

University of Maine Foundation

REPORT ON FINANCIAL STATEMENTS

For the Year Ended June 30, 2017
(With comparative totals for 2016)

CONTENTS

	Exhibit	Page
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
	Schedule	
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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brantner Hibbard & Associates

October 24, 2017

University of Maine Foundation
Statement of Financial Position
June 30, 2017
(With comparative totals for 2016)

	2017	2016
ASSETS		
Cash and equivalents	\$ 2,267,940	\$ 608,958
Other receivables	118,578	101,016
Promises to give, less allowance for uncollectible pledges of \$70,000 and \$125,000, respectively	1,396,872	1,412,554
Short-term investments	3,156,712	3,167,627
Cash surrender value of life insurance	157,437	148,271
Long-term investments, endowment	203,012,301	179,886,988
Long-term investments, life income plans	4,995,245	4,455,998
Notes receivable	227,139	374,696
Equity in Buchanan Alumni House	2,681,724	2,625,658
Investment real estate	5,767,315	6,001,390
Property and equipment, net of accumulated depreciation of \$212,969 and \$187,255, respectively	206,645	171,309
Other assets	438,691	609,180
Irrevocable trusts	8,514,955	8,572,964
Assets managed for Buchanan Alumni House	-	280,856
Net funding to be provided from Buchanan Alumni House	-	23,738
	\$ 232,941,554	\$ 208,441,203
LIABILITIES		
Accounts payable	\$ 285,653	\$ 35,440
Distributions due income beneficiaries	1,902,476	1,797,824
Accrued expenses	589,003	557,883
Notes payable	99,413	522,628
Custodial accounts payable	3,065,958	2,835,137
	5,942,503	5,748,912
NET ASSETS		
Unrestricted net assets	9,943,049	3,522,700
Temporarily restricted net assets	59,742,786	46,068,770
Permanently restricted net assets	157,313,216	153,100,821
	226,999,051	202,692,291
Total net assets	226,999,051	202,692,291
Total liabilities and net assets	\$ 232,941,554	\$ 208,441,203

See accompanying notes.

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2017
(With comparative totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
REVENUE, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS					
Contributions	\$ 2,648,672	\$ 3,909,284	\$ 3,804,133	\$ 10,362,089	\$ 10,816,338
Investment income (loss)	5,401,334	17,165,993	5,434	22,572,761	(6,766,771)
Investment income (loss), life income plans	338,389	101,328	-	439,717	(126,342)
Advancement services	4,649,232	-	-	4,649,232	1,240,344
Other revenue, gains (losses)	71,316	291,815	106,467	469,598	(117,800)
Reinvestment of donor funds	79,428	(375,789)	296,361	-	-
Net assets released from restrictions	7,418,615	(7,418,615)	-	-	-
Total revenue, gains, other support and reclassifications	20,606,986	13,674,016	4,212,395	38,493,397	5,045,769
EXPENSES AND LOSSES					
Program services	\$ 10,425,378	-	-	10,425,378	9,909,211
Management and general	1,300,005	-	-	1,300,005	818,957
Fundraising	2,461,254	-	-	2,461,254	1,535,885
Total expenses	14,186,637	-	-	14,186,637	12,264,053
Change in net assets	6,420,349	13,674,016	4,212,395	24,306,760	(7,218,284)
NET ASSETS , BEGINNING OF YEAR (RESTATED) (NOTE 18)					
	3,522,700	46,068,770	153,100,821	202,692,291	209,910,575
NET ASSETS, END OF YEAR					
	\$ 9,943,049	\$ 59,742,786	\$ 157,313,216	\$226,999,051	\$202,692,291

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2017
(With comparative totals for 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ 24,306,760</u>	<u>\$ (7,218,284)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	65,158	45,044
Equity in the earnings of Buchanan Alumni House	(56,066)	31,445
Increase in cash surrender value of life insurance policies	(9,166)	(7,597)
Noncash contributions	(1,754,025)	(1,907,266)
Net realized and unrealized (gain) loss on investments	(21,442,717)	9,658,921
Net realized and unrealized loss on real estate	38,246	24,500
(Increase) decrease in operating assets		
Other receivables	(17,562)	22,060
Promises to give	15,682	536,117
Increase (decrease) in operating liabilities		
Accounts payable	250,213	8,096
Distributions due income beneficiaries	104,652	(25,013)
Accrued expenses	31,120	48,845
Custodial funds	230,821	(235,480)
Total adjustments	<u>(22,543,644)</u>	<u>8,199,672</u>
Net cash provided by operating activities	<u>1,763,116</u>	<u>981,388</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	20,274,743	20,157,731
Purchases of investments	(21,004,018)	(21,002,793)
Purchases of property and equipment	(100,494)	(92,437)
Purchase of real estate	(475)	(19,564)
Principal payments on notes receivable	147,557	199,352
Decrease in other assets	147,099	147,639
Proceeds from the sale of other assets	59,270	250
Proceeds from sale of real estate	490,805	177,500
Net cash provided/(used) by investing activities	<u>14,487</u>	<u>(432,322)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	<u>(118,621)</u>	<u>(114,901)</u>
Net increase in cash and equivalents	1,658,982	434,165
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>608,958</u>	<u>174,793</u>
CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 2,267,940</u></u>	<u><u>\$ 608,958</u></u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

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, a fee charged to the endowment pool, and advancement services contract revenue (Note 11). For the year ended June 30, 2017, \$2,407,634 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 \$378,117 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, 2017

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, 2017

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, 2017 was \$65,158.

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, 2014, 2015 and 2016 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, 2016, 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, 2017

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 as of June 30, 2017 are expected to be realized in the following periods, on a calendar year basis:

In one year or less	\$ 440,838
Between one to five years	1,247,008
Over five years	<u>69,318</u>
Total	1,757,164
Less discounts to present value	(290,292)
Less allowance for uncollectible pledges	<u>(70,000)</u>
Net unconditional promises to give	<u>\$1,396,872</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, 2017 was \$157,437. The total death benefit due to the Foundation upon the deaths of those insured for 2017 was \$1,361,796.

4. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of approximately 1,600 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, \$1,094,529 temporarily restricted and \$2,095,651 permanently restricted funds support other charitable purposes.

Long-term investments, endowment as of June 30, 2017 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$42,319,013	\$154,081,422	\$196,400,435
Unrestricted funds	1,658,125	-	-	1,658,125
Board designated funds	1,887,787	-	-	1,887,787
Custodial funds	<u>3,065,954</u>	-	-	<u>3,065,954</u>
 Total funds	 <u>\$6,611,866</u>	 <u>\$42,319,013</u>	 <u>\$154,081,422</u>	 <u>\$203,012,301</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

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 7.25%. Actual returns in any given year may vary from this amount.

The following summarizes the endowment activity for the year ended June 30, 2017.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Long-term investments, endowment, beginning of year (Restated)	\$1,536,293	\$28,690,775	\$149,659,920	\$179,886,988
Investment income, Foundation funds	5,507,871	18,312,680	-	23,820,551
Investment management fees	(35,711)	(1,010,799)	-	(1,046,510)
	5,472,160	17,301,881	-	22,774,041
Contributions/additions	135,735	3,473,140	4,125,141	7,734,016
Distributions	(527,253)	(4,380,315)	-	(4,907,568)
Foundation administrative fee	(84,497)	(2,390,679)	-	(2,475,176)
Reinvestment of donor funds	79,428	(375,789)	296,361	-
Total long-term investments, endowment	\$6,611,866	\$42,319,013	\$154,081,422	\$203,012,301

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, 2017, the spending policy is 4½% of the average market value for the five previous years ending December 31.

For fiscal year beginning July 1, 2017, the Foundation Board approved a spending policy with a target spending rate of 4.5% consisting of a 3.25% distribution to the University and 1.25% administrative fee. Distributions are calculated as of December 31 of the previous year based on trailing twelve quarter average market value of the endowment pool. For subsequent fiscal years, distributions will be calculated as of September 30.

Endowment spending is contingent upon a fund's market value exceeding its historic dollar value (principal). In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), a prudent expenditure may be allowed unless the donor has explicitly prohibited expenditure of principal.

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 13,634	\$ 2,825,348	\$ 5,434	\$ 2,844,416
Realized gains	-	1,594,041	-	1,594,041
Investment fees	-	(1,006,733)	-	(1,006,733)
Unrealized gains	5,387,700	13,753,337	-	19,141,037
Net investment income	<u>\$5,401,334</u>	<u>\$17,165,993</u>	<u>\$ 5,434</u>	<u>\$22,572,761</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)	\$ 992,142
Pooled Life Income Fund #2 (Income)	197,861
Charitable Gift Annuities	<u>3,805,242</u>
Total long-term investments, life income plans	<u>\$ 4,995,245</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

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

The following summarizes the life income plan activity for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2016	\$ -	\$4,455,998
Investment income	416,449	101,328
Investment management fees	(31,764)	-
	<u>384,685</u>	<u>101,328</u>
Contributions/additions	-	600,126
Distributions	(338,389)	-
Foundation administrative fees	(46,296)	-
Transfers due to terminations	-	(162,207)
Life income plans June 30, 2017	<u>\$ -</u>	<u>\$4,995,245</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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 34,513	\$ -	\$ -	\$ 34,513
Realized gains	51,681	-	-	51,681
Investment fees	(31,764)	-	-	(31,764)
Foundation admin fees	(46,296)	-	-	(46,296)
Unrealized gains	330,255	101,328	-	431,583
Net investment income	<u>\$338,389</u>	<u>\$101,328</u>	<u>\$ -</u>	<u>\$439,717</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

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 as June 30, 2017 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	
Short-term investments					
Money Market	\$ 615,958	\$ -	\$ -	\$ 615,958	Daily
Certificates of Deposit	2,281,118	-	-	2,281,118	Daily
Cash	259,636	-	-	259,636	Daily
Total short-term investments	<u>\$3,156,712</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,156,712</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's long-term investments, endowment as June 30, 2017 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:					
Small cap	\$ 4,896,107	\$ -	\$ -	\$ 4,896,107	Daily
Large cap	14,395,500	-	-	14,395,500	Daily
Large cap index	24,076,650	-	-	24,076,650	Daily
Blend	11,421,024	-	-	11,421,024	Monthly
Total U.S. equities	54,789,281	-	-	54,789,281	
Non U.S. equities:					
Developed index	10,658,150	-	-	10,658,150	Daily
Other developed	38,377,184	-	-	38,377,184	Monthly
Emerging market	7,463,232	-	-	7,463,232	Daily
Emerging market	2,957,679	-	-	2,957,679	Monthly
Emerging market	11,632,543	-	-	11,632,543	Quarterly
Total non U.S. equities	71,088,788	-	-	71,088,788	
U.S. fixed income:					
TIPS	2,730,090	-	-	2,730,090	Daily
U.S. Treasuries	18,424,946	-	-	18,424,946	Daily
Total U.S. fixed income	21,155,036	-	-	21,155,036	
Global fixed income:					
Investment grade	4,996,333	-	-	4,996,333	Monthly
Private Investments					
Venture capital	-	-	4,906	4,905	Illiquid
Secondaries	-	-	1,361,853	1,361,853	Illiquid
Total private investments	-	-	1,366,759	1,366,758	
Alternative investments:					
Hedge funds					
U.S. long/short	-	-	3,398,633	3,398,633	Quarterly
Global long/short	-	-	6,547,456	6,547,456	Quarterly
Multi-strategy	-	-	5,141,241	5,141,241	Quarterly
Multi-strategy	-	-	5,506,321	5,506,321	Semi-annually
Event-driven	-	-	5,398,695	5,398,695	Quarterly
Event-driven	-	-	4,012,511	4,012,511	Annually
Global Macro	-	-	3,509,807	3,509,807	Daily
Global Macro	-	-	3,441,508	3,441,508	Monthly
Global Macro	-	-	12,942	12,942	Quarterly
Opportunistic	-	-	781,429	781,429	Quarterly
Opportunistic	-	-	1,597,899	1,597,899	Annually
Total hedge funds	-	-	39,348,099	39,348,099	
Other alternative investments:					
Commodity futures	-	-	3,342,953	3,342,953	Monthly
Energy infrastructure	-	-	5,173,975	5,173,975	Monthly
Other	-	-	294,323	294,323	Illiquid
Total other alternative investments	-	-	8,811,251	8,811,251	
Cash	1,456,755	-	-	1,456,755	Daily
Total long term investments, endowment	\$153,486,193	\$ -	\$ 49,526,109	\$203,012,301	

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's long-term investments, life income plans as June 30, 2017 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:					
Small cap	\$ 91,693	\$ -	\$ -	\$ 91,693	Daily
Large cap	269,594	-	-	269,594	Daily
Large cap index	819,783	-	-	819,783	Daily
Blend	213,888	-	-	213,889	Monthly
Total U.S. equities	<u>1,394,958</u>	<u>-</u>	<u>-</u>	<u>1,394,958</u>	
Non U.S. equities:					
Developed index	199,602	-	-	199,602	Daily
Other developed	718,714	-	-	718,714	Monthly
Emerging market	139,770	-	-	139,769	Daily
Emerging market	55,390	-	-	55,390	Monthly
Emerging market	217,850	-	-	217,850	Quarterly
Total non U.S. equities	<u>1,331,326</u>	<u>-</u>	<u>-</u>	<u>1,331,326</u>	
U.S. fixed income:					
TIPS	51,128	-	-	51,128	Daily
U.S. Treasuries	345,056	-	-	345,056	Daily
Investment grade	573,679	-	-	573,679	Daily
Investment grade index	57,602	-	-	57,602	Daily
High yield	128,851	-	-	128,851	Daily
Total U.S. fixed income	<u>1,156,316</u>	<u>-</u>	<u>-</u>	<u>1,156,316</u>	
Global fixed income:					
Investment grade	<u>93,570</u>	<u>-</u>	<u>-</u>	<u>93,570</u>	Monthly
Other Equities:					
Real estate	<u>47,885</u>	<u>-</u>	<u>-</u>	<u>47,885</u>	Daily
Private Investments:					
Venture capital	-	-	92	92	Illiquid
Secondaries	-	-	25,504	25,504	Illiquid
Total private investments	<u>-</u>	<u>-</u>	<u>25,596</u>	<u>25,596</u>	
Alternative investments:					
Hedge funds					
U.S. long/short	-	-	63,648	63,648	Quarterly
Global long/short	-	-	122,618	122,618	Quarterly
Multi-strategy	-	-	96,283	96,283	Quarterly
Multi-strategy	-	-	103,120	103,120	Semi-annually
Event-driven	-	-	101,105	101,105	Quarterly
Event-driven	-	-	75,145	75,145	Annually
Global Macro	-	-	65,730	65,730	Daily
Global Macro	-	-	64,445	64,445	Monthly
Global Macro	-	-	242	242	Quarterly
Opportunistic	-	-	14,634	14,634	Quarterly
Opportunistic	-	-	29,927	29,927	Annually
Total hedge funds	<u>-</u>	<u>-</u>	<u>736,897</u>	<u>736,897</u>	
Other alternative investments:					
Commodity futures	-	-	62,606	62,606	Monthly
Energy infrastructure	-	-	96,896	96,896	Monthly
Other	-	-	5,513	5,513	Illiquid
Total other alternative investments	<u>-</u>	<u>-</u>	<u>165,015</u>	<u>165,015</u>	
Cash	43,682	-	-	43,682	Daily
Total long term investments, life income plans	<u>\$4,067,737</u>	<u>\$ -</u>	<u>\$ 927,508</u>	<u>\$4,995,245</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

8. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Investments, July 1, 2016	\$46,884,543
Realized and unrealized gain/loss included in investment income on the statement of activities	2,379,092
Redemptions	(16,467,638)
Additions	<u>17,657,620</u>
Investments, June 30, 2017	<u>\$50,453,617</u>

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2017 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.	\$102,597
Note receivable due in annual installments of \$40,000 secured by real estate valued at \$200,000. Matures in January 2018.	36,000
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.	5,172
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>83,370</u>
Total notes receivable	<u>\$227,139</u>

10. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2017 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 5,612,309
Charitable lead trusts	1,666,664
Perpetual trusts	<u>1,325,982</u>
Total beneficiary interest in irrevocable trusts	<u>\$ 8,514,955</u>

Unrealized gains of \$243,907 are reported in other revenue, gains and (losses) on the statement of activities. Terminated trusts and trust payments of \$301,916 were received as of June 30, 2017.

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

11. ADVANCEMENT SERVICES AGREEMENT

On May 1, 2016 the Foundation entered into an agreement with the University of Maine System (UMS), 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 for the fiscal year ended June 30, 2017 (due by September 30). In addition, the Foundation received a one-time lump sum payment of \$937,455. 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.

In addition to contributions recorded by the Foundation, approximately \$5.7 million in pledges and gifts recorded by the University of Maine System were processed by the Foundation in accordance with the agreement.

12. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2017 consist of the following:

Durst education fund	\$ 10,731
Post-retirement benefits (total estimated future benefits of \$438,228 discounted to present value of 8% for 2017)	234,015
Deferred compensation liability	46,060
Payroll related	291,446
Other	<u>6,751</u>
Total accrued expenses	<u><u>\$589,003</u></u>

The Foundation has 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 \$46,060 as of June 30, 2017 and was recorded in accrued expenses.

13. OPERATING LEASE

The Foundation maintains a lease with the University of Maine for office space in Falmouth with options to renew for each year. 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, 2017 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, 2017

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 \$157,006 for the year ended June 30, 2017.

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.

16. NOTES PAYABLE

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.	\$83,370
Note payable to Peoples United Bank in monthly installments of \$529 including interest of 2.5%; secured by a vehicle. Matures May 2018.	5,736
Note payable to Nissan Motor Acceptance Corporation in monthly installments of \$574 including interest of 3.53%; secured by a vehicle. Matures December 2017.	3,407
Interest free note payable to Nissan Motor Acceptance Corporation in monthly installments of \$575 secured by a vehicle. Matures June 2018.	6,900
Total notes payable	<u>\$99,413</u>

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

University of Maine Foundation
Notes to Financial Statements
June 30, 2017

17. STATEMENT OF CASH FLOWS DISCLOSURES

During the year ended June 30, 2017, the Foundation received non-cash contributions of real estate valued at \$294,501, investment securities totaling \$1,423,644 and other assets valued at \$35,880. Interest of \$669 was paid during the year.

18. PRIOR PERIOD RESTATEMENT ADJUSTMENT

The accompanying financial statements for the year ended June 30, 2017 have been restated as follows to reflect a reclassification of endowment funds with market values below their historical cost, or "underwater" endowments. Originally, the underwater endowments were erroneously reflected as a reduction to the temporarily restricted fund instead of the unrestricted fund. This restatement had no effect on total net assets.

	Unrestricted	Temporarily Restricted
Net assets at June 30, 2016	\$8,218,529	\$41,372,941
Restatement	(4,695,829)	4,695,829
Beginning net assets - restated	\$3,522,700	\$46,068,770

19. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 24, 2017, which is the date the financial statements were available to be issued, and has determined that there were no material subsequent events requiring adjustments to or disclosure in the financial statements, other than noted above.

University of Maine Foundation
Schedule of Functional Expenses
For the Year Ended June 30, 2017
(With comparative totals for 2016)

	Program Services	Management and General	Fundraising	Total Expenses	
				2017	2016
Salaries	\$ 636,883	\$ 627,175	\$ 1,202,749	\$ 2,466,807	\$ 1,707,660
Payroll taxes and employee benefits	349,144	343,821	659,356	1,352,321	526,741
Total compensation	986,027	970,996	1,862,105	3,819,128	2,234,401
Endowment distributions to University	6,318,563	-	-	6,318,563	7,257,647
Gifts transferred to University	2,450,212	-	-	2,450,212	1,319,184
Distributions to life income participants	346,585	-	-	346,585	342,878
Distributions, other	85,835	-	-	85,835	203,050
Fundraising and donor relations	-	-	150,660	150,660	90,392
Equity in earnings of Buchanan Alumni House	-	-	-	-	31,445
Post-retirement expense	-	28,974	-	28,974	7,548
Deferred compensation expense	-	38,424	-	38,424	43,636
Occupancy costs	34,213	33,691	64,611	132,515	126,550
Tax and audit	-	23,490	-	23,490	21,323
Insurance	12,983	12,785	24,519	50,287	43,570
Postage	16,203	15,956	30,599	62,758	52,441
Printing	27,967	27,541	52,815	108,323	174,382
Depreciation	16,824	16,565	31,769	65,158	45,044
Interest	669	-	-	669	1,344
Dues and subscriptions	8,984	8,847	16,967	34,798	18,487
Advertising and public relations	3,562	3,508	6,727	13,797	16,580
Telephone and internet	4,958	4,882	9,362	19,202	13,398
Legal	-	4,258	-	4,258	12,589
Miscellaneous	2,539	2,501	4,795	9,835	7,004
Meetings and entertainment	3,949	3,888	7,457	15,294	16,508
Supplies	8,939	8,803	16,881	34,623	21,707
Education and training	6,759	6,655	12,764	26,178	15,133
Auto expense	2,689	2,648	5,078	10,415	5,355
Travel	30,032	29,574	56,715	116,321	36,755
Technology software, repairs & maintenance	54,682	53,848	103,267	211,797	93,792
Property management	2,204	2,171	4,163	8,538	11,910
Total functional expenses (Exhibit B)	<u>\$ 10,425,378</u>	<u>\$ 1,300,005</u>	<u>\$ 2,461,254</u>	<u>\$ 14,186,637</u>	<u>\$ 12,264,053</u>