



April 11, 2023

VIA EMAIL AND FIRST-CLASS MAIL

The Honorable Valerie Stanfill, Chief Justice
Maine Supreme Judicial Court
Capital Judicial Center
1 Court Street, Suite 40
Augusta, ME 04330

Dear Chief Justice Stanfill:

As provided by Maine Bar Rule 6(e), amended effective July 1, 2019, the Maine Justice Foundation respectfully submits the enclosed Annual Financial IOLTA Report. The Rule requires that the Foundation “shall complete a financial analysis of the IOLTA funds received and distributed by the Foundation during the previous calendar year and shall prepare an Annual Financial Report that will be available to the public.” The Foundation will make this report available to the public via a posting on the Maine Justice Foundation website. The rule provides that the following Annual Financial Report must be submitted to the Court on or before April 15 of each year and shall:

- 1) be prepared according to generally accepted accounting principles;
- 2) include the specific allocation of IOLTA funds to providers, programs and projects;
- 3) include the total funds set aside for reserves;
- 4) include total IOLTA funds allocated to the Foundation’s administrative costs; and
- 5) include categories of rates paid by participating financial institutions.

I. 2022 IOLTA Accounting

The 2022 Annual Financial Report is based on the Foundation’s October 1-September 30 fiscal year, rather than the calendar year referenced in the IOLTA rule. This is consistent with prior annual financial reports produced by the Foundation per Maine Bar Rule 6(e) as the difference between the Foundation’s fiscal year and the calendar year is not material. Enclosed is the Independent Auditor’s Report and Financial Statements prepared by Marcum. *See Tab 1 – Audit Report.* Consistent with years past, we are pleased to report that the Foundation received a “clean” audit.

II. Allocation of IOLTA Funds to Providers, Programs and Projects

A. IOLTA Funds Received

During FY 2022, the Foundation received \$973,621 in IOLTA funds from lawyers' trust accounts at 45 participating financial institutions. *See Tab 1 – Audit Report, pg. 5.* This represents a 10% increase from annual IOLTA income for FY 2021 of \$882,668. While IOLTA income has not yet rebounded to pre-pandemic level,¹ income is trending upward due to rising interest rates. Indeed, if the monthly income trajectory continues through FY 2023, IOLTA income may well surpass the pre-pandemic highpoint of FY 2019.

B. IOLTA Grants Made to Legal Service Providers in FY 2022

In FY 2022, the total IOLTA grants to six legal service providers was \$606,156², inclusive of monies directed to loan repayment assistance made to employees of Pine Tree Legal Assistance (“PTLA”) and the Immigrant Legal Advocacy Project (“ILAP”). Total IOLTA distributions made in FY 2022 include an unbudgeted additional distribution to the providers totaling \$81,857 of surplus FY 2021 funds made in March of 2022. The Foundation’s Board of Directors approved this additional distribution due to greater than anticipated IOLTA income at fiscal year-end 2021 and because income levels remained stable during the first two quarters of FY 2022. At the same time, the Foundation Board also approved that \$29,048 be placed in IOLTA reserves following FY 2022.

C. Continued Income Stability Was the Basis for an Additional Distribution and Ongoing Replenishment of Reserves in March 2023

Similar to last year, IOLTA income continues trending upward with rising interest rates resulting from actions by the Federal Reserve to address inflation. Once again, the Foundation Board approved an additional distribution to the legal service providers in March 2023 due to better-than-expected IOLTA income for fiscal year ending 2022. Like last year, the Board reserved making this additional distribution until March 2023 so FY 2023 income levels could be observed for stability. Because IOLTA income levels remained consistent and trending above budget, the Foundation made an additional distribution of \$78,295 of FY 2022 IOLTA funds to the legal service providers on March 27, 2023. This amount represented half of the over budget IOLTA audited revenue of FY 2022, less the administrative fee. The other half of audited surplus revenue net of fee for FY 2022 was added to reserves. *See Tab 2 - IOLTA Finances (FY 2004 – FY 2022)*, bringing total IOLTA reserves to \$358,530 at present. If income levels continue to trend at existing levels or above, it is anticipated that total IOLTA grants in FY 2023 will be higher than many years prior.³

¹ FY 2019 audited income was \$1,012,303.

² Audited. The total IOLTA grants in FY 2022 were 16% greater than the total IOLTA disbursement of \$524,653 in FY 2021.

³ With the additional distribution of \$78,295 in March, FY 2023 grants are already trending well above budgeted grants of \$754,038, at \$823,333, which would be the highest IOLTA grant level in the last 13 years.

Providers and Programs	FY 2022 Amount
<i>Legal Aid Providers</i>	
Volunteer Lawyers Project	\$204,786
Pine Tree Legal Assistance	\$ 75,080
Legal Services for the Elderly	\$ 77,615
Cumberland Legal Aid Clinic	\$ 33,434
Maine Equal Justice	\$103,886
Immigrant Legal Advocacy Project	\$ 70,243
<i>Subtotal IOLTA Distributions made in FY 2022</i>	<i>\$565,044</i>
<i>Other Programs</i>	
Loan Repayment Assistance Program	\$ 41,112
Muskie Dinner ⁴	\$ 5,500
<i>Subtotal IOLTA Grants and Other Program Expenses in FY 2022</i>	<i>\$611,656</i>
<i>Non-Grant Program Costs</i>	\$ 731 ⁵
<i>Additional Distribution of FY 2022 Funds Distributed to Providers in March 2023</i>	\$ 78,295 ⁶
TOTAL IOLTA Allocations & Program Costs from FY 2022 Income	\$690,682

III. Total Funds Set Aside for Reserves

A. Replenishment of Reserves is On Track Per Minimum Reserve Policy

Throughout the Foundation's administration of IOLTA, a reserve has been maintained to preserve distribution stability for civil legal services during times of economic challenge. The reserve balance has fluctuated, and Foundation Board has, at times, utilized reserves to provide IOLTA income stability to the legal service providers. When the most unexpected happened with the onset of a worldwide pandemic in early 2020, there was renewed urgency in ensuring long-

⁴ The six legal aid providers share net proceeds of the annual Muskie Dinner.

⁵ IT Support for IOLTA software.

⁶ These were FY 2022 funds set aside for additional distribution provided positive income trends continued. This distribution did not reduce the IOLTA reserve and will be in addition to already budgeted distributions FY 2022. Distributions were apportioned consistent with earlier grants.

term income stability for the providers at a time when expectations were high for pandemic induced calamitous economic impacts on IOLTA income. As such, the Foundation adopted an IOLTA Minimum Reserve policy to hedge against long-term economic impact of the pandemic and other unforeseen circumstances that may negatively impact IOLTA revenue, and thus, annual grants to legal service providers.⁷ In adopting this policy, the Foundation appears in good company as several states support the establishment of reserve policies to guard against negative economic impacts on IOLTA revenue.⁸ The Foundation's goal is to increase the IOLTA reserve over a reasonable period of time through prudent management of annual IOLTA revenue while maintaining consistent distributions to the providers.

B. Given Size of IOLTA Reserves, the Foundation Moved Reserves to a Cash-Equivalent Government Bond Fund to Minimize Risks Associated with FDIC Insurance Limits

Historically, the Foundation has maintained a running balance of IOLTA funds in a bank account. As the balance has grown over the last few years with the effort to replenish reserves, the amount in the account is now exceeding FDIC insurance coverage. With news of bank failures in early March 2023⁹ and resulting renewed focus on the limitations of FDIC insurance levels by account size, the Foundation's Finance Committee acted immediately to minimize risk posed to the IOLTA reserves. In consultation with FL Putnam, the registered investment advisor for the Foundation's investment portfolio, the Foundation identified a safe cash equivalent option for IOLTA reserves and placed the funds in a Charles Schwab government money market fund. The fund only invests in fully guaranteed government securities with a current annual yield of 4.2% and offers daily liquidity with zero trading costs. This action is beneficial in two key ways. First, we have effectively hedged risk posed by the limitations of FDIC coverage in a volatile economic environment. Second, advantageous rates on government funds will serve to further contribute to the timely replenishment of IOLTA reserves and will benefit the mission of ensuring level funds for civil legal services going forward.

⁷ In pertinent part, the policy provides:

It shall be the goal of the Foundation to build an IOLTA reserve equal in amount to one-half of average IOLTA income over the previous ten years, or \$500,000, whichever is greater. The purpose of the IOLTA reserve is to promote IOLTA distribution security for the providers during times of significant reductions in IOLTA revenue caused by economic recessions or other similar causes. Adopted by the MJF Board of directors on May 7, 2021.

⁸ The National Association of IOLTA Programs (NAIP) was invited by the ABA Standing Committee on Legal Aid and Indigent Defense to comment on Draft Revised Standards for the Provision of Civil Legal Aid in 2021. Specifically, twenty-two state NAIP members, including MJF, wrote in support of updates to the standards, including, but not limited to having policies and procedures in place related to operating reserves. In pertinent part: Standard 1.1-3 on Fiscal Matters affirms the governing body's role in assuring the financial integrity and viability of legal aid programs and provides commentary on budgeting and financial accountability. The NAIP signatories supported the addition of language supporting the maintenance of an operating reserve support fiscal stability of legal aid organizations "both in policy and practice by setting targets for and maintaining operating reserves that would allow the organization to cover basic operations for a period of time if anticipated revenue was cut or delayed." *NAIP letter dated May 28, 2021, to ABA Standing Committee on Legal Aid and Indigent Defense.*

⁹ On March 10, Silicon Valley Bank, one of the most prominent lenders in the start-up ecosystem, collapsed. The turmoil has led to the seizure of Silicon Valley Bank and Signature Bank, the private-sector bailout of the U.S. regional lender First Republic Bank and the takeover of the troubled Swiss bank Credit Suisse by its rival, UBS. *10 Days That Have Roiled Markets: A Timeline of the Banking Chaos.* New York Times, March 20, 2023. www.nytimes.com.

IV. IOLTA Funds Allocated to IOLTA Administration

Maine Bar Rule 6(e)(2), as amended in 2019, provides a formula for the calculation of the administrative fee that may be allocated to Foundation (*in pertinent part*):

Administrative Costs of the Maine Justice Foundation. Effective in the calendar year beginning on January 1, 2021, no more than 22% of annual IOLTA funds may be allocated to the administrative costs of the Maine Justice Foundation...To allow prospective budgeting of administrative costs, the calculation of the 22% for any upcoming calendar year shall be determined by computing the average of the annual IOLTA funds received during the three calendar years preceding the calendar year before the year for which the administrative budget is being established and multiplying that number by 0.22.

As the Foundation operates on a fiscal year, the FY 2022 fee calculation was determined by averaging the audited annual IOLTA income for the three prior fiscal years of 2021, 2020 and 2019.¹⁰ In compliance with Maine Bar Rule 6(e)(2), the total amount of IOLTA funds allocated to the Foundation for IOLTA administration for FY 2022 was \$210,875. In addition to IOLTA management and operations expenses, this amount included the Foundation’s contribution of 35 hours in *pro bono* staff time to support the work of the Maine Civil Legal Services Fund Commission. It also included 12 hours of staff time for participation in the Justice Action Group.

V. IOLTA Rates Paid by Financial Institutions

A. Compliance with Maine Bar Rule 6

Maine Bar Rule 6(c)(4) requires IOLTA accounts to earn at least the same interest rates available to similarly situated non-IOLTA accounts. Several participating banks and credit unions pay interest rates that go beyond these basic requirements. The rule states that financial institutions may elect “to pay an amount...equal to the greater of (1) a 1% interest rate or (2) 65% of the Federal Funds Target Rate...” By the end of FY 2022, eight financial institutions participated at this level as “Index Rate Institutions” and six participated as “Prime Partners,” paying 2%. A chart showing levels of participation by financial institutions as of September 30, 2022, is attached to this report. *See Tab 3 - Participation by Financial Institutions in Maine’s IOLTA Program for Fiscal Year 2022.*

B. Foundation Conducted Compliance Survey in February 2023

To ensure compliance with Maine Bar Rule 6 given rising interest rates, the Foundation surveyed all participating IOLTA financial institutions in Maine in early 2023 with respect to IOLTA rate compliance. This exercise resulted in eleven banks increasing their rates¹¹, which will likely

¹⁰ 2021 \$ 882,668
 2020 \$ 980,601
 2019 \$ 1,012,303
Average: \$ 958,524 x 22% = \$ 210,875

¹¹ Three other banks had already increased their rates in FY 2023 prior to receiving the compliance survey. *See Tab 3.*

yield even greater IOLTA income by the end of FY 2023 to benefit civil legal aid. Current levels of participation by financial institutions may be found at <https://justicemaine.org/about/banking-partners/>. This webpage is updated monthly.

In closing, the Maine Justice Foundation is grateful for the opportunity to serve the mission of ensuring access to justice for all Mainers under your thoughtful leadership and dedication to this collective cause. We would be pleased to meet with you to discuss this report and answer any questions you may have.

Sincerely,



Michelle G. Draeger
Executive Director
Maine Justice Foundation



Judith Fletcher Woodbury
President, Board of Directors
Maine Justice Foundation

cc: Honorable Andrew M. Mead
Honorable Joseph M. Jabar
Honorable Andrew M. Horton
Honorable Catherine R. Connors
Honorable Richard E. Lawrence
Honorable Wayne R. Douglas

TAB 1

FY 2022 Audit by Marcum LLP

MAINE JUSTICE FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

MAINE JUSTICE FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Maine Justice Foundation

Opinion

We have audited the 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, 2022 and 2021, and the related statements of revenue and support, expenses and changes in net assets – modified cash basis and functional expenses – modified cash basis for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Maine Justice Foundation as of September 30, 2022, and the changes in its net assets for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Maine Justice Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 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 this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Maine Justice Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Maine Justice Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Maine Justice Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Marcum LLP

February 6, 2023
Portland, ME

MAINE JUSTICE FOUNDATION

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

SEPTEMBER 30, 2022 AND 2021

	2022	2021
Assets		
Current Assets		
Cash and Cash Equivalents		
Operating	\$ 1,125,696	\$ 561,280
Frank Coffin Fellowship	49,421	54,495
Campaign for Justice	178,637	207,242
Total Current Assets	1,353,754	823,017
Property and Equipment		
Land, Building and Improvements	--	181,580
Furniture and Equipment	25,924	24,725
	25,924	206,305
Less: Accumulated Depreciation	24,969	110,731
Property and Equipment, net	955	95,574
Other Assets		
Board designated investment held for long-term purposes	238,865	274,847
Investments with donor restrictions	4,606,406	5,471,354
Total Other Assets	4,845,271	5,746,201
Total Assets	\$ 6,199,980	\$ 6,664,792
Liabilities and Net Assets		
Net Assets		
Without donor restrictions	1,374,693	991,792
With donor restrictions	4,825,287	5,673,000
Total Net Assets	6,199,980	6,664,792
Total Liabilities and Net Assets	\$ 6,199,980	\$ 6,664,792

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

MAINE JUSTICE FOUNDATION

**STATEMENTS OF REVENUE AND SUPPORT, EXPENSES AND CHANGES IN NET ASSETS -- MODIFIED CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	2022		2021			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
IOLTA contributions	\$ 973,621	\$ --	\$ 973,621	\$ 882,668	\$ --	\$ 882,668
Frank Coffin Fellowship contributions	--	153,802	153,802	--	158,752	158,752
Campaign for Justice	--	620,191	620,191	--	631,332	631,332
Downing Fund contributions	--	150	150	--	150	150
Racial Justice Fund contributions	--	208,047	208,047	--	269,354	269,354
Other contributions	73,822	90,722	164,544	24,599	47,150	71,749
Investment income	8,522	104,330	112,852	39,520	82,694	122,214
Net realized and unrealized investment gains (losses)	(40,769)	(818,320)	(859,089)	--	760,521	760,521
Rental income	7,000	--	7,000	6,600	--	6,600
Paycheck Protection Program loan forgiveness of debt	--	--	--	82,500	--	82,500
Gain on sale of building	174,322	--	174,322	--	--	--
Other income	3,500	0.00	3,500	36,500	--	36,500
Net Assets Released from Restrictions	1,206,635	(1,206,635)	--	1,387,992	(1,387,992)	--
Total Revenue and Support, and Net Assets Released from Restrictions	<u>2,406,653</u>	<u>(847,713)</u>	<u>1,558,940</u>	<u>2,460,379</u>	<u>561,961</u>	<u>3,022,340</u>
Expenses						
Program services	1,526,909	--	1,526,909	1,661,691	--	1,661,691
Management and general	206,301	--	206,301	212,072	--	212,072
Fundraising	290,542	--	290,542	360,036	--	360,036
	<u>2,023,752</u>	<u>--</u>	<u>2,023,752</u>	<u>2,233,799</u>	<u>--</u>	<u>2,233,799</u>
Excess of Revenue and Support over Expenses	<u>382,901</u>	<u>(847,713)</u>	<u>(464,812)</u>	<u>226,580</u>	<u>561,961</u>	<u>788,541</u>
Net Assets, Beginning of Year	991,792	5,673,000	6,664,792	765,212	5,111,039	5,876,251
Net Assets, End of Year	<u>\$ 1,374,693</u>	<u>\$ 4,825,287</u>	<u>\$ 6,199,980</u>	<u>\$ 991,792</u>	<u>\$ 5,673,000</u>	<u>\$ 6,664,792</u>

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

MAINE JUSTICE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES -- MODIFIED CASH BASIS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Services	Management and General	Fund Raising		Total
			CFJ	Other	
Salaries and wages	\$ 33,721	\$ 101,681	\$ 91,042	\$ 89,105	\$ 315,549
Pension plan contributions	2,394	5,950	5,541	6,288	20,173
Other employee benefits	4,326	10,754	10,014	11,363	36,457
Payroll taxes	2,922	8,810	7,888	7,720	27,340
Grants and other assistance	1,476,253	--	--	--	1,476,253
Property taxes	--	--	303	--	303
Consulting fees	731	--	--	3,948	4,679
Accounting fees	112	30,065	--	282	30,459
Credit card fees	--	--	11,770	--	11,770
Investment fees	--	20,383	--	--	20,383
Supplies	--	1,331	6,107	--	7,438
Telephone	541	1,631	1,460	1,429	5,061
Postage	--	--	1,529	--	1,529
Occupancy	2,062	6,222	5,571	5,452	19,307
Equipment rental and maintenance	1,569	4,732	4,237	4,147	14,685
Travel	56	166	140	175	537
Conferences, meetings and events	--	2,169	641	--	2,810
Depreciation	547	1,648	1,476	1,444	5,115
Insurance	375	1,131	1,013	991	3,510
Membership and subscriptions	--	5,325	--	--	5,325
Miscellaneous	1,300	4,303	9,186	280	15,069
	<u>\$ 1,526,909</u>	<u>\$ 206,301</u>	<u>\$ 157,918</u>	<u>\$ 132,624</u>	<u>\$ 2,023,752</u>

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

MAINE JUSTICE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES -- MODIFIED CASH BASIS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Program Services	Management and General	Fund Raising		Total
			CFJ	Other	
Salaries and wages	\$ 32,995	\$ 104,596	\$ 93,970	\$ 129,776	\$ 361,337
Pension plan contributions	1,779	5,156	4,778	6,928	18,641
Other employee benefits	6,498	16,670	13,431	13,472	50,071
Payroll taxes	2,580	8,177	7,347	10,146	28,250
Grants and other assistance	1,608,753	--	--	--	1,608,753
Property taxes	124	393	721	488	1,726
Consulting fees	2,903	414	--	4,787	8,104
Accounting fees	129	15,970	0	509	16,608
Credit card fees	--	--	12,341	--	12,341
Investment fees	--	26,515	--	--	26,515
Supplies	--	3,853	2,940	795	7,588
Telephone	521	1,651	1,590	2,048	5,810
Postage	--	1,118	3,095	1,840	6,053
Occupancy	1,021	3,235	2,906	4,014	11,176
Equipment rental and maintenance	3,670	11,635	10,453	14,436	40,194
Printing and publications	--	--	4,458	3,868	8,326
Travel	95	230	38	80	443
Conferences, meetings and events	--	2,546	759	292	3,597
Depreciation	534	1,692	1,520	2,099	5,845
Insurance	89	2,519	254	350	3,212
Annuity payments	--	--	--	745	745
Membership and subscriptions	--	3,367	--	1,320	4,687
Miscellaneous	--	2,335	1,361	81	3,777
	<u>\$ 1,661,691</u>	<u>\$ 212,072</u>	<u>\$ 161,962</u>	<u>\$ 198,074</u>	<u>\$ 2,233,799</u>

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

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 1 – ORGANIZATION AND 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.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the modified cash basis of accounting. That basis differs from accounting principles generally accepted in the United States of America primarily because the Foundation has not recognized balances, and the related effects on the changes in net assets, of fees and contributions receivable and of accounts payable to vendors. The financial statements include a provision for depreciation of property and equipment and recording investments at fair value rather than cost.

BASIS OF PRESENTATION

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets, net assets without donor restrictions and net assets with donor restrictions.

NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions represent those assets that are not subject to donor-imposed stipulations or from releases of donor restricted net assets designated for stipulated activities or programs.

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent those net assets of a not-for-profit entity that is subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from (1) the nature of the not-for-profit entity, (2) the environment in which it operates, and/or (3) the purpose specified in its articles of incorporation or bylaws or comparable documents. Some donors impose restrictions that are temporary in nature, for example stipulating that resources be used after a specified date, for particular programs or services. Other donors impose restrictions, which are perpetual in nature, for example, stipulating that resources be maintained in perpetuity.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net realized and unrealized gains and losses on investments are allocated to net assets with donor restrictions. In the event that the balance of net realized and unrealized gains included in net assets with donor restrictions is below its original value, any remaining losses are required to continue to reduce net assets with donor restrictions.

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.

INVESTMENT VALUATION AND REVENUE RECOGNITION

The Foundation's investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales are recorded on a trade-date basis. Interest and dividend income is recognized as received. Realized gains and losses are determined by a comparison of specific costs of the investment's acquisition to the proceeds at the time of its sale. Unrealized gains or losses are determined by comparison of the investment's acquisition cost to its fair value of year-end.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENTS

The Foundation provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair values. 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). The three levels of the fair value hierarchy are described as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Observable inputs other than quoted prices that are used in the valuation of the asset or liability (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Following is a description of valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2022 and 2021.

Money Market and Mutual Funds: Valued at fair value, which equals the quoted market price at year-end using the share values of the funds reported.

U.S Government Obligations, Common Stocks and Exchange Traded Funds: Valued at quoted market prices in an active exchange market which are considered Level 1 measurement inputs.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, if purchased, or fair value if donated less accumulated depreciation. 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, which range from three to thirty-nine years.

Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gains or losses are included in the statements of revenue and support, expenses and changes in net assets -- modified cash basis.

Donations of property and equipment are recorded as contributions at their estimated value at the date of the donation. Such donations are reported as increases in unrestricted net assets 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 donor restricted contributions until placed in service.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets to be held and used by the Foundation are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If the amount by which the carrying amount of the asset exceeds the fair value of the asset, the fair value of the asset is measured using either available market prices or estimated undiscounted cash flows. There were no impairment charges taken during the years ended September 30, 2022 and 2021.

REVENUE RECOGNITION

The Foundation recognizes revenues and other program revenues in the period in which the funds are received.

Unconditional contributions received are recorded as with donor restriction or without donor restriction, depending on the existence or nature of donor restrictions. When a restriction has been met or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of revenue and support, expenses and changes in net assets -- modified cash basis as net assets released from restrictions. However, if a restriction is fulfilled in the same period the contribution is received, the Foundation reports the contribution as without donor restrictions.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs associated with program expenses, management and general expenses, and fundraising expenses have been summarized on a functional basis in the statements of functional expenses -- modified cash basis. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Salaries and benefits are allocated based on specific time allocation. Other expenses are allocated by the percentage of payroll expenses of the related department.

USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect some reported amounts. Actual results could differ from those estimates.

INCOME TAXES

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under the meaning of Section 509(a)(2) of the Internal Revenue Code. There was no unrelated business income for 2022 or 2021. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Foundation recognizes and measures its unrecognized tax positions and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. Interest and penalties paid associated with unrecognized tax positions if any, would be classified as interest expense and additional income taxes, respectively in the statement of revenue and support, expenses and changes in net assets -- modified cash basis. The Foundation did not identify any uncertain tax positions at September 30, 2022 or 2021. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods pending or in progress.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 6, 2023, the date the financial statements were available to be issued. No subsequent events have been identified that would require disclosure in the notes to the financial statements.

NOTE 2 – 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 is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. The financial stability of the institution is continually monitored by management.

MARKET VALUE RISK

The Foundation invests in stocks, mutual funds and fixed income securities. Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 3 – INVESTMENTS

The cost and fair value of the Foundation’s investments reported at fair value on a recurring basis are as follows at September 30:

	As of September 30, 2022				
Cost	Fair Value Measurement Level 1	Fair Value Measurement Level 2	Fair Value Measurement Level 3	Fair Value Total	
Money market funds	\$ 423,539	\$ 423,539	\$ --	\$ --	\$ 423,539
Corporate stock	2,460,281	3,022,945	--	--	3,022,945
Mutual funds	<u>1,543,465</u>	<u>1,398,787</u>	--	--	<u>1,398,787</u>
Total investments	<u>\$ 4,427,285</u>	<u>\$ 4,845,271</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,845,271</u>
	As of September 30, 2021				
Cost	Fair Value Measurement Level 1	Fair Value Measurement Level 2	Fair Value Measurement Level 3	Fair Value Total	
Money market funds	\$ 166,759	\$ 166,759	\$ --	\$ --	\$ 166,759
U.S. Government obligations	66,384	65,792	--	--	65,792
Corporate bonds	262,978	265,602	--	--	265,602
Corporate stock	1,719,630	3,036,363	--	--	3,036,363
Mutual funds	<u>1,996,898</u>	<u>2,211,685</u>	--	--	<u>2,211,685</u>
Total investments	<u>\$ 4,212,649</u>	<u>\$ 5,746,201</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,746,201</u>

NOTE 4 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without restrictions are as follows as of September 30:

	2022	2021
Undesignated	\$ 1,135,828	\$ 716,945
Amount Designated by the Board of Directors for long-term reserves	<u>238,865</u>	<u>274,847</u>
Total Net Assets Without Donor Restrictions	<u>\$ 1,374,693</u>	<u>\$ 991,792</u>

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions may be expended for, at September 30:

Net Assets With Donor Restrictions

	2022	2021
Subject to Expenditure for Specified Purpose:		
Coffin Fellowship	\$ 38,145	\$ 50,902
Wernick Fund	11,714	16,461
Howard Dana Fund	12,973	23,417
Campaign for Justice	147,499	149,697
ESO Endowment	597,339	1,169,546
BOA Settlement	2,700	112,437
Bar Fellows	262,989	484,632
Roux Endowment	18,571	50,514
LGBT Endowment	2,434	15,835
Levey/Brown Endowment	4,440	13,056
Downing Fund	24,706	29,582
Racial Justice Fund	492,788	438,654
Norwood Settlement	45,568	--
	1,661,866	2,554,733

Subject to Organization Spending Policy and Appropriation:

Investment in perpetuity which, once appropriated, is expendable to support:

Wernick Fund	\$ 20,000	\$ 20,000
ESO Endowment	2,000,000	2,000,000
Bar Fellows	863,320	821,570
Howard Dana Fund	39,818	39,818
Roux Endowment	141,237	141,237
LGBT Endowment	59,832	56,528
Levey/Brown Endowment	39,214	39,114
	3,163,421	3,118,267

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 6 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors during the years ended September 30, as follows:

Net Assets Released From Donor Restrictions

	2022	2021
Purpose Restrictions Accomplished:		
Coffin Fellowship	\$ 166,732	\$ 163,752
Wernick Fund	54	164
Howard Dana Fund	2,630	2,514
Campaign for Justice	621,223	628,087
ESO Endowment	174,632	135,394
BOA Settlement	111,931	360,801
Bar Fellows	55,160	48,822
Roux Endowment	8,321	8,169
LGBT Endowment	4,197	3,108
Levey/Brown Endowment	2,170	1,722
Downing Fund	608	591
Racial Justice Fund	58,165	34,056
Annuity Funds	812	812

NOTE 7– ENDOWMENT

The Foundation's endowment consists of board-designated endowment funds and donor-restricted endowment funds. As required by accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

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.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 7—ENDOWMENT (CONTINUED)

INTERPRETATION OF RELEVANT LAW (CONTINUED)

As a result of this interpretation, the Foundation classifies as donor restricted in perpetuity 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 Foundation
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.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

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.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 7— ENDOWMENT (CONTINUED)

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 three funds, the Bank of America Fund, the Thomas P. Downing Jr. Fund and the Racial Justice 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.

Except for the listed above, all of the remaining 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 2022. 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.

ENDOWMENT COMPOSITION AND CHANGES

Endowment net asset composition by type of fund as of September 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ --	\$ 4,069,175	\$ 4,069,175
Board-designated reserves	<u>238,865</u>	<u>--</u>	<u>238,865</u>
Total Funds	<u>\$ 238,865</u>	<u>\$ 4,069,175</u>	<u>\$ 4,308,040</u>

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 7– ENDOWMENT (CONTINUED)

ENDOWMENT COMPOSITION AND CHANGES (CONTINUED)

Changes in endowment net assets for the years ended September 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets Beginning	\$ 274,847	\$ 4,885,857	\$ 5,160,704
Investment return, net	(35,982)	(641,340)	(677,322)
Contributions	--	45,154	45,154
Appropriation of endowment assets for expenditure	--	(220,496)	(220,496)
Net Change	(35,982)	(816,682)	(852,664)
Endowment Net Assets Ending	\$ 238,865	\$ 4,069,175	\$ 4,308,040

Endowment net asset composition by type of fund as of September 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ --	\$ 4,885,857	\$ 4,885,857
Board-designated reserves	274,847	--	274,847
Total Funds	\$ 274,847	\$ 4,885,857	\$ 5,160,704

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 7– ENDOWMENT (CONTINUED)

ENDOWMENT COMPOSITION AND CHANGES (CONTINUED)

Changes in endowment net assets for the year ended September 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets Beginning	\$ 237,610	\$ 4,611,918	\$ 4,849,528
Investment return, net	37,237	738,130	775,367
Contributions	--	47,150	47,150
Appropriation of endowment assets for expenditure	--	(511,341)	(511,341)
Net Change	37,237	273,939	311,176
Endowment Net Assets Ending	\$ 274,847	\$ 4,885,857	\$ 5,160,704

Description of amounts classified as net assets with donor restrictions as of September 30 are as follows:

	2022	2021
Net Assets With Donor Restrictions:		
Original donor-restricted endowment gift and amounts required to be retained by donor	\$ 3,163,421	\$ 3,118,267
Accumulated investment gains on endowment funds (with purpose restriction)	905,754	1,767,590
Total Endowment Funds Classified as Net Assets With Donor Restrictions	\$ 4,069,175	\$ 4,885,857

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 7— ENDOWMENT (CONTINUED)

ENDOWMENT COMPOSITION AND CHANGES (CONTINUED)

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation plans to review and update its spending policies to clarify what actions it will take in the event endowment funds go underwater. There were no such deficiencies as of September 30, 2022 and 2021, respectively.

NOTE 8 – 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 62% and 29% of the Foundation's total support and other revenue for the years ended September 30, 2022 and 2021, respectively, came from interest earned on IOLTA accounts.

NOTE 9 – GRANTS AND OTHER PROGRAMS

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

Grants and other program expenses are comprised of the following:

	2022	2021
Annual grants	\$ 565,044	\$ 524,653
Discretionary grants	185,336	399,046
Campaign for Justice grants	501,048	463,949
Frank Coffin Fellowship	142,732	147,752
JAG	481	556
Loan Repayment Assistance Program	41,112	37,297
Other grants assistance	40,500	35,500
	<u>\$ 1,476,253</u>	<u>\$ 1,608,753</u>

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 9 – GRANTS AND OTHER PROGRAMS (CONTINUED)

The following annual grants were made during the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Pine Tree Legal Assistance	\$ 75,080	\$ 69,027
Legal Services for the Elderly	77,615	73,145
Cumberland Legal Aid Clinic	33,434	31,509
Maine Equal Justice Project	103,886	97,902
Immigrant Legal Advocacy Project	70,243	60,081
Volunteer Lawyers Project	<u>204,786</u>	<u>192,989</u>
	<u>\$ 565,044</u>	<u>\$ 524,653</u>

The following discretionary grants were made during the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Legal Services for the Elderly	\$ 64,143	\$ 121,832
Volunteer Lawyers Project	28,793	42,323
Pine Tree Legal Assistance	17,771	71,084
Immigrant Legal Advocacy Project	41,511	62,323
Maine Equal Justice Project	24,334	85,736
Cumberland Legal Aid Clinic	<u>8,784</u>	<u>15,748</u>
	<u>\$ 185,336</u>	<u>\$ 399,046</u>

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 10 – 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.

The following Campaign funds were allocated to the Providers for the years ended September 30, 2022 and 2021:

	2022	2021
Pine Tree Legal Assistance	\$ 191,067	\$ 171,979
Cumberland Legal Aid Clinic	10,765	10,680
Legal Services for the Elderly	88,899	78,007
Maine Equal Justice Partners	71,052	66,950
Immigrant Legal Advocacy Project	48,036	47,627
Volunteer Lawyers Project	91,229	88,705
	<u>\$ 501,048</u>	<u>\$ 463,949</u>

NOTE 11 – 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.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 12 – 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 \$20,173 and \$18,641 for the years ended September 30, 2022 and 2021, respectively.

The Foundation also has 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 2022 or 2021.

NOTE 13 – LINE OF CREDIT

During year ended September 30, 2018, the Foundation entered into a \$50,000 line of credit with an interest rate equal to the Wall Street Journal Prime Rate (3.25% at September 30, 2022 and 2021), but never below 4.00%. The line of credit balance was \$0 at September 30, 2022 and 2021.

NOTE 14 – PAYCHECK PROTECTION PROGRAM LOAN

On April 13, 2020, the Foundation entered into a Promissory Note dated April 13, 2020 (the "PPP Note") with Kennebec Bank as the lender (the "Lender"), pursuant to which the Lender agreed to make a loan to the Foundation under the Paycheck Protection Program (the "PPP Loan") offered by the U.S. Small Business Administration (the "SBA") in a principal amount of \$82,500 pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

The PPP Loan proceeds are available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt. The amount that will be forgiven will be calculated in part with reference to the Foundation's full-time headcount during the 24 week period following the funding of the PPP Loan.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 14 – PAYCHECK PROTECTION PROGRAM LOAN (CONTINUED)

The interest rate on the PPP Note is a fixed rate of 1% per annum. To the extent that the amounts owed under the PPP Loan, or a portion of them, are not forgiven, the Foundation would be required to make principal and interest payments in monthly installments beginning seven months from April 2020. The PPP Note was to mature in two years.

The PPP Note included events of default. Upon the occurrence of an event of default, the Lender would have the right to exercise remedies against the Foundation, including the right to require immediate payment of all amounts due under the PPP Note.

On October 19, 2020, the Foundation received formal approval from the U.S. Small Business Administration for the forgiveness of the PPP Loan.

NOTE 15 – LEASE COMMITMENTS

LEASE INCOME

The Foundation leased a portion of the building to a third party tenant. The lease agreement is for one year with a monthly rent of \$700. The rental agreement was terminated with the sale of the building in July 2022. Rental income for the years ended September 30, 2022 and 2021 was \$7,000 and \$6,600, respectively.

LEASE EXPENSE

The Foundation leases a copier and other office equipment on a month-to-month basis. Rent expense for the equipment for the years ended September 30, 2022 and 2021 was \$4,867 and \$4,005, respectively.

In August 2022, The Foundation subleased office space in Augusta, Maine from a third party under an operating lease expiring in April 2025. The agreement calls for monthly base rent of \$1,300, plus an allocation of utilities. Total rent expense for the year ended September 30, 2022, was \$4,237.

Future minimum lease payments required under this lease is as follows:

Year Ending September 30,	Amount
2023	\$ 15,600
2024	15,600
2025	9,100
	<u>\$ 40,300</u>

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 16 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation's working capital and cash flows have fluctuations during the year attributable to timing of payment of receipts and payments required. The following reflects the Foundation's financial assets as of September 30, reduced by amounts not available for general use within one year of the statements of assets, liabilities and net assets -- modified cash basis date. Amounts not available include net assets with donor-imposed restrictions.

	<u>2022</u>	<u>2021</u>
Financial assets available at year-end:		
Cash and cash equivalents	\$ 1,353,754	\$ 823,017
Investments	<u>4,845,271</u>	<u>5,746,201</u>
Total financial assets available within one year	<u>6,199,025</u>	<u>6,569,218</u>
Less:		
Amounts unavailable for general expenditures within one year due to donor restrictions	<u>4,825,287</u>	<u>5,673,000</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,373,738</u>	<u>\$ 896,218</u>

The Foundation monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. In addition to financial assets available to meet general expenditures over the year, the Foundation operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient contributions, interest fees and other revenues, by utilizing donor-restricted resources and prior years' gifts and by appropriating the investment return on its board-designated and donor-restricted endowments, as needed. To manage liquidity, the Foundation maintains a line of credit of \$50,000 with a bank that is drawn upon as needed during the year to manage cash flow. See Note 13 for further description of this line. The statements of revenues and support, expenses and changes in net assets -- modified cash basis identifies the sources and uses of the Foundation's cash and shows net cash provided by (used in) excess of revenue and support over expenses of \$(464,812) and \$788,541 for the years ended September 30, 2022 and 2021, respectively.

MAINE JUSTICE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

NOTE 17 – RISKS AND UNCERTAINTIES

Beginning in March 2020, the COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of closings. Therefore, the Foundation expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. The Foundation has been able to continue to operate in a remote environment.

TAB 2

IOLTA Finances

FY2004 – FY2022

IOLTA Finances (FY 2004-2022)

Fiscal Year	Annual IOLTA Income	Annual IOLTA Grants	IOLTA Funds used for MJF Operations ^a	IOLTA Funds Paid into or Withdrawn from Reserves ^b	Year-End IOLTA Balance in Reserves
2004	\$ 1,179,823	\$ 1,038,319	\$ 143,274	\$ (1,770)	\$ 1,098,477 ^c
2005	\$ 1,253,199	\$ 999,655	\$ 168,603	\$ 84,941	\$ 1,183,418
2006	\$ 1,478,357	\$ 1,046,344	\$ 185,186	\$ 246,827	\$ 1,430,245
2007	\$ 1,480,495	\$ 1,179,904	\$ 226,447	\$ 74,144	\$ 1,504,389
2008	\$ 1,410,052	\$ 997,629	\$ 265,770	\$ 146,653	\$ 1,651,042
2009	\$ 984,013	\$ 1,444,061	\$ 220,034	\$ (680,082) ^d	\$ 970,960
2010	\$ 951,913	\$ 731,219	\$ 238,445	\$ (17,751)	\$ 953,209
2011	\$ 971,988	\$ 855,553	\$ 239,344	\$ (122,909)	\$ 830,300
2012	\$ 842,323	\$ 727,365	\$ 172,431	\$ (57,473)	\$ 772,827
2013	\$ 761,943	\$ 692,721	\$ 264,509	\$ (195,287)	\$ 577,540
2014	\$ 705,028	\$ 766,871	\$ 250,507	\$ (312,350) ^e	\$ 265,190
2015	\$ 656,257	\$ 687,725	\$ 278,685	\$ (310,153) ^f	\$ (44,963)
2016	\$ 690,711	\$ 316,890	\$ 314,890	\$ 58,931	\$ 13,968
2017	\$ 736,581	\$ 383,796	\$ 308,830	\$ 43,955	\$ 57,923
2018	\$ 744,028	\$ 449,000	\$ 351,181	\$ (56,153)	\$ 1,770
2019	\$ 1,012,303	\$ 605,891	\$ 276,799	\$ 129,613	\$ 131,383
2020	\$ 980,601	\$ 619,815	\$ 240,982	\$ 119,804	\$ 251,187
2021	\$ 882,668	\$ 571,055	\$ 200,708	\$ 29,048	\$ 280,235
2021 ¹		\$ 81,857			
2022	\$ 973,621	\$ 597,044	\$ 210,875		
2022 ²		\$ 78,295		\$ 78,295	\$ 358,530
Total	\$18,695,904	\$14,871,009	\$4,557,500	(\$741,717)	\$ 358,530

¹ Additional distributions of FY 2021 IOLTA revenue set aside but paid to Providers in March 2022 because Foundation Board wanted to ensure continued revenue stability and over budget performance as pandemic continued.

² Additional distribution of FY 2022 IOLTA revenue distributed in March 2023 to ensure continued revenue stability and set aside in IOLTA reserves.

a Until 2021, figures in this column were calculated as follows: Take the total MJF operations costs, including staffing. Then subtract: (1) amount paid to MJF for Campaign for Justice operations and (2) amount of other non-IOLTA income that supports MJF operations. Effective FY 2021 going forward, this administrative fee is calculated by taking the average audited income of the prior three years and multiplying it by 22% pursuant to Maine Bar Rule 6(e)(2).

b Positive figures are paid into reserves. Negative figures are used for operations and as noted in d, e and f to cover shortfalls in funding for grants.

c \$1,098,477 is the estimated amount of IOLTA funds in reserves as of FY 2004.

d \$220,034 for MJF operations + \$460,048 for budget shortfall in funds for grants.

e \$250,507 for MJF operations + \$61,843 for budget shortfall in funds for grants.

f \$278,685 for MJF operations + \$31,468 for budget shortfall in funds for grants.

TAB 3

**Participation Levels by Financial Institutions
in IOLTA for FY 2022**

Participation by Financial Institutions in Maine's IOLTA Program for Fiscal Year 2022

Interest on Lawyers' Trust Accounts (IOLTA) is a critical ongoing source of funding for civil legal services for low-income Mainers. IOLTA depends on the support of participating financial institutions in Maine. Based on Rule 6 of the Maine Bar Rules, IOLTA accounts must earn at least the same interest rates generally available to similarly situated non-IOLTA accounts.

The Maine Justice Foundation gives special recognition and thanks to the Prime Partners and Index Rate Institutions listed below, because they pay interest rates on IOLTA accounts that go above and beyond the basic requirements of Rule 6.

Prime Partners

The Maine Justice Foundation is incredibly grateful to the following financial institutions for being Prime Partners, paying 2.00% interest on IOLTA funds:

First Federal Savings & Loan Assoc. of Bath	Rockland Savings Bank, FSB
Kennebec Savings Bank	Sebasticook Valley FCU
Maine Savings Federal Credit Union	The County Federal Credit Union

Index Rate Institutions

Index Rate Institutions pay interest on IOLTA accounts of which is equal to 65% of the Federal Funds Target Rate. The Maine Justice Foundation thanks the following financial institutions for participating at this higher level:

Bank of New England – 1.00%	NBT, N.A. - 1.00%
Gorham Savings Bank – 1.00%	Skowhegan Savings Bank – 1.14%
Katahdin Trust Company – 1.00%	University Credit Union – 1.00%
M&T Bank - 1.63%	Washington Savings Bank – 1.00% (located in MA)

Other Eligible Institutions

The Maine Justice Foundation has determined that the following financial institutions also are eligible to hold IOLTA funds:

	<u>Rate</u>		<u>Rate</u>
Acadia Federal Credit Union	0.05	JP Morgan Chase & Co.	0.05
Androscoggin Savings Bank	0.50	Katahdin Federal Credit Union	0.25
Aroostook Savings & Loan	0.05-0.36	Kennebunk Savings Bank	0.05
Atlantic Federal Credit Union*	0.05-0.10	Key Bank, N.A.	0.35
Auburn Savings Bank, FSB*	0.10	Lincoln Maine Federal Credit Union	0.10
Bangor Savings Bank	0.05-0.35	Maine Family Federal Credit Union**	0.10
Bank of America, N.A.	0.20	Machias Savings Bank	0.20
Bar Harbor Bank & Trust	0.35	Mechanics Savings Bank/ME Comm. Bank	0.50
Bath Savings Institution	0.07-1.90	New Dimensions Federal Credit Union	0.05
Biddeford Savings Bank/ME Comm. Bank	0.50	NorState Federal Credit Union	0.10
Camden National Bank	0.50	Northeast Bank	0.10
First American Trust, FSB (located in CA, NV, TN & WA)	0.30	Norway Savings Bank	0.35
First National Bank	0.50	Partners Bank	0.25
Five County Credit Union	0.03	Saco & Biddeford Savings Institution	0.25
Franklin Savings Bank	0.10-0.25	TD Bank	0.45
GFA Federal Credit Union (located in NH and MA)	0.75		

*Banks that dropped rates in FY 2022

**Bank dropped out of IOLTA program in FY 2022

Banks that will increase rates in FY 2023 according to Rate Survey Results in March 2023

New 2%

Gorham Savings Bank
Northeast Bank
Norway Savings Bank

65% of federal funds target rate

Bank of America
Bar Harbor Bank & Trust
Key Bank

Adjust to higher rate

Atlantic Federal Credit Union – 0.10-0.50%
Auburn Savings Bank – 0.30%
Franklin Savings Bank – 0.15-1.50%
Saco & Biddeford Savings Institution – 0.45%
TD Bank – 1.80%

Rates already adjusted higher in FY 2023

Bangor Savings Bank – 0.05-0.50%
Bath Savings Institution – 0.07-3.69%
Five County Credit Union – 0.05%