



FINANCIAL STATEMENTS

June 30, 2017

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Directors
Maine Seacoast Mission

We have audited the accompanying financial statements of Maine Seacoast Mission, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the eighteen months 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 U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 that 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 financial position of Maine Seacoast Mission as of June 30, 2017, and the changes in its net assets and its cash flows for the eighteen months then ended in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
May 10, 2018

MAINE SEACOAST MISSION

Statement of Financial Position

June 30, 2017

ASSETS

Cash and cash equivalents (Note 15)	\$ 29,209
Cash received and held for specific projects and endowment (Note 2)	461,079
Accounts receivable	3,662
Prepaid expenses	138,754
Contributions and grants receivable, net (Notes 2 and 3)	1,271,235
Property and equipment, net of accumulated depreciation (Note 4)	2,172,040
Property held for sale (Note 16)	1,372,707
Split-interest agreements (Notes 6 and 9)	757,735
Beneficial interest in perpetual trusts (Notes 5 and 9)	4,933,220
Investments (Notes 7, 8, and 9)	<u>35,051,800</u>
Total assets	<u>\$ 46,191,441</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 140,796
Deferred revenue	72,753
Gift annuity payable (Note 7)	<u>10,571</u>
Total liabilities	<u>224,120</u>
Net assets	
Unrestricted	
Board-designated endowment funds (Note 8)	19,151,609
Undesignated funds	<u>3,063,914</u>
Total unrestricted	22,215,523
Temporarily restricted (Notes 8 and 10)	4,008,337
Permanently restricted (Notes 8 and 12)	<u>19,743,461</u>
Total net assets	<u>45,967,321</u>
Total liabilities and net assets	<u>\$ 46,191,441</u>

The accompanying notes are an integral part of these financial statements.

MAINE SEACOAST MISSION

Statement of Activities

Eighteen Months Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue, gains, and other support				
Contributions and grants (Notes 5,6,14)	\$ 2,204,182	\$ 817,037	\$ -	\$ 3,021,219
Special events	160,324	-	-	160,324
Gain on disposal of equipment	2,904	-	-	2,904
Program and other	141,213	-	-	141,213
Investment appropriation withdrawn for operations (Note 8)	1,993,447	193,770	-	2,187,217
Net assets released from restrictions (Note 11)	<u>811,850</u>	<u>(811,850)</u>	<u>-</u>	<u>-</u>
Total operating revenue, gains, and other support	<u>5,313,920</u>	<u>198,957</u>	<u>-</u>	<u>5,512,877</u>
Operating expenses				
Program	4,302,439	-	-	4,302,439
Unallocated management and general	537,836	-	-	537,836
Unallocated development and fundraising	<u>433,328</u>	<u>-</u>	<u>-</u>	<u>433,328</u>
Total operating expenses	<u>5,273,603</u>	<u>-</u>	<u>-</u>	<u>5,273,603</u>
Net operating income	<u>40,317</u>	<u>198,957</u>	<u>-</u>	<u>239,274</u>
Non-operating income (loss)				
Endowment contributions	-	-	2,324,230	2,324,230
Change in value of split-interest agreements (Note 6)	-	(38,888)	-	(38,888)
Change in value of beneficial interest in perpetual trusts (Notes 5 and 9)	-	-	346,340	346,340
Net investment gain greater than withdrawals for operations and capital projects (Note 8)	<u>894,038</u>	<u>131,320</u>	<u>-</u>	<u>1,025,358</u>
Net non-operating income	<u>894,038</u>	<u>92,432</u>	<u>2,670,570</u>	<u>3,657,040</u>
Change in net assets	934,355	291,389	2,670,570	3,896,314
Net assets, beginning of period	<u>21,281,168</u>	<u>3,716,948</u>	<u>17,072,891</u>	<u>42,071,007</u>
Net assets, end of period	<u>\$ 22,215,523</u>	<u>\$ 4,008,337</u>	<u>\$ 19,743,461</u>	<u>\$ 45,967,321</u>

The accompanying notes are an integral part of these financial statements.

MAINE SEACOAST MISSION

Statement of Functional Expenses

Eighteen Months Ended June 30, 2017

	<u>Youth Development Programs</u>	<u>Direct Service Programs</u>	<u>Island Service Programs</u>	<u>Total Programs</u>	<u>Management and General</u>	<u>Development and Fundraising</u>	<u>Total Expenses</u>
Salaries and benefits (Note 13)	\$ 948,266	\$ 446,169	\$ 600,275	\$ 1,994,710	\$ 810,252	\$ 379,544	\$ 3,184,506
Contract labor	6,412	55,176	8,450	70,038	2,960	75	73,073
Travel and training	31,407	17,764	13,179	62,350	24,810	4,264	91,424
Subscriptions and registrations	2,089	187	1,871	4,147	12,074	13,543	29,764
Utilities	13,961	74,421	16,579	104,961	14,006	2,934	121,901
Maintenance and repairs	16,192	42,056	67,263	125,511	29,447	3,141	158,099
Busing	89,219	-	-	89,219	-	-	89,219
Depreciation	55,206	138,768	96,704	290,678	17,900	9,395	317,973
Professional fees	8,904	17,110	18,439	44,453	86,803	69,602	200,858
Food and events	15,184	59,130	22,895	97,209	9,164	65,556	171,929
Board expense	-	42	-	42	2,729	-	2,771
Grants to churches	-	-	77,233	77,233	-	-	77,233
Other direct program expense	167,155	106,979	78,355	352,489	2,575	1,191	356,255
Insurance	56,253	34,295	41,075	131,623	44,317	-	175,940
Advertising and marketing	1,356	775	60	2,191	1,840	97,302	101,333
Printing	-	407	3,715	4,122	1,438	29,657	35,217
Postage and shipping	1,850	578	316	2,744	6,047	8,949	17,740
Supplies	16,946	7,998	130	25,074	26,712	2,475	54,261
Bank fees	180	12	36	228	536	2,955	3,719
Administrative overhead	416,077	235,660	171,680	823,417	(566,162)	(257,255)	-
Uncollectible pledges	-	-	-	-	10,388	-	10,388
Total expenses	\$ <u>1,846,657</u>	\$ <u>1,237,527</u>	\$ <u>1,218,255</u>	\$ <u>4,302,439</u>	\$ <u>537,836</u>	\$ <u>433,328</u>	\$ <u>5,273,603</u>

The accompanying notes are an integral part of these financial statements.

MAINE SEACOAST MISSION

Statement of Cash Flows

Eighteen Months Ended June 30, 2017

Cash flows from operating activities	
Change in net assets	\$ 3,896,314
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	317,973
Gain on disposal of equipment	(2,904)
Net realized and unrealized gain on investments (Note 8)	(2,455,814)
Change in value of beneficial interest in perpetual trusts (Notes 5 and 9)	(346,340)
Change in value of split-interest agreements (Notes 6 and 9)	(61,488)
Contributions restricted for long-term investment	(2,324,230)
(Increase) decrease in	
Accounts receivable	7,521
Prepaid expenses	(55,013)
Contributions and grants receivable (Notes 2 and 3)	(41,528)
Increase (decrease) in	
Accounts payable and accrued expenses	47,387
Deferred revenue	22,050
Gift annuities payable (Note 7)	<u>(854)</u>
Net cash used by operating activities	<u>(996,926)</u>
Cash flows from investing activities	
Purchases of investments	(12,350,349)
Proceeds from sale of investments	11,015,571
Purchase of property and equipment	(404,769)
Proceeds from sale of property and equipment	<u>21,000</u>
Net cash used by investing activities	<u>(1,718,547)</u>
Cash flows from financing activities	
Proceeds from contributions restricted for long-term investment	<u>2,210,161</u>
Net decrease in cash and cash equivalents	(505,312)
Cash and cash equivalents, beginning of period	<u>995,600</u>
Cash and cash equivalents, end of period	<u>\$ 490,288</u>
Additional disclosure:	
Cash and cash equivalents	\$ 29,209
Cash received and held for specific projects and endowment	<u>461,079</u>
	<u>\$ 490,288</u>

The accompanying notes are an integral part of these financial statements.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

1. Purpose of Organization and Nature of Activities

The Maine Seacoast Mission (the Mission) provides spiritual, health, and youth development programs in coastal and island communities from Mid-Coast to Downeast Maine. Rooted in a history of compassionate service and mutual trust, the Mission seeks to strengthen coastal and island communities by educating youth, enabling families, and promoting good health.

The following is a summary of the Mission's activities:

Youth Development Programs

The EdGE

Students in grades kindergarten through twelve are helped to gain the skills they need to succeed as students and to build their character and confidence through a multi-site in-school, after-school, and summer program.

Scholarship Program

Grants are provided to students from island and coastal communities to enable them to attend college, technical schools, and adult education programs.

Direct Service Programs

Downeast Campus Community Outreach

People in need in Downeast Maine receive a variety of services operating out of the Downeast Campus in Cherryfield, Maine. Services include: a food pantry, a senior companion program, donor-directed fuel assistance, collaboration with visiting church groups to rebuild and weatherize local homes, access to spiritual walking trails, and arranging various community-building gatherings.

Christmas Program

The Mission distributed approximately 18,000 donated gifts during the Christmas season to needy individuals on the islands and in coastal communities of Hancock and Washington counties.

Colket Center Community Outreach

The Colket Center in Bar Harbor, Maine along with housing the Mission's administrative offices, is also the location utilized for the annual Christmas "Open House," senior citizen activities, weddings, memorial services, and various community exhibits, meetings, and classes.

Island Service Programs

Island Outreach

Pastoral counseling, worship, art instruction, recreation, community support, and fellowship are provided to the residents of off-shore islands of Downeast Maine.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

Island Church Support

Financial support is provided for churches on four small islands off the coast of Maine, providing the island residents with year-round regular church services, counseling as necessary, and general support for the island community.

Island Health Services

The Mission's Island Health Service Registered Nurse (RN) makes personal health visitations to island residents and additionally provides access to educational and health screening clinics. The RN is able to connect island residents with health providers on the mainland through the use of "telemedicine." Telemedicine enables health care facilities to provide clinical services to island patients through the use of highly technical telecommunication equipment provided by the Mission and with the assistance of the Mission's RN.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified as follows based on the existence or absence of donor-imposed restrictions as indicated below:

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

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met by actions of the Mission and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Mission. The donors of these assets permit the Mission to use the income earned on related investments for general or specific purposes.

Income Taxes

The Internal Revenue Service has determined that the Mission is exempt from taxation under Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes has been reflected in these financial statements.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

Definition of Operations

The statement of activities includes net operating income. Changes in net assets which are excluded from net operating income include net investment gains greater than withdrawals for operations and capital projects, investment income withdrawn for capital projects, endowment contributions and the change in value thereof, and the change in the value of beneficial interest in perpetual trusts and split-interest agreements.

Cash and Cash Equivalents

The Mission considers all highly-liquid debt instruments with an original maturity of three months or less to be cash or cash equivalents. The Mission maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Mission has not experienced any losses in such accounts. The Mission believes it is not exposed to any significant risk with respect to these accounts.

Cash received and held for specific projects is restricted for the following purposes as of June 30, 2017:

Development projects	\$	91,918
EdGE projects		71,956
Island Health		558
Downeast Campus Projects		136,309
Education		100,208
Other		3,630
Permanently restricted cash received to be deposited into the endowment		<u>56,500</u>
Total cash received and held for specific projects	\$	<u><u>461,079</u></u>

Accounts, Contributions, and Grants Receivable

Accounts, contributions, and grants receivable are stated at the amount management expects to collect. The Mission considers these receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. As disclosed in Note 3, multi-year contributions and grants receivable have been reduced to net present value.

Credit is extended at regular terms without collateral.

Property and Equipment

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor restrictions regarding how long those donated assets must be maintained, the Mission reports expirations of donor restrictions when the donated or acquired assets are capitalized. The Mission reclassifies

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over its estimated useful life. It is the Mission's policy to capitalize all personal computers, and other assets with a cost exceeding \$2,000 and a useful life of more than one year.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position based on quoted market prices. Other investments, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The Mission reviews and evaluates the valuations provided by the investment managers and believes that these valuations are a reasonable estimate of fair value at June 30, 2017 but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in value in the near term would materially affect the amounts reported in the statement of financial position.

Contributions

The Mission reports contributions of cash or other assets, including unconditional promises to give, in the statement of activities when the cash, unconditional promise, or other assets are received. Unconditional promises to give are reported at their net realizable value. Significant noncash contributions are recorded at their fair value at the date of receipt.

The Mission reports contributions as restricted support if the contributions are received with donor restrictions that limit the use of the donated assets and the restrictions are not met within the same reporting period. Contributions subject to donor imposed restrictions that are met in the same reporting period are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services

It is estimated that over 880 individuals volunteer their time performing a variety of tasks that assist the Mission. The average volunteer worked approximately 53 hours over the eighteen month period, which is nearly 47,000 volunteer hours over the eighteen months. These contributed services are not recognized in the financial statements as they did not meet the criteria for recognition under GAAP.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

Revenue Recognition - Grants

The Mission reports revenues from grants when revenues are earned. Grants received are expended under the terms stated in the guidelines of the grant. Grant revenue earned but not yet received is recorded as grants receivable, and funds received but not yet earned are recorded as deferred revenue.

Functional Expenses

The Mission allocates its expenses on a functional basis among its various programs. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Total program expenses for the eighteen months ended June 30, 2017, excluding administrative overhead allocation of \$823,417, were \$3,479,022.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, the Mission has considered transactions or events occurring through May 10, 2018, which was the date that the financial statements were available to be issued.

3. Contributions and Grants Receivable

Contributions and grants receivable consist of unconditional promises to give toward a previous capital campaign for endowment, program support, and general operations and are expected to be received as follows:

Within one year	\$ 1,031,531
Between one and five years	<u>275,000</u>
Total contributions and grants receivable	1,306,531
Less discounts to net present value at 5.00%	<u>(35,296)</u>
Net contributions and grants receivable	\$ <u><u>1,271,235</u></u>

The Mission has been awarded a \$4 million conditional grant for endowment support contingent on the Mission raising equivalent matching funds. The Mission has recognized \$3,836,540 of these matching funds through June 30, 2017. Management anticipates raising the remaining funds available for the match over the next fiscal year.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

4. Property and Equipment

As of June 30, 2017, property and equipment consists of:

Land and improvements	\$ 199,517
Building and improvements	1,212,866
Vehicles	172,623
Ships	1,420,656
Equipment	125,652
Information technology	827,587
Furniture and fixtures	282,083
Projects in process	<u>478,077</u>
	4,719,061
Less accumulated depreciation	<u>(2,547,021)</u>
Net property and equipment	<u>\$ 2,172,040</u>

5. Beneficial Interest in Perpetual Trusts

The Mission is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Mission. The Mission has legally enforceable rights or claims to such assets, including the right to income therefrom. The Mission has reported the fair value of the underlying trust assets, which approximates the present value of the expected future cash flows of these trusts, as the beneficial interest in perpetual trusts in the statement of financial position. Net realized gains and losses in trusts held by others are reported as changes in permanently restricted net assets based on the Mission's interpretation of the trustees' policy on income appropriation. Appreciation in such funds is not available for expenditure by the Mission unless the separate trustees of those funds elect to appropriate it. The fair value at June 30, 2017 of funds held in trust by others was \$4,933,220. Income received as distributions for the eighteen months ended June 30, 2017 of funds held in trust by others was \$259,311.

Income earned from these trusts is included with unrestricted contributions and grants in the statement of activities.

6. Split-Interest Agreements

The Mission is a charitable remainder beneficiary for an irrevocable charitable remainder unitrust in the amount of \$100,000, to be paid upon dissolution of the trust. Further, the Mission is the income beneficiary for two charitable lead unitrusts. Each trust pays the Mission 4% of the trust's fair market value as of January 1 of each year. The first unitrust terminates in 2029, and the second terminates in 2039. The present value of the future income stream from these trusts, using a 5% discount rate, was \$657,735 at June 30, 2017. Income distributions received from the trusts, which are restricted by the donor for the EdGE program, totaled \$92,744 for the eighteen months ended June 30, 2017, and are included in unrestricted contributions in the statement of activities.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

7. Charitable Gift Annuities

In a prior year, the Mission received a contribution under a charitable gift annuity agreement. The Mission is to remit payments to the income beneficiary in various installments for the remainder of the beneficiary's life. The present value of the annuity payment liability was \$10,571 at June 30, 2017. The original amount donated under this charitable gift annuity agreement was \$25,080 and is included in investments.

8. Investments

Investments as of June 30, 2017 consist of:

Cash investments	\$ 223,828
Domestic equity funds	10,763,463
International equity funds	6,444,413
Fixed income funds	6,453,571
U.S. Treasury notes and bonds	1,692,442
U.S. Government fixed income Treasury inflation protected securities (TIPS)	1,699,234
Hedge funds	3,455,579
Private equity fund	1,299,985
Asset allocation fund	<u>3,019,285</u>
Total investments	<u>\$ 35,051,800</u>

At June 30, 2017, the Mission held approximately \$6,433,622 of its total investments in the S&P 500 Index Fund (a domestic equity fund).

The Mission adopted a policy to annually allocate investment earnings to operations. As noted below, funds are invested with a goal to achieve a real (adjusted for inflation) total long-term return, net of investment management and administrative fees, of at least 5%. The Mission's policy of annual spending is not to exceed 5% of the previous 12 quarters' average balance of investments. Investment gain is reflected in the statement of activities as follows:

Interest and dividend income, net of fees	\$ 756,761
Realized gains	226,271
Unrealized gains	<u>2,229,543</u>
Total investment gain	3,212,575
Operating appropriation	<u>(2,187,217)</u>
Investment gain greater than approved spending policy	<u>\$ 1,025,358</u>

Total investment gains are presented net of investment fees of approximately \$84,154 for the eighteen months ended June 30, 2017.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2017

The long-term investment objective of the Mission is to preserve and enhance the real value of the financial assets of the Mission over time, in order to provide a sufficient rate of return for fulfilling the philanthropic purposes of the Mission. Assets are to be invested prudently in diversified investments that seek to provide total return. Investment decisions are made considering the overall portfolio, resources available, and the purpose of the endowment. To accomplish this objective, endowment funds are invested for growth in principal and income, with a goal to achieve a real (adjusted for inflation) total long-term return, net of investment management and administrative fees, of at least 5%.

To achieve its investment objective and to control risk, the Mission's portfolio is diversified across multiple asset classes. The Mission's long-term commitment, to these asset classes is as follows:

<u>Asset Class</u>	<u>Range</u>	<u>Long-Term Target</u>
Investment Grade Fixed Income	13% - 19%	16%
Other Fixed Income*	5% - 9%	7.1%
U.S. Equity	20% - 30%	25.1%
Non-U.S. Equity**	13% - 19%	16.1%
Hedge Funds	12% - 18%	14.7%
Private Equity	0% - 16%	13%
Tactical Tilts	6% - 10%	8%

* Other fixed income may include non-U.S. investment grade debt, high-yield bonds, and emerging markets debt preferred stocks.

** Equities may include publicly traded Real Estate Investment Trusts.

The Mission has interpreted the State of Maine Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the contributed value of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, the Mission classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. If the donor-restricted endowment assets earn investment returns beyond these amounts, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated by the Board of Directors for expenditure. Funds designated by the Board of Directors to function as endowments are classified as unrestricted net assets.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Mission to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies were \$521,044 at June 30, 2017. Future increases in fair value will first restore unrestricted net assets to the extent of these prior losses recognized; therefore, the investment appropriation draws on the endowments which are below the required level are reported in the unrestricted net asset column in the statement of activities.

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Notes to Financial Statements

June 30, 2017

The endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (521,044)	\$ 2,741,005	\$ 13,730,496	\$ 15,950,457
Board-designated endowment funds	<u>19,151,609</u>	<u>-</u>	<u>-</u>	<u>19,151,609</u>
	<u>\$ 18,630,565</u>	<u>\$ 2,741,005</u>	<u>\$ 13,730,496</u>	<u>\$ 35,102,066</u>

Changes in endowment net assets for the eighteen months ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ <u>17,210,979</u>	\$ <u>2,609,685</u>	\$ <u>11,575,370</u>	\$ <u>31,396,034</u>
Investment return				
Net investment income	680,182	76,579	-	756,761
Realized gain on investments	203,374	22,897	-	226,271
Net appreciation of investments	<u>2,003,929</u>	<u>225,614</u>	<u>-</u>	<u>2,229,543</u>
Net investment gain	<u>2,887,485</u>	<u>325,090</u>	<u>-</u>	<u>3,212,575</u>
Additions to endowment assets	525,548	-	2,155,126	2,680,674
Appropriation of endowment assets for expenditure	<u>(1,993,447)</u>	<u>(193,770)</u>	<u>-</u>	<u>(2,187,217)</u>
Endowment net assets, end of period	<u>\$ 18,630,565</u>	<u>\$ 2,741,005</u>	<u>\$ 13,730,496</u>	<u>\$ 35,102,066</u>

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9. Assets at Fair Value

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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Assets measured at fair value on a recurring basis as of June 30, 2017 are summarized below:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs Using the Market Approach <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Beneficial interest in perpetual trusts	\$ 4,933,220	\$ -	\$ -	\$ 4,933,220
Split-interest agreements	757,735	-	757,735	-
Cash investments	223,828	223,828	-	-
Domestic equity funds	10,763,463	10,763,463	-	-
International equity funds	6,444,413	6,444,413	-	-
Fixed income funds	6,453,571	6,453,571	-	-
U.S. Treasury notes and bonds	1,692,442	-	1,692,442	-
U.S. Government fixed income (TIPS)	1,699,234	-	1,699,234	-
Hedge funds	3,455,579	-	3,455,579	-
Asset allocation fund	<u>3,019,285</u>	<u>3,019,285</u>	<u>-</u>	<u>-</u>
	\$ 39,442,770	\$ <u>26,904,560</u>	\$ <u>7,604,990</u>	\$ <u>4,933,220</u>
Assets measured at net asset value	<u>1,299,985</u>			
Total assets measured at fair value on a recurring basis	\$ <u>40,742,755</u>			

Level 3 beneficial interest in perpetual trusts and Level 2 split-interest agreements are valued based on the fair value of the underlying investments held by the trusts. U.S. Treasury notes and bonds and TIPS are valued based on quoted market prices for similar instruments. Other Level 2 and 3 investments are valued based on the net asset values (NAV) or the Mission's capital as reported in the financial statements of the related interests.

The Mission invests in certain entities that calculate NAV per share in accordance with FASB guidance relative to investment companies and these investments are reported at fair value based on the NAV per share as reported by the investee. These investments are measured at fair value using Level 2 or Level 3 inputs. Investments are categorized as Level 2 financial instruments when the Mission has the ability to redeem its investment in the entity at NAV per share at year-end or within 90 days of that date. Investments are categorized as Level 3 financial instruments when the Mission cannot redeem its investment within 90 days of year-end. Certain investments measured at NAV aren't classified by level, as they meet the criteria for the exception to fair value classification.

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The following table provides a summary of changes in fair value of the Mission's Level 3 financial instruments for the eighteen months ended June 30, 2017:

	Fair Value December 31, <u>2015</u>	Realized and Unrealized <u>Gains</u>	Fair Value June 30, <u>2017</u>
Perpetual trusts	\$ 4,586,880	\$ 346,340	\$ 4,933,220

The amount of total gains for 2017 included in changes in net assets attributable to the change in unrealized gains relating to assets still held at June 30, 2017 was \$346,340. These gains are included in change in value of beneficial interest in perpetual trusts.

The following includes a summary of fair values, redemption features, and future commitments related to investments for which estimated fair value was based upon NAV, capital account, or other valuation procedures as of June 30, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Periods</u>
Private equity fund	\$ 27,409	\$ 882,000	N/A	N/A
Private equity fund	499,173	-	N/A	N/A
Private equity fund - 2014	297,218	526,589	N/A	N/A
Private equity fund - 2015	336,660	494,036	N/A	N/A
Private equity fund - 2016	130,525	757,194	N/A	N/A
Private equity fund - 2017	9,000	891,000	N/A	N/A
Hedge funds - GS	599,845	-	Monthly	60 days
Hedge funds - others	<u>2,855,734</u>	<u>-</u>	Quarterly	91 days
	<u>\$ 4,755,564</u>	<u>\$ 3,550,819</u>		

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The private equity funds are diversified U.S. and non U.S. private equity portfolios which may include venture capital, buyout, mezzanine asset through the secondary market, private equity limited partnership interests, and minority positions in direct private equity investments. The private equity funds are to be held for 10-15 years unless sold on the secondary market. A private equity fund typically draws down capital over the first half of the life of the fund. Funds tend to distribute capital during the final years of a fund's life. Early in the life of a private equity program, there will be net contributions. As the collective private equity investments mature, distributions should offset contributions to new private equity funds. Generally, investments in these private equity funds will be held until the partnership terminates unless, at the general partner's discretion, written consent is given to allow an investor to withdraw.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2017:

Time restricted - general endowment earnings	\$ 893,876
Education	1,414,437
Crisis	437,079
Island Health	25,558
Scholarship	50,100
EdGE	202,621
Split-interest agreements - EdGE	757,735
Capital campaign - undesignated*	24,721
Development and marketing	104,529
Food security programs	76,516
Downeast outreach	<u>21,165</u>
Total temporarily restricted net assets	<u>\$ 4,008,337</u>

* The capital campaign purposes are limited to health and medical care, emotional and spiritual care, sustaining fisheries, EdGE after-school program and scholarships.

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11. **Net Assets Released From Restrictions**

Net assets released from restrictions due to donor-imposed restrictions being met and other reclassifications consisted of the following:

Time restriction - general endowment	\$ 88,725
Education	76,842
Crisis	4,637
Sunbeam	16,455
Island Health	14,208
EdGE	381,380
Housing repair	4,850
Bread of Life Food Pantry	54,097
Downeast campus - Projects	12,420
Downeast campus - Table of Plenty	5,794
Development projects	<u>76,441</u>
Total net assets released from restrictions - operating	735,849
Non-operating net assets released from restrictions - capital projects	<u>76,001</u>
Total net assets released from restrictions	<u>\$ 811,850</u>

12. **Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to investments in perpetuity. The income from the investments is expendable to support the following:

	<u>2017</u>
General operations - beneficial interest in perpetual trusts	\$ 4,933,220
General operations	397,663
Education	317,180
EdGE - capital campaign	10,243,836
Colket Center - capital campaign	2,000,000
Island Health - capital campaign	933,614
Scholarship - capital campaign	915,480
Sunbeam - capital campaign	<u>2,468</u>
	<u>\$ 19,743,461</u>

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13. Retirement Plan

The Mission has established a defined contribution retirement plan (the Plan) which covers employees working at least 35 hours per week. Mission contributions are made at 14% of gross wages for ministers. For the twelve month period ended December 31, 2016 Mission contributions were made at 8.5% for lay employees if the lay employee made a voluntary contribution of at least 2.5%. Effective January 1, 2017, the Mission contribution for lay employees was reduced to 5% if the lay employee makes a voluntary contribution of at least 2.5%. Total Mission retirement contributions totaled \$157,799 for the eighteen months ended June 30, 2017.

14. Major Contributors

The Mission received approximately 39% of contributions and grants from two donors/grantors during the eighteen month period ended June 30, 2017.

15. Related Party Transactions

The Mission maintains cash and cash equivalents with The First, N.A. The President and Chief Executive Officer of The First, N.A. was a member of the Mission's Board of Directors through the end of the eighteen month period ended June 30, 2017. Cash and cash equivalents maintained at The First, N.A. were approximately 62% of total cash and cash equivalents at June 30, 2017.

16. Donated Property Held for Sale

In 2012, land was deeded to the Mission in compliance with an estate gift, subject to a contingency that was settled in 2013. The land received by the Mission from the estate has been appraised for \$400,000; however, the gift was recorded as revenue and land at a value of \$200,000 at December 31, 2012, as the contingency at that time affected management's estimate of future value to be received. During 2015, a portion of this land was sold for \$144,729. The remaining land is available for sale on the open market at June 30, 2017.

During 2017, the Mission listed the Colket Center for sale on the open market. The net book value of \$1,317,436 has been included in the property held for sale line of the statement of financial position.