

University of Maine Foundation

**REPORT ON FINANCIAL STATEMENTS**

For the Year Ended June 30, 2016  
(With comparative totals for 2015)

## CONTENTS

	<b>Exhibit</b>	<b>Page</b>
Independent Auditor's Report		3-4
Financial Statements		
Statement of financial position	A	5
Statement of activities	B	6
Statement of cash flows	C	7
Notes to financial statements		8-21
	<b>Schedule</b>	
Schedule of functional expenses	1	22

## **Independent Auditor's Report**

To the Board of Directors of the  
University of Maine Foundation

We have audited the accompanying financial statements of University of Maine Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 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 University of Maine Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Report on Summarized Comparative Information**

We have previously audited the University of Maine Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Brantner Hibbard & Associates*

October 26, 2016

**University of Maine Foundation**  
**Statement of Financial Position**  
**June 30, 2016**  
**(With comparative totals for 2015)**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and equivalents	\$ 608,958	\$ 174,793
Other receivables	101,016	123,076
Promises to give, less allowance for uncollectible pledges of \$125,000	1,412,554	1,948,671
Short-term investments	3,167,627	2,223,214
Cash surrender value of life insurance	148,271	140,674
Long-term investments, endowment	179,886,988	185,612,561
Long-term investments, life income plans	4,455,998	4,809,813
Notes receivable	374,696	574,048
Equity in Buchanan Alumni House	2,625,658	2,657,103
Investment real estate	6,001,390	5,847,543
Property and equipment, net of accumulated depreciation of \$187,255 and \$146,812, respectively	171,309	123,916
Other assets	609,180	763,829
Irrevocable trusts	8,572,964	10,674,105
Assets managed for Buchanan Alumni House	280,856	347,966
Net funding to be provided from Buchanan Alumni House	23,738	13,088
	<b>\$ 208,441,203</b>	<b>\$ 216,034,400</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 35,440	\$ 27,344
Distributions due income beneficiaries	1,797,824	1,822,837
Accrued expenses	557,883	509,038
Notes payable	522,628	693,989
Custodial accounts payable	2,835,137	3,070,617
	<b>5,748,912</b>	<b>6,123,825</b>
	<b>NET ASSETS</b>	
Unrestricted net assets	8,218,529	8,033,143
Temporarily restricted net assets	41,372,941	54,325,463
Permanently restricted net assets	153,100,821	147,551,969
	<b>202,692,291</b>	<b>209,910,575</b>
	<b>\$ 208,441,203</b>	<b>\$ 216,034,400</b>

See accompanying notes.

**University of Maine Foundation**  
**Statement of Activities**  
**For the Year Ended June 30, 2016**  
**(With comparative totals for 2015)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
<b>REVENUE, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS</b>					
Contributions	\$ 1,426,807	\$ 4,561,811	\$ 4,827,720	\$ 10,816,338	\$ 12,283,217
Investment income (loss)	(4,877,418)	(1,898,080)	8,727	(6,766,771)	(4,130,642)
Investment income (loss), life income plans	333,973	(460,315)	-	(126,342)	(111,170)
Advancement services	1,240,344	-	-	1,240,344	101,374
Other revenue, gains (losses)	710	(406,136)	287,626	(117,800)	(169,824)
Reinvestment of donor funds	93,762	(1,351,273)	1,257,511	-	-
Net assets released from restrictions	14,231,261	(13,398,529)	(832,732)	-	-
Total revenue, gains, other support and reclassifications	12,449,439	(12,952,522)	5,548,852	5,045,769	7,972,955
<b>EXPENSES AND LOSSES</b>					
Program services	\$ 9,909,211	-	-	9,909,211	9,424,019
Management and general	818,957	-	-	818,957	763,475
Fundraising	1,535,885	-	-	1,535,885	939,754
Total expenses	12,264,053	-	-	12,264,053	11,127,248
Uncollectible promises to give	-	-	-	-	8,750
Total expenses and uncollectibles	12,264,053	-	-	12,264,053	11,135,998
Change in net assets	185,386	(12,952,522)	5,548,852	(7,218,284)	(3,163,043)
<b>NET ASSETS , BEGINNING OF YEAR</b>	<u>8,033,143</u>	<u>54,325,463</u>	<u>147,551,969</u>	<u>209,910,575</u>	<u>213,073,618</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 8,218,529</u>	<u>\$ 41,372,941</u>	<u>\$ 153,100,821</u>	<u>\$202,692,291</u>	<u>\$ 209,910,575</u>

**University of Maine Foundation**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2016**  
**(With comparative totals for 2015)**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	<u>\$ (7,218,284)</u>	<u>\$ (3,163,043)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	45,044	36,429
Net realized and unrealized loss on sale and disposal of assets	-	29,125
Equity in the earnings of Buchanan Alumni House	31,445	1,605
Increase in cash surrender value of life insurance policies	(7,597)	(69,699)
Noncash contributions	(1,907,266)	(1,129,811)
Net realized and unrealized loss on investments	9,658,921	4,386,588
Net realized and unrealized loss on real estate	24,500	-
(Increase) decrease in operating assets		
Other receivables	22,060	(14,830)
Promises to give	536,117	(869,685)
Increase (decrease) in operating liabilities		
Accounts payable	8,096	(48,164)
Distributions due income beneficiaries	(25,013)	(69,176)
Accrued expenses	48,845	14,149
Custodial funds	(235,480)	(244,041)
Total adjustments	<u>8,199,672</u>	<u>2,022,490</u>
Net cash provided (used) by operating activities	<u>981,388</u>	<u>(1,140,553)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturation of investments	20,157,731	38,414,217
Purchases of investments	(21,002,793)	(37,260,969)
Purchases of property and equipment	(92,437)	(11,237)
Purchase of real estate	(19,564)	-
Increase in notes receivable	-	(30,000)
Principal payments on notes receivable	199,352	203,609
Decrease (Increase) in other assets	147,639	(639)
Proceeds from the sale of other assets	250	1,865
Proceeds from sale of real estate	177,500	-
Net cash (used) provided by investing activities	<u>(432,322)</u>	<u>1,316,846</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	29,000
Payment of notes payable	(114,901)	(99,223)
Net cash used by financing activities	<u>(114,901)</u>	<u>(70,223)</u>
Net increase in cash and equivalents	434,165	106,070
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>174,793</u>	<u>68,723</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u>\$ 608,958</u>	<u>\$ 174,793</u>

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

The University of Maine Foundation assists in the development activities of the University of Maine by encouraging gifts and bequests for scholarships, instruction, research, endowment, and other purposes that will benefit the University and other charitable organizations.

The Foundation's operations are supported by unrestricted contributions and a fee charged to the endowment pool. For the year ended June 30, 2016, \$2,243,624 was charged to the endowment pool for operations.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Basis of Accounting**

The Organization prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash equivalents include time deposits, certificate of deposits, and all highly liquid debt instruments with original maturities of three months or less, except for investments designated as endowment assets or deposits with trustees which are classified as long-term investments.

**Collections**

Various art and a Hummel collection donated to the Foundation have been capitalized. Capitalized items totaling \$347,357 are valued as of the date of gift and included with other assets on the statement of financial position. Gains and losses on the sale of art are reported in other revenue, gains and losses on the statement of activities.

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional promises to give to be received in future years are discounted at an appropriate discount rate commensurate with the risks involved and recorded as promises to give on the statement of financial position. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Restricted contributions whose restrictions are met in the period they are received are reported as unrestricted contributions.



**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investment Real Estate**

Investment real estate is donated assets recorded at the fair value as of the date of gift. Donated real estate may have donor restrictions; therefore, they may be recorded as temporarily or permanently restricted assets. Realized gains and losses are recorded as other revenue, gains and losses on the statement of activities.

**Custodial Funds**

The Foundation holds assets for other entities for which the entity controls the spending. The custodial funds are reported by the Foundation as an asset and corresponding liability. Income to and disbursements from to these funds are reported as increases or decreases to the corresponding asset and liability account of the Foundation.

**Investments**

Investment securities are stated at fair value based on quoted market prices within active markets. The fair values of alternative investments are determined from information supplied by the investment managers based on the market values of underlying investments on a net asset value basis. Investment income is reflected in the statement of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor-imposed restrictions.

The Foundation maintains a general pool of investments for its endowments. Investment income, including realized and unrealized gains and losses, investment management fees, and fee charged for Foundation operations are allocated monthly to the individual endowment funds based on market value.

**Split-interest agreements**

The Foundation is beneficiary of trust and other life income arrangements initiated by donors under which the Foundation will receive benefits that are shared with the donor or third party beneficiaries. The arrangements include pooled life income plans, charitable remainder trusts, charitable lead trusts, and charitable gift annuities. Split-interest agreements are stated at fair value at the time of donation. The carrying values of the assets are based on quoted market prices. Based on donor life expectancies future annuity obligations are discounted to the present value based upon a current rate of return (8%) and included in distributions due income beneficiaries on the statement of financial position.

**Financial Instruments**

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, accounts receivable, and short-term unconditional promises to give: The carrying values reported in the statement of financial position approximate fair values because of the short maturity of those instruments.

Notes receivable: The carrying value is based on fair value from expected cash flows of the notes receivable.

Short-term and long-term investments: The fair values of investments are based on quoted market prices for those of similar investments stated at fair value. Investments without an active market are based on valuations provided by fund managers.

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Instruments (Continued)**

Life income plans: the fair values are based on quoted market prices. Remainder interest, irrevocable trusts: The trustees provide the values based upon their records. Generally, the fair values are of investments based on quoted market prices.

Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting (8%) the future cash flows using a current rate of return.

**Concentration of Credit Risk**

The Foundation has significant investments in equity and debt securities that are owned and administered by the Foundation and is subject to many types of risk which may impact the Foundation's investments. Investment advisors who are supervised by a Board of Directors of the Foundation manage investments and seek to minimize risk by diversification of assets. Though the market value of investments is subject to fluctuations on a year-to-year basis, the Foundation's Board of Directors believe that the investment policy is prudent for the long-term objective of the organization.

**Property and Equipment**

Property and equipment with a useful life of more than one year and costing at least \$1,000 is capitalized and recorded at cost. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. Vehicles and equipment are assumed to have useful lives of three, five and ten years. No depreciation is recorded in the year of acquisition. Depreciation expense for the year ended June 30, 2016 was \$45,044.

**Income Taxes**

The Foundation is exempt from federal income taxes under the provision of 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)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Foundation's Form 990, Return of Organization Exempt from Income Tax, for the years ending June 30, 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they are filed.

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information only in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**Functional Allocation of Expenses**

The cost of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to both programs and support services.

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**2. PROMISES TO GIVE**

Unconditional promises to give are recorded in the financial statements as promises to give in the year the promise is received. Promises to give exceeding one year are recorded at the present value of the future cash flows using a discount rate (8%) based on a current rate of return.

Promises to give are expected to be realized in the following periods, on a calendar year basis:

In one year or less	\$ 378,802
Between one to five years	1,307,430
Over five years	<u>189,924</u>
Total	1,876,156
Less discounts to present value	(338,602)
Less allowance for uncollectible pledges	<u>(125,000)</u>
Net unconditional promises to give	<u>\$1,412,554</u>

The Foundation may receive conditional promises to give from bequests and revocable trusts. At this time, the University of Maine Foundation may not have been notified as such or provided with the financial information and, therefore, amounts expected to be received from these promises cannot be accurately estimated.

**3. CASH SURRENDER VALUE OF LIFE INSURANCE**

The Foundation owns life insurance policies on the lives of certain donors. The cash surrender value (value of the policies if they were cancelled as of the statement of financial position date) as of June 30, 2016 was \$148,271. The total death benefit due to the Foundation upon the deaths of those insured for 2016 was \$1,336,796.

**4. LONG-TERM INVESTMENTS, ENDOWMENT**

The Foundation manages an investment pool of approximately 1,500 endowed and quasi-endowed funds on a unitized basis monthly. Most donor restricted funds support the University of Maine or organizations supporting the University or its students. Of the donor restricted funds, \$961,918 temporarily restricted and \$2,339,279 permanently restricted funds support other charitable purposes.

Long-term investments, endowment as of June 30, 2016 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$23,874,947	\$149,779,920	\$173,654,867
Unrestricted funds	1,519,967	-	-	1,519,967
Board designated funds	1,877,021	-	-	1,877,021
Custodial funds	<u>2,835,133</u>	-	-	<u>2,835,133</u>
 Total funds	 <u>\$6,232,121</u>	 <u>\$23,874,947</u>	 <u>\$149,779,920</u>	 <u>\$179,886,988</u>

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)**

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 8.3%. Actual returns in any given year may vary from this amount.

The following summarizes the endowment activity for the year ended June 30, 2016.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Long-term investments, endowment, beginning of year	\$6,824,209	\$35,025,050	\$143,763,302	\$185,612,561
Investment income (loss), Foundation funds	(217,781)	(5,816,209)	-	(6,033,990)
Investment management fees	(34,479)	(938,706)	-	(973,185)
	(252,260)	(6,754,915)	-	(7,007,175)
Contributions/additions	113,066	4,051,682	7,088,356	11,253,104
Distributions	(370,776)	(7,284,920)	-	(7,655,696)
Foundation administrative fee	(82,118)	(2,233,688)	-	(2,315,806)
Fund reclassifications	-	1,071,738	(1,071,738)	-
Total long-term investments, endowment	\$6,232,121	\$23,874,947	\$149,779,920	\$179,886,988

**Endowment Spending Policy**

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For the year ended June 30, 2016, the spending policy is 4½% of the average market value for the five previous years ending December 31. For permanent endowment, spending is contingent upon a fund's market value exceeding principal balance.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the Maine Legislature to apply to funds existing on or established after July 1, 2009. The new law permits expenditure from endowed funds even if the fund's value is less than its historic dollar value (principal). Beginning July 1, 2014, the Foundation adopted a prudent expenditure for funds with a market value below principal. Unless the donor has explicitly stated the principal is not expendable under any circumstance, a prudent expenditure of 2.25% will be distributed for funds less than ten percent below principal and 1% for funds ten percent or more below principal for that year.

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)**

**Investment Fees**

Some investments held by the Foundation report income net of fees and the Foundation follows the same practice. As a result, these fees are netted against investment income.

**5. INVESTMENT INCOME**

The following summarizes the investment return and its classification in the statement of activities for short-term and long-term investments on June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$ 3,058,790	\$ 8,727	\$ 3,067,517
Realized gains (losses)	-	(2,064,223)	-	(2,064,223)
Investment fees	-	(1,004,836)	-	(1,004,836)
Unrealized gains (losses)	(4,877,418)	(1,887,811)	-	(6,765,229)
Net investment income (loss)	<u>\$(4,877,418)</u>	<u>\$(1,898,080)</u>	<u>\$ 8,727</u>	<u>(6,766,771)</u>

**6. LONG-TERM INVESTMENTS, LIFE INCOME PLANS**

The Foundation manages two Pooled Life Income Funds and a Charitable Gift Annuity program. Life Income Plans provide an income stream to the donor or the donor's designee (income beneficiary) with the Foundation receiving the assets of the plan upon the death of the income beneficiary.

Life Income Plans are categorized as follows:

Pooled Life Income Fund #1 (Growth)	\$ 953,302
Pooled Life Income Fund #2 (Income)	295,880
Charitable Gift Annuities	<u>3,206,816</u>
Total long-term investments, life income plans	<u>\$ 4,455,998</u>

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**6. LONG-TERM INVESTMENTS, LIFE INCOME PLANS (CONTINUED)**

The following summarizes the life income plan activity for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2015	\$ -	\$4,809,813
Investment income (losses)	408,440	(460,315)
Investment management fees	(31,030)	-
	<u>377,410</u>	<u>(460,315)</u>
Contributions/additions	-	230,250
Distributions	(333,973)	-
Foundation administrative fees	(43,437)	-
Transfers due to terminations	-	(123,750)
Life income plans June 30, 2016	<u>\$ -</u>	<u>\$4,455,998</u>

**7. INVESTMENT INCOME, LIFE INCOME PLANS**

The following summarizes the life income plan investment return and its classification in the statement of activities for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 37,766	\$ -	\$ -	\$ 37,766
Realized gains	9,626	-	-	9,626
Investment fees	(43,437)	-	-	(43,437)
Foundation admin fees	(31,030)	-	-	(31,030)
Unrealized gains (losses)	361,048	(460,315)	-	(99,267)
Net investment income (loss)	<u>\$333,973</u>	<u>\$(460,315)</u>	<u>\$ -</u>	<u>\$(126,342)</u>

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**8. FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Limited partnerships and LLC investments reported in Level 3 are generally valued at the Foundation’s equity in the net asset value of the investee. Certain investees maintain underlying holdings of non-marketable securities whose fair values are estimated by management of the investee. Other investees invest their funds through an intermediate entity in a “master-feeder” investment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been realized had a ready market existed.

Information related to the Foundation’s short-term investments measured at fair value on a recurring basis is as follows:

	Fair Value Measurements at Reporting Date Using				
	Level 1	Level 2	Level 3	Total	Liquidity
Short-term investments					
Money Market	\$1,495,979	\$ -	\$ -	\$1,495,979	Daily
Certificates of Deposit	1,538,252	-	-	1,538,252	Daily
Cash	133,396	-	-	133,396	Daily
Total short-term investments	<u>\$3,167,627</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,167,627</u>	

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**8. FAIR VALUE MEASUREMENTS (CONTINUED)**

Information related to the Foundation's long-term investments, endowment measured at fair value on a recurring basis is as follows:

	Fair Value Measurements at Reporting Date Using				Liquidity
	Level 1	Level 2	Level 3	Total	
Long-term investments, endowment					
U.S. equities:					
Large cap	\$ 12,548,698	\$ -	\$ -	\$ 12,548,698	Daily
Large cap index	24,847,219	-	-	24,847,219	Daily
Blend	2,164,930	-	-	2,164,930	Daily
Blend	7,416,572	-	-	7,416,572	Monthly
Total U.S. equities	46,977,419	-	-	46,977,419	
Non U.S. equities:					
Developed index	16,536,444	-	-	16,536,444	Daily
Other developed	24,712,504	-	-	24,712,504	Monthly
Emerging market	10,562,170	-	-	10,562,170	Daily
Emerging market	2,482,258	-	-	2,482,258	Monthly
Emerging market	5,684,906	-	-	5,684,906	Quarterly
Total non U.S. equities	59,978,282	-	-	59,978,282	
U.S. fixed income:					
TIPS	2,754,313	-	-	2,754,313	Daily
U.S. Treasuries	15,624,950	-	-	15,624,950	Daily
Total U.S. fixed income	18,379,263	-	-	18,379,263	
Global fixed income:					
Investment grade	5,071,597	-	-	5,071,597	Monthly
Alternative investments:					
Hedge funds					
U.S. long/short	-	-	3,311,156	3,311,156	Quarterly
Global long/short	-	-	9,469,780	9,469,780	Quarterly
Multi-strategy	-	-	4,841,268	4,841,268	Quarterly
Multi-strategy	-	-	3,850,049	3,850,049	Semi-annually
Event-driven	-	-	5,444,039	5,444,039	Quarterly
Event-driven	-	-	4,119,004	4,119,004	Annually
Global Macro	-	-	226,657	226,657	Quarterly
Global Macro	-	-	939,050	939,050	Monthly
Opportunistic	-	-	833,512	833,512	Quarterly
Opportunistic	-	-	1,535,533	1,535,533	Annually
Total hedge funds	-	-	34,570,048	34,570,048	
Other alternative investments:					
Commodity futures	-	-	5,479,003	5,479,003	Monthly
Energy infrastructure	-	-	6,014,890	6,014,890	Monthly
Total other alternative investments	-	-	11,493,893	11,493,893	
Cash	3,416,486	-	-	3,416,486	Daily
Total long term investments, endowment	\$133,823,047	\$ -	\$ 46,063,941	\$179,886,988	



**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**8. FAIR VALUE MEASUREMENTS (CONTINUED)**

Information related to the Foundation's long-term investments, life income plans measured at fair value on a recurring basis is as follows:

	Fair Value Measurements at Reporting Date Using				Liquidity
	Level 1	Level 2	Level 3	Total	
Long-term investments, life income plans					
U.S. equities:					
Large cap	\$ 223,548	\$ -	\$ -	\$ 223,548	Daily
Large cap index	814,523	-	-	814,523	Daily
Blend	38,567	-	-	38,567	Daily
Blend	132,122	-	-	132,122	Monthly
Total U.S. equities	1,208,760	-	-	1,208,760	
Non U.S. equities:					
Developed index	294,587	-	-	294,587	Daily
Other developed	440,239	-	-	440,239	Monthly
Emerging market	188,159	-	-	188,159	Daily
Emerging market	44,220	-	-	44,220	Monthly
Emerging market	101,273	-	-	101,273	Quarterly
Total non U.S. equities	1,068,478	-	-	1,068,478	
U.S. fixed income:					
TIPS	49,067	-	-	49,067	Daily
U.S. Treasuries	278,349	-	-	278,349	Daily
Investment grade	617,727	-	-	617,727	Daily
Investment grade index	63,500	-	-	63,500	Daily
High yield	133,297	-	-	133,297	Daily
Total U.S. fixed income	1,141,940	-	-	1,141,940	
Global fixed income:					
Investment grade	90,348	-	-	90,348	Daily
Other Equities:					
Real estate	51,107	-	-	51,107	Daily
Alternative investments:					
Hedge funds					
U.S. long/short	-	-	58,986	58,986	Quarterly
Global long/short	-	-	168,699	168,699	Quarterly
Multi-strategy	-	-	86,244	86,244	Quarterly
Multi-strategy	-	-	68,586	68,586	Semi-annually
Event-driven	-	-	96,982	96,982	Quarterly
Event-driven	-	-	73,378	73,378	Annually
Global Macro	-	-	4,038	4,038	Quarterly
Global Macro	-	-	16,729	16,729	Monthly
Opportunistic	-	-	14,848	14,848	Quarterly
Opportunistic	-	-	27,355	27,355	Annually
Total hedge funds	-	-	615,845	615,845	
Other alternative investments:					
Commodity futures	-	-	97,605	97,605	Monthly
Energy infrastructure	-	-	107,152	107,152	Monthly
Total other alternative investments	-	-	204,757	204,757	
Cash	74,763	-	-	74,763	Daily
Total long term investments, life income plans	\$3,635,396	\$ -	\$ 820,602	\$4,455,998	

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**8. FAIR VALUE MEASUREMENTS (CONTINUED)**

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Investments, July 1, 2015	\$54,179,594
Realized and unrealized gain/loss included in investment income on the statement of activities	(4,692,372)
Redemptions	(10,962,271)
Additions	5,000,000
Transfers	3,359,592
	<hr/>
Investments, June 30, 2016	<u>\$46,884,543</u>

**9. NOTES RECEIVABLE**

Notes receivable would be considered past due if more than thirty days late. At June 30, 2016 all notes receivable are current. Notes receivable consist of the following:

Donor assigned mortgage; due in monthly installments of \$1,382 including interest at 5%; secured by real estate valued at \$285,000. Matures in August 2024.	\$113,748
Note receivable due in annual installments of \$40,000 secured by real estate valued at \$200,000. Matures in January 2018.	74,000
Note receivable with University of Maine; due in semi-annual installments of \$5,243.36 including interest at 2.75%; unsecured. Matures in November 2017.	15,307
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	171,641
Total notes receivable	<u>\$374,696</u>

**10. IRREVOCABLE TRUSTS**

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2016 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 5,521,934
Charitable lead trusts	1,882,967
Perpetual trusts	<u>1,168,063</u>
Total beneficiary interest in irrevocable trusts	<u>\$ 8,572,964</u>

Unrealized losses of \$680,394 are reported in other revenue, gains and (losses) on the statement of activities. Terminated trusts and trust payments of \$1,420,747 were received as of June 30, 2016.

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**11. ADVANCEMENT SERVICES AGREEMENT**

On September 1, 2015, the Foundation entered into an agreement with the University of Maine System (UMS) under which the Foundation agreed to perform gift processing and advancement services, including research, records, and annual fund, for the University of Maine (UMaine). Per the agreement, UMS agreed to pay a pro-rated fee of \$1,195,344, of which \$170,000 is for services relating to gifts processing services as described in a previous agreement between the parties.

On May 1, 2016 the agreement was amended, effective July 1, 2016, to include all fundraising activities for UMaine. Per the agreement, the University agreed to pay an annual fee of \$2,927,924 (due by July 31) plus an amount equal to 1% market value of endowments managed by UMS for UMaine, \$738,455 (due by September 30). The agreement continues year to year for three-year terms unless canceled by either party with written notice at which point the agreement would enter a final three-year term.

**12. ACCRUED EXPENSES**

Accrued expenses of the Foundation at June 30, 2016 consist of the following:

Durst education fund	\$ 10,731
Post-retirement benefits (total estimated future benefits of \$407,022 discounted to present value of 8% for 2016)	215,352
Deferred compensation liability	43,636
Payroll related	269,234
Other	<u>18,930</u>
Total accrued expenses	<u>\$557,883</u>

On June 30, 2016 the Foundation established a Supplemental Executive Retirement Plan (SERP) for the purpose of providing supplemental retirement benefits to the Chief Executive Officer (CEO) of the Foundation. The Foundation intends to contribute to the CEO's 457(b) Plan account the maximum amount allowed for the applicable calendar year, and credit required amounts to his unfunded SERP account, an aggregate amount equal to two times the CEO's career average base salary. Interest is to accrue on unfunded credits based on the prime rate reported in The Wall Street Journal.

Contributions and credits shall continue until the first to occur of: (a) June 30, 2026; or (b) separation from service. Payments of vested benefits of the SERP shall be paid to the CEO per the following vesting schedule: 50% of the accrued benefit shall be due June 30, 2021 with the remainder to be paid on June 30, 2026 so long as the CEO remains with the Foundation.

The deferred compensation liability under this plan was estimated at \$43,636 as of June 30, 2016 and was recorded in accrued expenses.

**13. OPERATING LEASE**

The Foundation entered an operating lease on July 1, 2014 with the University of Maine for office space in Falmouth with options to renew for three terms of three years each. The lease terms require semi-annual payments plus a prorata share of telephone, internet, and janitorial services. Total lease payments were \$13,500 for the years ended June 30, 2015 and 2016.

The minimum future payment under this noncancelable for the year ended June 30, 2017 is \$13,500.

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**14. DEFINED CONTRIBUTION PLAN**

The Foundation sponsors a defined contribution plan covering all full-time and regular part-time employees after completing one full year of service. The Foundation contributes 10% of eligible employees' gross salary to the plan each year. Pension expense that is reported in the schedule of functional expenses with payroll taxes and fringe benefits totaled \$112,354 for the year ended June 30, 2016.

**15. BUCHANAN ALUMNI HOUSE**

On October 19, 1999, the University of Maine Foundation and the University of Maine Alumni Association entered into an agreement as co-owners of the Buchanan Alumni House. The owners did not create a partnership and each owns an undivided half interest in the building and land lease.

The Buchanan Alumni House provides office space for the Foundation and the Association to conduct their respective charitable and non-profit missions. The facility acts as the front door to the University of Maine providing a home for Maine's many alumni and friends. Buchanan Alumni House serves all campus visitors providing the University with function space to welcome and host alumni, prospective students, faculty, campus guests, and visiting dignitaries.

Buchanan Alumni House was constructed solely from private funds. The Foundation and the Association, as the owners of Buchanan Alumni House, each paid \$9,000 per month toward the costs of operating the facility.

As the legal owner of several Buchanan Alumni designated assets, the Foundation is administering the following asset at June 30, 2016:

Cash and cash equivalents	<u>\$280,856</u>
---------------------------	------------------

As the obligor of a loan through Peoples United Bank the Buchanan Alumni House recognizes the obligation as a pass-through debt managed by the Foundation. The following constitutes debt administered by the Foundation at June 30, 2016:

Note principal managed by the University of Maine Foundation	<u>\$304,594</u>
--	------------------

**16. LONG-TERM DEBT**

Long-term debt consists of the following:

Note payable to Peoples United Bank, refinanced on June 25, 2014, in monthly installments of \$7,634 with an interest rate of 2.5%. The loan is secured by University of Maine Foundation pledge of marketable securities in an amount to maintain a loan to value ratio of .65. Matures June 2018.	\$171,641
---	-----------

Note payable to Peoples United Bank, refinanced on June 25, 2014, in monthly installments of \$5,558 with an interest rate of 3.0%. The loan is secured by University of Maine Foundation pledge of marketable securities in an amount to maintain a loan to value ratio of .65. While legally payable by the Foundation, it is the intent to satisfy this debt through the Buchanan Alumni House ownership and therefore, the debt is recorded on those financial statements. Matures June 2021.	304,594
---	---------

Note payable to Peoples United Bank in monthly installments of \$837 including interest of 2.5%; secured by a vehicle. Matures July 2017.	10,729
---	--------

**University of Maine Foundation**  
**Notes to Financial Statements**  
**June 30, 2016**

**16. LONG-TERM DEBT (CONTINUED)**

Note payable to Peoples United Bank in monthly installments of \$529 including interest of 2.5%; secured by a vehicle. Matures May 2018.	11,813
Note payable to Nissan Motor Acceptance Corporation in monthly installments of \$574 including interest of 3.53%; secured by a vehicle. Matures December 2018.	10,051
Interest free note payable to Nissan Motor Acceptance Corporation in monthly installments of \$575 secured by a vehicle. Matures June 2018.	<u>13,800</u>
Total long-term debt	522,628
Less current portion	<u>176,208</u>
Total long-term debt net of current portion	<u><u>\$353,320</u></u>

Long-term investments, endowment are pledged as security on loans requiring a .65 loan to value ratio.

Principal payment maturities during the next five years are as follows:

June 30,	
2017	\$176,208
2018	160,330
2019	61,969
2020	63,854
2021	<u>60,267</u>
Total	<u><u>\$522,628</u></u>

**17. STATEMENT OF CASH FLOWS DISCLOSURES**

During the year ended June 30, 2016, the Foundation received non-cash contributions of real estate valued at \$175,848 and investment securities totaling \$1,570,983. Interest of \$1,344 was paid during the year.

**18. SUBSEQUENT EVENTS**

Subsequent events were evaluated through October 26, 2016, which is the date the financial statements were available to be issued.

**University of Maine Foundation**  
**Schedule of Functional Expenses**  
**For the Year Ended June 30, 2016**  
**(With comparative totals for 2015)**

	Program Services	Management and General	Fundraising	Total Expenses	
				2016	2015
Salaries	\$ 457,104	\$ 408,962	\$ 841,594	\$ 1,707,660	\$ 1,126,789
Payroll taxes and employee benefits	140,998	126,147	259,596	526,741	355,947
Total compensation	598,102	535,109	1,101,190	2,234,401	1,482,736
Endowment distributions	7,257,647	-	-	7,257,647	8,096,243
Distributions to life income participants	342,878	-	-	342,878	347,013
Distributions, other	203,050	-	-	203,050	189,305
Gifts transferred to University	1,319,184	-	-	1,319,184	392,420
Fundraising and public relations	-	-	90,392	90,392	100,871
Equity in earnings of Buchanan Alumni House	-	31,445	-	31,445	1,605
Post-retirement expense	-	7,548	-	7,548	17,996
Deferred compensation expense	-	43,636	-	43,636	-
Occupancy costs	33,875	30,307	62,368	126,550	122,000
Tax and audit	-	21,323	-	21,323	23,701
Insurance	11,663	10,434	21,473	43,570	28,981
Postage	14,037	12,559	25,845	52,441	22,608
Printing	46,678	41,762	85,942	174,382	30,129
Depreciation	12,058	10,787	22,199	45,044	36,429
Interest	1,344	-	-	1,344	1,042
Dues and subscriptions	4,949	4,427	9,111	18,487	12,411
Advertising	4,438	3,971	8,171	16,580	16,732
Telephone and internet	3,586	3,209	6,603	13,398	14,416
Legal	-	12,589	-	12,589	5,651
Miscellaneous	1,875	1,677	3,452	7,004	4,979
Meetings and entertainment	4,419	3,953	8,136	16,508	18,464
Supplies	5,810	5,199	10,698	21,707	10,684
Education and training	4,051	3,624	7,458	15,133	11,648
Auto expense	1,434	1,282	2,639	5,355	6,609
Travel	9,839	8,802	18,114	36,755	28,981
Technology, repairs, & maintenance	25,106	22,462	46,224	93,792	77,956
Property management	3,188	2,852	5,870	11,910	25,638
Total functional expenses (Exhibit B)	\$ 9,909,211	\$ 818,957	\$ 1,535,885	\$ 12,264,053	\$ 11,127,248