

**Maine Community Foundation
and Supporting Organizations**

Audited Consolidated Financial Statements

*Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004
With Independent Auditors' Report*

MAINE COMMUNITY FOUNDATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004**

CONTENTS

Independent Auditors' Report	1
Audited Consolidated Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5

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, 2005, 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 2004 financial statements and, in our report dated May 20, 2005, 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 at December 31, 2005, 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.

On December 31, 2005, the Senator George J. Mitchell Scholarship Research Institute, a supporting organization of Maine Community Foundation, separated from Maine Community Foundation and has been treated as discontinued operations in these consolidated financial statements.

Portland, Maine
May 5, 2006


Limited Liability Company

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Investments (note 3)	\$157,997,976	\$146,610,997
Cash and cash equivalents (note 10)	4,474,687	5,237,021
Contribution receivable (note 4)	1,166,190	1,166,214
Prepaid expenses and other receivables	167,978	44,577
Other investments	169,942	161,692
Receivable from trusts	1,691,992	1,817,534
Property and equipment, net (note 5)	<u>422,706</u>	<u>449,353</u>
	166,091,471	155,487,388
Assets of George J. Mitchell Scholarship Research Institute (note 9)	<u>—</u>	<u>21,496,968</u>
Total assets	<u>\$166,091,471</u>	<u>\$176,984,356</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable and accrued expenses	\$ 130,445	\$ 79,051
Funds held as agency endowments	9,748,171	7,619,630
Income beneficiaries payable	<u>1,140,181</u>	<u>1,075,573</u>
Total liabilities	11,018,797	8,774,254
Liabilities of George J. Mitchell Scholarship Research Institute (note 9)	<u>—</u>	<u>8,367,251</u>
Total liabilities	11,018,797	17,141,505
Net assets:		
Unrestricted net assets	151,988,035	144,001,098
Temporarily restricted net assets (note 6)	<u>3,084,639</u>	<u>2,712,036</u>
	155,072,674	146,713,134
George J. Mitchell Scholarship Research Institute (note 9)	<u>—</u>	<u>13,129,717</u>
Total net assets	<u>155,072,674</u>	<u>159,842,851</u>
Total liabilities and net assets	<u>\$166,091,471</u>	<u>\$176,984,356</u>

See accompanying notes.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

	<u>Unrestricted</u>	<u>Tempo- rarily Restricted</u>	<u>Perma- nently Restricted</u>	<u>2005</u>	<u>2004</u>
Revenue, gains and other support:					
Contributions	\$ 11,874,909	\$ 456,630	\$ —	\$ 12,331,539	\$ 31,114,331
Special events	48,298	—	—	48,298	62,635
Interest and dividend income	2,765,339	1,041	—	2,766,380	1,886,611
Net realized and unrealized gains on investments	11,627,969	—	—	11,627,969	19,583,359
Other revenue	<u>144,619</u>	<u>—</u>	<u>—</u>	<u>144,619</u>	<u>96,992</u>
	26,461,134	457,671	—	26,918,805	52,743,928
Net assets released resulting from satisfaction of restrictions	<u>85,068</u>	<u>(85,068)</u>	<u>—</u>	<u>—</u>	<u>—</u>
 Total revenue, gains and other support	 26,546,202	 372,603	 —	 26,918,805	 52,743,928
Expenses:					
Grants and program initiatives	14,354,958	—	—	14,354,958	9,579,961
Administrative expenses:					
Program service expenses	1,188,468	—	—	1,188,468	1,360,198
Management and general (note 7)	1,821,065	—	—	1,821,065	249,858
Fundraising	<u>615,692</u>	<u>—</u>	<u>—</u>	<u>615,692</u>	<u>499,893</u>
	3,625,225	—	—	3,625,225	2,109,949
Investment management fees	<u>579,082</u>	<u>—</u>	<u>—</u>	<u>579,082</u>	<u>422,077</u>
 Total expenses	 <u>18,559,265</u>	 <u>—</u>	 <u>—</u>	 <u>18,559,265</u>	 <u>12,111,987</u>
Increase in net assets from continuing organizations	7,986,937	372,603	—	8,359,540	40,631,941
Increase in net assets of Senator George J. Mitchell Scholarship Research Institute (note 9)	(123,223)	1,811,195	21,996	1,709,968	298,818
Transfer to Common Good Ventures (note 8)	—	—	—	—	(582,744)
Transfer to Senator George J. Mitchell Scholarship Research Institute (note 9)	<u>(1,157,614)</u>	<u>(3,255,922)</u>	<u>(10,426,149)</u>	<u>(14,839,685)</u>	<u>—</u>
(Decrease) increase in net assets	6,706,100	(1,072,124)	(10,404,153)	(4,770,177)	40,348,015
Net assets at beginning of year	<u>145,281,935</u>	<u>4,156,763</u>	<u>10,404,153</u>	<u>159,842,851</u>	<u>119,494,836</u>
Net assets at end of year	<u>\$151,988,035</u>	<u>\$ 3,084,639</u>	<u>\$ —</u>	<u>\$155,072,674</u>	<u>\$159,842,851</u>

See accompanying notes.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

	<u>2005</u>	<u>2004</u>
Cash flow from operating activities:		
(Decrease) increase in net assets:	\$ (4,770,177)	\$ 40,348,015
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	26,647	28,088
Net unrealized and realized investment gains	(11,627,969)	(19,583,359)
Transfer to Common Good Ventures	-	582,744
Transfer to Senator George J. Mitchell Scholarship Research Institute	14,839,685	-
Increase in net assets of George J. Mitchell Scholarship Research Institute	(1,709,968)	(298,818)
Decrease (increase) in contributions receivable	24	(1,166,214)
Increase in prepaid expenses and accounts receivable	(123,401)	(20,463)
Decrease in receivable from trusts	125,542	380,126
Increase in accounts payable and accrued expenses	51,394	26,893
Increase in agency endowments	2,128,541	2,430,893
Increase in income beneficiaries payable	<u>64,608</u>	<u>51,526</u>
Net cash (used) provided by continuing operating activities	(995,074)	22,779,431
Cash flows from investing activities:		
Sale (purchase) of investments, net	(12,711,200)	(21,013,272)
Sale of investments of Seal Bay Fund (note 7)	12,943,940	-
Repayments on notes receivable	-	16,000
Purchases of property, plant and equipment	-	(15,114)
Transfer to Common Good Ventures (note 8)	<u>-</u>	<u>(461,154)</u>
Net cash provided (used) by investing activities	<u>232,740</u>	<u>(21,473,540)</u>
Net (decrease) increase in cash and cash equivalents	(762,334)	1,305,891
Cash and cash equivalents at beginning of year	<u>5,237,021</u>	<u>3,931,130</u>
Cash and cash equivalents at end of year	\$ <u>4,474,687</u>	\$ <u>5,237,021</u>

See accompanying notes.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

1. Description of Organization

The consolidated financial statements of the Maine Community Foundation (MCF) include all accounts of MCF and its supporting organizations, the Senator George J. Mitchell Scholarship Research Institute (Mitchell Institute) (until December 31, 2005), the Seal Bay Fund and Maine Community Supporting Organization (collectively, the Foundation). MCF exercises significant control over the supporting organizations. Accordingly, consolidated financial statements are presented which include the Foundation and its supporting organizations. All significant balances and transactions between the entities have been eliminated in the consolidation.

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

Mitchell Institute provides an annual four-year scholarship award to a graduating senior from each of Maine's high schools. The Mitchell Institute also is committed to research the advancement of higher education aspirations of Maine students through the development and support of programs that remove obstacles to achieving a college degree. On December 31, 2005, Mitchell Institute separated from MCF. See Note 9.

Seal Bay Fund is a charitable trust which provides direct support to MCF.

Maine Community Supporting Foundation provides support to MCF by receiving real estate.

2. Summary of Significant Accounting Policies

Investments

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 fund managers based on the quoted market values of the underlying investments. Gains and losses on investments are computed on a specific identification basis. Investment income is allocated to the various funds within the unrestricted, temporarily restricted and permanently restricted fund group based on fair value of the investments and the restrictions or lack thereof on the investment income.

Investments are administered by investment agents chosen by the Foundation's Board of Directors. The investment agents report the assigned values and market values of the investments and are responsible for custody and investment management under supervision of the Board of Directors.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

2. Summary of Significant Accounting Policies (Continued)

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.

Receivable From Trusts

The Foundation is the beneficiary of certain charitable remainder 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 recorded from the trusts.

Contributions Receivable

Unconditional promises to give are recorded as contributions in the year the promise is received. Unconditional promises to give that are expected to be received in future periods are discounted using a risk-free rate applicable to the years in which the payments are received. 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.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value determined at the date of donation, less accumulated depreciation. The Foundation's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures that do not extend the lives of the related assets. 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.

Agency Endowments

Statement of Financial Accounting Standards No. 136 (SFAS No. 136), *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. SFAS No. 136 specifically requires that, if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, that community foundation must account for the transfer of such assets as a liability rather than as a contribution. The Foundation refers to such funds as agency endowments.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

2. Summary of Significant Accounting Policies (Continued)

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. For charitable gift annuities, 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 8.6%.

Classification of Net Assets

Unrestricted net assets represent resources available to the Foundation other than those net assets restricted by donors. Temporarily restricted net assets are those net assets whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

The Foundation considers contributions to be restricted if they are received with donor stipulations that restrict the use or the timing of expending the donated assets. Accordingly, all such contributions are reported as temporarily or permanently restricted. Gains and losses on the investment of these assets are classified as temporarily restricted in accordance with the Uniform Management of Institutional Funds Act, as amended, by the State of Maine. Investment income subject to restrictions is classified as temporarily restricted until the period in which the funds are spent, at which time temporarily restricted assets are released to unrestricted assets. Such transfers are reported in the statements of activities as net assets released from satisfaction of restriction.

The Fund Resolution of MCF provides for variance power which allows the direction of spending and the reduction of principal, if necessary. These funds are classified as unrestricted. At the Mitchell Institute, certain contributions have been restricted by donors to the scholarship endowment. These funds are classified as permanently restricted.

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

The Foundation and its supporting organizations, Mitchell Institute and Maine Community Supporting Organization, are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Certain transactions of the supporting organization, Seal Bay Fund, are subject to state and federal taxes.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

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 program based on direct expenditures incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications

Certain 2004 amounts have been reclassified to permit comparison with the 2005 financial statements presentation format.

3. Investments

The major categories of investments, at fair value, at December 31 are as follows:

	<u>2005</u>		<u>2004</u>	
Equity	\$ 89,355,679	57%	\$ 93,170,544	63%
Fixed income	21,031,555	13	18,637,727	13
Real assets	7,418,848	5	5,339,093	4
Cash equivalents	5,141,469	3	2,260,139	1
Alternative investments	<u>35,050,425</u>	<u>22</u>	<u>27,203,494</u>	<u>19</u>
	<u>\$157,997,976</u>	<u>100%</u>	<u>\$146,610,997</u>	<u>100%</u>

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

	<u>2005</u>	<u>2004</u>
Interest and dividend income	\$ 2,766,380	\$ 1,886,611
Net realized and unrealized gains (losses on investments)	<u>11,627,969</u>	<u>19,583,359</u>
	<u>\$14,394,349</u>	<u>\$21,469,970</u>

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

3. Investments (Continued)

Real Assets

Real assets include tangible assets such as real estate, natural resources and commodities. 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.

Alternative Investments

Alternative investments include real estate partnerships (REITS), private equity, venture capital and various arbitrage strategies and distressed debt. Generally, these assets are less liquid and require a longer investment horizon than traditional assets.

4. Contribution Receivable

MCF has been named a one-third remainderman in an estate. The estate is in the process of liquidation and proceeds of approximately \$1,166,000 are expected to be received in 2006.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2005</u>	<u>2004</u>
Building and building improvements	\$ 429,552	\$ 429,552
Land	71,000	71,000
Furniture and office equipment	75,855	75,855
Computer equipment	36,547	36,547
Vehicle	<u>17,250</u>	<u>17,250</u>
	630,204	630,204
Less accumulated depreciation	<u>(207,498)</u>	<u>(180,851)</u>
	<u>\$ 422,706</u>	<u>\$ 449,353</u>

During 2004, \$149,918 of equipment and furnishings that was fully depreciated and no longer in service was removed from the books.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

6. Net Assets

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

	<u>2005</u>	<u>2004</u>
Remainder interest from split-interest agreements and bequests	\$1,918,449	\$1,545,822
Other gifts restricted by time	<u>1,166,190</u>	<u>1,166,214</u>
	<u>\$3,084,639</u>	<u>\$2,712,036</u>

7. Management and General Expenses

In 2005, Seal Bay Fund sold its investments. Taxes of \$1,330,225 were incurred with this sale and have been included in management and general expenses. The proceeds from the sale of these investments which totaled \$12,943,940 were transferred to MCF and are held as a donor advised fund.

8. Transfer to Common Good Ventures

On January 1, 2004, Common Good Ventures separated from MCF. The net assets transferred to Common Good Ventures were \$582,744 (assets - \$591,990 and liabilities - \$9,246). Cash totaling \$461,154 was included in this transfer to Common Good Ventures.

9. Senator George J. Mitchell Scholarship Research Institute

On December 31, 2005, the Mitchell Institute separated from MCF and ceased to be a supporting organization of MCF. During 2005, based on the growth of Mitchell Institute and the significance of its activities and programs, Mitchell Institute and MCF mutually agreed to separate. As part of this agreement, certain restrictions which had been placed by MCF on funds previously transferred to Mitchell Institute were removed. In November 2005, the Mitchell Institute was granted Section 501(c)(3) status under the Internal Revenue Code. Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, requires MCF to report the assets, liabilities, net assets and operating results of the Mitchell Institute separate from those of continuing operations.

In 1999, MCF transferred the net assets of the Senator George J. Mitchell Scholarship Fund to the Mitchell Institute. The net assets transferred totalled \$1,543,207. The Mitchell Institute retained this Fund as long as certain restrictions outlined in the transfer agreement dated October 20, 1999 remained satisfied. If the Mitchell Institute failed to observe these restrictions, the value of the Fund at the date of transfer, plus future annual net appreciation (not to exceed 4% per annum) reverts to MCF. In 2004, as the Foundation had variance power, this Fund was classified as unrestricted. In 2005, this transfer agreement was amended and the restrictions outlined in the original agreement were rescinded.

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

9. Senator George J. Mitchell Scholarship Research Institute (Continued)

Amounts included in the consolidated statements of financial position and statements of activities related to Mitchell Institute are shown below:

	<u>2005</u>	<u>2004</u>
Assets:		
Investments	\$ —	\$18,930,519
Cash and cash equivalents	—	396,017
Grants receivable	—	530,473
Contributions receivable	—	1,553,910
Other assets	—	<u>86,049</u>
	<u>\$ —</u>	<u>\$21,496,968</u>
Liabilities:		
Grants payable	\$ —	\$ 976,285
Deferred grant revenue	—	7,012,573
Other liabilities	—	<u>378,393</u>
	—	8,367,251
Net assets	—	<u>13,129,717</u>
	<u>\$ —</u>	<u>\$21,496,968</u>
Revenues and gains	\$ 5,927,273	\$ 3,897,938
Expenses	<u>(4,217,305)</u>	<u>(3,599,120)</u>
	<u>\$ 1,709,968</u>	<u>\$ 298,818</u>

Net assets of \$14,839,685 were transferred to Mitchell Institute on December 31, 2005 and included the following:

Assets:	
Investments	\$19,929,949
Cash and cash equivalents	523,215
Grants receivable	571,907
Contributions receivable	398,397
Other assets	<u>149,555</u>
	21,573,023
Liabilities:	
Grants payable	1,173,182
Deferred grant revenue	5,001,933
Other liabilities	<u>558,223</u>
	<u>6,733,338</u>
Net assets	<u>\$14,839,685</u>

**MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2005 With Comparative
Information for the Year Ended December 31, 2004

10. 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, 2005, approximately \$4,000,000 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.