

University of Maine Foundation

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2014
(With comparative totals for 2013)

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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, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brantron Hibbard & Associates

Bangor, Maine
October 31, 2014

University of Maine Foundation
Statement of Financial Position
June 30, 2014
(With comparative totals for 2013)

	2014	2013
ASSETS		
Cash and equivalents	\$ 68,723	\$ 84,441
Other receivables	108,246	192,345
Promises to give, less allowance for uncollectible pledges of \$125,000 and \$50,000, respectively	1,078,986	514,359
Short-term investments	2,390,624	3,581,877
Cash surrender value of life insurance	70,975	177,707
Long-term investments, endowment	189,150,635	162,834,662
Long-term investments, life income plans	4,909,752	4,494,107
Notes receivable	747,657	785,640
Equity in Buchanan Alumni House	2,658,708	2,678,486
Investment real estate	5,791,657	5,756,357
Property and equipment, net of accumulated depreciation of \$153,671 and \$140,325, respectively	90,658	90,155
Other assets	794,180	771,496
Irrevocable trusts	11,334,593	11,032,292
Assets managed for Buchanan Alumni House	330,340	300,263
Net funding to be provided from Buchanan Alumni House	85,514	164,439
	\$ 219,611,248	\$ 193,458,626
LIABILITIES		
Accounts payable	\$ 75,508	\$ 47,019
Distributions due income beneficiaries	1,892,013	1,851,014
Accrued expenses	494,889	510,813
Notes payable	760,562	910,161
Custodial accounts payable	3,314,658	3,005,745
	6,537,630	6,324,752
NET ASSETS		
Unrestricted net assets	8,136,163	6,703,912
Temporarily restricted net assets	62,652,215	46,032,838
Permanently restricted net assets	142,285,240	134,397,124
	213,073,618	187,133,874
	\$ 219,611,248	\$ 193,458,626

See accompanying notes.

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2014
(With comparative totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2014	2013
REVENUE, GAINS AND RECLASSIFICATION					
Contributions	\$ 1,419,929	\$ 5,076,546	\$ 7,140,041	\$ 13,636,516	\$ 7,816,126
Investment income	1,258,688	21,992,545	16,787	23,268,020	13,434,675
Investment income, life income plans	376,316	173,770	-	550,086	319,477
Other revenue and gains	2,097	939,765	97,089	1,038,951	286,850
Net assets released from restrictions	10,929,050	(11,563,249)	634,199	-	-
Total revenue, gains and reclassification	<u>13,986,080</u>	<u>16,619,377</u>	<u>7,888,116</u>	<u>38,493,573</u>	<u>21,857,128</u>
EXPENSES AND LOSSES					
Program services	10,968,335	-	-	10,968,335	6,258,803
Management and general	504,020	-	-	504,020	653,349
Fundraising	1,081,474	-	-	1,081,474	867,146
Total expenses	<u>12,553,829</u>	<u>-</u>	<u>-</u>	<u>12,553,829</u>	<u>7,779,298</u>
Change in net assets	1,432,251	16,619,377	7,888,116	25,939,744	14,077,830
NET ASSETS , BEGINNING OF YEAR	<u>6,703,912</u>	<u>46,032,838</u>	<u>134,397,124</u>	<u>187,133,874</u>	<u>173,056,044</u>
NET ASSETS, END OF YEAR	<u>\$ 8,136,163</u>	<u>\$ 62,652,215</u>	<u>\$ 142,285,240</u>	<u>\$213,073,618</u>	<u>\$ 187,133,874</u>

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2014
(With comparative totals for 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ 25,939,744</u>	<u>\$ 14,077,830</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	39,558	48,963
Net realized and unrealized loss on sale and disposal of assets	50,531	4,866
Equity in the earnings of Buchanan Alumni House	19,778	43,225
(Increase) decrease in cash surrender value of life insurance policies	106,732	(39,163)
Noncash contributions	(2,494,019)	(1,024,175)
Net realized and unrealized gain on investments	(12,125,089)	(10,936,501)
Net realized and unrealized loss on real estate	2,867	330,028
(Increase) decrease in operating assets		
Other receivables	84,099	275,628
Promises to give	(564,627)	(32,394)
Increase (decrease) in operating liabilities		
Accounts payable	28,489	5,529
Distributions due income beneficiaries	40,999	(39,369)
Accrued expenses	(15,924)	(289,968)
Custodial funds	308,913	95,403
Total adjustments	<u>(14,517,693)</u>	<u>(11,557,928)</u>
Net cash provided by operating activities	<u>11,422,051</u>	<u>2,519,902</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	67,165,386	107,710,783
Purchases of investments	(78,695,185)	(110,454,521)
Purchases of property and equipment	(51,634)	(1,154)
Increase in notes receivable	(152,000)	-
Principal payments on notes receivable	189,983	193,034
Increase in other assets	(29,221)	(5,680)
Proceeds from the sale of property and equipment	13,650	-
Proceeds from the sale of other assets	1,170	4,034
Proceeds from sale of real estate	<u>220,833</u>	<u>23,872</u>
Net cash used by investing activities	<u>(11,337,018)</u>	<u>(2,529,632)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	<u>(100,751)</u>	<u>(73,789)</u>
Net cash used by financing activities	<u>(100,751)</u>	<u>(73,789)</u>
Net decrease in cash and equivalents	(15,718)	(83,519)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>84,441</u>	<u>167,960</u>
CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 68,723</u></u>	<u><u>\$ 84,441</u></u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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, 2014, \$2,102,431 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, 2014

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, 2014

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, 2014 was \$39,558.

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, 2011, 2012 and 2013 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, 2013, 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, 2014

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	\$ 402,105
Between one to five years	1,106,006
Over five years	<u>5,500</u>
Total	1,513,611
Less discounts to present value	(309,625)
Less allowance for uncollectible pledges	<u>(125,000)</u>
Net unconditional promises to give	<u>\$1,078,986</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 as of June 30, 2014 was \$70,975. This represents the value of the policies if they were cancelled as of the statement of financial position date. The total death benefit due to the Foundation upon the deaths of those insured for 2014 was \$855,000.

4. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of approximately 1,450 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, \$1,242,694 temporarily restricted and \$2,350,643 permanently restricted funds support other charitable purposes.

Long-term investments, endowment as of June 30, 2014 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$43,448,011	\$138,477,960	\$181,925,971
Unrestricted funds	1,796,198	-	-	1,796,198
Board designated funds	2,113,814	-	-	2,113,814
Custodial funds	<u>3,314,652</u>	-	-	<u>3,314,652</u>
 Total funds	 <u>\$7,224,664</u>	 <u>\$43,448,011</u>	 <u>\$138,477,960</u>	 <u>\$189,150,635</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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, 2014.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Long-term investments, endowment, beginning of year	\$6,273,262	\$25,676,828	\$130,884,572	\$162,834,662
Investment income, Foundation funds	1,088,058	23,110,246	-	24,198,304
Investment management fees	(27,194)	(594,527)	-	(621,721)
	1,060,864	22,515,719	-	23,576,583
Contributions/additions	1,798,226	3,669,223	7,700,019	13,167,468
Distributions	(2,355,587)	(5,457,880)	-	(7,813,467)
Foundation administrative fee	(116,576)	(2,498,035)	-	(2,614,611)
Fund Reclassifications	564,475	(457,844)	(106,631)	-
Total long-term investments, endowment	\$7,224,664	\$43,448,011	\$138,477,960	\$189,150,635

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, 2014, 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). For the year ended June 30, 2013, 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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$ 2,202,381	\$ 16,787	\$ 2,219,168
Realized gains	-	12,226,834	-	12,226,834
Investment fees	-	(635,271)	-	(635,271)
Unrealized gains	1,258,688	8,198,601	-	9,457,289
Net investment income	<u>\$1,258,688</u>	<u>\$21,992,545</u>	<u>\$ 16,787</u>	<u>\$23,268,020</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)	\$ 926,880
Pooled Life Income Fund #2 (Income)	259,852
Charitable Gift Annuities	<u>3,723,020</u>
Total long-term investments, life income plans	<u>\$ 4,909,752</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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

The following summarizes the life income plan activity for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2013	\$ -	\$4,494,107
Investment income	455,897	173,770
Investment management fees	(25,274)	-
	<u>430,623</u>	<u>173,770</u>
Contributions/additions	-	441,715
Distributions	(376,316)	-
Foundation administrative fees	(54,307)	-
Transfers due to terminations	-	(199,840)
Life income plans June 30, 2014	<u>\$ -</u>	<u>\$4,909,752</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, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 37,741	\$ -	\$ -	\$ 37,741
Realized gains	25,506	-	-	25,506
Investment fees	(25,274)	-	-	(25,274)
Foundation admin fees	(54,307)	-	-	(54,307)
Unrealized gains	392,650	173,770	-	566,420
Net investment income	<u>\$376,316</u>	<u>\$173,770</u>	<u>\$ -</u>	<u>\$550,086</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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	\$ 576,640	\$ -	\$ -	\$ 576,640	Daily
Certificates of Deposit	1,675,000	-	-	1,675,000	Daily
Cash	138,984	-	-	138,984	Daily
Total short-term investments	<u>\$2,390,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,390,624</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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	\$ 9,508,739	\$ -	\$ -	\$ 9,508,739	Daily
Large cap index	28,063,338	-	-	28,063,338	Daily
Small/mid cap	3,589,586	-	-	3,589,586	Daily
Blend	2,118,103	-	-	2,118,103	Daily
Total U.S. equities	43,279,766	-	-	43,279,766	
Non U.S. equities:					
Developed index	24,151,665	-	-	24,151,665	Daily
Other developed	19,679,114	-	-	19,679,114	Monthly
Emerging market	17,444,738	-	-	17,444,738	Daily
Total non U.S. equities	61,275,517	-	-	61,275,517	
U.S. fixed income:					
TIPS	1,673,539	-	-	1,673,539	Daily
U.S. Treasuries	9,397,112	-	-	9,397,112	Daily
Investment grade	7,260,180	-	-	7,260,180	Daily
Total U.S. fixed income	18,330,831	-	-	18,330,831	
Global fixed income:					
Investment grade	7,476,950	-	-	7,476,950	Daily
	7,476,950	-	-	7,476,950	
Other Equities:					
Natural resources	6,267,905	-	-	6,267,905	Daily
	6,267,905	-	-	6,267,905	
Alternative investments:					
Hedge funds					
U.S. long/short	-	-	4,082,122	4,082,122	Quarterly
Global long/short	-	-	11,856,593	11,856,593	Quarterly
Multi-strategy	-	-	7,991,123	7,991,123	Quarterly
Event-driven	-	-	4,290,581	4,290,581	Quarterly
Event-driven	-	-	4,163,933	4,163,933	Annually
Global Macro	-	-	2,085,312	2,085,312	Quarterly
Opportunistic	-	-	2,055,068	2,055,068	Quarterly
Total hedge funds	-	-	36,524,732	36,524,732	
Other alternative investments:					
Commodity futures	-	-	8,486,932	8,486,932	Monthly
Total other alternative investments	-	-	8,486,932	8,486,932	
Cash	7,508,002	-	-	7,508,002	Daily
Total long term investments, endowment	\$144,138,971	\$ -	\$ 45,011,664	\$189,150,635	

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

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	\$ 187,076	\$ -	\$ -	\$ 187,076	Daily
Large cap index	910,558	-	-	910,558	Daily
Small/mid cap	70,622	-	-	70,622	Daily
Blend	41,672	-	-	41,672	Daily
Total U.S. equities	<u>1,209,928</u>	<u>-</u>	<u>-</u>	<u>1,209,928</u>	
Non U.S. equities:					
Developed index	475,163	-	-	475,163	Daily
Other developed	387,169	-	-	387,169	Monthly
Emerging market	343,210	-	-	343,210	Daily
Total non U.S. equities	<u>1,205,542</u>	<u>-</u>	<u>-</u>	<u>1,205,542</u>	
U.S. fixed income:					
TIPS	32,925	-	-	32,925	Daily
U.S. Treasuries	184,880	-	-	184,880	Daily
Investment grade	722,462	-	-	722,462	Daily
Investment grade index	58,237	-	-	58,237	Daily
High yield	129,650	-	-	129,650	Daily
Total U.S. fixed income	<u>1,128,154</u>	<u>-</u>	<u>-</u>	<u>1,128,154</u>	
Global fixed income:					
Investment grade	147,102	-	-	147,102	Daily
	<u>147,102</u>	<u>-</u>	<u>-</u>	<u>147,102</u>	
Other Equities:					
Real estate	48,223	-	-	48,223	
Natural resources	123,316	-	-	123,316	Daily
	<u>171,539</u>	<u>-</u>	<u>-</u>	<u>171,539</u>	
Alternative investments:					
Hedge funds					
U.S. long/short	-	-	80,312	80,312	Quarterly
Global long/short	-	-	233,268	233,268	Quarterly
Multi-strategy	-	-	157,218	157,218	Quarterly
Event-driven	-	-	84,413	84,413	Quarterly
Event-driven	-	-	81,922	81,922	Annually
Global Macro	-	-	41,027	41,027	Quarterly
Opportunistic	-	-	40,432	40,432	Quarterly
Total hedge funds	<u>-</u>	<u>-</u>	<u>718,592</u>	<u>718,592</u>	
Other alternative investments:					
Commodity futures	-	-	166,973	166,973	Monthly
Total other alternative investments	<u>-</u>	<u>-</u>	<u>166,973</u>	<u>166,973</u>	
Cash	161,922	-	-	161,922	Daily
Total long term investments, life income plans	<u>\$4,024,187</u>	<u>\$ -</u>	<u>\$ 885,565</u>	<u>\$4,909,752</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

8. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Investments, July 1, 2013	\$29,592,233
Realized and unrealized gain/loss included in investment income on the statement of activities	3,052,029
Redemptions	(19,767,425)
Additions	33,000,000
Transfers	20,392
	<hr/>
Investments, June 30, 2014	<u>\$45,897,229</u>

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2014 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	\$134,447
Note receivable due in monthly installments of \$4,937 including interest at 3.5%; secured by real estate valued at \$180,000. Matures in October 2014	19,604
Note receivable due in annual installments of \$40,000 secured by real estate valued at \$200,000. Matures in January 2018.	152,000
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	341,606
Note receivable due in annual installments of principal \$50,000 plus interest compounded annually at 5.50%. Secured by real estate valued at \$350,000. Matures in 2015.	100,000
Total notes receivable	<u>\$747,657</u>

10. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2014 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 8,004,978
Charitable lead trusts	1,976,023
Perpetual trusts	<u>1,353,592</u>
Total beneficiary interest in irrevocable trusts	<u>\$11,334,593</u>

Unrealized gains of \$920,487 are reported in other revenue, gains and (losses) on the statement of activities. Terminated trusts and trust payments of \$1,825,187 were received for the year ended June 30, 2014.

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

11. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2014 consist of the following:

Durst education fund	\$ 35,393
Post-retirement benefits (total estimated future benefits of \$560,196 discounted to present value of 8% for 2014)	315,464
Accrued vacation and other	144,032
 Total accrued expenses	 \$494,889

12. OPERATING LEASE

The Foundation entered an operating lease 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 for the year ended June 30, 2014 were \$6,500. The minimum future payments under this noncancelable operating lease signed on July 1, 2014 are as follows:

Year ending June 30:	
2015	\$13,500
2016	\$13,500
2017	\$13,500

13. 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 \$91,378 for the year ended June 30, 2014.

14. 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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2014

14. BUCHANAN ALUMNI HOUSE (CONTINUED)

As the legal owner of several Buchanan Alumni designated assets, the Foundation is administering the following asset at June 30, 2014:

Cash and cash equivalents	<u>\$330,340</u>
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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, 2014:

Note principal managed by the University of Maine Foundation	<u>\$415,854</u>
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15. 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.	\$341,606
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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.	415,854
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Note payable to Peoples United Bank in monthly installments of \$460 including interest of 4.0%; secured by a vehicle. Matures November 2014.	2,278
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Note payable to Peoples United Bank in monthly installments of \$430 including interest of 4.0%; secured by a vehicle. Matures August 2014.	<u>824</u>
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Total long-term debt	760,562
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Less current portion	<u>142,097</u>
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Total long-term debt net of current portion	<u>\$618,465</u>
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University of Maine Foundation
Notes to Financial Statements
June 30, 2014

15. LONG-TERM DEBT (CONTINUED)

Long-term investments, endowment in the amount of \$4,054,515 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,	
2015	\$142,097
2016	142,792
2017	146,694
2018	143,241
2019	61,969
Due thereafter	<u>123,769</u>
Total	<u>\$760,562</u>

16. STATEMENT OF CASH FLOWS DISCLOSURES

During 2014, the Foundation received non-cash contributions of other assets of \$47,242, real estate valued at \$259,000 and investment securities totaling \$2,187,778. The Foundation paid interest of \$792 during the year and disposed of fully depreciated assets with a cost value of \$3,066.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2014 the date on which the financial statements were available to be issued.

University of Maine Foundation
Schedule of Functional Expenses
For the Year Ended June 30, 2014
(With comparative totals for 2013)

	Program Services	Management and General	Fundraising	Total Expenses	
				2014	2013
Salaries	\$ 183,803	\$ 236,701	\$ 552,107	\$ 972,611	\$ 898,735
Payroll taxes and employee benefits	62,051	79,909	186,388	328,348	322,487
Total compensation	245,854	316,610	738,495	1,300,959	1,221,222
Distributions supporting University	9,959,519	-	-	9,959,519	5,388,031
Distributions to life income participants	376,316	-	-	376,316	359,902
Distributions, other	302,778	-	-	302,778	113,136
Fundraising and public relations	-	-	93,438	93,438	86,546
Equity in earnings of Buchanan					
Alumni House	-	19,778	-	19,778	43,225
Post-retirement expense	-	34,611	-	34,611	90,003
Occupancy costs	21,733	27,988	65,282	115,003	115,170
Tax and audit	-	21,831	-	21,831	16,050
Travel	5,095	6,562	15,306	26,963	33,609
Insurance	4,021	5,178	12,078	21,277	18,546
Postage	4,437	5,714	13,330	23,481	21,751
Printing	6,437	8,290	19,335	34,062	30,753
Depreciation	7,476	9,627	22,455	39,558	48,963
Interest	792	-	-	792	1,510
Dues and subscriptions	2,372	3,054	7,124	12,550	11,805
Advertising	2,478	3,191	7,443	13,112	6,410
Telephone and internet	1,902	2,449	5,711	10,062	10,235
Legal	-	4,206	-	4,206	11,220
Miscellaneous	855	1,101	2,566	4,522	7,931
Meetings and entertainment	3,185	4,101	9,566	16,852	13,027
Supplies	1,407	1,812	4,225	7,444	8,227
Education and training	2,917	3,757	8,763	15,437	10,211
Auto expense	1,257	1,618	3,775	6,650	5,925
Technology, repairs, & maintenance	12,275	15,808	36,873	64,956	68,501
Property management	5,229	6,734	15,709	27,672	37,389
Total functional expenses (Exhibit B)	<u>\$ 10,968,335</u>	<u>\$ 504,020</u>	<u>\$ 1,081,474</u>	<u>\$ 12,553,829</u>	<u>\$ 7,779,298</u>