Senator George J. Mitchell Scholarship Research Institute

Audited Financial Statements

Year Ended December 31, 2013 With Comparative Information for the Year Ended December 31, 2012 With Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
Senator George J. Mitchell Scholarship Research Institute

We have audited the accompanying financial statements of Senator George J. Mitchell Scholarship Research Institute, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities 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 accounting principles generally accepted in the United States of America; 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.

Auditors' Responsibility

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

An audit 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.

Board of Directors
Senator George J. Mitchell Scholarship Research Institute

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Senator George J. Mitchell Scholarship Research Institute as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Senator George J. Mitchell Scholarship Research Institute's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
June 11, 2014

SENATOR GEORGE J. MITCHELL
SCHOLARSHIP RESEARCH INSTITUTE

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	2013	2012
ASSETS		
Investments (note 3)	$28,239,652	$24,385,503
Cash and cash equivalents (note 2)	1,771,823	1,119,567
Assets held for others (note 6)	109,375	113,250
Contributions receivable, net (note 4)	1,248,303	431,247
Accounts receivable	10,878	30,237
Grants receivable (note 5)	298,000	–
Prepaid expenses	6,207	3,812
Property and equipment	10,857	16,285
Total assets	$31,695,095	$26,099,901
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 67,816	$ 29,612
Grants payable (note 7)	2,098,240	2,034,832
Loans payable (note 9)	13,315	18,923
Assets held for others (note 6)	109,375	113,250
Deferred grant revenue	418,000	–
Total liabilities	2,706,746	2,196,617
Net assets:		
Unrestricted net deficit	(880,365)	(1,082,668)
Temporarily restricted net assets (note 8)	7,346,783	5,452,519
Permanently restricted net assets (note 8)	22,521,931	19,533,433
Total net assets	28,988,349	23,903,284
Total liabilities and net assets	$31,695,095	$26,099,901

See accompanying notes.

SENATOR GEORGE J. MITCHELL
SCHOLARSHIP RESEARCH INSTITUTE

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2013 With Comparative
Information for the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Revenue:					
Contributions	$ 193,907	$ 73,676	$ –	$ 267,583	$ 633,650
Grant revenue	12,606	30,000	–	42,606	42,500
Special events	296,652	–	–	296,652	275,360
Less special events costs	(82,873)	–	–	(82,873)	(94,697)
Campaign	537,120	130,000	2,988,498	3,655,618	100,000
Interest and dividend income (note 3)	567	1,046,720	–	1,047,287	683,043
Net realized and unrealized gains (losses) on investments (note 3)	–	1,806,327	–	1,806,327	2,080,416
Other revenue	55,024	–	–	55,024	51,153
Net assets released from restrictions used for operations	1,104,702	(1,104,702)	–	–	–
Total revenue, gains and other support	2,117,705	1,982,021	2,988,498	7,088,224	3,771,425
Expenses:					
Grants and program initiatives	738,603	–	–	738,603	736,441
Administrative and general:					
Program service expenses	612,644	–	–	612,644	569,873
Management and general	118,705	–	–	118,705	124,274
Fundraising	82,547	–	–	82,547	80,205
Campaign	362,903	–	–	362,903	45,517
	1,915,402	–	–	1,915,402	1,556,310
Investment management fees	–	87,757	–	87,757	80,748
Total expenses	1,915,402	87,757	–	2,003,159	1,637,058
Change in net assets	202,303	1,894,264	2,988,498	5,085,065	2,134,367
Net assets (deficit) at beginning of year	(1,082,668)	5,452,519	19,533,433	23,903,284	21,768,917
Net assets (deficit) at end of year	$ (880,365)	$ 7,346,783	$22,521,931	$28,988,349	$23,903,284

See accompanying notes.

SENATOR GEORGE J. MITCHELL
SCHOLARSHIP RESEARCH INSTITUTE

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2013 With Comparative
Information for the Year Ended December 31, 2012

	2013	2012
Cash flow from operating activities:		
Change in net assets	$ 5,085,065	$ 2,134,367
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	5,428	5,429
Net recognized investment gains	(1,806,327)	(2,080,416)
Contributions restricted for endowments	(2,988,498)	(322,369)
Provision for bad debts	100,000	–
Decrease in contributions receivable	37,839	93,385
Decrease (increase) in accounts receivable	19,359	(15,703)
Increase in grants receivable	(298,000)	–
Increase in prepaid expenses	(2,395)	(552)
Increase (decrease) in accounts payable and accrued expenses	38,204	(1,668)
Increase in grants payable	63,408	99,471
Increase in deferred grant revenue	418,000	–
Net cash provided (used) by operating activities	672,083	(88,056)
Cash flows from investing activities:		
Purchases of investments	(13,735,220)	(13,104,519)
Sales of investments	11,687,398	12,136,955
Net cash used by investing activities	(2,047,822)	(967,564)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowments	2,033,603	442,413
Payments on loan payable	(5,608)	(5,425)
Net cash provided by financing activities	2,027,995	436,988
Net increase (decrease) in cash and cash equivalents	652,256	(618,632)
Cash and cash equivalents at beginning of year	1,119,567	1,738,199
Cash and cash equivalents at end of year	$ 1,771,823	$ 1,119,567

Supplemental disclosures:
Permanently restricted contributions receivable increased (decreased) by $954,895 and $(120,044) in 2013 and 2012, respectively.

See accompanying notes.

1. Description of Organization

The Senator George J. Mitchell Scholarship Research Institute (Mitchell Institute) strives to give Maine youth a fair chance to reach as far and as high as their individual talents and willingness allow by making an annual four-year scholarship award to a graduating senior from each of Maine's public high schools. Mitchell Institute is also committed to discerning, through qualitative and quantitative research, ways to advance the higher education aspirations of Maine students with the goal of developing and supporting programs that will remove obstacles to achieving a college degree.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents includes all unrestricted highly liquid investments with an initial maturity of three months or less, except for those cash equivalents that are held as part of the investment portfolio. Significant amounts of cash equivalents are held in money market funds which exceed FDIC insurance coverage limits. Mitchell Institute invests in money market funds held by a local bank. The risk with respect to cash equivalents is minimized by Mitchell Institute's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. All cash amounts are held by depository institutions and are fully covered by FDIC insurance.

Significant amounts of cash on hand at December 31, 2013 and 2012 are for scholarship payments disbursed in early 2014 and 2013, respectively.

Investments

Investments are stated at fair value. Gains and losses on investments are computed on the specific identification basis.

Investments, in general, are exposed to various risks, such as interest rate, credit, liquidity 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 statements of financial position and activities.

Contributions Receivable

Contributions receivable represent unconditional promises to give by donors and have been recorded at net realizable value. Contributions receivable are due from individuals, corporations and foundations. Contributions which are expected to be collected after one year have been discounted at 0.13% and are reflected in the financial statements at their net present value. The amortization of the discount is credited to contribution income. An allowance for uncollectible contributions receivable is provided as necessary by management based on a review of the underlying pledges. Management has recorded an allowance of $102,315 and $2,940 for the years ended December 31, 2013 and 2012, respectively. Amounts are charged off when deemed uncollectible.

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Mitchell Institute's policy is to capitalize expenditures over $3,000. Depreciation is provided by the straight-line method in a manner which is intended to amortize the costs of the assets over their estimated useful life.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by Mitchell Institute has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Mitchell Institute in perpetuity.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions used for operations. Mitchell Institute also follows this reporting practice for donor-restricted gifts whose restrictions are met in the same reporting period that the promise or asset is received.

Grant Revenue

Grant revenue is recognized in the period the related expenditures are incurred in connection with carrying out the terms of the grant agreement.

Grants Payable

Scholarship awards are recorded when the initial four-year award is made. The present value of the estimated future payments to the recipients is recorded as a liability using a discount rate of .13% and .18% for the years ended December 31, 2013 and 2012, respectively.

Functional Expenses

Expenses are allocated to both programs and support services. Salaries, wages and overhead expenses are allocated based on estimates of time spent by the members of the staff. All other expenses are charged to each program based on direct expenditures incurred.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

Mitchell Institute is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for income taxes within the financial statements.

Tax-exempt organizations could be required to record an obligation for income taxes as the result of a tax position they have historically taken on various tax exposure items including unrelated business income or tax status. Under guidance issued by the Financial Accounting Standards Board, assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense.

Mitchell Institute has evaluated the position taken on its filed tax returns. Mitchell Institute has not taken, nor does it expect to take any uncertain tax positions in any income tax return. The tax years from 2010 through 2013 are open to Internal Revenue Service or state examination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires Mitchell Institute's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant area which is affected by the use of estimates is the recognition and collectibility of contributions receivable.

Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through June 11, 2014 which is the date the financial statements were available to be issued.

Reclassifications

Certain 2012 amounts have been reclassified to permit comparison with the 2013 financial statements presentation format.

3. Investments

Investments consist of the following at December 31:

	2013	2012
Cash and cash equivalents	$ 305,604	$ 836,655
Common stock	–	150,274
Mutual funds and ETFs	27,934,048	23,398,574
	$28,239,652	$24,385,503

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

	2013	2012
Interest and dividend income	$1,046,720	$ 682,266
Realized gain on investments	203,218	251,471
Unrealized gain (loss) on investments	1,603,109	1,828,945
Investment income	$2,853,047	$2,762,682

GAAP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. UPMIFA was adopted by the State of Maine in 2009. Mitchell Institute makes the following disclosures related to this guidance and adoption of UPMIFA:

Investment Policies

Mitchell Institute has adopted investment and spending policies for its investments that attempt to provide a stream of funding to support programs of Mitchell Institute while seeking to maintain the purchasing power of the assets. Mitchell Institute's spending and investment policies work together to achieve this objective. Under the investment policy, as approved by the Board, the assets are invested in a manner that is intended to produce results that exceed the spending policy plus the rate of inflation while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term objectives, Mitchell Institute 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). Mitchell Institute targets a diversified asset allocation that places an emphasis on achieving its long-term return objectives within prudent risk constraints.

3. Investments (Continued)

Spending Policy for Appropriation of Assets for Expenditures

The spending policy calculates the amount of money distributed annually from Mitchell Institute's funds for scholarships and program support. Each year, the Board determines a percentage that may be withdrawn and used for scholarships or other such purposes up to a maximum of 7% of the investments. In establishing this policy, Mitchell Institute considered the long-term expected return on its investments. Over the long term, Mitchell Institute's objective is to maintain the purchasing power of its investments as well as provide growth through new gifts and investment return. Mitchell Institute has determined that this policy is in accordance with UPMIFA as adopted by the State of Maine.

Changes in Endowment Net Assets

Mitchell Institute had the following endowment-related activities including scholarship activities in endowment assets at December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013				
Endowment net assets, January 1, 2013	$ –	$5,201,595	$19,533,433	$24,735,028
Investment return:				
Interest and dividend income	–	1,046,720	–	1,046,720
Net appreciation (realized and unrealized)	–	1,806,327	–	1,806,327
Total investment return	–	2,853,047	–	2,853,047
Investment fees	–	(87,757)	–	(87,757)
Contributions and grants	–	–	2,988,498	2,988,498
Appropriation for expenditure	–	(840,137)	–	(840,137)
Endowment net assets, December 31, 2013	$ –	$7,126,748	$22,521,931	$29,648,679

3. Investments (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2012				
Endowment net assets, January 1, 2012	$ (23,163)	$3,118,869	$19,211,064	$22,306,770
Investment return:				
Interest and dividend income	–	682,266	–	682,266
Net appreciation (realized and unrealized)	23,163	2,057,253	–	2,080,416
Total investment return	23,163	2,739,519	–	2,762,682
Investment fees	–	(80,748)	–	(80,748)
Contributions and grants	–	–	322,369	322,369
Appropriation for expenditure	–	(576,045)	–	(576,045)
Endowment net assets, December 31, 2012	$ –	$5,201,595	$19,533,433	$24,735,028

Fair Value Measurements

As defined in GAAP, 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. In determining fair value, Mitchell Institute uses various methods including market, income and cost approaches. Based on these approaches, Mitchell Institute utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Mitchell Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, Mitchell Institute is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes cash as well as U.S. Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services and other sources for identical or similar assets or liabilities.

3. Investments (Continued)

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. Level 3 also includes investments in investment funds which are not registered and traded on active exchanges; valuations for these assets are based on the net asset value (NAV) published by the investment fund.

In determining the appropriate levels, Mitchell Institute performs a detailed analysis of the assets and liabilities that are reported at fair value.

The following table provides information on the assets carried at fair value as of December 31:

	Total	Level 1	Level 2	Level 3
2013				
Cash and cash equivalents	$ 305,604	$ 305,604	$ –	$ –
Mutual funds:				
Fixed income	4,987,145	4,987,145	–	–
Equity	7,031,077	7,031,077	–	–
Multialternative	1,973,754	1,973,754	–	–
ETFs:				
Fixed income	3,221,022	3,221,022	–	–
REIT index securities	516,867	516,867	–	–
Equity	9,828,429	9,828,429	–	–
Commodity	375,754	375,754	–	–
	$28,239,652	$28,239,652	$ –	$ –

3. Investments (Continued)

	Total	Level 1	Level 2	Level 3
2012				
Cash and cash equivalents	$ 836,655	$ 836,655	$ –	$ –
Common stock:				
Business services	39,794	39,794	–	–
Basic industry	4,658	4,658	–	–
Capital goods	14,499	14,499	–	–
Consumer cyclicals	18,694	18,694	–	–
Consumer staples	25,844	25,844	–	–
Energy/utilities	13,390	13,390	–	–
Financial	14,064	14,064	–	–
Technology	19,331	19,331	–	–
Mutual funds:				
Fixed income	3,707,783	3,707,783	–	–
Equity	11,312,397	11,312,397	–	–
Multialternative	717,107	717,107	–	–
ETFs:				
Fixed income	6,174,390	6,174,390	–	–
REIT index securities	567,459	567,459	–	–
Commodity	221,553	221,553	–	–
Corporate bond	697,885	697,885	–	–
	$24,385,503	$24,385,503	$ –	$ –

There are no changes in the methods used to determine fair values in 2013 or 2012.

4. Contributions Receivable

Contributions receivable are due to be received as follows:

2014 and prior	$ 494,587
2015	288,250
2016	194,250
2017	144,000
2018	130,000
Thereafter	102,500
	1,353,587
Less allowance for uncollectible pledges	(102,315)
Less discount to reflect contributions receivable at present value	(2,969)
Total contributions receivable	$1,248,303

5. Grants Receivable

Grants receivable were due as follows at December 31, 2013:

John T. Gorman Foundation	$298,000

6. Assets Held for Others

At December 31, 2013 and 2012, Mitchell Institute was holding $109,375 and $113,250, respectively, on behalf of another entity. Under an agreement with this entity, Mitchell Institute acts as an administrator for this scholarship fund.

7. Grants Payable

Each year Mitchell Institute awards a scholarship to a graduating senior from every public high school in Maine who will be attending a two-year or four-year post secondary degree program. The scholarship award is paid over the period of the degree program and has been recorded as grants payable.

Future anticipated cash to be used for grants payable, for which all of the conditions have been met, are summarized as follows:

2014	$ 942,750
2015	579,000
2016	385,500
2017	193,500
	2,100,750
Less unamortized discount to reflect grants payable at present value	(2,510)
Total grants payable	$2,098,240

8. Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2013	2012
Scholarships and scholar programs	$7,206,390	$5,352,825
Operating in future years	140,393	45,828
Campaign	–	53,866
	$7,346,783	$5,452,519

8. Net Assets (Continued)

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

	2013	2012
Senator George J. Mitchell Scholarship Fund	$ 1,543,207	$ 1,543,207
Scholarship Endowment Fund	20,131,226	17,040,567
Institutional Endowment Fund	950,000	950,000
	22,624,433	19,533,774
Change in allowance for uncollectible pledges	(100,000)	–
Present value discount on pledges receivable	(2,502)	(341)
	$22,521,931	$19,533,433

9. Loans Payable

On March 4, 2011, Mitchell Institute entered into a $28,300 note payable with a bank. Proceeds were used to purchase property and equipment. The note bears interest at a variable rate (3.25% at December 31, 2013). Monthly payments of $512 are due through March 4, 2016.

Annual maturities of long-term debt for the five fiscal years after December 31, 2013 are as follows:

2014	$ 5,802
2015	5,993
2016	1,520
	$13,315

10. Commitments

Mitchell Institute entered into an agreement dated December 13, 2012 for campaign services. The term of the agreement was February 1, 2013 through January 31, 2014, paid in monthly installments of $30,000. On February 3, 2014, Mitchell Institute extended the agreement through December 31, 2014. The total amount of the extension agreement is $300,000, paid in ten monthly installments of $30,000. The agreement may be cancelled by either party with sixty days' notice.