MAINE COMMUNITY FOUNDATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2006 With Comparative
Information for the Year Ended December 31, 2005

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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, 2006, 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 2005 financial statements and, in our report dated May 5, 2006, 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, 2006, 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
May 16, 2007

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

	2006	2005
ASSETS		
Investments (note 3)	$194,469,318	$157,997,976
Cash and cash equivalents (note 11)	2,065,533	4,474,687
Contribution receivable (notes 4 and 11)	1,633,298	1,166,190
Prepaid expenses and other receivables	183,438	167,978
Cash surrender value of life insurance	61,729	169,942
Receivable from trusts	1,717,860	1,691,992
Property and equipment, net (note 5)	425,144	422,706
Total assets	$200,556,320	$166,091,471
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 75,981	$ 130,445
Funds held as agency endowments	14,735,015	9,748,171
Income beneficiaries payable	1,671,380	1,140,181
Grant payable (note 6)	1,600,000	–
Total liabilities	18,082,376	11,018,797
Net assets:		
Unrestricted net assets	179,012,110	151,988,035
Temporarily restricted net assets (note 7)	3,461,834	3,084,639
	182,473,944	155,072,674
Total liabilities and net assets	$200,556,320	$166,091,471

See accompanying notes.

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31, 2006 With Comparative
Information for the Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	2006	2005
Revenue, gains and other support:				
Contributions	$ 25,139,047	$ 610,963	$ 25,750,010	$ 12,331,539
Special events	20,757	–	20,757	48,298
Interest and dividend income	3,054,077	221	3,054,298	2,766,380
Net realized and unrealized gains on investments	18,852,757	–	18,852,757	11,627,969
Other revenue	167,103	–	167,103	144,619
	47,233,741	611,184	47,844,925	26,918,805
Net assets released resulting from satisfaction of restrictions	233,989	(233,989)	–	–
Total revenue, gains and other support	47,467,730	377,195	47,844,925	26,918,805
Expenses:				
Grants and program initiatives	17,346,606	–	17,346,606	14,354,958
Administrative expenses:				
Program service expenses	1,324,254	–	1,324,254	1,188,468
Management and general (note 8)	549,009	–	549,009	1,821,065
Fundraising	729,240	–	729,240	615,692
	2,602,503	–	2,602,503	3,625,225
Investment management fees	494,546	–	494,546	579,082
Total expenses	20,443,655	–	20,443,655	18,559,265
Increase in net assets from continuing organizations	27,024,075	377,195	27,401,270	8,359,540
Increase in net assets of Senator George J. Mitchell Scholarship Research Institute (note 9)	–	–	–	1,709,968
Transfer to Senator George J. Mitchell Scholarship Research Institute (note 9)	–	–	–	(14,839,685)
Increase (decrease) in net assets	27,024,075	377,195	27,401,270	(4,770,177)
Net assets at beginning of year	151,988,035	3,084,639	155,072,674	159,842,851
Net assets at end of year	$179,012,110	$3,461,834	$182,473,944	$155,072,674

See accompanying notes.

MAINE COMMUNITY FOUNDATION
AND SUPPORTING ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2006 With Comparative
Information for the Year Ended December 31, 2005

	2006	2005
Cash flow from operating activities:		
Increase (decrease) in net assets:	$ 27,401,270	$ (4,770,177)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	24,305	26,647
Net unrealized and realized investment gains	(18,852,757)	(11,627,969)
Increase in value of life insurance policy	(4,029)	(8,250)
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)
(Increase) decrease in contribution receivable	(467,108)	24
Increase in prepaid expenses and other receivables	(15,460)	(123,401)
(Increase) decrease in receivable from trusts	(25,868)	125,542
(Decrease) increase in accounts payable and accrued expenses	(54,464)	51,394
Increase in funds held as agency endowments	4,986,844	2,128,541
Increase in income beneficiaries payable	531,199	64,608
Increase in grants payable	1,600,000	–
Net cash provided (used) by continuing operating activities	15,123,932	(1,003,324)
Cash flows from investing activities:		
Purchases of equipment	(26,743)	–
Purchase of investments	(68,608,706)	(58,166,605)
Proceeds from sale of investments	50,990,121	45,463,655
Sale of investments of Seal Bay Fund (note 8)	–	12,943,940
Net proceeds from life insurance policy	112,242	–
Net cash (used) provided by investing activities	(17,533,086)	240,990
Net decrease in cash and cash equivalents	(2,409,154)	(762,334)
Cash and cash equivalents at beginning of year	4,474,687	5,237,021
Cash and cash equivalents at end of year	$ 2,065,533	$ 4,474,687

See accompanying notes.

1. Description of Organization

The consolidated financial statements of the Maine Community Foundation (MaineCF) include all accounts of MaineCF and its supporting organizations, the Senator George J. Mitchell Scholarship Research Institute (Mitchell Institute) (until December 31, 2005) and Maine Community Supporting Organization (collectively, the Foundation). MaineCF 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.

MaineCF 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 MaineCF. See Note 9.

Maine Community Supporting Foundation provides support to MaineCF by receiving gifts of 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. The Foundation carries alternative investments at estimated fair value as determined by management based upon valuations provided by the respective fund managers or general partners. Gains and losses on investments are computed on a specific identification basis. Investment income is allocated to the various funds within the unrestricted and temporarily 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.

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.

2. Summary of Significant Accounting Policies (Continued)

Receivable From Trusts

The Foundation is the beneficiary of certain 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.

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 promises 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.

Funds Held as 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.

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%.

2. Summary of Significant Accounting Policies (Continued)

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 had no permanently restricted net assets at December 31, 2006 or 2005.

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 resulting from satisfaction of restriction.

The Fund Resolution of MaineCF provides for variance power which allows the direction of spending and the reduction of principal, if necessary. These funds are classified as unrestricted.

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 organization, Maine Community Supporting Organization, are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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.

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.

3. Investments

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

	2006		2005	
Domestic equity	$ 53,254,406	27%	$ 47,344,894	30%
Global equity (excluding U.S.)	49,151,106	25	40,458,089	26
Total equity	102,405,512	52	87,802,983	56
Fixed income	23,766,118	12	21,031,555	13
Marketable alternatives	40,209,359	21	35,050,424	22
Nonmarketable alternatives	2,526,699	1	1,552,696	1
Real assets	8,832,520	5	7,418,848	5
Cash equivalents	16,729,110	9	5,141,470	3
	$194,469,318	100%	$157,997,976	100%

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

	2006	2005
Interest and dividend income	$ 3,054,298	$ 2,766,380
Net realized and unrealized gains (losses on investments)	19,320,191	11,627,969
	$22,374,489	$14,394,349

Equity Investments

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. International equity managers are permitted to hold equity securities traded in non-U.S. developed and emerging markets.

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.

3. Investments (Continued)

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 are not generally correlated with traditional equity and fixed income markets. The object of marketable alternative investments provide relatively consistent returns and principal protection in significantly down equity markets, while 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 as most MALT managers have entry/exit terms and capital lockup periods that range from monthly to three years.

Nonmarketable Alternative Investments

The purpose of "nonmarketable alternative" assets such as, but not limited to, venture capital and private equity securities investments 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.

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.

At December 31, 2006, MaineCF has commitments totaling $24.3 million to invest additional funds in alternative investments over the next five years. The timing of investment of these funds is dependent on the investment manager and market opportunities.

4. Contribution Receivable

MaineCF has been named a one-third remainderman in an estate. The estate is in the process of liquidation and proceeds of approximately $1,787,000 were received in 2007.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	2006	2005
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
Vehicles	39,493	17,250
Art	4,500	–
	656,947	630,204
Less accumulated depreciation	(231,803)	(207,498)
	$ 425,144	$ 422,706

6. Grants Payable

In 2006, a grant to a nonprofit organization of $2,000,000 was committed to by the Board of Directors at the recommendation of an advisor to a donor advised fund. This grant is payable over five years. In 2006, $400,000 was paid. At December 31, 2006, the remaining balance to be awarded is $1,600,000. The grant will be paid as follows: 2007 - $400,000; 2008 - $400,000; 2009 - $400,000; and 2010 - $400,000.

7. Net Assets

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

	2006	2005
Remainder interest from split-interest agreements and bequests	$1,828,536	$1,918,449
Other gifts restricted by time	1,633,298	1,166,190
	$3,461,834	$3,084,639

8. Management and General Expenses

In 2005, Seal Bay Fund, a charitable trust that previously provided direct support to the Foundation, 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 MaineCF and are held as a donor advised fund. Prior to the sale of its investments, Seal Bay Fund was consolidated in the financial statements of the Foundation

9. Senator George J. Mitchell Scholarship Research Institute

On December 31, 2005, the Mitchell Institute separated from MaineCF and ceased to be a supporting organization of MaineCF. During 2005, based on the growth of Mitchell Institute and the significance of its activities and programs, Mitchell Institute and MaineCF mutually agreed to separate. As part of this agreement, certain restrictions which had been placed by MaineCF 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. The operating results of the Mitchell Institute for the year ended December 31, 2005 are reflected separately from those of continuing operations in the consolidated statement of activities.

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

	2005
Revenues and gains	$ 5,927,273
Expenses	(4,217,305)
	$ 1,709,968

Net assets of $14,839,685 were transferred to the 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	149,555
	21,573,023
Liabilities:	
Grants payable	1,173,182
Deferred grant revenue	5,001,933
Other liabilities	558,223
	6,733,338
Net assets	$14,839,685

10. Retirement Plans

The Foundation sponsors a 403(b) plan which covers all employees. Eligible employees may elect to contribute to the plan a percentage of their compensation up to the maximum amount allowed by the Internal Revenue Code. There is no employer match to the employee contributions to the 403(b) plan. The Foundation also maintains a simplified employee pension (SEP) plan under which it makes contributions to SEP-IRAs for each eligible employee. All employees with at least one year of service and have performed at least 100 hours of service during the plan year are eligible to participate in the SEP plan. Only employer contributions are allowed to this plan and employees are 100% vested in their SEP-IRA. The Foundation's contribution to the SEP plan is discretionary and is based on a percentage of each eligible employee's compensation. In 2006 and 2005, the percentage contributed by the Foundation was 5% and 3%, respectively, of each eligible employee's compensation. The SEP plan expense totaled $50,812 and $26,451 for the years ended December 31, 2006 and 2005, respectively.

11. 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, 2006, approximately $9,514,000 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.