

University of Maine Foundation

REPORT ON FINANCIAL STATEMENTS

For the Year Ended June 30, 2009
(With comparative totals for 2008)

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Independent Auditor's Report

Board of Directors
University of Maine Foundation

We have audited the accompanying statement of financial position of the University of Maine Foundation (a nonprofit corporation) as of June 30, 2009 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements; and in our report dated October 8, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Maine Foundation as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brantner Thibodeau & Associates

Bangor, Maine
October 5, 2009

University of Maine Foundation
Statement of Financial Position
June 30, 2009
(With comparative totals for 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 37,476	\$ 113,851
Other receivables	238,250	172,639
Promises to give, less allowance for uncollectible pledges of \$50,000 for 2009 and 2008	1,967,714	1,776,589
Short term investments	4,136,440	2,626,167
Cash surrender value of life insurance	100,415	116,084
Long term investments, endowment	109,666,998	142,788,147
Long term investments, life income plans	4,676,705	6,529,532
Notes receivable	932,987	-
Equity in Buchanan Alumni House	2,881,826	2,875,193
Investment real estate	10,876,356	10,801,956
Property and equipment, net of accumulated depreciation of \$107,570 and \$82,200, respectively	128,211	147,948
Other assets	400,959	617,179
Irrevocable trusts	12,744,074	15,387,284
Assets managed for Buchanan Alumni House	293,490	217,945
Net funding to be provided from Buchanan Alumni House	<u>345,087</u>	<u>456,296</u>
Total assets	<u>\$ 149,426,988</u>	<u>\$ 184,626,810</u>
LIABILITIES		
Accounts payable	\$ 251,363	\$ 16,390
Distributions due income beneficiaries	2,415,586	2,523,252
Accrued expenses	866,142	866,639
Notes payable	1,351,713	698,067
Custodial accounts payable	<u>2,828,119</u>	<u>3,646,073</u>
Total liabilities	<u>7,712,923</u>	<u>7,750,421</u>
NET ASSETS		
Unrestricted net assets (deficit)	(3,762,685)	11,886,510
Temporarily restricted net assets	32,284,599	57,944,668
Permanently restricted net assets	<u>113,192,151</u>	<u>107,045,211</u>
Total net assets	<u>141,714,065</u>	<u>176,876,389</u>
Total liabilities and net assets	<u>\$ 149,426,988</u>	<u>\$ 184,626,810</u>

See accompanying notes to financial statements.

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2009
(With comparative totals for 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2009	2008
SUPPORT, REVENUES AND RECLASSIFICATION					
Contributions	\$ 851,878	\$ 566,522	\$ 6,329,862	\$ 7,748,262	\$ 13,088,048
Investment income	(15,393,948)	(14,486,400)	130	(29,880,218)	(4,866,498)
Investment income, life income plans	515,180	(1,797,949)	-	(1,282,769)	(273,435)
Other revenue, gains and (losses)	145	(2,313,155)	(101,147)	(2,414,157)	(1,451,995)
Net assets released from restrictions	7,710,992	(7,629,087)	(81,905)	-	-
Total support, revenues and reclassification	<u>(6,315,753)</u>	<u>(25,660,069)</u>	<u>6,146,940</u>	<u>(25,828,882)</u>	<u>6,496,120</u>
EXPENSES					
Program services	8,078,945	-	-	8,078,945	9,573,084
Management and general	503,010	-	-	503,010	594,302
Fundraising	751,487	-	-	751,487	756,010
Total expenses	<u>9,333,442</u>	<u>-</u>	<u>-</u>	<u>9,333,442</u>	<u>10,923,396</u>
Increase (decrease) in net assets	(15,649,195)	(25,660,069)	6,146,940	(35,162,324)	(4,427,276)
NET ASSETS, BEGINNING OF YEAR	<u>11,886,510</u>	<u>57,944,668</u>	<u>107,045,211</u>	<u>176,876,389</u>	<u>181,303,665</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (3,762,685)</u>	<u>\$ 32,284,599</u>	<u>\$ 113,192,151</u>	<u>\$ 141,714,065</u>	<u>\$ 176,876,389</u>

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2009
(With comparative totals for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (35,162,324)	\$ (4,427,276)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	41,143	30,295
Loss on disposal of assets	13,686	52,283
Equity in the earnings of Buchanan Alumni House	(6,633)	85,168
Increase in cash surrender value of life insurance policies	(4,652)	(14,051)
Noncash contributions	(1,703,845)	(2,909,499)
Net realized and unrealized (gain) loss on investments	36,463,712	8,791,666
(Increase) decrease in operating assets		
Other receivables	(65,611)	156,277
Promises to give	(191,125)	(118,447)
Increase (decrease) in operating liabilities		
Accounts payable	234,973	(47,021)
Distributions due to beneficiaries	(107,666)	107,557
Accrued expenses	3,102	31,347
Custodial funds	(817,954)	388,900
Total adjustments	<u>33,859,130</u>	<u>6,554,475</u>
Net cash provided (used) by operating activities	<u>(1,303,194)</u>	<u>2,127,199</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale and maturation of investments	63,853,705	76,088,093
Purchases of investments	(62,786,803)	(78,628,583)
Purchases of property and equipment	(13,279)	(58,937)
Increase in notes receivable	(100,218)	-
Principal payments on notes receivable	84,875	-
(Increase) decrease in other assets	219,920	(220,200)
Proceeds from the sale of other assets	1,380	427,500
Proceeds from the sale of real estate	13,801	298,285
Proceeds from surrender of life insurance policy	20,321	14,486
Net cash provided (used) in investing activities	<u>1,293,702</u>	<u>(2,079,356)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	7,306	-
Payments of notes payable	(74,189)	(25,398)
Net cash used in financing activities	<u>(66,883)</u>	<u>(25,398)</u>
Net increase (decrease) in cash and equivalents	(76,375)	22,445
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>113,851</u>	<u>91,406</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 37,476</u>	<u>\$ 113,851</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

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. Operating expenses of the Foundation are supported by unrestricted contributions and a fee charged to the endowment pool varying from 1.25-1.6%.

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 \$362,975 and \$365,775 for 2009 and 2008, respectively 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 as changes in net assets.

Contributions

The University of Maine Foundation accounts for contributions in accordance with the recommendations of FASB in SFAS No. 116. 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. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. 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 the contributions are received are reported as unrestricted contributions.

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Real Estate

Investment real estate are donated assets recorded as contributions at their fair values as of the date of the gift. Donated real estate may have donor restrictions as to use or time the property must be held; therefore, contributions of real estate have been recorded as increases in temporarily or permanently restricted assets.

Custodial Funds

The Foundation holds custodial accounts for entities that control their own spending. Income and disbursements to these accounts are reported as increases or decreases to the liability accounts of the Foundation.

Investments

Investments in marketable securities with readily determinable fair values are stated at fair value. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

The Foundation maintains a general pool of investments for its endowments. Realized and unrealized gains and losses from securities in the investment pool are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the investment accounts, as adjusted for additions to or deductions from those accounts.

Split-interest agreements

The Foundation participates in trust or other 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. The contributed assets are recognized at fair market value when received. The carrying values are also at fair market value. Future annuity benefit obligations are discounted to the present value based upon various rates of return and life expectancies of the annuitants.

Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments that are not held for trading purposes:

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

Notes receivable: The carrying amount reported approximates the fair value based on expected principal collections.

Short-term and long-term investments: The fair values of investments are based on quoted market prices for those of similar investments.

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

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

Financial Instruments (Continued)

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 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 therefore subject to concentrations of credit risk. Investment advisors who are supervised by the Board of Directors of the Foundation manage investments. 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 welfare 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 years ended June 30, 2009 and 2008 was \$41,143 and \$30,295, respectively.

Income Taxes

The Foundation is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue code and is not a private foundation.

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 based on 5 ½% of the average market value for the six previous years ending December 31.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the Maine Legislature to apply 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). At this time, the Board of Directors of the University of Maine Foundation believe donors who established endowed funds with the Foundation intended to create funds according to the dictionary definition of endowment, meaning that the principal of the fund would not be invaded for distribution; therefore, funds endowed in the Foundation on or before July 1, 2009 will not be expended if the fund's value is less than its principal value.

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived. Reclassifications to prior year data have been made to be consistent with current year presentation. Prior year net assets and net income were not changed.

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 among the programs and supporting services benefited.

2. PROMISES TO GIVE

Unconditional promises to give are recorded in the financial statements as promises to give. Promises to give exceeding one year are recorded at the present value of the future cash flows using an 8% discount rate for 2009 and a 10% discount rate for 2008.

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

	2009	2008
In one year or less	\$ 183,093	\$ 84,945
Between one to five years	2,177,548	2,257,830
Over five years	458,100	463,950
Total	2,818,741	2,806,725
Less discounts to present value	(801,027)	(980,136)
Less allowance for uncollectible pledges	(50,000)	(50,000)
Net unconditional promises to give	<u>\$1,967,714</u>	<u>\$1,776,589</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. As of June 30, 2009, the Foundation has a \$250,000 conditional promise to give for the benefit of University of Maine Football as a 1:1 match for funds raised through December 31, 2009 in support of the football program.

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

3. CASH SURRENDER VALUE OF LIFE INSURANCE

The Foundation owns life insurance policies on the lives of certain donors. The cash surrender values as of June 30, 2009 and 2008 were \$100,415 and \$116,084, respectively. This represents the value of the policies if they were cancelled as of the statement of financial position date. The total death benefits due the Foundation upon the deaths of those insured were \$427,199 for 2009 and 2008.

4. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of more than 1200 endowed and quasi-endowed funds accounted for monthly on a unitized basis.

Long-term investments as of June 30, 2009 and 2008 were categorized as follows:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted funds	\$(14,213,451)	\$10,495,367	\$107,387,637	\$103,669,553
Unrestricted funds	3,236,988	-	-	3,236,988
Custodial funds	<u>2,760,457</u>	-	-	<u>2,760,457</u>
Total funds	<u>\$ (8,216,006)</u>	<u>\$10,495,367</u>	<u>\$107,387,637</u>	<u>\$109,666,998</u>
	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted funds	\$ -	\$31,744,543	\$103,027,869	\$134,772,412
Unrestricted funds	4,415,291	-	-	4,415,291
Custodial funds	<u>3,600,444</u>	-	-	<u>3,600,444</u>
Total funds	<u>\$8,015,735</u>	<u>\$31,744,543</u>	<u>\$103,027,869</u>	<u>\$142,788,147</u>

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 objective is to return 8%, net of fees. Actual returns in any given year may vary from this amount.

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

Long-term investments, endowment as of June 30, 2009 and 2008 were as follows:

2009		
	Cost	Market
Cash and cash equivalents	\$ 5,207,851	\$ 5,207,851
Fixed income investments	25,229,283	23,687,545
Stocks	45,291,746	39,826,629
Alternative investments	<u>43,755,007</u>	<u>40,944,973</u>
Total long-term investments, endowment	<u>\$119,483,887</u>	<u>\$109,666,998</u>
2008		
	Cost	Market
Cash and cash equivalents	\$ 9,633,581	\$ 9,633,581
Fixed income investments	11,731,682	11,492,552
Stocks	66,225,247	72,405,397
Alternative investments	<u>46,144,495</u>	<u>49,256,617</u>
Total long-term investments, endowment	<u>\$133,735,005</u>	<u>\$142,788,147</u>

The following summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2009 and 2008.

2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$ 2,229,570	\$130	\$ 2,229,700
Realized gains	-	(13,724,400)	-	(13,724,400)
Investment fees	-	(350,152)	-	(350,152)
Unrealized gains	<u>\$(15,393,948)</u>	<u>(2,641,418)</u>	-	<u>(18,035,366)</u>
Net investment income	<u>\$(15,393,948)</u>	<u>\$ (14,486,400)</u>	<u>\$130</u>	<u>\$(29,880,218)</u>
2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$ 2,559,847	\$328	\$ 2,560,175
Realized gains	-	6,372,614	-	6,372,614
Investment fees	-	(604,182)	-	(604,182)
Unrealized gains	<u>(388,601)</u>	<u>(12,806,504)</u>	-	<u>(13,195,105)</u>
Net investment income	<u>\$(388,601)</u>	<u>\$ (4,478,225)</u>	<u>\$328</u>	<u>\$ (4,866,498)</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

5. 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:

	2009	2008
Pooled Life Income Fund #1 (Growth)	\$ 557,029	\$ 667,632
Pooled Life Income Fund #2 (Income)	551,473	610,212
Charitable Gift Annuities	<u>3,568,203</u>	<u>5,251,688</u>
Total long-term investments, life income plans	<u>\$4,676,705</u>	<u>\$6,529,532</u>

Long-term investments, life income plans as of June 30, 2009 and 2008 were as follows:

	2009	
	Cost	Market
Cash and cash equivalents	\$ 51,201	\$ 51,201
Stocks and mutual funds	3,999,297	3,850,363
Bonds	<u>836,958</u>	<u>775,141</u>
Total long-term investments	<u>\$4,887,456</u>	<u>\$4,676,705</u>
	2008	
	Cost	Market
Cash and cash equivalents	\$ 21,861	\$ 21,861
Stocks and mutual funds	4,418,281	5,568,881
Bonds	<u>995,636</u>	<u>938,790</u>
Total long-term investments	<u>\$5,435,778</u>	<u>\$6,529,532</u>

The following summarizes the life income plan investment return and its classification in the statement of activities for the years ended June 30, 2009 and 2008.

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 57,166	\$ -	\$ -	\$ 57,166
Realized gains and (losses)	(23,425)	-	-	(23,425)
Unrealized gains	493,282	(1,797,949)	-	(1,304,667)
Investment fees	<u>(11,843)</u>	<u>-</u>	<u>-</u>	<u>(11,843)</u>
Net investment income	<u>\$515,180</u>	<u>\$(1,797,949)</u>	<u>\$ -</u>	<u>\$(1,282,769)</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

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

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 75,560	\$ -	\$ -	\$ 75,560
Realized gains and (losses)	49,502	-	-	49,502
Unrealized gains	402,013	(784,548)	-	(382,535)
Investment fees	<u>(15,962)</u>	<u>-</u>	<u>-</u>	<u>(15,962)</u>
Net investment income	<u>\$511,113</u>	<u>\$(784,548)</u>	<u>\$ -</u>	<u>\$(273,435)</u>

6. FAIR VALUE MEASUREMENTS

The Foundation has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" ("SFAS No. 157"). Under SFAS No. 157, 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.

SFAS No. 157 establishes a fair value hierarchy for inputs 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.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. 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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's assets measured at fair value on a recurring basis is as follows:

2009				
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 4,136,440	\$ 4,136,440	\$ -	\$ -
Long-term investments, endowment	109,666,998	68,722,025	-	40,944,973
Long-term investments, life income plans	4,676,705	4,676,705	-	-
Irrevocable trusts	<u>12,744,074</u>	<u>12,744,074</u>	-	-
Total assets	<u>\$131,224,217</u>	<u>\$90,279,244</u>	<u>\$ -</u>	<u>\$40,944,973</u>
2008				
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 2,626,167	\$ 2,626,167	\$ -	\$ -
Long-term investments, endowment	142,788,147	93,531,530	-	49,256,617
Long-term investments, life income plans	6,529,532	6,529,532	-	-
Irrevocable trusts	<u>15,387,284</u>	<u>15,387,284</u>	-	-
Total assets	<u>\$167,331,130</u>	<u>\$118,074,513</u>	<u>\$ -</u>	<u>\$49,256,617</u>

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

Alternative investments, July 1, 2008	\$49,256,617
Realized gains	112,082
Unrealized losses	(5,922,156)
Reallocation to Level 1	(2,501,719)
Earnings	<u>149</u>
Alternative investments, June 30, 2009	<u>\$40,944,973</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

7. NOTES RECEIVABLE

Notes receivables would be considered past due if more than thirty days late. At June 30, 2009, all notes receivables are current. Notes receivable consist of the following:

	2009	2008
Donor assigned mortgage; due in monthly installments of \$1,382 including interest at 5%; secured by real estate appraised at \$285,000. Matures in August 2024.	\$176,069	\$ -
Note receivable to University of Maine; due in semi-annual installments of \$2,759 including interest at 3.67%. Unsecured. Matures in October 2013.	22,700	-
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	<u>734,218</u>	<u>-</u>
Total notes receivable	<u>\$932,987</u>	<u>\$ -</u>

8. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2009 and 2008 consist of the following:

	2009	2008
Durst education fund	\$120,111	\$122,501
Post-retirement benefits (total estimated future benefits of \$922,803 and \$922,605, respectively discounted to present value of 8% for 2009 and 10% for 2008)	612,866	620,811
Accrued vacation and other	133,165	119,728
Accrued interest	<u>-</u>	<u>3,599</u>
Total	<u>\$866,142</u>	<u>\$866,639</u>

9. OPERATING LEASES

The extension term for the general office in South Portland, Maine commenced on March 1, 2008 and ends on February 28, 2011. Under a written arrangement with the University of Maine, the Foundation has assigned the rights, responsibilities, obligations and use of the premises to the University of Maine. The University of Maine will assume the rental obligations; however, the Foundation reimburses the University \$1,927 per month for office space. The minimum future payments under this noncancelable operating lease are as follows.

2010	\$21,595
2011	<u>14,682</u>
	<u>\$36,277</u>

**University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)**

10. 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 fund each year. Pension expense that is reported in the schedule of functional expenses with payroll taxes and fringe benefits totaled \$77,891 and \$68,549 for the years ended June 30, 2009 and 2008, respectively.

11. 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.

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 functional 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 Association, as the owners of Buchanan Alumni House, each paid \$11,000 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 assets at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Checking account	\$100,054	\$ 56,081
Certificates of deposit	<u>193,436</u>	<u>161,864</u>
Total assets managed by the University of Maine Foundation	<u>\$293,490</u>	<u>\$217,945</u>

As the obligor of a loan through Bangor Savings 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Note principal	\$638,577	\$670,642
Accrued interest	<u>-</u>	<u>3,599</u>
Total debt managed by the University of Maine Foundation	<u>\$638,577</u>	<u>\$674,241</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

12. LONG-TERM DEBT

Long-term debt consists of the following:

	2009	2008
Note payable to Merrill Bank in monthly installments of \$7,914 with an interest rate at 4.75% for the first five years, thereafter prime plus .50%. Beginning July 25, 2014, the interest rate will adjust thereafter through July 25, 2021 at which time all amounts of interest and principal on the note are due. 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.	\$ 690,221	\$ -
Variable rate note payable to Bangor Savings Bank in monthly installments of \$6,417 with an interest rate presently at 6.44%. The loan is secured by a University of Maine Foundation securities account. While legally payable by the Foundation; it was the intent to satisfy this debt through the Buchanan Alumni House ownership and therefore, the debt is recorded on those financial statements. Refinanced with Merrill Bank in June 2009.	-	670,642
Note payable to Merrill Bank in monthly installments of \$5,847 with a fixed interest rate of 4.75% for the first five years, thereafter prime plus .50%. Beginning July 25, 2014, the interest rate will adjust thereafter through July 25, 2021 at which time all amounts of interest and principal on the note are due. 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.	638,577	-
Note payable to Bangor Savings Bank in monthly installments of \$482 including interest at 7.14%; secured by a vehicle. Matures in December 2006.	6,017	11,175
Note payable to Bangor Savings Bank in monthly installments of \$599 including interest at 5.09%; secured by a vehicle. Matures in July 2008.	-	533
Note payable to Bangor Savings Bank in monthly installments of \$578 including interest of 7.40%; secured by a vehicle. Matures in July 2011.	13,849	-
Note payable to Bangor Savings Bank in monthly installments of \$563 including interest at 6.24%; secured by a vehicle. Matures in April 2009.	-	5,383
Note payable to Bangor Savings Bank in monthly installments of \$644 including interest at 6.24%; secured by a vehicle. Matures in December 2009.	3,049	10,334
Total long-term debt	1,351,713	698,067
Less current portion	116,266	53,241
Total long-term debt net of current portion	<u>\$1,235,447</u>	<u>\$644,826</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2009
(With comparative totals for 2008)

12. LONG-TERM DEBT (CONTINUED)

Principal payment maturities during the next five years, assuming a continuation of June 30, 2009 interest rates are as follows:

<u>June 30</u>	
2010	\$ 116,266
2011	116,287
2012	115,068
2013	120,054
2014	125,882
Due thereafter	<u>758,156</u>
Total	<u>\$1,351,713</u>

13. STATEMENT OF CASH FLOWS DISCLOSURES

During 2009, the Foundation received non-cash contributions of real estate of \$90,000; other assets of \$6,500; donor assigned mortgage with a balance of \$183,644; and investment securities totaling \$1,423,701. The Foundation also paid interest of \$14,837 during the year. Also during 2009, the Foundation purchased an automobile totaling \$26,581 by obtaining a note payable of \$18,594 and trading a vehicle with a net book value \$7,987. During 2009 the Foundation financed equipment for \$734,000 and transferred the equipment to the University of Maine for a signed promissory note. The Foundation also disposed of assets with a remaining book value of \$2,478 that were considered obsolete.

During 2008, the Foundation received non-cash contributions of other assets of \$407,500; and investment securities totaling \$2,501,999. The Foundation also paid interest of \$12,547 during the year. Also during 2008, the Foundation purchased an automobile totaling \$19,630 by obtaining a note payable of \$15,586 and trading a vehicle with a net book value \$6,617. The Foundation also disposed of assets with a remaining book value of \$1,451 that were considered obsolete. During 2008, the Foundation used proceeds of \$14,486 from a \$25,000 life insurance policy to purchase a new life insurance policy with a face value of \$100,000.

University of Maine Foundation
Schedule of Functional Expenses
For the Year Ended June 30, 2009
(With comparative totals for 2008)

	Program Services	Management and General	Fundraising	Total Expenses	
				2009	2008
Salaries	\$ 201,268	\$ 244,846	\$ 359,473	\$ 805,587	\$ 742,908
Payroll taxes and employee benefits	56,186	68,351	100,350	224,887	221,490
Total compensation	257,454	313,197	459,823	1,030,474	964,398
Distributions supporting University	6,774,928	-	-	6,774,928	8,505,828
Distributions to life income participants	515,180	-	-	515,180	511,113
Distributions, other	401,203	-	-	401,203	186,449
Fundraising and public relations	-	-	92,084	92,084	119,383
Equity in earnings of Buchanan Alumni House	-	18,367	-	18,367	85,168
Post retirement expense	-	12,874	-	12,874	49,852
Occupancy	27,306	33,218	48,770	109,294	98,896
Tax and audit	-	13,590	-	13,590	9,375
Consulting	-	7,290	-	7,290	15,908
Travel	3,196	3,888	5,708	12,792	24,180
Insurance	6,644	8,083	11,867	26,594	32,090
Postage	4,528	5,508	8,087	18,123	18,407
Printing	8,559	10,412	15,287	34,258	28,360
Depreciation	10,279	12,505	18,359	41,143	30,295
Interest	18,436	-	-	18,436	12,547
Dues and subscriptions	3,009	3,661	5,374	12,044	13,922
Advertising	1,538	1,871	2,747	6,156	12,123
Telephone	2,018	2,455	3,604	8,077	9,274
Legal	-	1,751	-	1,751	4,420
Miscellaneous	1,007	1,226	1,798	4,031	5,915
Entertainment	8,843	10,757	15,793	35,393	13,008
Supplies	2,239	2,724	4,000	8,963	13,153
Education and training	1,197	1,456	2,138	4,791	12,898
Auto expense	1,209	1,471	2,160	4,840	6,888
Equipment expense	3,053	3,714	5,452	12,219	12,816
Property management	27,119	32,992	48,436	108,547	126,730
Total functional expenses (Exhibit B)	\$ 8,078,945	\$ 503,010	\$ 751,487	\$ 9,333,442	\$ 10,923,396