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Independent Auditor's Report

To the Board of Directors
University of Maine Foundation

We have audited the accompanying statement of financial position of the University of Maine Foundation (a nonprofit organization) as of June 30, 2012 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 University of Maine Foundation's 2011 financial statements and, in our report dated October 3, 2011, 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, 2012, 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 financial statements as a whole. The schedule of functional expenses on page 21 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 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 taken as a whole.

Brantner Thibodeau & Associates

Bangor, Maine
October 2, 2012

University of Maine Foundation
Statement of Financial Position
June 30, 2012
(With comparative totals for 2011)

	2012	2011
ASSETS		
Cash and equivalents	\$ 167,960	\$ 112,208
Other receivables	467,973	344,792
Promises to give, less allowance for uncollectible pledges of \$50,000 for 2012 and 2011	481,965	1,295,076
Short-term investments	3,565,711	3,122,879
Cash surrender value of life insurance	138,544	51,017
Long-term investments, endowment	148,298,359	149,059,863
Long-term investments, life income plans	4,380,714	5,058,105
Notes receivable	978,674	983,935
Equity in Buchanan Alumni House	2,721,711	2,755,963
Investment real estate	6,110,257	6,259,357
Property and equipment, net of accumulated depreciation of \$100,562 and \$136,099, respectively	137,964	120,211
Other assets	444,035	461,281
Irrevocable trusts	11,324,421	13,551,509
Assets managed for Buchanan Alumni House	318,749	290,132
Net funding to be provided from Buchanan Alumni House	192,495	265,417
	\$ 179,729,532	\$ 183,731,745
LIABILITIES		
Accounts payable	\$ 41,490	\$ 9,569
Distributions due income beneficiaries	1,890,383	2,086,373
Accrued expenses	800,781	841,730
Notes payable	1,030,492	1,140,857
Custodial accounts payable	2,910,342	3,712,923
	6,673,488	7,791,452
NET ASSETS		
Unrestricted net assets	4,546,307	7,345,518
Temporarily restricted net assets	35,877,775	48,584,831
Permanently restricted net assets	132,631,962	120,009,944
	173,056,044	175,940,293
Total net assets	173,056,044	175,940,293
Total liabilities and net assets	\$ 179,729,532	\$ 183,731,745

See accompanying notes.

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2012
(With comparative totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
REVENUE, GAINS, LOSSES, AND RECLASSIFICATION					
Contributions	\$ 371,156	\$ 1,338,566	\$ 10,649,883	\$ 12,359,605	\$ 6,649,136
Investment income (loss)	(2,378,617)	(2,951,966)	2,014	(5,328,569)	24,633,055
Investment income (loss), life income plans	481,806	(613,995)	-	(132,189)	757,671
Other revenue, gains and (losses)	(17,725)	230,914	(78,278)	134,911	1,705,763
Net assets released from restrictions	8,286,332	(10,690,575)	2,404,243	-	-
Total revenue, gains, losses, and reclassification	6,742,952	(12,687,056)	12,977,862	7,033,758	33,745,625
EXPENSES AND LOSSES					
Program services	7,925,452	-	-	7,925,452	6,031,673
Management and general	792,742	-	-	792,742	565,364
Fundraising	823,969	-	-	823,969	780,604
Total expenses	9,542,163	-	-	9,542,163	7,377,641
Uncollectible promises to give	-	20,000	355,844	375,844	603,980
Total expenses and losses	9,542,163	20,000	355,844	9,918,007	7,981,621
Change in net assets	(2,799,211)	(12,707,056)	12,622,018	(2,884,249)	25,764,004
NET ASSETS, BEGINNING OF YEAR	7,345,518	48,584,831	120,009,944	175,940,293	150,176,289
NET ASSETS, END OF YEAR	<u>\$ 4,546,307</u>	<u>\$35,877,775</u>	<u>\$132,631,962</u>	<u>\$173,056,044</u>	<u>\$175,940,293</u>

See accompanying notes.

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2012
(With comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,884,249)	\$25,764,004
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	39,747	48,969
Realized loss on sale and disposal of assets	6,816	6,875
Equity in the earnings of Buchanan Alumni House	34,252	64,678
Increase in cash surrender value of life insurance policies	(87,527)	(3,344)
Noncash contributions	(349,831)	(696,093)
Noncash distribution	-	115,000
Net realized and unrealized (gain) loss on investments	8,839,518	(25,878,300)
Net loss on sale of real estate	4,120	432,307
(Increase) decrease in operating assets		
Other receivables	(123,181)	(141,010)
Promises to give	813,111	468,535
Increase (decrease) in operating liabilities		
Accounts payable	31,920	(26,949)
Distributions due income beneficiaries	(195,990)	(51,802)
Accrued expenses	(40,949)	(60,537)
Custodial funds	(802,582)	575,697
Total adjustments	<u>8,169,424</u>	<u>(25,145,974)</u>
Net cash provided by operating activities	<u>5,285,175</u>	<u>618,030</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	54,843,740	74,434,765
Purchases of investments	(60,143,979)	(75,802,697)
Purchases of property and equipment	(38,956)	(37,134)
Increase in notes receivable	(25,547)	(28,737)
Principal payments on notes receivable	158,808	185,482
Increase in other assets	(50)	(7,837)
Proceeds from the sale of property and equipment	15,500	-
Proceeds from the sale of other assets	10,830	5,925
Proceeds from sale of real estate	46,382	767,693
Proceeds from surrender of life insurance policy	-	143
Net cash used by investing activities	<u>(5,133,272)</u>	<u>(482,397)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	<u>(96,151)</u>	<u>(82,938)</u>
Net cash used by financing activities	<u>(96,151)</u>	<u>(82,938)</u>
Net increase in cash and equivalents	55,752	52,695
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>112,208</u>	<u>59,513</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 167,960</u>	<u>\$ 112,208</u>

See accompanying notes.

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

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, 2012, \$1,945,702 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 \$409,355 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, 2012

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 and disbursements 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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

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.

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, 2012 was \$39,747.

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).

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, 2011, 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, 2012

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	\$ 327,148
Between one to five years	288,490
Over five years	<u>16,000</u>
Total	631,638
Less discounts to present value	(99,673)
Less allowance for uncollectible pledges	<u>(50,000)</u>
Net unconditional promises to give	<u>\$ 481,965</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, 2012 was \$138,544. 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 2012 was \$1,105,000.

4. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of approximately 1,400 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, \$974,265 temporarily restricted and \$1,466,721 permanently restricted funds support other charitable purposes.

Long-term investments, endowment as of June 30, 2012 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$(2,802,698)	\$16,075,019	\$128,345,444	\$141,617,765
Unrestricted funds	2,218,141	-	-	2,218,141
Board designated funds	1,586,095	-	-	1,586,095
Custodial funds	2,876,358	-	-	2,876,358
Total funds	\$ 3,877,896	\$16,075,019	\$128,345,444	\$148,298,359

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

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 10%. Actual returns in any given year may vary from this amount.

The following summarizes the endowment activity for the year ended June 30, 2012.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$7,801,401	\$26,210,863	\$115,047,599	\$149,059,863
Investment income, Foundation funds	(2,389,890)	(2,949,743)	2,014	(5,337,619)
Investment management fees	(19,699)	(288,036)	-	(307,735)
	<u>(2,409,589)</u>	<u>(3,237,779)</u>	<u>2,014</u>	<u>(5,645,354)</u>
Contributions/additions	298,624	316,077	13,378,089	13,992,790
Distributions	(1,414,326)	(5,424,338)	-	(6,838,664)
Foundation administrative fee	(142,174)	(2,128,102)	-	(2,270,276)
Other transfers	40,080	(39,187)	(893)	-
Fund reclassifications	(296,120)	377,485	(81,365)	-
Total long-term investments, endowment	<u>\$3,877,896</u>	<u>\$16,075,019</u>	<u>\$128,345,444</u>	<u>\$148,298,359</u>

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, 2012, the spending policy is 5¼% 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 beginning July 1, 2012, 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 2.5% 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, 2012

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

Investment Fees

Many investments in endowment and life income plans report valuations net of fees. Thus, investment fees disclosed in the notes to the financial statements do not include management fees, of approximately \$442,800, that 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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$ 3,112,862	\$2,014	\$ 3,114,876
Realized gains	-	1,314,889	-	1,314,889
Investment fees	-	(317,743)	-	(317,743)
Unrealized gains (losses)	(2,378,617)	(7,061,974)	-	(9,440,591)
 Net investment income	 \$(2,378,617)	 \$(2,951,966)	 \$2,014	 \$(5,328,569)

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)	\$ 810,440
Pooled Life Income Fund #2 (Income)	316,808
Charitable Gift Annuities	<u>3,253,466</u>
 Total long-term investments, life income plans	 <u>\$ 4,380,714</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

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

The following summarizes the life income plan activity for the year ended June 30, 2012.

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2011	\$ -	\$5,058,105
Investment income	555,064	(613,995)
Investment management fees	(14,056)	-
	<u>541,008</u>	<u>(613,995)</u>
Contributions/additions	-	598,517
Distributions	(481,806)	-
Foundation administrative fees	(59,202)	-
Transfers due to terminations	-	(661,913)
Life income plans June 30, 2012	<u>\$ -</u>	<u>\$4,380,714</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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 38,500	\$ -	\$ -	\$ 38,500
Realized gains	5,914	-	-	5,914
Investment fees	(14,056)	-	-	(14,056)
Unrealized gains (losses)	451,448	(613,995)	-	(162,547)
Net investment income	<u>\$ 481,806</u>	<u>\$ (613,995)</u>	<u>\$ -</u>	<u>\$(132,189)</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

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				Liquidity
	Level 1	Level 2	Level 3	Total	
Short-term investments					
Fixed income investment grade	\$2,370,055	\$ -	\$ -	\$2,370,055	Daily
Cash	1,195,656	-	-	1,195,656	Daily
Total short-term investments	\$3,565,711	\$ -	\$ -	\$3,565,711	

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

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	\$ 6,423,414	\$ -	\$ -	\$ 6,423,414	Daily
Large cap index	23,653,735	-	-	23,653,735	Daily
Small/mid cap	12,845,756	-	-	12,845,756	Daily
Blend	1,567,455	-	-	1,567,455	Daily
Total U.S. equities	<u>44,490,360</u>	<u>-</u>	<u>-</u>	<u>44,490,360</u>	
Non U.S. equities:					
Developed	6,690,657	-	-	6,690,657	Daily
Developed index	11,099,957	-	-	11,099,957	Daily
Global small index	4,793,671	-	-	4,793,671	Daily
Emerging market	11,852,481	-	-	11,852,481	Daily
Emerging market index	5,299,747	-	-	5,299,747	Daily
Total non U.S. equities	<u>39,736,513</u>	<u>-</u>	<u>-</u>	<u>39,736,513</u>	
Other equities					
Global real estate mutual fund	4,884,016	-	-	4,884,016	Daily
Natural resources index	3,653,794	-	-	3,653,794	Daily
Total other equities	<u>8,537,810</u>	<u>-</u>	<u>-</u>	<u>8,537,810</u>	
U.S. fixed income:					
Investment grade	4,859,302	-	-	4,859,302	Daily
Investment grade index	4,511,407	-	-	4,511,407	Daily
TIPS	1,451,543	-	-	1,451,543	Daily
High yield	7,609,482	-	-	7,609,482	Daily
Total U.S. fixed income	<u>18,431,734</u>	<u>-</u>	<u>-</u>	<u>18,431,734</u>	
Non U.S. fixed income					
Emerging markets index	4,073,805	-	-	4,073,805	Daily
Emerging markets hedge	-	-	3,088,880	3,088,880	Quarterly
Total non U.S. fixed income	<u>4,073,805</u>	<u>-</u>	<u>3,088,880</u>	<u>7,162,685</u>	
Other alternative investments:					
Long/short equity hedge fund of funds	-	-	3,493,329	3,493,329	Annual
Multi-strategy hedge fund of funds	-	-	7,553,140	7,553,140	Annual
Multi-strategy hedge fund of funds	-	-	9,426,561	9,426,561	Quarterly
Managed futures	-	-	5,920,208	5,920,208	Quarterly
Total other alternative investments	<u>-</u>	<u>-</u>	<u>26,393,238</u>	<u>26,393,238</u>	
Cash	3,546,019	-	-	3,546,019	Daily
Total long term investments, endowment	<u>\$118,816,241</u>	<u>\$ -</u>	<u>\$ 29,482,118</u>	<u>\$148,298,359</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

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	\$ 140,077	\$ -	\$ -	\$ 140,077	Daily
Large cap index	834,600	-	-	834,600	Daily
Small/mid cap	280,131	-	-	280,131	Daily
Blend	34,182	-	-	34,182	Daily
Total U.S. equities	<u>1,288,990</u>	<u>-</u>	<u>-</u>	<u>1,288,990</u>	
Non U.S. equities:					
Developed	145,905	-	-	145,905	Daily
Developed index	242,060	-	-	242,060	Daily
Global small index	104,537	-	-	104,537	Daily
Emerging market	258,470	-	-	258,470	Daily
Emerging market index	115,573	-	-	115,573	Daily
Total non U.S. equities	<u>866,545</u>	<u>-</u>	<u>-</u>	<u>866,545</u>	
Other equities					
Global real estate mutual fund	146,108	-	-	146,108	Daily
Natural resources index	79,679	-	-	79,679	Daily
Total other equities	<u>225,787</u>	<u>-</u>	<u>-</u>	<u>225,787</u>	
U.S. fixed income:					
Investment grade	675,826	-	-	675,826	Daily
Investment grade index	154,116	-	-	154,116	Daily
TIPS	31,654	-	-	31,654	Daily
High yield	291,015	-	-	291,015	Daily
Total U.S. fixed income	<u>1,152,611</u>	<u>-</u>	<u>-</u>	<u>1,152,611</u>	
Non U.S. fixed income					
Emerging markets index	88,839	-	-	88,839	Daily
Emerging markets hedge	-	-	67,360	67,360	Quarterly
Total non U.S. fixed income	<u>88,839</u>	<u>-</u>	<u>67,360</u>	<u>156,199</u>	
Other alternative investments:					
Long/short equity hedge fund of funds	-	-	76,180	76,180	Annual
Multi-strategy hedge fund of funds	-	-	164,713	164,713	Annual
Multi-strategy hedge fund of funds	-	-	205,568	205,568	Quarterly
Managed futures	-	-	129,104	129,104	Quarterly
Total other alternative investments	<u>-</u>	<u>-</u>	<u>575,565</u>	<u>575,565</u>	
Cash	115,017	-	-	115,017	Daily
Total long term investments, life income plans	<u>\$3,737,789</u>	<u>\$ -</u>	<u>\$642,925</u>	<u>\$4,380,714</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

8. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Investments, July 1, 2011	\$ 45,427,309
Additions	2,514,999
Realized and unrealized gain/loss included in investment income on the statement of activities	(1,113,463)
Redemptions	(16,677,444)
Investments allocated to irrevocable trusts	<u>(26,358)</u>
 Investments, June 30, 2012	 <u>\$ 30,125,043</u>

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2012 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	\$ 151,690
Note receivable due in monthly installments of \$4,937 including interest at 3.5%; secured by real estate valued at \$180,000. Matures in July 2014	128,000
Note receivable to University of Maine drawn against \$300,000 line of credit; due in semi-annual installments of \$2,759 including interest at 3.67%; unsecured. Matures in October 2013.	7,983
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	491,001
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.	<u>200,000</u>
Total notes receivable	<u>\$ 978,674</u>

10. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2012 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 8,291,505
Charitable lead trusts	2,064,559
Perpetual trusts	<u>968,357</u>
Total beneficiary interest in irrevocable trusts	<u>\$11,324,421</u>

Unrealized losses of \$353,280 are reported in other revenue, gains and (losses) on the statement of activities. Terminated trusts and trust payments of \$1,917,274 were received as of June 30, 2012.

**University of Maine Foundation
Notes to Financial Statements
June 30, 2012**

11. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2012 consist of the following:

Durst education fund	\$ 57,747
Post-retirement benefits (total estimated future benefits of \$625,296 discounted to present value of 8% for 2012)	506,472
Accrued vacation and other	<u>236,562</u>
 Total accrued expenses	 <u>\$ 800,781</u>

12. OPERATING LEASES

The Foundation entered an operating lease with the University of Maine for office space in Falmouth signed April 18, 2011 and ending on April 17, 2014 with options to renew for three terms of three years each. The lease terms require semi-annual payments of \$3,250 plus a prorata share of telephone, internet, and janitorial services. Total lease payments for the year ended June 30, 2012 was \$6,500. The minimum future payments under this noncancelable operating lease are as follows.

2013	\$ 6,500
2014	\$ 5,417

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 \$98,959 for the year ended June 30, 2012.

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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2012

14. BUCHANAN ALUMNI HOUSE (CONTINUED)

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

As the legal owner of several Buchanan Alumni designated assets, the Foundation is administering the following assets at June 30, 2012:

Cash and equivalents	\$ 99,895	
Certificates of deposit	218,854	
 Total assets managed by the University of Maine Foundation	 \$ 318,749	

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, 2012:

Note principal managed by the University of Maine Foundation	\$ 511,244	
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15. LONG-TERM DEBT

Long-term debt consists of the following:

<p>Note payable to Peoples United 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. Matures June 2018.</p>		\$ 491,001
<p>Note payable to Peoples United Bank in monthly installments of \$5,847 with an 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. Matures June 2021.</p>		511,244
<p>Note payable to Peoples United Bank in monthly installments of \$390 including interest at 4.25%; secured by a vehicle. Matures in July 2013.</p>		4,903
<p>Note payable to Bangor Savings Bank in monthly installments of \$460 including interest of 4%; secured by a vehicle. Matures November 2014.</p>		12,691
<p>Note payable to Peoples United Bank in monthly installments of \$430 including interest at 4%; secured by a vehicle. Matures in August 2014.</p>		10,653
Total long-term debt		1,030,492
Less current portion		133,964
Total long-term debt net of current portion		\$ 896,528

**University of Maine Foundation
Notes to Financial Statements
June 30, 2012**

15. LONG-TERM DEBT (CONTINUED)

Long-term investments, endowment in the amount of \$4,619,687 are pledged as security on loans requiring a .65 loan to value ratio.

Principal payment maturities during the next five years, assuming a continuation of June 30, 2012 interest rates are as follows:

June 30,		
2013	\$	133,964
2014		136,022
2015		134,602
2016		137,927
2017		144,788
Due thereafter		<u>343,189</u>
Total	\$	<u>1,030,492</u>

16. STATEMENT OF CASH FLOWS DISCLOSURES

During 2012, the Foundation received non-cash contributions of real estate of \$16,900, other assets of \$16,804, and investment securities totaling \$316,127. The Foundation paid interest of \$1,588 during the year. The Foundation sold real estate for \$158,417 and issued a note receivable for \$128,000. During 2012, the Foundation purchased automobiles totaling \$30,091 by obtaining note payables of \$30,091 and trading two vehicles which were fully depreciated. The Foundation also disposed of assets with a net book value of \$434 which were considered obsolete.

17. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 2, 2012, which is the date the financial statements were available to be issued.

University of Maine Foundation
Schedule of Functional Expenses
For the Year Ended June 30, 2012
(With comparative totals for 2011)

	Program Services	Management and General	Fundraising	Total Expenses	
				2012	2011
Salaries	\$ 236,016	\$ 279,137	\$ 421,450	\$ 936,603	\$ 858,204
Payroll taxes and employee benefits	77,659	91,848	138,674	308,181	259,594
Total compensation	313,675	370,985	560,124	1,244,784	1,117,798
Distributions supporting University	6,784,775	-	-	6,784,775	4,848,878
Distributions to life income participants	481,806	-	-	481,806	498,400
Distributions, other	240,797	-	-	240,797	283,420
Outside consulting & related expenses	-	77,680	-	77,680	-
Fundraising and public relations	-	-	80,264	80,264	108,890
Equity in earnings of Buchanan					
Alumni House	-	34,252	-	34,252	64,678
Post-retirement expense	-	155,840	-	155,840	6,000
Occupancy costs	29,060	34,369	51,891	115,320	109,125
Tax and audit	-	17,150	-	17,150	16,175
Travel	7,575	8,958	13,526	30,059	29,052
Insurance	4,856	5,743	8,671	19,270	18,998
Postage	4,591	5,429	8,197	18,217	18,503
Printing	5,985	7,079	10,688	23,752	27,122
Depreciation	10,016	11,846	17,885	39,747	48,969
Interest	1,587	-	-	1,587	2,563
Dues and subscriptions	3,365	3,980	6,008	13,353	12,541
Advertising	3,031	3,585	5,412	12,028	5,549
Telephone and internet	2,476	2,929	4,422	9,827	8,787
Legal	-	15,242	-	15,242	1,445
Miscellaneous	2,282	2,696	4,069	9,047	8,621
Meetings and entertainment	3,187	3,769	5,691	12,647	9,692
Supplies	1,978	2,340	3,532	7,850	7,537
Education and training	2,124	2,512	3,794	8,430	15,123
Auto expense	1,448	1,712	2,586	5,746	6,466
Technology, repairs, & maintenance	18,243	21,577	32,577	72,397	57,974
Property management	2,595	3,069	4,632	10,296	45,335
Total functional expenses (Exhibit B)	\$ 7,925,452	\$ 792,742	\$ 823,969	\$9,542,163	\$7,377,641