

ENDOWMENT FOR EQUAL JUSTICE

FINANCIAL REPORT

DECEMBER 31, 2016

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES - 2016.....	3
STATEMENT OF ACTIVITIES - 2015.....	4
STATEMENT OF FUNCTIONAL EXPENSES - 2016.....	5
STATEMENT OF FUNCTIONAL EXPENSES - 2015.....	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8 - 15

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Endowment for Equal Justice
Seattle, Washington

We have audited the accompanying financial statements of the Endowment for Equal Justice ("the Endowment") which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Endowment as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP

May 31, 2017

ENDOWMENT FOR EQUAL JUSTICE

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
Cash and Cash Equivalents	\$ 645,759	\$ 120,229
Investments	14,988,381	14,418,750
Accrued Interest Receivable	27,919	41,215
Due from Legal Foundation of Washington	15,459	23,026
Contributions Receivable	408,000	22,000
Prepaid Expenses	1,282	
Total assets	<u>\$ 16,086,800</u>	<u>\$ 14,625,220</u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 2,856	\$ 8,156
Net Assets		
Unrestricted	8,279,446	7,778,046
Temporarily restricted	481,082	612,449
Permanently restricted endowment	7,323,416	6,226,569
Total net assets	<u>16,083,944</u>	<u>14,617,064</u>
Total liabilities and net assets	<u>\$ 16,086,800</u>	<u>\$ 14,625,220</u>

See Notes to Financial Statements

ENDOWMENT FOR EQUAL JUSTICE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted Endowment	Total
Support and Revenue				
Contributions	\$ -	\$ -	\$ 1,096,847	\$ 1,096,847
In-kind donations	39,842			39,842
Investment income, net of fees	682,595	555,102		1,237,697
	<u>722,437</u>	<u>555,102</u>	<u>1,096,847</u>	<u>2,374,386</u>
Net Assets Released from Restrictions				
Endowment appropriations	686,469	(686,469)		
Total support and revenue	1,408,906	(131,367)	1,096,847	2,374,386
Operating Expenses				
Program	33,638			33,638
Management and general	52,692			52,692
Fund development	134,707			134,707
Total operating expenses	<u>221,037</u>			<u>221,037</u>
Change in net assets before grants and awards	1,187,869	(131,367)	1,096,847	2,153,349
Grants and Awards	686,469			686,469
Change in net assets	501,400	(131,367)	1,096,847	1,466,880
Net Assets, beginning of year	<u>7,778,046</u>	<u>612,449</u>	<u>6,226,569</u>	<u>14,617,064</u>
Net Assets, end of year	<u>\$ 8,279,446</u>	<u>\$ 481,082</u>	<u>\$ 7,323,416</u>	<u>\$ 16,083,944</u>

See Notes to Financial Statements

ENDOWMENT FOR EQUAL JUSTICE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted Endowment	Total
Support and Revenue				
Contributions	\$ -	\$ -	\$ 105,689	\$ 105,689
Cy Pres awards	485,083			485,083
Investment loss, net of fees	(120,967)	(85,001)		(205,968)
	364,116	(85,001)	105,689	384,804
Net Assets Released from Restrictions				
Endowment appropriations	549,208	(549,208)		
Total support and revenue	913,324	(634,209)	105,689	384,804
Operating Expenses				
Program	39,362			39,362
Management and general	23,273			23,273
Fund development	18,829			18,829
Total operating expenses	81,464			81,464
Change in net assets before grants and awards	831,860	(634,209)	105,689	303,340
Grants and Awards	549,208			549,208
Change in net assets	282,652	(634,209)	105,689	(245,868)
Net Assets, beginning of year	7,495,394	1,246,658	6,120,880	14,862,932
Net Assets, end of year	\$ 7,778,046	\$ 612,449	\$ 6,226,569	\$ 14,617,064

See Notes to Financial Statements

ENDOWMENT FOR EQUAL JUSTICE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program	Supporting Services		Total
		Management and General	Fund Development	
Compensation and related expenses	\$ 23,677	\$ 23,677	\$ 47,354	\$ 94,708
Professional services		7,605	45,649	53,254
Donated services	9,961	9,961	19,920	39,842
Meetings and trainings		9,654		9,654
Printing			9,599	9,599
Communications			9,409	9,409
Insurance		1,720		1,720
Supplies			1,719	1,719
Donor cultivation and support			957	957
Miscellaneous		75	100	175
	33,638	52,692	134,707	221,037
Grants and awards	686,469			686,469
	\$ 720,107	\$ 52,692	\$ 134,707	\$ 907,506

See Notes to Financial Statements

ENDOWMENT FOR EQUAL JUSTICE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

	Program	Supporting Services		Total
		Management and General	Fund Development	
Compensation and related expenses	\$ 32,860	\$ 9,837	\$ 11,035	\$ 53,732
Professional services	6,502	6,502	6,502	19,506
Meetings and trainings		6,869		6,869
Printing			1,061	1,061
Events and promotions			155	155
Donor cultivation and support			76	76
Miscellaneous		65		65
	<u>39,362</u>	<u>23,273</u>	<u>18,829</u>	<u>81,464</u>
Grants and awards	<u>549,208</u>			<u>549,208</u>
	<u>\$ 588,570</u>	<u>\$ 23,273</u>	<u>\$ 18,829</u>	<u>\$ 630,672</u>

See Notes to Financial Statements

ENDOWMENT FOR EQUAL JUSTICE

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from Cy Pres awards	\$ -	\$ 485,083
Cash received from investment income	473,178	602,611
Cash paid for grants and awards	(686,469)	(549,208)
Cash paid to employees	(94,708)	(53,732)
Cash paid to suppliers	(155,871)	(97,507)
	(463,870)	387,247
Net cash flows from operating activities	(463,870)	387,247
Cash Flows from Investing Activities		
Proceeds from sale of investments	3,029,731	3,662,568
Purchases of investments	(2,751,178)	(4,220,579)
	278,553	(558,011)
Net cash flows from investing activities	278,553	(558,011)
Cash Flows from Financing Activity		
Contributions restricted for investment in endowment	710,847	185,949
	710,847	185,949
Net change in cash and cash equivalents	525,530	15,185
Cash and Cash Equivalents, beginning of year	120,229	105,044
	120,229	105,044
Cash and Cash Equivalents, end of year	\$ 645,759	\$ 120,229
Reconciliation of Change in Net Assets to		
Net Cash Flows from Operating Activities		
Change in net assets	\$ 1,466,880	\$ (245,868)
Loss (gain) on investments	(848,184)	737,565
Receipt of contributions restricted for long-term purposes	(1,096,847)	(105,689)
Changes in operating assets and liabilities		
Accrued interest receivable	13,296	
Due from Legal Foundation of Washington	7,567	(6,917)
Prepaid expenses	(1,282)	
Accounts payable	(5,300)	8,156
	(463,870)	387,247
Net cash flows from operating activities	\$ (463,870)	\$ 387,247

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Endowment for Equal Justice ("the Endowment") is a not-for-profit organization, established in 2000. The Endowment's purpose is to support civil legal service programs through its distribution of grants.

The Endowment is on a mission to secure justice for future generations by providing stable, unrestricted, permanent funding for the full range of civil legal services in Washington State. Without meaningful access to the justice system, civil legal problems can negatively impact foundational aspects of people's lives such as housing, employment, safety, and economic security. To meet the growing need, the Endowment seeks, solicits, and secures major gifts, bequests, and other planned gifts from lawyers and others in the community who want to ensure that access to justice remains a basic civil right for all.

The Endowment works closely with and provides grants to the Legal Foundation of Washington ("the Foundation"). The Foundation administers the Interest on Lawyers' Trust Accounts ("IOLTA") program in Washington State. The IOLTA program requires that interest earned on IOLTA accounts be used for tax-exempt charitable and educational purposes that are related to the legal profession. Through grants to the Foundation, the Endowment provides funds for 23 volunteer and specialty legal aid programs throughout Washington State helping over 30,000 low income individuals and families access critical legal aid. This collaboration, described more fully in Note 3, results in greater efficiencies for each organization while working on their common goal of promoting equal access to the civil justice system. The Foundation is legally separate from the Endowment, and is not included in these financial statements.

During 2016, the Endowment began a fundraising effort ("Reach 20") with a goal to increase the endowment to \$20 million by 2020.

Financial Statement Presentation

The Endowment reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions that are received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. The Endowment has elected to show temporarily restricted contributions whose restrictions are met in the same reporting period as unrestricted support. At December 31, 2016 and 2015, temporarily restricted net assets consisted of unappropriated endowment earnings.

Permanently Restricted Net Assets

Permanently restricted net assets include gifts that have been received and unconditional pledges in which the principal is expected to be invested in perpetuity. The income from permanently restricted net assets is temporarily restricted until approved for appropriation by the Board of Directors (see Note 4).

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Endowment considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents (except those held in the investment account).

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments

The Endowment carries its investments at fair value in the statements of financial position. The fair value measurement of the investments was determined using Level 1 observable market inputs, within the fair value hierarchy, consisting of quoted prices in active markets (such as national exchanges) for identical assets.

Realized gains and losses, determined using the specific identification method, and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Realized and unrealized gains and losses from securities are allocated to the individual funds based on the relationship of the fair value of each fund to the total fair value of the pooled securities, as adjusted for additions to and deductions from those accounts.

Investments are limited as to use and consist of designated assets set aside by the Board of Directors for endowment funding, as well as permanently donor-restricted contributions that have been received. The Board retains control over the board-designated assets it has set aside and may, at its discretion, use these assets for other purposes. Unrestricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Board-designated quasi endowment	\$ 7,183,883	\$ 7,579,732
Board-designated endowment not currently invested	1,095,563	198,314
	<u>\$ 8,279,446</u>	<u>\$ 7,778,046</u>

Revenue Recognition/Contributions Receivable

Unconditional promises to give are recognized as revenues in the period promised as contributions receivable. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Long-term contributions receivable are recognized at fair value (at the time of the donation) and are measured at the present value of the estimated cash flows. In arriving at fair value, the contributions receivable are discounted using an estimated market rate that includes a present value discount rate and an estimated rate for an allowance for doubtful accounts. At December 31, 2016 and 2015, management has not discounted contributions receivable as the discount was determined to be immaterial to these financial statements. Contributions receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 109,917	\$ 22,000
One to five years	298,083	
	<u>\$ 408,000</u>	<u>\$ 22,000</u>

Management reviews the collectibility of contributions receivable on a periodic basis and determines the appropriate amount of any allowance. The Endowment charges off receivables to the allowance when management determines that a receivable is not collectible. At December 31, 2016 and 2015, there was no allowance recognized.

At December 31, 2016, 70% of total contributions receivable were due from four donors (no concentrations in 2015). For the years ended December 31, 2016 and 2015, respectively, 60% of total contributions were received from two donors and 24% of total contributions were received from one donor.

Cy Pres awards (residual funds from class action lawsuits awarded to the Organization) are recorded when received.

In-Kind Contributions

Donated services are recognized in the financial statements at the estimated fair value of the services received. Services received consist of administration services as provided by the Foundation. See Note 3.

Functional Allocation of Expenses

The costs of providing the various program services and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Income Taxes

The Endowment is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain amounts from the December 31, 2015, financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Endowment has evaluated subsequent events through the date these financial statements were available to be issued, which was May 31, 2017.

Note 2. Investments

The components of the Endowment's investments are as follows at December 31:

	2016	2015
Money market funds	\$ 1,556,920	\$ 580,135
U.S. equities	5,071	1,938
Equity mutual funds		
Large cap growth	1,769,747	1,450,956
Large cap value	1,431,866	1,106,054
Mid cap growth	646,052	589,055
Mid cap blend		402,589
Mid cap value	486,275	
Foreign large cap blend	261,251	326,512
Exchange-traded funds		
Large cap growth	1,646,210	1,660,923
Small cap value	2,213,349	1,624,566
Mid cap blend	874,565	848,268
Large cap value	653,135	547,623
Real estate	232,161	500,964
Emerging markets	202,043	382,900
Fixed income – corporate bonds	3,009,736	4,396,267
	<u>\$ 14,988,381</u>	<u>\$ 14,418,750</u>

The following schedule summarizes the investment income (loss) for the years ended December 31:

	2016	2015
Interest and dividend income	\$ 459,882	\$ 602,611
Net realized and unrealized gains (losses)	848,184	(737,565)
Investment fees	(70,369)	(71,014)
Investment income (loss)	<u>\$ 1,237,697</u>	<u>\$ (205,968)</u>

Note 3. Memorandum of Agreement

The Endowment and the Foundation have a Memorandum of Agreement. Under the agreement, (1) the Foundation provides management and operating support for the Endowment; (2) the Board of Directors of the Endowment, with the support of the Foundation staff, agrees to raise funds for the endowment to support civil legal aid for the poor; and (3) the Foundation's Board of Trustees agrees to allocate these funds to civil legal aid providers throughout Washington State.

The Foundation is reimbursed for direct costs incurred by the Endowment, including compensation and related costs, professional fees, printing, postage, and other direct costs that can be directly allocated to the Endowment.

However, other indirect costs including certain management and operating fees are not reimbursed. For the year ended December 31, 2016, these fees are recognized as in-kind donations and services totaling \$39,842. For the year ended December 31, 2015, management did not determine or record those costs in the financial statements because the amounts were deemed immaterial.

The results of the agreement are greater synergy and efficiency in both charitable fundraising and grant-making, and significant administrative cost savings to the Endowment, resulting in larger grant awards to civil legal aid programs statewide.

The Endowment made grants to the Foundation of \$686,469 and \$549,208 for the years ended December 31, 2016 and 2015, respectively.

Note 4. Endowment Funds

The Endowment for Equal Justice is an endowment that consists of one fund established to provide a stream of income to support grants made to organizations that provide civil legal aid to low-income people in Washington State. The Endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments ("quasi-endowments"). As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

- The duration and preservation of the endowment fund
- The purposes of the Endowment and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Endowment
- The investment policies of the Endowment

Endowment net assets consisted of the following at December 31:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 481,082	\$ 7,323,416	\$ 7,804,498
Board-designated quasi-endowment funds	7,183,883			7,183,883
Total	<u>\$ 7,183,883</u>	<u>\$ 481,082</u>	<u>\$ 7,323,416</u>	<u>\$ 14,988,381</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 612,449	\$ 6,226,569	\$ 6,839,018
Board-designated quasi-endowment funds	7,579,732			7,579,732
Total	<u>\$ 7,579,732</u>	<u>\$ 612,449</u>	<u>\$ 6,226,569</u>	<u>\$ 14,418,750</u>

Changes in endowment net assets are as follows for the years ended December 31:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, beginning of year	\$ 7,579,732	\$ 612,449	\$ 6,226,569	\$ 14,418,750
Investment Return				
Interest and dividend income	253,627	206,255		459,882
Net appreciation (realized and unrealized)	467,777	380,407		848,184
Investment management fees	(38,809)	(31,560)		(70,369)
Total investment income	682,595	555,102		1,237,697
Additions/contributions			1,096,847	1,096,847
Withdrawals	(1,078,444)	(686,469)		(1,764,913)
Endowment Net Assets, end of year	<u>\$ 7,183,883</u>	<u>\$ 481,082</u>	<u>\$ 7,323,416</u>	<u>\$ 14,988,381</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ 7,230,766	\$ 1,246,658	\$ 6,120,880	\$ 14,598,304
Investment Return				
Interest and dividend income	354,016	248,595		602,611
Net depreciation (realized and unrealized)	(433,267)	(304,298)		(737,565)
Investment management fees	(41,716)	(29,298)		(71,014)
Total investment income	(120,967)	(85,001)		(205,968)
Additions/contributions	469,933		105,689	575,622
Withdrawals		(549,208)		(549,208)
Endowment Net Assets, end of year	<u>\$ 7,579,732</u>	<u>\$ 612,449</u>	<u>\$ 6,226,569</u>	<u>\$ 14,418,750</u>

Return Objectives and Risk Parameters

The Endowment has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s), as well as quasi-endowment funds. Under the investment policy, as approved by the Board of Directors, the Endowment assets are invested in a manner that is intended to produce results that exceed those of the S&P 500 index, while assuming a moderate level of investment risk. The Endowment expects its funds, over time, to provide an average rate of return of greater than 6% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Endowment 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 Endowment targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Endowment has a policy of appropriating for distribution each year 5% of its endowment fund's total balance as the average of the prior three calendar year-end period preceding the fiscal year in which the distribution is planned. In establishing this policy, the Endowment considered the long-term expected return on its endowment, the amount needed to maintain the purchasing power of the Endowment assets held in perpetuity or for a specified term, as well as ways to provide additional real growth through new gifts and undistributed investment returns.

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted portion of the Endowment funds could fall below the amounts that the donors or UPMIFA requires the Endowment to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2016 or 2015.

Note 5. Risk Concentration

Financial instruments that subject the Endowment to concentrations of credit risk consist of cash and cash equivalents and investments. The Endowment places its cash and cash equivalents with major financial institutions. At times, deposits with any one institution may exceed federally insured limits. Management believes the risk of potential loss in exceeding federally insured limits is minimal.

Investments are subject to market fluctuations. The Endowment believes the market risk for these investments is moderate.