

University of Maine Foundation
REPORT ON FINANCIAL STATEMENTS

For the Year Ended June 30, 2011
(With comparative totals for 2010)

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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 corporation) as of June 30, 2011 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 2010 financial statements and, in our report dated November 1, 2010, 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, 2011, 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 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Brantner Thibodeau & Associates

Bangor, Maine
October 3, 2011

University of Maine Foundation
Statement of Financial Position
June 30, 2011
(With comparative totals for 2010).

	2011	2010
ASSETS		
Cash and equivalents	\$ 112,208	\$ 59,513
Other receivables	344,792	203,782
Promises to give, less allowance for uncollectible pledges of \$50,000 for 2011 and 2010	1,295,076	1,763,611
Short-term investments	3,122,879	2,958,735
Cash surrender value of life insurance	51,017	47,816
Long-term investments, endowment	149,059,863	123,235,557
Long-term investments, life income plans	5,058,105	4,699,495
Notes receivable	983,935	1,140,680
Equity in Buchanan Alumni House	2,755,963	2,820,641
Investment real estate	6,259,357	7,424,356
Property and equipment, net of accumulated depreciation of \$136,099 and \$123,680, respectively	120,211	120,983
Other assets	461,281	400,044
Irrevocable trusts	13,551,509	12,170,345
Assets managed for Buchanan Alumni House	290,132	280,009
Net funding to be provided from Buchanan Alumni House	265,417	317,834
	\$ 183,731,745	\$ 157,643,401
LIABILITIES		
Accounts payable	\$ 9,569	\$ 36,518
Distributions due income beneficiaries	2,086,373	2,138,175
Accrued expenses	841,730	902,267
Notes payable	1,140,857	1,252,926
Custodial accounts payable	3,712,923	3,137,226
	7,791,452	7,467,112
NET ASSETS		
Unrestricted net assets	7,345,518	460,579
Temporarily restricted net assets	48,584,831	35,057,896
Permanently restricted net assets	120,009,944	114,657,814
	175,940,293	150,176,289
	\$ 183,731,745	\$ 157,643,401

See accompanying notes.

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2011
(With comparative totals for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
REVENUE, GAINS, LOSSES, AND RECLASSIFICATION					
Contributions	\$ 670,280	\$ 1,463,014	\$ 4,515,842	\$ 6,649,136	\$ 5,387,222
Investment income	8,307,227	16,325,756	72	24,633,055	12,249,638
Investment income, life income plans	498,400	259,271	-	757,671	515,670
Other revenue, gains and (losses)	(399,598)	1,941,119	164,242	1,705,763	(2,685,722)
Net assets released from restrictions	5,189,731	(5,874,030)	684,299	-	-
Total revenue, gains, losses, and reclassification	14,266,040	14,115,130	5,364,455	33,745,625	15,466,808
EXPENSES AND LOSSES					
Program services	6,031,673	-	-	6,031,673	5,663,301
Management and general	565,364	-	-	565,364	569,877
Fundraising	780,604	-	-	780,604	771,406
Total expenses	7,377,641	-	-	7,377,641	7,004,584
Uncollectible promises to give	3,460	588,195	12,325	603,980	-
Total expenses and losses	7,381,101	588,195	12,325	7,981,621	7,004,584
Change in net assets	6,884,939	13,526,935	5,352,130	25,764,004	8,462,224
NET ASSETS, BEGINNING OF YEAR - RESTATED					
	460,579	35,057,896	114,657,814	150,176,289	141,714,065
NET ASSETS, END OF YEAR	\$ 7,345,518	\$ 48,584,831	\$ 120,009,944	\$ 175,940,293	\$ 150,176,289

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2011
(With comparative totals for 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 25,764,004	\$ 8,462,224
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	48,969	46,788
Realized loss on sale and disposal of assets	6,875	-
Equity in the earnings of Buchanan Alumni House	64,678	61,185
Decrease in cash surrender value of life insurance policies	(3,344)	(3,628)
Noncash contributions	(696,093)	(1,107,002)
Noncash distribution	115,000	-
Net realized and unrealized gain on investments	(25,878,300)	(11,351,544)
Net realized and unrealized loss on real estate	432,307	3,033,000
(Increase) decrease in operating assets		
Other receivables	(141,010)	34,468
Promises to give	468,535	204,103
Increase (decrease) in operating liabilities		
Accounts payable	(26,949)	(214,845)
Distributions due income beneficiaries	(51,802)	(277,411)
Accrued expenses	(60,537)	36,125
Custodial funds	575,697	309,107
Total adjustments	(25,145,974)	(9,229,654)
Net cash provided (used) by operating activities	618,030	(767,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	74,434,765	63,428,289
Purchases of investments	(75,802,697)	(62,809,641)
Purchases of property and equipment	(37,134)	(27,460)
Increase in notes receivable	(28,737)	(31,384)
Principal payments on notes receivable	185,482	123,691
(Increase) decrease in other assets	(7,837)	(5,720)
Proceeds from the sale of property and equipment	-	12,100
Proceeds from the sale of other assets	5,925	4,600
Proceeds from sale of real estate	767,693	118,053
Proceeds from surrender of life insurance policy	143	56,227
Net cash provided (used) by investing activities	(482,397)	868,755
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	(82,938)	(79,288)
Net cash used by financing activities	(82,938)	(79,288)
Net increase in cash and equivalents	52,695	22,037
CASH AND EQUIVALENTS, BEGINNING OF YEAR	59,513	37,476
CASH AND EQUIVALENTS, END OF YEAR	\$ 112,208	\$ 59,513

See accompanying notes

University of Maine Foundation
Notes to Financial Statements
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The University of Maine Foundation assists in the development activities of the University of Maine by encouraging gifts and bequests for scholarships, instruction, research, endowment, and other purposes that will benefit the University and other charitable organizations. Operating expenses of the Foundation are supported by unrestricted contributions and a fee charged to the endowment pool of 1.25%.

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 Hummell collection donated to the Foundation have been capitalized. Capitalized items totaling \$417,455 are valued as of the date of gift and included with Other Assets on the Statement of Financial Position. Gains and losses on the sale of art are reported as changes in net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved 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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Real Estate

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

Custodial Funds

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

Investments

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

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

Split-interest agreements

The Foundation 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. The contributed assets are recognized at fair market value when received. The carrying values are also at fair market value. 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 that are not held for trading purposes:

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

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

**University of Maine Foundation
Notes to Financial Statements
June 30, 2011**

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 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, 2011 was \$48,969.

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) 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, 2010, 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 among the programs and supporting services benefited.

**University of Maine Foundation
Notes to Financial Statements
June 30, 2011**

2. PROMISES TO GIVE

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

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

In one year or less	\$ 638,548
Between one to five years	729,638
Over five years	<u>232,750</u>
Total	1,600,936
Less discounts to present value	(255,860)
Less allowance for uncollectible pledges	<u>(50,000)</u>
Net unconditional promises to give	<u>\$1,295,076</u>

The Foundation may receive conditional promises to give from bequests and revocable trusts. At this time, the University of Maine Foundation may not have been notified as such or provided with the financial information and, therefore, amounts expected to be received from these promises cannot be accurately estimated. As of June 30, 2011, the Foundation received a \$250,000 conditional promise to give for the benefit of University of Maine Football as a 1:1 match in support of the football program.

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, 2011 was \$51,017. This represents the value of the policies if they were cancelled as of the statement of financial position date. The total death benefit due the Foundation upon the deaths of those insured for 2011 was \$255,000.

4. LONG-TERM INVESTMENTS, ENDOWMENT

Long-term investments, endowment as of June 30, 2011 were as follows:

	Cost	Market
Cash and cash equivalents	\$ 3,040,687	\$ 3,040,687
Fixed income investments	12,612,740	12,875,050
Equity investments	78,006,506	87,716,817
Alternative investments	<u>42,003,527</u>	<u>45,427,309</u>
Total long-term investments, endowment	<u>\$135,663,460</u>	<u>\$149,059,863</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2011

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

The Foundation manages an investment pool of more than 1300 endowed and quasi-endowed funds accounted for monthly on a unitized basis. Most donor restricted funds support the University of Maine or organizations supporting the University or its students. Of the 1300 donor restricted funds, \$1,053,574 temporarily restricted and \$1,585,674 permanently restricted funds support other charitable purposes.

Long-term investments, endowment as of June 30, 2011 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ (945,741)	\$ 26,210,863	\$ 115,047,599	\$ 140,312,721
Unrestricted funds	5,067,844	-	-	5,067,844
Custodial funds	3,679,298	-	-	3,679,298
Total funds	\$ 7,801,401	\$ 26,210,863	\$ 115,047,599	\$ 149,059,863

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, 2011.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (818,583)	\$ 14,065,017	\$ 109,989,123	\$ 123,235,557
Investment income, Foundation funds	9,118,062	15,726,752	72	24,844,886
Investment management fees	-	(348,154)	-	(348,154)
Net investment income allocated to custodial accounts	564,820	-	-	564,820
	9,682,882	15,378,598	72	25,061,552
Contributions/additions	1,035,970	436,909	5,092,290	6,565,169
Distributions	(445,252)	(3,568,732)	-	(4,013,984)
Foundation administrative fee	(1,894,259)	-	-	(1,894,259)
Other transfers	(47,640)	(7,776)	161,244	105,828
Fund reclassifications	288,283	(93,153)	(195,130)	-
Total long-term investments, endowment	\$ 7,801,401	\$ 26,210,863	\$ 115,047,599	\$ 149,059,863

**University of Maine Foundation
Notes to Financial Statements
June 30, 2011**

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

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, 2011, the spending policy was based on 5 ½% of the average market value for the six previous years ending December 31. Beginning July 1, 2011, the spending policy is 5 ¼% 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). At this time, the Board of Directors of the University of Maine Foundation believe donors who established endowed funds with the Foundation intended to create funds according to the dictionary definition of endowment, meaning that the principal of the fund would not be invaded for distribution. Funds endowed at the Foundation on or before July 1, 2009 will not be expended if the fund's value is less than its principal value unless the original donor(s) request that UPMIFA be applied.

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 \$569,000, 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, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$1,676,529	\$72	\$ 1,676,601
Realized gains	-	7,677,932	-	7,677,932
Investment fees	-	(348,154)	-	(348,154)
Unrealized gains	8,307,227	7,319,449	-	15,626,676
Net investment income	\$8,307,227	\$16,325,756	\$72	\$24,633,055

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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2011

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

Long-term investments, life income plans as of June 30, 2011 were as follows:

	Cost	Market
Cash and cash equivalents	\$ 11,933	\$ 11,933
Stocks and mutual funds	3,339,095	4,299,427
Bonds	741,904	746,745
Total long-term investments	\$ 4,092,932	\$5,058,105

Life Income Plans are categorized as follows:

Pooled Life Income Fund #1 (Growth)	\$ 780,678
Pooled Life Income Fund #2 (Income)	314,692
Charitable Gift Annuities	3,962,735
Total long-term investments, life income plans	\$ 5,058,105

The following summarizes the life income plan activity for the year ended June 30, 2011.

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2010	\$ -	\$4,699,495
Investment income	561,747	259,271
Investment management fees	(11,776)	-
	<u>549,972</u>	<u>259,271</u>
Contributions/additions	-	674,713
Distributions	(498,400)	-
Foundation administrative fees	(51,571)	-
Transfers due to terminations	-	(575,374)
Life income plans June 30, 2011	\$ -	\$5,058,105

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, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 41,152	\$ -	\$ -	\$ 41,152
Realized gains	13,923	-	-	13,923
Investment fees	(11,776)	-	-	(11,776)
Unrealized gains	455,101	259,271	-	714,372
Net investment income	\$498,400	\$259,271	\$ -	\$757,671

University of Maine Foundation
Notes to Financial Statements
June 30, 2011

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 assets measured at fair value on a recurring basis is as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 3,122,879	\$ 3,122,879	\$ -	\$ -
Long-term investments, endowment	149,059,863	103,632,554	-	45,427,309
Long-term investments, life income plans	5,058,105	5,058,105	-	-
Irrevocable trusts	13,551,509	13,551,509	-	-
Total assets	\$170,792,356	\$125,365,047	\$ -	\$ 45,427,309

University of Maine Foundation
Notes to Financial Statements
June 30, 2011

8. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Alternative investments, July 1, 2010	\$ 56,521,904
Additions	6,278,179
Realized and unrealized gain/loss included in investment income on the statement of activities	4,664,747
Redemptions	<u>(22,037,521)</u>
Alternative investments, June 30, 2011	<u>\$ 45,427,309</u>

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2011 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 appraised at \$285,000. Matures in August 2024	\$ 160,451
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.	13,068
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	560,416
Note receivable due in annual installments of principal \$50,000 plus interest compounded annually at 5.50%. Secured by real estate appraised at \$350,000. Matures in 2015.	<u>250,000</u>
Total notes receivable	<u>\$ 983,935</u>

10. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2011 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$10,535,999
Charitable lead trusts	1,982,437
Perpetual trusts	<u>1,033,073</u>
Total beneficiary interest in irrevocable trusts	<u>\$13,551,509</u>

Unrealized gains of \$1,766,916 are reported in Other Income on the Statement of Activities. Terminated trusts and lead trust payments of \$385,752 were added to the Foundation's endowment.

**University of Maine Foundation
Notes to Financial Statements
June 30, 2011**

11. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2011 consist of the following:

Durst education fund	\$ 67,680
Post-retirement benefits (total estimated future benefits of \$801,901 discounted to present value of 8% for 2011)	617,580
Accrued vacation and other	<u>156,470</u>
<i>Total accrued expenses</i>	<u>\$ 841,730</u>

12. OPERATING LEASES

The Foundation had a lease of office space in South Portland which expired February 28, 2011 and continued month to month through April 2011. The Foundation entered a new 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, 2011 was \$18,823. The minimum future payments under this noncancelable operating lease are as follows.

2012	\$ 6,500
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 fund each year. Pension expense that is reported in the schedule of functional expenses with payroll taxes and fringe benefits totaled \$82,136 for the year ended June 30, 2011.

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, 2011**

14. BUCHANAN ALUMNI HOUSE (CONTINUED)

Buchanan Alumni House was constructed solely from private funds. The Foundation and Association, as the owners of Buchanan Alumni House, each paid \$11,000 per month toward the costs of operating the facility.

As the legal owner of several Buchanan Alumni designated assets; the Foundation is administering the following assets at June 30, 2011:

Cash and equivalents	\$	71,300
Certificates of deposit		218,832
Total assets managed by the University of Maine Foundation	\$	290,132

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, 2011:

Note principal managed by the University of Maine Foundation	\$	555,549
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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>		\$ 560,416
<p>Note payable to Peoples United Bank in monthly installments of \$5,847 with a fixed interest rate of 4.75% for the first five years, thereafter prime plus .50%. Beginning July 25, 2014, the interest rate will adjust thereafter through July 25, 2021 at which time all amounts of interest and principal on the note are due. The loan is secured by University of Maine Foundation pledge of marketable securities in an amount to maintain a loan to value ratio of .65. While legally payable by the Foundation, it is the intent to satisfy this debt through the Buchanan Alumni House ownership and therefore, the debt is recorded on those financial statements. Matures June 2021.</p>		555,549
<p>Note payable to Peoples United Bank in monthly installments of \$390 including interest at 4.25%; secured by a vehicle. Matures in July 2014</p>		9,273
<p>Note payable to Bangor Savings Bank in monthly installments of \$578 including interest of 7.40%; secured by a vehicle. Matured August 2011.</p>		1,160
<p>Note payable to Peoples United Bank in monthly installments of \$630 including interest at 4.25%; secured by a vehicle. Matures in June 2013.</p>		14,459
Total long-term debt		1,140,857
Less current portion		127,250
Total long-term debt net of current portion		\$1,013,607

University of Maine Foundation
Notes to Financial Statements
June 30, 2011

15. LONG-TERM DEBT (CONTINUED)

Long-term investments, endowment in the amount of \$4,408,268 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, 2011 interest rates are as follows:

June 30,		
2012	\$	127,250
2013		132,130
2014		126,364
2015		132,152
2016		138,567
Due thereafter		484,394
 Total	 \$	 1,140,857

16. STATEMENT OF CASH FLOWS DISCLOSURES

During 2011, the Foundation received non-cash contributions of real estate of \$150,001, other assets of \$64,100, and investment securities totaling \$481,992. The Foundation paid interest of \$2,563 during the year. During 2011, the Foundation purchased an automobile totaling \$13,163 by obtaining a note payable of \$13,163 and trading a vehicle which was fully depreciated. The Foundation also disposed of assets with a net book value of \$2,100 which were considered obsolete.

17. RESTATED NET ASSETS

Net asset classifications as of June 30, 2010 have been restated to correct balances resulting from discounts applied to promises to give receivable over more than one year. Net assets have been restated as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, June 30, 2010	\$ 436,812	\$ 34,598,691	\$115,140,786
Reclassified promises to give	23,767	459,205	(482,972)
Restated net assets, June 30, 2010	\$ 460,579	\$ 35,057,896	\$114,657,814

18. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 3, 2011, 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, 2011
(With comparative totals for 2010)

	Program Services	Management and General	Fundraising	Total Expenses	
				2011	2010
Salaries	\$ 220,992	\$ 264,622	\$ 372,590	\$ 858,204	\$ 800,291
Payroll taxes and employee benefits	66,847	80,044	112,703	259,594	251,006
Total compensation	287,839	344,666	485,293	1,117,798	1,051,297
Distributions supporting University	4,848,878	-	-	4,848,878	4,626,066
Distributions to life income participants	498,400	-	-	498,400	509,326
Distributions, other	283,420	-	-	283,420	156,630
Fundraising and public relations	-	-	108,890	108,890	99,879
Equity in earnings of Buchanan					
Alumni House	-	64,678	-	64,678	61,185
Post-retirement expense	-	6,000	-	6,000	42,902
Occupancy costs	28,100	33,648	47,377	109,125	111,128
Tax and audit	-	16,175	-	16,175	15,350
Travel	7,481	8,958	12,613	29,052	21,627
Insurance	4,892	5,858	8,248	18,998	17,016
Postage	4,765	5,705	8,033	18,503	20,623
Printing	6,984	8,363	11,775	27,122	27,979
Depreciation	12,610	15,099	21,260	48,969	46,788
Interest	2,563	-	-	2,563	6,289
Dues and subscriptions	3,229	3,867	5,445	12,541	12,210
Advertising	1,429	1,711	2,409	5,549	7,484
Telephone and internet	2,263	2,709	3,815	8,787	7,452
Legal	-	1,445	-	1,445	2,055
Miscellaneous	2,221	2,658	3,742	8,621	6,601
Meetings and entertainment	2,496	2,988	4,208	9,692	10,969
Supplies	1,941	2,324	3,272	7,537	6,546
Education and training	3,894	4,663	6,566	15,123	10,346
Auto expense	1,665	1,994	2,807	6,466	7,920
Technology, repairs, & maintenance	14,929	17,876	25,169	57,974	13,849
Property management	11,674	13,979	19,682	45,335	105,067
Total functional expenses (Exhibit B)	\$ 6,031,673	\$ 565,364	\$ 780,604	\$ 7,377,641	\$ 7,004,584

See accompanying notes.