



FINANCIAL STATEMENTS

June 30, 2019

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 (the Mission), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2019 the Mission adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). As part of adopting this standard, the Mission was required to reclassify the accumulated losses on underwater endowment funds to net assets with donor restrictions. The 2019 net assets were restated at the beginning of the year to increase net assets without donor restrictions and decrease net assets with donor restrictions by \$235,302. There was no impact on overall net assets. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 13, 2019

MAINE SEACOAST MISSION
Statement of Financial Position
June 30, 2019

ASSETS

Cash and cash equivalents (Notes 2 and 13)	\$ 311,605
Cash received and held for specific projects and endowment (Note 2)	1,797,453
Accounts receivable (Note 2)	3,134
Prepaid expenses	142,154
Contributions and grants receivable, net (Notes 2 and 3)	62,399
Property and equipment, net of accumulated depreciation (Notes 2 and 4)	2,104,839
Property held for sale (Note 14)	71,202
Split-interest agreements (Notes 6 and 9)	701,711
Beneficial interest in perpetual trusts (Notes 5 and 9)	5,199,130
Investments (Notes 2, 7, 8, and 9)	<u>43,363,369</u>
 Total assets	 <u>\$ 53,756,996</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 251,621
Deferred revenue	81,410
Gift annuity payable (Note 7)	<u>9,728</u>
 Total liabilities	 <u>342,759</u>
 Net assets	
Without donor restrictions	
Board-designated endowment funds (Note 8)	24,683,190
Undesignated funds	<u>2,215,970</u>
 Total net assets without donor restrictions	 26,899,160
 Net assets with donor restrictions (Notes 2, 8, 10, and 11)	 <u>26,515,077</u>
 Total net assets	 <u>53,414,237</u>
 Total liabilities and net assets	 <u>\$ 53,756,996</u>

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

MAINE SEACOAST MISSION

Statement of Activities

Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenue, gains, and other support			
Contributions and grants (Note 2)	\$ 1,230,481	\$ 809,159	\$ 2,039,640
Special events	165,014	-	165,014
Program and other	57,105	-	57,105
Investment income appropriated for operations (Note 8)	1,679,689	-	1,679,689
Net assets released from restrictions (Note 11)	<u>723,841</u>	<u>(723,841)</u>	<u>-</u>
Total operating revenue, gains, and other support	<u>3,856,130</u>	<u>85,318</u>	<u>3,941,448</u>
Operating expenses			
Program	3,136,038	-	3,136,038
Management and general	556,325	-	556,325
Development and fundraising	<u>357,341</u>	<u>-</u>	<u>357,341</u>
Total operating expenses	<u>4,049,704</u>	<u>-</u>	<u>4,049,704</u>
Net operating income (loss) (Note 1)	<u>(193,574)</u>	<u>85,318</u>	<u>(108,256)</u>
Non-operating income (loss)			
Net assets released from restrictions - capital projects (Note 11)	62,693	(62,693)	-
Endowment contributions	-	152,804	152,804
Contributions for capital projects	-	205,067	205,067
Gain on sale of property and equipment	3,198,589	-	3,198,589
Change in value of split-interest agreements (Note 6)	-	(28,708)	(28,708)
Change in value of beneficial interest in perpetual trusts (Note 9)	-	28,766	28,766
Net investment income greater than withdrawals for operations and capital projects (Notes 1 and 8)	<u>482,811</u>	<u>535,470</u>	<u>1,018,281</u>
Net non-operating income	<u>3,744,093</u>	<u>830,706</u>	<u>4,574,799</u>
Change in net assets	<u>3,550,519</u>	<u>916,024</u>	<u>4,466,543</u>
Net assets, beginning of year, before restatement	23,113,339	25,834,355	48,947,694
Restatement for adoption of ASU No. 2016-14	<u>235,302</u>	<u>(235,302)</u>	<u>-</u>
Net assets, beginning of year, after restatement	<u>23,348,641</u>	<u>25,599,053</u>	<u>48,947,694</u>
Net assets, end of year	<u>\$ 26,899,160</u>	<u>\$ 26,515,077</u>	<u>\$ 53,414,237</u>

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

MAINE SEACOAST MISSION

Statement of Functional Expenses

Year Ended June 30, 2019

	Youth Development Programs	Direct Service Programs	Island Service Programs	Total Programs	Management and General	Development and Fundraising	Total Expenses
Salaries and benefits (Note 12)	\$ 778,094	\$ 320,822	\$ 393,891	\$ 1,492,807	\$ 495,263	\$ 283,661	\$ 2,271,731
Contract labor	540	27,976	4,788	33,304	-	-	33,304
Travel and training	35,179	19,686	17,443	72,308	14,973	2,708	89,989
Subscriptions and registrations	-	-	2,390	2,390	9,490	4,852	16,732
Utilities	-	69,476	6,996	76,472	9,146	-	85,618
Maintenance and repairs	-	85,873	110,147	196,020	46,598	-	242,618
Busing	54,381	-	-	54,381	-	-	54,381
Depreciation	34,286	22,722	59,932	116,940	18,142	10,373	145,455
Professional fees	13,408	36,917	10,424	60,749	127,424	40,000	228,173
Food and events	22,295	41,316	10,935	74,546	3,705	77,292	155,543
Board expense	-	-	-	-	2,144	-	2,144
Scholarships and grants	167,344	-	-	167,344	-	-	167,344
Grants to churches	-	-	43,725	43,725	-	-	43,725
Other direct program expense	81,713	89,726	94,892	266,331	7,385	2,189	275,905
Insurance	-	24,082	-	24,082	41,012	-	65,094
Advertising and marketing	18	-	-	18	-	58,652	58,670
Printing	-	-	-	-	2,542	14,414	16,956
Postage and shipping	-	-	-	-	5,821	21,652	27,473
Supplies	9,841	3,129	-	12,970	18,912	-	31,882
Bank fees	-	-	-	-	6,167	-	6,167
Administrative overhead	248,406	110,466	82,779	441,651	(283,199)	(158,452)	-
Uncollectible pledges	-	-	-	-	30,800	-	30,800
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,445,505</u>	<u>\$ 852,191</u>	<u>\$ 838,342</u>	<u>\$ 3,136,038</u>	<u>\$ 556,325</u>	<u>\$ 357,341</u>	<u>\$ 4,049,704</u>

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

MAINE SEACOAST MISSION

Statement of Cash Flows

Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ 4,466,543
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	145,455
Gain on sale of property and equipment	(3,198,589)
Net realized and unrealized gain on investments	(1,817,565)
Change in value of beneficial interest in perpetual trusts (Note 9)	(28,766)
Change in value of split-interest agreements (Note 6)	28,708
Contributions restricted for long-term purposes	(502,870)
(Increase) decrease in	
Accounts receivable	7,432
Prepaid expenses	3,545
Contributions and grants receivable (Notes 2 and 3)	115,431
Increase (decrease) in	
Accounts payable and accrued expenses	(5,234)
Deferred revenue	3,929
Gift annuities payable (Note 7)	<u>(419)</u>
Net cash used by operating activities	<u>(782,400)</u>
Cash flows from investing activities	
Purchases of investments	(28,388,335)
Proceeds from sale of investments	24,286,264
Purchase of property and equipment	(166,205)
Proceeds from sale of property and equipment	<u>4,573,629</u>
Net cash provided by investing activities	<u>305,353</u>
Cash flows from financing activities	
Proceeds from contributions restricted for long-term purposes	<u>683,310</u>
Net cash provided by financing activities	<u>683,310</u>
Net increase in cash and cash equivalents	206,263
Cash and cash equivalents, beginning of year	<u>1,902,795</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,109,058</u></u>
Additional disclosure:	
Cash and cash equivalents	\$ 311,605
Cash received and held for specific projects and endowment	<u>1,797,453</u>
	<u><u>\$ 2,109,058</u></u>
Noncash transactions	
Property, plant and equipment in accounts payable at year-end	<u><u>\$ 91,498</u></u>

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

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

1. Purpose of Organization and Nature of Activities

The Maine Seacoast Mission (the Mission) provides youth development, health, spiritual, and outreach 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 these communities by educating youth, enabling families, and promoting healthy lifestyles.

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 16,800 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, memorial services, and various community exhibits, meetings, classes, and concerts. The Colket Center was sold during the year.

Island Service Programs

Island Outreach

Pastoral counseling, worship services, recreation activities, fellowship gatherings, and middle school student activities are provided to residents of off-shore islands of Mid-Coast and Downeast Maine.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

Island Church Support

Financial support is provided to churches on three of the islands, assisting these churches in providing year-round church services, pastoral counseling, and general support to the island communities.

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 healthcare 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:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Mission. These net assets may be used at the discretion of the Mission's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Mission or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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, 2019

Definition of Operations

The statement of activities includes net operating income (loss). Changes in net assets which are excluded from net operating income (loss), 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, contributions for capital projects and net assets released from restriction for those projects, gain on disposal of property and equipment, 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, 2019:

Education/Scholarships	\$ 5,000
EdGE	275,026
Downeast Campus programs	133,610
Island Outreach	7,290
Sunbeam "Refit" project	1,292,610
General	1,029
Development/Marketing	<u>82,888</u>
Total cash received and held for specific projects	<u>\$ 1,797,453</u>

Accounts, Contributions, and Grants Receivable

Accounts, contributions, and grants receivable are stated at the amount management expects to collect. The Mission has established an allowance totaling \$30,000 related to one contribution receivable at June 30, 2019. A general allowance has not been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

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 at the date of donation. Such donations are reported as support without donor restrictions 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 support with donor restrictions. Absent donor restrictions regarding how long those donated assets must be maintained, the Mission reports expirations of donor restrictions when the donated or acquired

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

assets are placed in service. The Mission reclassifies net assets with donor restrictions to net assets without donor restrictions 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 property and equipment with cost exceeding \$2,000 and a useful life of more than one year.

Historical Collections

The Mission maintains and protects collections of donated items of historical value related to the Mission dating back to the early 1900's. The items include an extensive hooked rugs collection, works of art, and models of each of the Sunbeam ships utilized in Island Services. The collections are utilized for occasional public displays and are being preserved for educating future generations about the history of the Mission. In accordance with the Mission's policy, these donated items have not been capitalized.

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, 2019, 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 support with donor restrictions 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 support without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

Contributed Services

It is estimated that over 485 individuals volunteer their time performing a variety of tasks that assist the Mission. The average volunteer worked approximately 34 hours during the year, which is over 16,800 volunteer hours over the year. These contributed services are not recognized in the financial statements as they did not meet the criteria for recognition under GAAP.

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. The Mission allocates employee salaries, payroll taxes and benefits for the administrative and development departments, as well as professional fees paid to certain outside contractors. These costs are allocated to the various programs based on a combined percentage basis utilizing the following information related to each of the individual programs: the estimate of time and effort provided by each of the employees of the administrative and development departments and the outside contracted professionals, the total number of the program's employees, the program's development revenue raised, the units of computer hardware utilized, and the total number of accounting transactions processed. Total program expenses for the year ended June 30, 2019, excluding administrative overhead allocation of \$441,651, were \$2,694,387.

Accounting Standards Adoption

In 2019, the Mission adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). As part of adopting this standard, the Mission was required to reclassify the accumulated losses on underwater endowment funds from net assets without donor restrictions to net assets with donor restrictions. The 2019 net assets were restated at the beginning of the year to increase net assets without donor restrictions and decrease net assets with donor restrictions by \$235,302. There was no impact on overall net assets. Our opinion is not modified with respect to this matter.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, the Mission has considered transactions or events occurring through November 13, 2019, which was the date that the financial statements were available to be issued.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

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 within one year. The Mission has been named in certain bequests that have not been recorded as they have not yet been through probate.

4. Property and Equipment

As of June 30, 2019, property and equipment consists of:

Land and improvements	\$	203,531
Building and improvements		1,612,333
Vehicles		118,429
Ships		1,420,656
Equipment		161,731
Information technology		827,587
Furniture and fixtures		260,644
Projects in process		<u>188,271</u>
		4,793,182
Less accumulated depreciation		<u>(2,688,343)</u>
Net property and equipment	\$	<u>2,104,839</u>

During 2019 the Mission sold the facility housing their administrative offices. They are leasing a portion of the facility for one year, pending the construction and lease of new space. Under the direction of the Board of Directors, the proceeds from this sale, which totaled \$4,549,392, were invested in an unrestricted board designated endowment.

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 net assets with donor restrictions 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, 2019 of funds held in trust by others was \$5,199,130. Income received as distributions for the year ended June 30, 2019 of funds held in trust by others was \$163,890.

Income earned from these trusts is included with contributions and grants without donor restrictions in the statement of activities.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

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 \$601,711 at June 30, 2019. Income distributions received from the trusts, which are restricted by the donor for the EdGE program, totaled \$66,290 for the year ended June 30, 2019, and are included in contributions without donor restrictions in the statement of activities.

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 \$9,728 at June 30, 2019. The original amount donated under this charitable gift annuity agreement was \$25,080 and the value at June 30, 2019 of \$11,701 is included in investments.

8. Investments

Investments and investment income as of June 30, 2019 consist of:

Cash investments	\$ 709,992
Domestic equity funds	14,336,368
International equity funds	9,347,066
Fixed income securities and funds	13,734,033
Hedge funds	1,932,266
Private equity fund	<u>3,303,644</u>
Total investments	<u>\$ 43,363,369</u>
Investment income appropriated for operations	\$ 1,679,689
Net investment income greater than withdrawals for operations and capital projects	<u>1,018,281</u>
Total investment income	<u>\$ 2,697,970</u>

At June 30, 2019, the Mission held approximately \$7,707,000 of its total investments in an S&P 500 Index Fund (a domestic equity fund). For the year ended June 30, 2019, investment management and administrative fees totaled \$65,420.

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 twelve quarters' average balance of investments.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

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>Allocation Target</u>
Investment Grade Fixed Income	5% - 35%	20%
Other Fixed Income	0% - 19%	9%
U.S. Equity	21% - 41%	31%
Non-U.S. Equity	9% - 29%	19%
Hedge Funds	0% - 15%	5%
Private Equity	0% - 30%	15%

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

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 net assets with donor restrictions (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 net assets with donor restrictions until appropriated by the Board of Directors for expenditure. Funds designated by the Board of Directors to function as endowments are classified as net assets without donor restrictions. Funds designated by the Board of Directors are maintained for general operating reserves, scholarships, the Sunbeam, and the Island Health program.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

The board had designated funds for the following purposes:

Sunbeam	\$ 1,471,576
Island Health	1,226,148
Education/Scholarships	1,012,722
EdGE	2,838,960
General	<u>18,133,784</u>
Total	<u>\$ 24,683,190</u>

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. The current Mission policy allows for continued spending of underwater funds. In accordance with GAAP, deficiencies of this nature are reported in net assets without donor restrictions. These deficiencies were \$171,361 at June 30, 2019.

The endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 18,851,540	\$ 18,851,540
Board-designated endowment funds	24,683,190	-	24,683,190
Underwater endowments	<u>-</u>	<u>(171,361)</u>	<u>(171,361)</u>
Total	<u>\$ 24,683,190</u>	<u>\$ 18,680,179</u>	<u>\$ 43,363,369</u>

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>19,420,536</u>	\$ <u>18,010,039</u>	\$ <u>37,430,575</u>
Net investment income	1,365,986	1,292,307	2,658,293
Additions to endowment assets	4,837,414	161,776	4,999,190
Appropriation of endowment assets for expenditure	<u>(940,746)</u>	<u>(783,943)</u>	<u>(1,724,689)</u>
Endowment net assets, end of year	<u>\$ 24,683,190</u>	<u>\$ 18,680,179</u>	<u>\$ 43,363,369</u>

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

9. Assets at Fair Value

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.

Assets measured at fair value on a recurring basis as of June 30, 2019 are summarized below:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Using the Market Approach (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in perpetual trusts	\$ 5,199,130	\$ -	\$ -	\$ 5,199,130
Split-interest agreements	701,711	-	701,711	-
Domestic equity funds	14,336,368	10,198,475	-	4,137,893
International equity funds	9,347,066	9,347,066	-	-
Fixed income funds	8,603,515	8,603,515	-	-
U.S. Government fixed income (TIPS)	5,130,518	-	5,130,518	-
Hedge funds*	<u>1,932,266</u>	<u>-</u>	<u>1,932,266</u>	<u>-</u>
	45,250,574	<u>\$ 28,149,056</u>	<u>\$ 7,764,495</u>	<u>\$ 9,337,023</u>
Assets measured at net asset value	<u>3,303,644</u>			
Total assets measured at fair value on a recurring basis	<u>\$ 48,554,218</u>			

* The hedge funds may be redeemed quarterly.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

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. Level 3 domestic equity funds are mutual funds that can be liquidated daily, valued using a proprietary method. U.S. Treasury notes and bonds and TIPS are valued based on quoted market prices for similar instruments.

The Mission invests in certain entities that calculate net asset value (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. Investments measured at NAV are not classified by level, as they meet the criteria for the exception to fair value classification.

The following table provides a summary of changes in fair value of the Mission's Level 3 financial instruments for the year ended June 30, 2019:

	Fair Value June 30, 2018	Realized and Unrealized Gains	Transfers In/(Out)	Fair Value June 30, 2019
Perpetual trusts	\$ 5,170,364	\$ 28,766	\$ -	\$ 5,199,130
Domestic equity funds	<u>2,020,553</u>	<u>295,144</u>	<u>1,822,196</u>	<u>4,137,893</u>
	<u>\$ 7,190,917</u>	<u>\$ 323,910</u>	<u>\$ 1,822,196</u>	<u>\$ 9,337,023</u>

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

The amount of total gains for 2019 included in changes in net assets attributable to the change in unrealized gains relating to assets still held at June 30, 2019 was \$28,766. 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, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Periods</u>
Private equity fund	\$ 598,617	\$ 400,375	N/A	N/A
Private equity fund	22,500	877,500	N/A	N/A
Private equity fund	-	300,000	N/A	N/A
Private equity fund	214,913	-	N/A	N/A
Private equity fund - 2014	539,932	294,187	N/A	N/A
Private equity fund - 2015	771,735	253,290	N/A	N/A
Private equity fund - 2016	589,923	345,130	N/A	N/A
Private equity fund - 2017	440,397	479,915	N/A	N/A
Private equity fund - 2018	86,092	511,885	N/A	N/A
Private equity fund - 2019	<u>39,535</u>	<u>560,465</u>	N/A	N/A
	<u>\$ 3,303,644</u>	<u>\$ 4,022,747</u>		

N/A = not applicable

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.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2019:

Restricted as to time or purpose	
Education/Scholarships	\$ 1,560,692
EdGE	739,823
Downeast Campus programs	560,460
Island Services	14,038
Sunbeam*	1,439,393
General funds	943,729
Development/Marketing	82,888
Split-interest agreements - EdGE	701,711
Underwater endowments	<u>(171,361)</u>
Total net assets restricted as to time or purpose	<u>5,871,373</u>
Net assets with donor restrictions of perpetual duration	
Education/Scholarships	1,599,510
EdGE	10,468,100
Colket Center maintenance fund	2,000,000
Island Services	72,918
Island Health	933,614
Sunbeam	2,468
General funds	367,964
Beneficial interest in perpetual trusts	<u>5,199,130</u>
Total net assets with donor restrictions of perpetual duration	<u>20,643,704</u>
Total net assets with donor restrictions	<u>\$ 26,515,077</u>

* The funds raised to refurbish the Sunbeam are held in the Mission's investment accounts and in cash and cash equivalents.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

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:

Education/Scholarships	\$ 30,500
EdGE	378,595
Downeast Campus programs	184,882
Island Health	52,828
Island Services	210
General funds	32,073
Development/Marketing	<u>44,753</u>
Total net assets released from restrictions - operating	<u>723,841</u>
Total net assets released from restrictions - capital projects	<u>62,693</u>
Total net assets released from restrictions	<u>\$ 786,534</u>

12. 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. The Mission contribution for lay employees is 5% if the lay employee makes a voluntary contribution of at least 2.5%. Total Mission retirement contributions totaled \$75,007 for the year ended June 30, 2019.

13. Related Party Transactions

The Mission maintains cash and cash equivalents with Bar Harbor Bank and Trust (BHBT). The Chief Financial Officer of BHBT is a member of the Mission's Board of Directors. Cash and cash equivalents maintained at BHBT were approximately 4% of total cash and cash equivalents at June 30, 2019.

14. 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. Since 2012, several portions of this land have been sold. The remaining land available for sale on the open market at June 30, 2019 was sold subsequent to year end.

MAINE SEACOAST MISSION

Notes to Financial Statements

June 30, 2019

15. Liquidity and Availability of Resources

Total financial assets	\$ 51,510,003
Donor-imposed restrictions:	
Cash received and held for specific projects and endowment	1,797,453
Endowments less amounts appropriated for the next 12 months	18,000,319
Gift annuities	11,701
Split interest agreements	701,711
Beneficial interest in perpetual trust	<u>5,199,130</u>
Net financial assets after donor-imposed restrictions	<u>25,799,689</u>
Internal designations:	
Amounts set aside for liquidity reserve	387,980
Quasi-endowments less amounts appropriated for the next 12 months	<u>23,198,639</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,213,070</u>

The Mission receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

The Mission manages its liquidity and reserves following two guiding principles: Operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. The Mission has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses, which are, on average, approximately \$300,000. The Mission has a policy to target a year-end balance of reserves of undesignated net assets at 15 to 30 days of expected expenditures. To achieve these targets, the Mission forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

The Mission has \$2,213,070 of financial assets available within one year of the statement of financial position date of June 30, 2019 to meet cash needs for general expenditures, consisting of cash of \$311,605, collection on accounts, contributions, and grants receivable of \$65,533, property held for sale of \$71,202, appropriations of \$1,074,772 from board-designated quasi-endowments, and appropriations of \$689,959 from donor-restricted endowments.

Although the Mission does not intend to spend from its board-designated quasi-endowments, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, additional amounts could be made available if necessary.