

University of Maine Foundation

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2013
(With comparative totals for 2012)

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Independent Auditor's Report

To the Board of Directors of the
University of Maine Foundation

We have audited the accompanying financial statements of the University of Maine Foundation (a nonprofit organization) which comprise the statement of financial position as of June 30, 2013, 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 of 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 the University of Maine Foundation as of June 30, 2013, 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.

Other Matter

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 2012 financial statements, and our report dated October 2, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brantner Whibodan & Associates

Bangor, Maine
October 28, 2013

University of Maine Foundation
Statement of Financial Position
June 30, 2013
(With comparative totals for 2012)

	2013	2012
ASSETS		
Cash and equivalents	\$ 84,441	\$ 167,960
Other receivables	192,345	467,973
Promises to give, less allowance for uncollectible pledges of \$50,000 for 2013 and 2012	514,359	481,965
Short-term investments	3,581,877	3,565,711
Cash surrender value of life insurance	177,707	138,544
Long-term investments, endowment	162,834,662	148,298,359
Long-term investments, life income plans	4,494,107	4,380,714
Notes receivable	785,640	978,674
Equity in Buchanan Alumni House	2,678,486	2,721,711
Investment real estate	5,756,357	6,110,257
Property and equipment, net of accumulated depreciation of \$140,325 and \$100,562, respectively	90,155	137,964
Other assets	771,496	444,035
Irrevocable trusts	11,032,292	11,324,421
Assets managed for Buchanan Alumni House	300,263	318,749
Net funding to be provided from Buchanan Alumni House	164,439	192,495
	\$ 193,458,626	\$ 179,729,532
LIABILITIES		
Accounts payable	\$ 47,019	\$ 41,490
Distributions due income beneficiaries	1,851,014	1,890,383
Accrued expenses	510,813	800,781
Notes payable	910,161	1,030,492
Custodial accounts payable	3,005,745	2,910,342
	6,324,752	6,673,488
NET ASSETS		
Unrestricted net assets	6,703,912	4,491,746
Temporarily restricted net assets	46,032,838	37,139,693
Permanently restricted net assets	134,397,124	131,424,605
	187,133,874	173,056,044
Total net assets	187,133,874	173,056,044
Total liabilities and net assets	\$ 193,458,626	\$ 179,729,532

See accompanying notes.

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2013
(With comparative totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
REVENUE, GAINS, LOSSES, AND RECLASSIFICATION					
Contributions	\$ 489,197	\$ 4,716,752	\$ 2,610,177	\$ 7,816,126	\$ 12,359,605
Investment income (loss)	2,692,242	10,724,057	18,376	13,434,675	(5,328,569)
Investment income (loss), life income plans	359,902	(40,425)	-	319,477	(132,189)
Other revenue, gains and (losses)	86,845	426,210	(226,205)	286,850	134,911
Net assets released from restrictions	6,363,278	(6,933,449)	570,171	-	-
Total revenue, gains, losses, and reclassification	<u>9,991,464</u>	<u>8,893,145</u>	<u>2,972,519</u>	<u>21,857,128</u>	<u>7,033,758</u>
EXPENSES AND LOSSES					
Program services	6,258,803	-	-	6,258,803	7,925,452
Management and general	653,349	-	-	653,349	792,742
Fundraising	867,146	-	-	867,146	823,969
Total expenses	<u>7,779,298</u>	<u>-</u>	<u>-</u>	<u>7,779,298</u>	<u>9,542,163</u>
Uncollectible promises to give	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,844</u>
Total expenses and losses	<u>7,779,298</u>	<u>-</u>	<u>-</u>	<u>7,779,298</u>	<u>9,918,007</u>
Change in net assets	2,212,166	8,893,145	2,972,519	14,077,830	(2,884,249)
NET ASSETS , BEGINNING OF YEAR (RESTATED)					
	<u>4,491,746</u>	<u>37,139,693</u>	<u>131,424,605</u>	<u>173,056,044</u>	<u>175,940,293</u>
NET ASSETS, END OF YEAR					
	<u>\$ 6,703,912</u>	<u>\$ 46,032,838</u>	<u>\$ 134,397,124</u>	<u>\$187,133,874</u>	<u>\$173,056,044</u>

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2013
(With comparative totals for 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ 14,077,830</u>	<u>\$ (2,884,249)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	48,963	39,747
Realized loss on sale and disposal of assets	4,866	6,816
Equity in the earnings of Buchanan Alumni House	43,225	34,252
Increase in cash surrender value of life insurance policies	(39,163)	(87,527)
Noncash contributions	(1,024,175)	(349,831)
Net realized and unrealized (gain) loss on investments	(10,936,501)	8,839,518
Net realized and unrealized loss on real estate	330,028	4,120
(Increase) decrease in operating assets		
Other receivables	275,628	(123,181)
Promises to give	(32,394)	813,111
Increase (decrease) in operating liabilities		
Accounts payable	5,529	31,920
Distributions due income beneficiaries	(39,369)	(195,990)
Accrued expenses	(289,968)	(40,949)
Custodial funds	95,403	(802,582)
Total adjustments	<u>(11,557,928)</u>	<u>8,169,424</u>
Net cash provided by operating activities	<u>2,519,902</u>	<u>5,285,175</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	107,710,783	54,843,740
Purchases of investments	(110,454,521)	(60,143,979)
Purchases of property and equipment	(1,154)	(38,956)
Increase in notes receivable	-	(25,547)
Principal payments on notes receivable	193,034	158,808
Increase in other assets	(5,680)	(50)
Proceeds from the sale of property and equipment	-	15,500
Proceeds from the sale of other assets	4,034	10,830
Proceeds from sale of real estate	23,872	46,382
Net cash used by investing activities	<u>(2,529,632)</u>	<u>(5,133,272)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	<u>(73,789)</u>	<u>(96,151)</u>
Net cash used by financing activities	<u>(73,789)</u>	<u>(96,151)</u>
Net (decrease) increase in cash and equivalents	(83,519)	55,752
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>167,960</u>	<u>112,208</u>
CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 84,441</u></u>	<u><u>\$ 167,960</u></u>

See accompanying notes.

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

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, 2013, \$1,814,261 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 \$401,136 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, 2013

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.

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, 2013

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, 2013 was \$48,963.

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, 2010, 2011 and 2012 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, 2012, 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, 2013

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	\$ 256,326
Between one to five years	371,226
Over five years	<u>6,000</u>
Total	633,552
Less discounts to present value	(69,193)
Less allowance for uncollectible pledges	<u>(50,000)</u>
Net unconditional promises to give	<u>\$ 514,359</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, 2013 was \$177,707. 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 2013 was \$1,355,000.

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, \$925,062 temporarily restricted and \$1,995,827 permanently restricted funds support other charitable purposes.

Long-term investments, endowment as of June 30, 2013 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ (691,319)	\$25,676,828	\$130,884,572	\$155,870,081
Unrestricted funds	2,336,197	-	-	2,336,197
Board designated funds	1,647,720	-	-	1,647,720
Custodial funds	2,980,664	-	-	2,980,664
Total funds	\$6,273,262	\$25,676,828	\$130,884,572	\$162,834,662

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

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, 2013.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Long-term investments, endowment, beginning of year, restated	\$3,823,335	\$17,008,937	\$127,466,087	\$148,298,359
Investment income, Foundation funds	2,981,422	11,229,364	-	14,210,786
Investment management fees	(29,169)	(535,672)	-	(564,841)
	<u>2,952,253</u>	<u>10,693,692</u>	<u>-</u>	<u>13,645,945</u>
Contributions/additions	494,474	3,664,230	3,421,574	7,580,278
Distributions	(865,535)	(4,049,341)	-	(4,914,876)
Foundation administrative fee	(91,851)	(1,683,193)	-	(1,775,044)
Fund reclassifications	(39,414)	42,503	(3,089)	-
Long-term investments, Endowment, end of year	<u>\$6,273,262</u>	<u>\$25,676,828</u>	<u>\$130,884,572</u>	<u>\$162,834,662</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, 2013, the spending policy is 4½% of the average market value for the five previous years ending December 31. For permanent endowment, spending is contingent upon a fund's market value exceeding principal balance.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the Maine Legislature to apply to funds existing on or established after July 1, 2009. The new law permits expenditure from endowed funds even if the fund's value is less than its historic dollar value (principal). For the years 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, 2013

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 \$285,306, 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$ 3,747,767	\$ 18,376	\$ 3,766,143
Realized gains	-	6,656,315	-	6,656,315
Investment fees	-	(579,472)	-	(579,472)
Unrealized gains	2,692,242	899,447	-	3,591,689
Net investment income	<u>\$2,692,242</u>	<u>\$10,724,057</u>	<u>\$ 18,376</u>	<u>\$13,434,675</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)	\$ 848,478
Pooled Life Income Fund #2 (Income)	314,879
Charitable Gift Annuities	<u>3,330,750</u>
Total long-term investments, life income plans	<u>\$ 4,494,107</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

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

The following summarizes the life income plan activity for the year ended June 30, 2013.

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2012	\$ -	\$4,380,714
Investment income	421,167	(40,425)
Investment management fees	(23,577)	-
	<u>397,590</u>	<u>(40,425)</u>
Contributions/additions	-	216,989
Distributions	(359,902)	-
Foundation administrative fees	(37,688)	-
Transfers due to terminations	-	(63,171)
Life income plans June 30, 2013	<u>\$ -</u>	<u>\$4,494,107</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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 38,519	\$ -	\$ -	\$ 38,519
Realized gains	26,789	-	-	26,789
Investment fees	(23,577)	-	-	(23,577)
Foundation admin fees	(37,688)	-	-	(37,688)
Unrealized gains (losses)	355,859	(40,425)	-	315,434
Net investment income	<u>\$ 359,902</u>	<u>\$ (40,425)</u>	<u>\$ -</u>	<u>\$ 319,477</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

	Fair Value Measurements at Reporting Date Using				
	Level 1	Level 2	Level 3	Total	Liquidity
Short-term investments					
Fixed income investment grade	\$2,199,535	\$ -	-	\$2,199,535	Daily
Cash	1,382,342	-	-	1,382,342	Daily
Total short-term investments	<u>\$3,581,877</u>	<u>\$ -</u>	<u>-</u>	<u>\$3,581,877</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

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	\$ 7,669,633	\$ -	\$ -	\$ 7,669,633	Daily
Large cap index	14,060,417	-	-	14,060,417	Daily
Small/mid cap	2,733,213	-	-	2,733,213	Daily
Blend	1,790,673	-	-	1,790,673	Daily
Total U.S. equities	<u>26,253,936</u>	<u>-</u>	<u>-</u>	<u>26,253,936</u>	
Non U.S. equities:					
Developed index	19,110,716	-	-	19,110,716	Daily
Emerging market	7,750,352	-	-	7,750,352	Daily
Emerging market	-	-	2,786,553	2,786,553	Monthly
Total non U.S. equities	<u>26,861,068</u>	<u>-</u>	<u>2,786,553</u>	<u>29,647,621</u>	
U.S. fixed income:					
TIPS	<u>1,600,383</u>	<u>-</u>	<u>-</u>	<u>1,600,383</u>	Daily
Other alternative investments:					
Long/short equity hedge fund of funds	-	-	3,817,408	3,817,408	Annual
Multi-strategy hedge fund of funds	-	-	7,526,923	7,526,923	Annual
Multi-strategy hedge fund of funds	-	-	7,019,028	7,019,028	Quarterly
Commodities	-	-	7,850,512	7,850,512	Monthly
Natural resources index	4,735,282	-	-	4,735,282	Daily
Total other alternative investments	<u>4,735,282</u>	<u>-</u>	<u>26,213,871</u>	<u>30,949,153</u>	
Cash	<u>74,383,569</u>	<u>-</u>	<u>-</u>	<u>74,383,569</u>	Daily
Total long term investments, endowment	<u>\$133,834,238</u>	<u>-</u>	<u>\$ 29,000,424</u>	<u>\$162,834,662</u>	

The Foundation is in the process of implementing a new portfolio strategy. Thus, at June 30, 2013, managers had been terminated in order to prepare for investment in new portfolio managers, as explained in Note 18. The strategic target portfolio of the Foundation is as follows:

U.S. equities	22%
Non U.S. equities	31%
U.S. fixed income	19%
Alternative investments	27%
Cash	2%

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

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	\$ 156,514	\$ -	\$ -	\$ 156,514	Daily
Large cap index	617,894	-	-	617,894	Daily
Small/mid cap	55,777	-	-	55,777	Daily
Blend	36,542	-	-	36,542	Daily
Total U.S. equities	<u>866,727</u>	<u>-</u>	<u>-</u>	<u>866,727</u>	
Non U.S. equities:					
Developed index	389,991	-	-	389,991	Daily
Emerging market	158,161	-	-	158,161	Daily
Emerging market	-	-	56,865	56,865	Monthly
Total non U.S. equities	<u>548,152</u>	<u>-</u>	<u>56,865</u>	<u>605,017</u>	
Other equities					
Real estate	<u>41,924</u>	<u>-</u>	<u>-</u>	<u>41,924</u>	Daily
U.S. fixed income:					
Investment grade	573,617	-	-	573,617	Daily
Investment grade index	54,844	-	-	54,844	Daily
TIPS	32,659	-	-	32,659	Daily
High yield	129,940	-	-	129,940	Daily
Total U.S. fixed income	<u>791,060</u>	<u>-</u>	<u>-</u>	<u>791,060</u>	
Other alternative investments:					
Long/short equity hedge fund of funds	-	-	77,901	77,901	Annual
Multi-strategy hedge fund of funds	-	-	153,601	153,601	Quarterly
Multi-strategy hedge fund of funds	-	-	143,237	143,237	Annual
Commodities	-	-	160,205	160,205	Monthly
Natural resources index	96,632	-	-	96,632	Monthly
Total other alternative investments	<u>96,632</u>	<u>-</u>	<u>534,944</u>	<u>631,576</u>	
Cash	<u>1,557,803</u>	<u>-</u>	<u>-</u>	<u>1,557,803</u>	Daily
Total long term investments, life income plans	<u>\$3,902,298</u>	<u>\$ -</u>	<u>\$591,809</u>	<u>\$4,494,107</u>	

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

8. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Investments, July 1, 2012	\$ 30,125,043
Realized and unrealized gain/loss included in investment income on the statement of activities	47,438
Redemptions	(11,964,503)
Additions	11,400,000
Transfers	(15,745)
	<hr/>
Investments, June 30, 2013	<u>\$29,592,233</u>

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2013 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	\$ 142,481
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	72,352
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.	2,709
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	418,098
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.	150,000
Total notes receivable	<u>\$ 785,640</u>

10. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2013 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 8,159,428
Charitable lead trusts	1,866,464
Perpetual trusts	<u>1,006,400</u>
Total beneficiary interest in irrevocable trusts	<u>\$11,032,292</u>

Unrealized gains of \$346,274 are reported in other revenue, gains and (losses) on the statement of activities. Terminated trusts and trust payments of \$638,402 were received as of June 30, 2013.

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

11. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2013 consist of the following:

Durst education fund	\$ 41,106
Post-retirement benefits (total estimated future benefits of \$588,416 discounted to present value of 8% for 2013)	312,998
Accrued vacation and other	<u>156,709</u>
Total accrued expenses	<u>\$ 510,813</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, 2013 were \$6,500. The minimum future payment under this noncancelable operating lease for the year ended June 30, 2014 is \$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 \$85,325 for the year ended June 30, 2013.

14. BUCHANAN ALUMNI HOUSE

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

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

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

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

14. BUCHANAN ALUMNI HOUSE (CONTINUED)

As the legal owner of several Buchanan Alumni designated assets, the Foundation is administering the following asset at June 30, 2013:

Cash and cash equivalents	<u>\$ 300,263</u>
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As the obligor of a loan through Peoples United Bank the Buchanan Alumni House recognizes the obligation as a pass-through debt managed by the Foundation. The following constitutes debt administered by the Foundation at June 30, 2013:

Note principal managed by the University of Maine Foundation	<u>\$ 464,702</u>
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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>	\$ 418,099
<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>	464,702
<p>Note payable to Peoples United Bank in monthly installments of \$390 including interest at 4.25%; secured by a vehicle. Matures July 2013.</p>	339
<p>Note payable to Peoples United Bank in monthly installments of \$460 including interest of 4%; secured by a vehicle. Matures November 2014.</p>	7,590
<p>Note payable to Peoples United Bank in monthly installments of \$430 including interest of 4%; secured by a vehicle. Matures August 2014.</p>	5,838
<p>Note payable to Peoples United Bank in monthly installments of \$568 including interest at 4%; secured by a vehicle. Matures July 2015.</p>	<u>13,593</u>
Total long-term debt	910,161
Less current portion	<u>142,406</u>
Total long-term debt net of current portion	<u>\$ 767,755</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2013

15. LONG-TERM DEBT (CONTINUED)

Long-term investments, endowment in the amount of \$5,485,363 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, 2013 interest rates are as follows:

June 30,	
2014	\$142,406
2015	141,261
2016	138,493
2017	144,788
2018	147,992
Due thereafter	<u>195,221</u>
Total	<u>\$910,161</u>

16. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for the year ended June 30, 2013 have been restated as follows to adjust the classification of net assets at June 30, 2012 in accordance with donor restrictions. This restatement had no effect on total net assets.

	Unrestricted	Temporarily Restricted	Permanently Restricted
Beginning net assets at June 30, 2012	\$4,546,307	\$35,877,775	\$132,631,962
Restated gifts in process	-	200,000	(200,000)
Restated long term investment - endowment	(54,561)	933,918	(879,357)
Restated notes receivable	-	128,000	(128,000)
Beginning net assets - restated	<u>\$4,491,746</u>	<u>\$37,139,693</u>	<u>\$131,424,605</u>

17. STATEMENT OF CASH FLOWS DISCLOSURES

During 2013, the Foundation received non-cash contributions of other assets of \$330,681, and investment securities totaling \$693,494. The Foundation paid interest of \$1,510 during the year and disposed of assets with a net book value of \$9,200 which were considered obsolete.

18. SUBSEQUENT EVENTS

Subsequent to June 30, 2013, and through July 26, 2013, \$68,110,601 of cash in long term investments was invested as follows: \$14,010,601 U.S. Equities, \$16,800,000 emerging markets equities, \$18,300,000 fixed income and \$19,000,000 alternative investments.

Subsequent events were evaluated through October 28, 2013, 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, 2013
(With comparative totals for 2012)

	Program Services	Management and General	Fundraising	Total Expenses	
				2013	2012
Salaries	\$ 213,277	\$ 265,287	\$ 420,171	\$ 898,735	\$ 936,603
Payroll taxes and employee benefits	76,529	95,191	150,767	322,487	308,181
Total compensation	289,806	360,478	570,938	1,221,222	1,244,784
Distributions supporting University	5,388,031	-	-	5,388,031	6,784,775
Distributions to life income participants	359,902	-	-	359,902	481,806
Distributions, other	113,136	-	-	113,136	240,797
Outside consulting & related expenses	-	-	-	-	77,680
Fundraising and public relations	-	-	86,546	86,546	80,264
Equity in earnings of Buchanan					
Alumni House	-	43,225	-	43,225	34,252
Post-retirement expense	-	90,003	-	90,003	155,840
Occupancy costs	27,331	33,996	53,843	115,170	115,320
Tax and audit	-	16,050	-	16,050	17,150
Travel	7,976	9,920	15,713	33,609	30,059
Insurance	4,401	5,474	8,671	18,546	19,270
Postage	5,162	6,420	10,169	21,751	18,217
Printing	7,298	9,078	14,377	30,753	23,752
Depreciation	11,619	14,453	22,891	48,963	39,747
Interest	1,510	-	-	1,510	1,587
Dues and subscriptions	2,801	3,485	5,519	11,805	13,353
Advertising	1,521	1,892	2,997	6,410	12,028
Telephone and internet	2,429	3,021	4,785	10,235	9,827
Legal	-	11,220	-	11,220	15,242
Miscellaneous	1,882	2,341	3,708	7,931	9,047
Meetings and entertainment	3,091	3,845	6,091	13,027	12,647
Supplies	1,952	2,428	3,847	8,227	7,850
Education and training	2,423	3,014	4,774	10,211	8,430
Auto expense	1,406	1,749	2,770	5,925	5,746
Technology, repairs, & maintenance	16,256	20,220	32,025	68,501	72,397
Property management	8,870	11,037	17,482	37,389	10,296
Total functional expenses (Exhibit B)	\$ 6,258,803	\$ 653,349	\$ 867,146	\$ 7,779,298	\$ 9,542,163