with total assets of nearly $284 million. The gift instruments on 513 of the funds with total assets of about $95 million include language that refers to "income only spending", "the Foundation's board-designated spending policy" or other language that implies the preservation of principal. In all cases, the Foundation has honored the donor's intention to preserve the principal of these funds that, absent the Variance Power held by the Foundation's Board of Directors, would be treated as donor restricted endowment funds. As a result, the Foundation considers these 513 funds to be Board-Designated Endowment Funds. The Foundation has established unique funds to account for the Historic Gift Value and other activity related to the assets contributed to these Board-Designated Endowment Funds since the inception of each fund.

7. Net Assets (Continued)

Board Designated Endowment Funds

Board-Designated Endowment Funds are included in unrestricted net assets in the consolidated statement of financial position. The following table summarizes the activity in Board-Designated Endowment Funds for 2011 and 2010:

	2011	2010
Number of funds	513	504
Balance at January 1	$93,360,706	$85,578,570
Adjustments resulting from donor requested changes	43,514	713,480
Adjusted balance at January 1	93,404,220	86,292,050
Contributions	10,349,996	1,921,414
Interest and dividend income	1,046,570	952,825
Net realized and unrealized (losses) gains on investments	(1,588,061)	9,071,015
Grants and other expenditures	(6,918,072)	(3,827,404)
Administrative fees	(1,138,694)	(1,049,194)
Balance at December 31	$95,155,959	$93,360,706

As of December 31, 2011 and 2010, there are 129 and 73, respectively, individual Board-Designated Endowment Funds that are below their Historic Gift Value. The aggregate amount below the Historic Gift Value is $2.7 million and $2.1 million on a total Historic Gift Value in excess of $85 million and $80 million at December 31, 2011 and 2010, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2011	2010
Remainder interest from split-interest agreements and bequests	$2,740,214	$2,096,569
Life insurance	130,174	125,133
Assets held for sale	190,401	193,678
Total temporarily restricted net assets	$3,060,789	$2,415,380

7. Net Assets (Continued)

Net Asset Fund Types

The Foundation maintains the following types of funds within its net assets:

Designated Funds are established by a donor(s) to support the work of specific nonprofit organization(s). Gifts provide the selected organization with funding and the benefit of the Foundation's investment oversight. If the selected nonprofit organization ceases to exist, the Foundation's Board of Directors will identify another nonprofit whose purpose most closely resembles the original charitable intent of the donor.

Discretionary Funds are established to provide broad charitable support for community well-being in a wide variety of areas of interest. They provide the most flexibility in meeting the changing needs of our communities by allowing the Foundation to direct grants where they will have the greatest impact.

Donor-Advised Funds are an economical, flexible vehicle for individual and family philanthropy. An attractive alternative to private foundations, advised funds enable donors to recommend grants to qualified nonprofit organizations in their areas of interest, in Maine or anywhere in the country. Donor advisors can consult with MaineCF staff about their grantmaking.

Field-of-Interest Funds connect charitable investments with a specific area of interest or concern, such as higher education, the environment, arts, health and community well-being. The donor identifies interests, and the Foundation awards grants to community organizations and programs that are making a difference in those fields. Included in field of interest funds are Community Building, County, and Regional Funds which address a broad spectrum of issues and needs in Maine. Gifts provide flexibility for the Foundation to respond to future challenges and opportunities.

Scholarship Funds are established to award scholarships that help students achieve their educational aspirations. They provide access to educational opportunities for a wide variety of students. A scholarship fund may benefit a particular community, a particular educational institution, or a particular field of study.

8. Retirement Plans

On January 1, 2008, the Foundation established a 401(k) plan which covers all employees. New employees are eligible to participate in the plan starting with the first pay period of the month following employment. No minimum hours of service are required. The Foundation's contribution to the 401(k) plan in 2011 and 2010 was 6% and 5%, respectively, of each employee's compensation and totaled $95,360 and $80,127, respectively. Employees may elect to contribute a percentage of their compensation up to the maximum amount allowed by the Internal Revenue Code.

9. Concentration of Credit Risk

The Foundation maintains cash and cash equivalents with several broker-dealers. Accounts at each broker-dealer are insured by the SIPC up to $500,000. At December 31, 2011, approximately $1.8 million of the Foundation's cash and cash equivalent balances were held in uninsured money market funds at a AA+ (Standard & Poor's) credit rated financial institution.