

**Financial Statements and
Other Financial Information**

Maine Justice Foundation

September 30, 2016



**DAWSON SMITH
PURVIS & BASSETT**
CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

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MAINE JUSTICE FOUNDATION

September 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Maine Justice Foundation
Hallowell, Maine

We have audited the accompanying financial statements of Maine Justice Foundation (a nonprofit organization), which comprise the statements of assets, liabilities and net assets--modified cash basis as of September 30, 2016 and 2015, and the related statements of revenues, expenses and other changes in net assets--modified cash basis and supporting services expense--modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Maine Justice Foundation as of September 30, 2016 and 2015, and its support, revenue and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Rawson, Smith, Purvis & Bassett, P.A.

December 21, 2016
Portland, Maine

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS--MODIFIED CASH BASIS

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operating	\$ 37,644	\$ 4,231
Frank Coffin Fellowship	106,478	85,838
Campaign for Justice	200,720	22,060
Bank of America settlement	99,965	268,067
Mock trial	4,314	4,212
TOTAL CURRENT ASSETS	<u>449,121</u>	<u>384,408</u>
PROPERTY AND EQUIPMENT		
Land, building and improvements	169,955	169,955
Furniture and equipment	24,725	24,725
TOTAL PROPERTY AND EQUIPMENT	<u>194,680</u>	<u>194,680</u>
Less accumulated depreciation	89,688	85,216
NET PROPERTY AND EQUIPMENT	<u>104,992</u>	<u>109,464</u>
OTHER ASSETS		
Investments	5,017,395	3,492,947
TOTAL ASSETS	<u>\$ 5,571,508</u>	<u>\$ 3,986,819</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Maine State Bar Association	\$ 4,314	\$ 4,212
TOTAL CURRENT LIABILITIES	<u>4,314</u>	<u>4,212</u>
NET ASSETS		
Unrestricted net assets		
Unrestricted - long-term reserves	203,600	211,142
Unrestricted - available for operations	144,575	109,364
TOTAL UNRESTRICTED NET ASSETS	<u>348,175</u>	<u>320,506</u>
Temporarily restricted	2,508,596	1,023,039
Permanently restricted	2,710,423	2,639,062
TOTAL NET ASSETS	<u>5,567,194</u>	<u>3,982,607</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,571,508</u>	<u>\$ 3,986,819</u>

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS--MODIFIED CASH BASIS

MAINE JUSTICE FOUNDATION

Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT		
IOLTA contributions	\$ 690,711	\$ 656,257
JAG program contributions	11,500	15,000
Other contributions	10,956	1,200
TOTAL SUPPORT	<u>713,167</u>	<u>672,457</u>
OTHER REVENUE		
Investment income (loss)	26,184	(155,560)
Interest income	34	337
Rental income	8,400	8,500
Other income	959	1,085
TOTAL OTHER REVENUE	<u>35,577</u>	<u>(145,638)</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>748,744</u>	<u>526,819</u>
Net assets released from restrictions	<u>856,564</u>	<u>788,820</u>
TOTAL SUPPORT, OTHER REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS	<u>1,605,308</u>	<u>1,315,639</u>
EXPENSES AND LOSSES		
Program service expenses		
Annual grants	\$ 176,313	\$ 419,250
Discretionary grants	289,978	109,482
Campaign for Justice grants	338,456	466,706
Volunteer Lawyers Project	100,427	236,271
Frank Coffin Fellowship	101,103	131,394
JAG program	38,680	16,368
Loan Repayment Assistance Program	35,151	27,204
Other program grants	5,000	5,000
TOTAL PROGRAM SERVICE EXPENSES	<u>1,085,108</u>	<u>1,411,675</u>
Supporting services		
General and administrative	290,338	293,376
Fundraising	202,193	99,163
TOTAL SUPPORTING SERVICES EXPENSES	<u>492,531</u>	<u>392,539</u>
TOTAL EXPENSES	<u>1,577,639</u>	<u>1,804,214</u>

	<u>2016</u>	<u>2015</u>
CHANGE IN UNRESTRICTED NET ASSETS	27,669	(488,575)
Unrestricted net assets at beginning of year	320,506	1,400,044
RECLASSIFICATION TO PERMANENTLY RESTRICTED	<u>-</u>	<u>(590,963)</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 348,175</u>	<u>\$ 320,506</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Frank Coffin Fellowship contributions	\$ 122,202	\$ 119,282
Campaign for Justice	596,437	530,501
NAIP Public Welfare Foundation Grant	-	7,200
Bank of America settlement	1,500,410	267,785
Downing Fund contributions	4,310	-
Investment income	118,762	223,581
Net assets released from restrictions	<u>(856,564)</u>	<u>(788,820)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>1,485,557</u>	<u>359,529</u>
Temporary restricted net assets at beginning of year	1,023,039	673,178
RECLASSIFICATION TO PERMANENTLY RESTRICTED	<u>-</u>	<u>(9,668)</u>
TEMPORARILY RESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 2,508,596</u>	<u>\$ 1,023,039</u>
 CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>\$ 71,361</u>	<u>\$ 18,431</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	71,361	18,431
RECLASSIFICATIONS FROM UNRESTRICTED AND TEMPORARILY RESTRICTED	-	600,631
Permanently restricted net assets at beginning of year	<u>2,639,062</u>	<u>2,020,000</u>
PERMANENTLY RESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 2,710,423</u>	<u>\$ 2,639,062</u>
TOTAL CHANGE IN NET ASSETS	1,584,587	(110,615)
Total net assets at beginning of year	<u>3,982,607</u>	<u>4,093,222</u>
TOTAL NET ASSETS AT END OF YEAR	<u><u>\$ 5,567,194</u></u>	<u><u>\$ 3,982,607</u></u>

See accompanying notes.

STATEMENT OF SUPPORTING SERVICES EXPENSE--MODIFIED CASH BASIS

MAINE JUSTICE FOUNDATION

Year ended September 30, 2016

	General and Administrative	Fund Raising		Total
		CFJ	Other	
Salaries and wages	\$ 150,101	\$ 58,701	\$ 70,299	\$ 279,101
Pension plan contributions	11,307	-	1,231	12,538
Other employee benefits	20,496	363	12,426	33,285
Payroll taxes	18,347	3,724	-	22,071
Property taxes	1,000	-	-	1,000
Consulting fees	2,950	-	29,185	32,135
Accounting fees	12,241	-	-	12,241
Credit card fees	-	7,711	-	7,711
Investment fees	18,382	-	-	18,382
Supplies	2,605	1,335	-	3,940
Telephone	3,296	205	-	3,501
Postage	852	2,816	1,437	5,105
Occupancy	15,792	-	-	15,792
Equipment rental and maintenance	6,697	-	-	6,697
Printing and publications	-	3,157	7,265	10,422
Travel	10,823	569	-	11,392
Conferences and meetings	3,318	1,307	-	4,625
Depreciation	4,472	-	-	4,472
Insurance	3,297	232	-	3,529
Awards	400	-	-	400
Membership and subscriptions	3,477	-	-	3,477
Advertising	485	-	-	485
Miscellaneous	-	50	180	230
	<u>\$ 290,338</u>	<u>\$ 80,170</u>	<u>\$ 122,023</u>	<u>\$ 492,531</u>

See accompanying notes.

STATEMENT OF SUPPORTING SERVICES EXPENSE--MODIFIED CASH BASIS

MAINE JUSTICE FOUNDATION

Year ended September 30, 2015

	General and Administrative	Fund Raising		Total
		CFJ	Other	
Salaries and wages	\$ 147,181	\$ 57,059	\$ 15,615	\$ 219,855
Pension plan contributions	11,086	-	-	11,086
Other employee benefits	19,159	372	3,016	22,547
Payroll taxes	13,876	3,657	-	17,533
Property taxes	931	-	-	931
Consulting fees	15,993	-	-	15,993
Accounting fees	13,169	-	-	13,169
Credit card fees	-	6,258	-	6,258
Investment fees	18,672	-	-	18,672
Supplies	2,748	1,740	-	4,488
Telephone	3,123	189	-	3,312
Postage	795	2,853	-	3,648
Occupancy	12,758	-	-	12,758
Equipment rental and maintenance	7,913	-	-	7,913
Printing and publications	-	4,096	-	4,096
Travel	10,055	759	-	10,814
Conferences and meetings	4,053	3,295	-	7,348
Depreciation	4,472	-	-	4,472
Insurance	2,949	254	-	3,203
Awards	810	-	-	810
Membership and subscriptions	3,326	-	-	3,326
Miscellaneous	307	-	-	307
	<u>\$ 293,376</u>	<u>\$ 80,532</u>	<u>\$ 18,631</u>	<u>\$ 392,539</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Maine Justice Foundation (the Foundation) is a not-for-profit organization established in 1983 by the Maine State Bar Association to increase access to justice for low income and vulnerable Mainers and to support and encourage the legal profession's commitment to law-related public service. The Foundation's mission is supported through the Interest on Lawyers' Trust Accounting Program (IOLTA), annual fundraising within the bar through the Campaign for Justice, endowments, and other funds. The Foundation receives these funds and distributes grants to other organizations that provide civil legal aid services, legal education, or otherwise meet the Foundation's mission. The Foundation changed its name from Maine Bar Foundation to Maine Justice Foundation during the year ended September 30, 2015.

Basis of Accounting

The financial statements of the Foundation have been prepared on the modified cash basis of accounting. Under this basis, revenue is recognized when collected rather than earned, and expenditures are generally recognized when paid rather than when incurred, except for depreciation on fixed assets, recording investments at market value rather than cost, and accruals for amounts due to other agencies. These statements do not purport to show the financial position and results of operations or changes in net assets in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Foundation's net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation or by passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation.

Cash and Cash Equivalents

All highly liquid savings deposits and investments with maturities of three months or less when purchased are considered to be cash equivalents. Cash and cash equivalents consist of cash deposits and amounts in short term cash management accounts.

Property and Equipment

Property and equipment are recorded at cost if purchased or fair market value if donated. The Foundation's policy is to capitalize expenditures for major improvements and charge maintenance and repairs for expenditures which do not increase the useful lives of existing equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments

Investments with readily determinable fair values are measured at fair value in the statements of assets, liabilities and net assets – modified cash basis. Fair values are based upon quoted market prices. Investment income is considered a change in unrestricted net assets, unless restricted by a donor's explicit stipulation or law. Unrealized gains and losses on investments are included in the change in unrestricted and temporarily restricted net assets, as appropriate, in the accompanying statements of revenues, expenses and other changes in net assets – modified cash basis.

Agency Funds

The Foundation accepts assets from donors and agrees to transfer the assets, return on investments of the assets, or both to beneficiaries named by the donors.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support when received, depending on the existence or nature of donor restrictions. When a restriction has been met or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses and other changes in net assets—modified cash basis as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the contribution as unrestricted.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Taxes

The Foundation is a not-for-profit corporation described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Foundation does not believe it is subject to unrelated business income tax during the current or previous year. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Subsequent Events

The Foundation has evaluated subsequent events through December 21, 2016, the date the financial statements were available to be issued.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE B--CONCENTRATION OF CREDIT RISK

Credit Risk

The Foundation maintains cash balances at one financial institution. Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Balances in certain accounts often exceed this amount. The Foundation has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these account balances.

Market Value Risk

The Foundation invests in stocks, mutual funds and fixed income securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

NOTE C--INVESTMENTS

The cost, market value and unrealized appreciation (depreciation) of the investment accounts are as follows:

	As of September 30, 2016		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
Money market funds and certificate of deposits	\$ 1,087,005	\$ 1,087,005	\$ -
U.S. Government obligations	30,361	30,464	103
Corporate bonds	721,391	730,634	9,243
Corporate stock	2,179,355	2,570,962	391,607
Preferred stock	14,335	14,907	572
Mutual funds	459,220	583,423	124,203
Total investments	<u>\$ 4,491,667</u>	<u>\$ 5,017,395</u>	<u>\$ 525,728</u>
	As of September 30, 2015		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
Money market funds and certificate of deposits	\$ 317,978	\$ 317,978	\$ -
U.S. Government obligations	30,258	30,445	187
Corporate bonds	547,392	552,589	5,197
Corporate stock	1,775,959	2,181,669	405,710
Preferred stock	14,335	13,850	(485)
Mutual funds	323,170	396,416	73,246
Total investments	<u>\$ 3,009,092</u>	<u>\$ 3,492,947</u>	<u>\$ 483,855</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE C--INVESTMENTS--Continued

Investment return activity for the years ended September 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Additions	\$ 1,623,059	\$ 21,025
Interest and dividends	75,248	71,208
Net realized gains	26,950	147,830
Net change in unrealized gains (losses)	41,873	(151,358)
Distributions	(224,300)	(389,202)
Investment fees	<u>(18,382)</u>	<u>(18,672)</u>
Change in investments	1,524,448	(319,169)
Beginning investments	<u>3,492,947</u>	<u>3,812,116</u>
Ending investments	<u>\$ 5,017,395</u>	<u>\$ 3,492,947</u>

NOTE D--FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities in active markets that the Foundation has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE D--FAIR VALUE MEASUREMENTS--Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2016 and 2015.

U.S. Government obligations, corporate bonds, and common stock: Valued at the closing price reported in the active market in which the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Foundation at year-end. Mutual funds held by the Foundation are open-ended mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within fair value hierarchy, the Foundation's assets at fair value as of September 30, 2016 and 2015:

		Assets at Fair Value as of September 30, 2016			
		Level 1	Level 2	Level 3	Total
Money market funds and certificates					
of deposit		\$ 1,087,005	\$ -	\$ -	\$ 1,087,005
U.S. Government obligations		30,464	-	-	30,464
Corporate bonds		730,634	-	-	730,634
Common stock					
Consumer discretionary	333,571		-	-	
Consumer staples	246,898		-	-	
Energy	175,806		-	-	
Financials	361,458		-	-	
Health care	357,589		-	-	
Industrials	279,162		-	-	
Information technology	539,192		-	-	
Materials	84,837		-	-	
Telecommunication	102,979		-	-	
Utilities	89,469		-	-	
Total common stock		2,570,961	-	-	2,570,961
Preferred stock		14,907	-	-	14,907
Mutual funds		583,424	-	-	583,424
Total		\$ 5,017,395	\$ -	\$ -	\$ 5,017,395

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE D--FAIR VALUE MEASUREMENTS--Continued

Assets at Fair Value as of September 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds and certificates of deposit	\$ 317,978	\$ -	\$ -	\$ 317,978
U.S. Government obligations	30,445	-	-	30,445
Corporate bonds	552,589	-	-	552,589
Common stock				
Consumer discretionary	415,585	-	-	
Consumer staples	141,100	-	-	
Energy	125,820	-	-	
Financials	339,728	-	-	
Health care	465,373	-	-	
Industrials	160,723	-	-	
Information technology	415,421	-	-	
Materials	37,412	-	-	
Telecommunication	33,838	-	-	
Utilities	<u>46,669</u>	-	-	
Total common stock	2,181,669	-	-	2,181,669
Preferred stock	13,850	-	-	13,850
Mutual funds	<u>396,416</u>	<u>-</u>	<u>-</u>	<u>396,416</u>
Total	<u>\$ 3,492,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,492,947</u>

NOTE E--ENDOWMENT FUNDS AND BOARD-DESIGNATED RESERVES

The Foundation's net assets include both donor-restricted endowment funds and funds designated by the Board of Directors as reserves. Net assets associated with donor-restricted endowment funds and funds designated by the Board of Directors as reserves are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE E--ENDOWMENT FUNDS AND BOARD-DESIGNATED RESERVES--Continued

The Foundation follows the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), adopted by the State of Maine and effective as of July 1, 2009, and its own governing policies for donor-restricted endowment funds and board-designated reserves. The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanently donor-restricted endowment (b) the original value of subsequent gifts to the permanent donor-restricted endowment, and (c) accumulations to the permanent donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation's investment and spending policies for donor-restricted endowment assets and board-designated reserves attempt to provide a predictable stream of funding to programs supported by its donor-restricted endowment and board-designated reserves while seeking to maintain purchasing power of the donor-restricted endowment assets and board-designated reserves. Donor-restricted endowment assets and board-designated reserves are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index, including dividends, for equities and the Intermediate Treasury Bond Index for fixed income investments while assuming a moderate level of investment risk. To satisfy its long-term, rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Foundation has various temporarily and permanently donor-restricted funds held in three separate investment accounts.

Contributions have been made to two funds, the Bank of America Fund and the Thomas P. Downing Jr. Fund, the gifts to which are temporarily restricted until disbursed for expenditures related to the purpose of the funds.

Contributions have been made to certain permanently restricted funds as follows: ESO Endowment Fund, Sidney W. Wernick Lecture Fund, Bar Fellows Endowment Fund, Justice Howard H. Dana Fund, James M. Roux Fund, LGBT Justice Fund and the Michael J. Levey and Michael S. Brown Fund. The earnings for these funds are temporarily restricted pending disbursement for the purpose of the funds.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE E--ENDOWMENT FUNDS AND BOARD-DESIGNATED RESERVES--Continued

Except for the foregoing, all of the net assets of the Foundation are unrestricted and available for its operations. All unrestricted net assets are classified as long term reserve. The Board has not budgeted for any expenditures from reserves for 2017.

This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets to be held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Donor-restricted endowment funds and board-designated reserves net asset composition by type of fund as of September 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,103,372	\$ 2,710,423	\$ 4,813,795
Board-designated reserves	203,600	-	-	203,600
Total	<u>\$ 203,600</u>	<u>\$ 2,103,372</u>	<u>\$ 2,710,423</u>	<u>\$ 5,017,395</u>

Changes in endowment funds and board-designated reserves net assets for the years ended September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds and board-designated reserve net assets, September 30, 2015	<u>\$ 211,142</u>	<u>\$ 642,743</u>	<u>\$ 2,639,062</u>	<u>\$ 3,492,947</u>
Investment return:				
Interest and dividends	5,526	69,722	-	75,248
Net appreciation (realized and unrealized)	2,611	66,212	-	68,823
Investment fees	(743)	(17,639)	-	(18,382)
	<u>7,394</u>	<u>118,295</u>	<u>-</u>	<u>125,689</u>
Contributions	<u>47,785</u>	<u>1,503,913</u>	<u>71,361</u>	<u>1,623,059</u>
Appropriation of donor-restricted endowment funds and board-designated reserve assets for expenditure	<u>(62,721)</u>	<u>(161,579)</u>	<u>-</u>	<u>(224,300)</u>
Donor-restricted endowment funds and board-designated reserve net assets September 30, 2016	<u>\$ 203,600</u>	<u>\$ 2,103,372</u>	<u>\$ 2,710,423</u>	<u>\$ 5,017,395</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE F--RESTRICTIONS ON USE OF NET ASSETS

Temporarily restricted net assets consisted of the following as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Frank Coffin Fellowship	\$ 104,539	\$ 83,899
Campaign for Justice	200,720	23,161
Sidney W. Wernick Lecture Fund (income)	8,388	7,484
ESO Endowment (income)	385,474	436,064
Justice Howard H. Dana Fund (income)	7,165	5,368
NAIP Public Welfare Foundation	-	5,168
Bank of America settlement	1,605,483	268,067
Bar Fellows (income)	191,998	193,828
James M. Roux Fund (income)	708	-
Michael J. Levey and Michael S. Brown Fund (income)	140	-
Thomas P. Downing, Jr. Fund	3,981	-
	<u>\$ 2,508,596</u>	<u>\$ 1,023,039</u>

Permanently restricted net assets consisted of the following as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
ESO-Endowment (corpus)	\$ 2,000,000	\$ 2,000,000
Sidney W. Wernick Lecture Fund (corpus)	20,000	20,000
Bar Fellows (corpus)	622,555	608,394
Justice Howard Dana Fund (corpus)	32,668	10,668
James M. Roux Fund (corpus)	14,200	-
LGBT Justice Fund (corpus)	11,000	-
Michael J. Levey and Michael S. Brown Fund (corpus)	10,000	-
	<u>\$ 2,710,423</u>	<u>\$ 2,639,062</u>

During the year ended September 30, 2015, the Board investigated the nature of contributions to the Bar Fellows Fund and the Howard Dana Fund and determined that original contributions to these two funds should be considered permanently restricted endowment contributions. Previously, contributions to these funds were considered board restricted funds. These financial statements reflect the determination of these funds as permanently restricted endowment contributions.

NOTE G--IOLTA CONTRIBUTIONS

The Foundation is supported primarily through income earned from the Interest on Lawyers' Trust Accounts (IOLTA). Under Maine's IOLTA Program, participating attorneys receiving certain client trust funds, which would not otherwise earn distributive interest, are deposited in a special pooled account. The interest earnings from the accounts are paid to the Foundation and represent IOLTA revenue. Approximately 22% and 39% of the Foundation's total support and other revenue for the years ended September 30, 2016 and 2015, respectively, came from interest earned on IOLTA accounts.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE H--GRANTS

The Foundation distributes grants to organizations, which provide legal services, education and other services that fall within the Foundation's mission.

The following annual grants were made during the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pine Tree Legal Assistance	\$ 29,439	\$ 93,462
Legal Services for the Elderly	42,078	89,367
Cumberland Legal Aid Clinic	18,560	38,365
Maine Equal Justice Project	50,668	119,608
Immigrant Legal Advocacy Project	<u>35,568</u>	<u>78,448</u>
	<u>\$ 176,313</u>	<u>\$ 419,250</u>

The following discretionary grants were made during the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Legal Services for the Elderly	\$ 97,825	\$ 75,250
Volunteer Lawyers Project	39,450	25,000
Pine Tree Legal Assistance	56,250	-
University of Maine School of Law Foundation	10,460	-
Immigrant Legal Advocacy Project	42,950	-
Maine Equal Justice Project	37,875	-
NAIP Public Welfare Foundation	<u>5,168</u>	<u>9,232</u>
	<u>\$ 289,978</u>	<u>\$ 109,482</u>

NOTE I--CAMPAIGN FOR JUSTICE

Created in 2004, the Campaign for Justice (the "Campaign") is an annual statewide fundraising effort to raise money on behalf of six civil legal aid providers to increase access to legal services for low-income and elderly people in Maine. The providers consist of Pine Tree Legal Assistance, Legal Services for the Elderly, Maine Equal Justice Partners, Immigrant Legal Advocacy Project, the Cumberland Legal Aid Clinic and the Volunteer Lawyers Project (collectively referred to as "the Providers"). The Foundation, through an operational agreement with the Providers, provides annual funding and administrative assistance to the Campaign for Justice. Funds received each year from the Campaign are divided as follows:

- First, to pay direct costs of the Campaign identified in the campaign budget or otherwise approved by the Campaign steering committee;
- Second, to maintain a separate reserve fund not to exceed \$25,000 to cover anticipated campaign expenses for future years;
- Third, to allocate and disburse to the Providers funding each year in accordance with the allocation formula outlined in the operational agreement.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE I--CAMPAIGN FOR JUSTICE--Continued

The following Campaign funds were allocated to the Providers for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pine Tree Legal Assistance	\$ 137,819	\$ 189,973
Legal Services for the Elderly	62,852	85,839
Maine Equal Justice Partners	53,006	74,777
Immigrant Legal Advocacy Project	13,372	16,266
Cumberland Legal Aid Clinic	-	10,187
University of Maine School of Law Foundation	10,255	-
Volunteer Lawyers Project	61,152	89,664
	<u>\$ 338,456</u>	<u>\$ 466,706</u>

NOTE J--VOLUNTEER LAWYERS' PROJECT

The Volunteer Lawyers Project is a joint project of the Foundation and Pine Tree Legal Assistance, Inc. to provide a statewide pro bono referral system. Pine Tree Legal Assistance, Inc. has operated the Volunteers Lawyers Project since 1983. The Foundation has entered into an agreement with Pine Tree Legal Assistance to provide annual funding and administrative assistance to the Volunteers Lawyers Project. The Foundation provided annual funding of \$100,427 and \$236,271 for the years ended September 30, 2016 and 2015, respectively.

NOTE K--LOAN REPAYMENT ASSISTANCE PROGRAM

The Loan Repayment Assistance Program (LRAP) makes loans to assist new lawyers committed to public service positions to defray the costs of law school debt. Loans are forgiven when attorneys complete a term of service in a public non-profit legal assistance office.

NOTE L--PENSION PLAN

The Foundation has a defined contribution pension plan covering employees meeting certain age and service requirements. Employer contributions are not to exceed 7% of the total compensation earned by plan participants for the year. Pension plan expense totaled \$12,538 and \$11,086 for the years ended September 30, 2016 and 2015, respectively.

During 2007, the Foundation adopted a 401(k) plan covering employees meeting certain age and service requirements. This Plan allows for employee contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Foundation may, at its sole discretion, elect to make employer contributions for any plan year. The Foundation made no discretionary contributions during 2016 or 2015.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

MAINE JUSTICE FOUNDATION

September 30, 2016 and 2015

NOTE M--LEASE COMMITMENTS

Lease Income

The Foundation leases a portion of the building to a third party tenant. The lease agreement is for one year with a monthly rent of \$700.

Lease Expense

The Foundation had non-cancelable operating lease agreements for a copier and other office equipment. The lease agreements expired during the year ended September 30, 2016 and became month-to-month agreements. Rent expense for the equipment for the years ended September 30, 2015 and 2014 was \$3,865 and \$3,669, respectively.

NOTE N--RELATED PARTY

The Foundation works in cooperation with the Maine State Bar Association (MSBA). The president, president-elect, and past president of the MSBA's Board of Directors serve as ex-officio voting members of the Foundation's Board of Directors.

In February 2010, the Foundation agreed to serve as fiscal agent for the Mock Trial Program which supports high school student teams in a competition involving court room trials and advocacy. Lawyers and judges evaluate the teams in actual courtrooms and winners of the state competition move on to the National Mock Trial competition. During the years ended September 30, 2016 and 2015, the Foundation received \$100 and \$8,050 of contributions and paid \$0 and \$4,666, respectively, to the MSBA to defray expenses of the program. The net related to the Mock Trial program is recorded as a current liability at September 30, 2016 and 2015.

NOTE O--FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Foundation's financial instruments approximate their carrying amounts, either because the expected collection or payment period is relatively short or because the terms are similar to market terms.