

University of Maine Foundation

REPORT ON FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With comparative totals for 2017)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
University of Maine Foundation

We have audited the accompanying financial statements of University of Maine Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Maine Foundation as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 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 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brantner Chibodian & Associates

Bangor, Maine

October 15, 2018

University of Maine Foundation
Statement of Financial Position
June 30, 2018
(With comparative totals for 2017)

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and equivalents | \$ 2,726,578 | \$ 2,267,940 |
| Other receivables | 99,882 | 118,578 |
| Promises to give, less allowance for uncollectible pledges of \$140,000 and \$70,000, respectively | 10,900,723 | 1,396,872 |
| Short-term investments | 5,200,682 | 3,156,712 |
| Cash surrender value of life insurance | 153,370 | 157,437 |
| Long-term investments, endowment | 220,678,744 | 203,012,301 |
| Long-term investments, life income plans | 5,054,229 | 4,995,245 |
| Notes receivable | 149,973 | 227,139 |
| Equity in Buchanan Alumni House | 2,684,493 | 2,681,724 |
| Investment real estate | 5,876,615 | 5,767,315 |
| Property and equipment, net of accumulated depreciation of \$273,414 and \$212,969, respectively | 159,814 | 206,645 |
| Other assets | 576,543 | 438,691 |
| Irrevocable trusts | 8,308,195 | 8,514,955 |
| | \$ 262,569,841 | \$ 232,941,554 |
| Total assets | | |
| LIABILITIES | | |
| Accounts payable | \$ 468,607 | \$ 285,653 |
| Distributions due income beneficiaries | 1,933,072 | 1,902,476 |
| Accrued expenses | 764,738 | 589,003 |
| Notes payable | - | 99,413 |
| Custodial accounts payable | 3,191,557 | 3,065,958 |
| | 6,357,974 | 5,942,503 |
| Total liabilities | | |
| NET ASSETS | | |
| Unrestricted net assets | 11,613,227 | 9,943,049 |
| Temporarily restricted net assets | 82,201,256 | 59,742,786 |
| Permanently restricted net assets | 162,397,384 | 157,313,216 |
| | 256,211,867 | 226,999,051 |
| Total net assets | | |
| | \$ 262,569,841 | \$ 232,941,554 |
| Total liabilities and net assets | | |

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2018
(With comparative totals for 2017)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|--|---------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2018 | 2017 |
| REVENUE, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS | | | | | |
| Contributions | \$ 5,222,429 | \$ 15,817,882 | \$ 5,099,045 | \$ 26,139,356 | \$ 10,362,089 |
| Investment income | 441,228 | 14,935,598 | 4,864 | 15,381,690 | 22,572,761 |
| Investment income (loss), life income plans | 333,700 | (52,337) | - | 281,363 | 439,717 |
| Advancement services | 3,696,084 | - | - | 3,696,084 | 4,649,232 |
| Other revenue, gains | 100,319 | 281,639 | 76,449 | 458,407 | 469,598 |
| Reinvestment of donor funds | - | 456,983 | (456,983) | - | - |
| Net assets released from restrictions | 8,620,502 | (8,981,295) | 360,793 | - | - |
| Total revenue, gains, other support and reclassifications | 18,414,262 | 22,458,470 | 5,084,168 | 45,956,900 | 38,493,397 |
| EXPENSES AND LOSSES | | | | | |
| Program services | 12,817,207 | - | - | 12,817,207 | 10,425,378 |
| Management and general | 1,365,549 | - | - | 1,365,549 | 1,300,005 |
| Fundraising | 2,561,328 | - | - | 2,561,328 | 2,461,254 |
| Total expenses | 16,744,084 | - | - | 16,744,084 | 14,186,637 |
| Change in net assets | 1,670,178 | 22,458,470 | 5,084,168 | 29,212,816 | 24,306,760 |
| NET ASSETS , BEGINNING OF YEAR | 9,943,049 | 59,742,786 | 157,313,216 | 226,999,051 | 202,692,291 |
| NET ASSETS, END OF YEAR | <u>\$11,613,227</u> | <u>\$ 82,201,256</u> | <u>\$ 162,397,384</u> | <u>\$256,211,867</u> | <u>\$226,999,051</u> |

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2018
(With comparative totals for 2017)

| | 2018 | 2017 |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | <u>\$ 29,212,816</u> | <u>\$ 24,306,760</u> |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 80,007 | 65,158 |
| Equity in the earnings of Buchanan Alumni House | (2,769) | (56,066) |
| Decrease (Increase) in cash surrender value of life insurance policies | 4,067 | (9,166) |
| Noncash contributions | (4,402,022) | (1,754,025) |
| Net realized and unrealized gain on investments | (13,808,761) | (21,442,717) |
| Net realized and unrealized loss on real estate | - | 38,246 |
| (Increase) decrease in operating assets | | |
| Other receivables | 18,696 | (17,562) |
| Promises to give | (9,503,851) | 15,682 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 182,954 | 250,213 |
| Distributions due income beneficiaries | 30,596 | 104,652 |
| Accrued expenses | 175,735 | 31,120 |
| Custodial funds | 125,599 | 230,821 |
| Total adjustments | <u>(27,099,749)</u> | <u>(22,543,644)</u> |
| Net cash provided by operating activities | <u>2,113,067</u> | <u>1,763,116</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturation of investments | 10,628,887 | 20,274,743 |
| Purchases of investments | (12,221,480) | (21,004,018) |
| Purchases of property and equipment | (33,176) | (100,494) |
| Purchase of real estate | - | (475) |
| Principal payments on notes receivable | 77,166 | 147,557 |
| (Increase) decrease in other assets | (6,413) | 147,099 |
| Proceeds from the sale of other assets | - | 59,270 |
| Proceeds from sale of real estate | - | 490,805 |
| Net cash (used) provided by investing activities | <u>(1,555,016)</u> | <u>14,487</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of notes payable | <u>(99,413)</u> | <u>(118,621)</u> |
| Net increase in cash and equivalents | 458,638 | 1,658,982 |
| CASH AND EQUIVALENTS, BEGINNING OF YEAR | <u>2,267,940</u> | <u>608,958</u> |
| CASH AND EQUIVALENTS, END OF YEAR | <u><u>\$ 2,726,578</u></u> | <u><u>\$ 2,267,940</u></u> |

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The University of Maine Foundation assists in the development activities of the University of Maine by encouraging gifts and bequests for scholarships, instruction, research, endowment, and other purposes that will benefit the University and other charitable organizations.

The Foundation's operations are supported by unrestricted contributions, a fee charged to the endowment pool, and advancement services contract revenue (Note 11). For the year ended June 30, 2018, \$2,363,109 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 \$375,177 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, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Real Estate

Investment real estate is donated assets recorded at the fair value as of the date of gift. Donated real estate may have donor restrictions; therefore, they may be recorded as temporarily or permanently restricted assets. Realized gains and losses are recorded as other revenue, gains and losses on the statement of activities.

Custodial Funds

The Foundation holds assets for other entities for which the entity controls the spending. The custodial funds are reported by the Foundation as an asset and corresponding liability. Income to and disbursements from to these funds are reported as increases or decreases to the corresponding asset and liability account of the Foundation.

Investments

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.

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 also maintains a short-term pool invested in a mix of money market and certificates of deposit. Short-term investments consist of donor restricted funds and board designated funds in the amount of \$654,022 as Vision for Tomorrow Campaign endowment matching funds.

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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

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.

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 \$2,000 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, 2018 was \$80,007.

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, 2015, 2016 and 2017 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, 2017, from which the summarized information was derived.

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. PROMISES TO GIVE

Unconditional promises to give are recorded in the financial statements as promises to give in the year the promise is received. Promises to give exceeding one year are recorded at the present value of the future cash flows using a discount rate (8%) based on a current rate of return.

Promises to give as of June 30, 2018 are expected to be realized in the following periods, on a calendar year basis:

| | |
|--|---------------------|
| In one year or less | \$ 1,563,965 |
| Between one to five years | 11,650,158 |
| Over five years | <u>24,500</u> |
| Total | 13,238,623 |
| Less discounts to present value | (2,197,900) |
| Less allowance for uncollectible pledges | <u>(140,000)</u> |
| Net unconditional promises to give | <u>\$10,900,723</u> |

The Foundation may receive conditional promises to give from bequests and revocable trusts. At this time, the University of Maine Foundation may not have been notified as such or provided with the financial information and, therefore, amounts expected to be received from these promises cannot be accurately estimated.

3. CASH SURRENDER VALUE OF LIFE INSURANCE

The Foundation owns life insurance policies on the lives of certain donors. The cash surrender value (value of the policies if they were cancelled as of the statement of financial position date) as of June 30, 2018 was \$153,370. The total death benefit due to the Foundation upon the deaths of those insured for 2018 was \$1,319,388.

4. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of approximately 1,700 endowed and quasi-endowed funds on a unitized basis monthly. Most donor restricted funds support the University of Maine or organizations supporting the University or its students. Of the donor restricted funds, \$1,138,303 temporarily restricted and \$2,860,787 permanently restricted funds support other charitable purposes.

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 7.25%. Actual returns in any given year may vary from this amount.

The following summarizes the endowment activity for the year ended June 30, 2018.

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------|
| Long-term investments, endowment, beginning of year | \$6,611,866 | \$42,319,013 | \$154,081,422 | \$203,012,301 |
| Investment income, Foundation funds | 517,356 | 15,971,811 | - | 16,489,167 |
| Investment management fees | (33,714) | (1,005,652) | - | (1,039,366) |
| | 483,642 | 14,966,159 | - | 15,449,801 |
| Contributions/additions | 586,637 | 4,951,906 | 4,826,088 | 10,364,631 |
| Distributions | (376,670) | (5,253,787) | - | (5,630,457) |
| Foundation administrative fee | (82,217) | (2,435,314) | - | (2,517,531) |
| Reinvestment of donor funds | (68,094) | 644,979 | (576,885) | - |
| Total long-term investments, endowment | \$7,155,164 | \$55,192,956 | \$158,330,624 | \$220,678,744 |

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 fiscal year beginning July 1, 2018, the Foundation Board approved a spending policy with a target spending rate of 4.5% consisting of a 3.25% distribution to the University and 1.25% administrative fee. Distributions are calculated as of September 30 of the previous year based on trailing twelve quarter average market value of the endowment pool.

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

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

Long-term investments, endowment as of June 30, 2018 were categorized as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------|--------------------|---------------------------|---------------------------|----------------------|
| Donor restricted funds | \$ - | \$55,192,956 | \$158,330,624 | \$213,523,580 |
| Unrestricted funds | 1,806,264 | - | - | 1,806,264 |
| Board designated funds | 2,156,928 | - | - | 2,156,928 |
| Custodial funds | 3,191,972 | - | - | 3,191,972 |
| Total funds | \$7,155,164 | \$55,192,956 | \$158,330,624 | \$220,678,744 |

Investment Fees

Some investments held by the Foundation report income net of fees and the Foundation follows the same practice. As a result, these fees are netted against investment income.

5. INVESTMENT INCOME

The following summarizes the investment return and its classification in the statement of activities for short-term and long-term investments on June 30, 2018:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------------|------------------|---------------------------|---------------------------|---------------------|
| Interest and dividends | \$ 39,803 | \$ 3,014,307 | \$ 4,864 | \$ 3,058,974 |
| Realized gains | - | 7,630,655 | - | 7,630,655 |
| Investment fees | - | (1,062,773) | - | (1,062,773) |
| Unrealized gains | 401,425 | 5,353,409 | - | 5,754,834 |
| Net investment income | \$441,228 | \$14,935,598 | \$ 4,864 | \$15,381,690 |

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 as of June 30, 2018:

| | |
|---|----------------------------|
| Pooled Life Income Fund #1 (Growth) | \$ 1,014,842 |
| Pooled Life Income Fund #2 (Income) | 194,701 |
| Charitable Gift Annuities | <u>3,844,686</u> |
| Total long-term investments, life income plans | <u>\$ 5,054,229</u> |

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

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

The following summarizes the life income plan activity for the year ended June 30, 2018:

| | Unrestricted | Temporarily Restricted |
|---------------------------------|------------------|---------------------------|
| Life income plans July 1, 2017 | \$ - | \$4,995,245 |
| Investment income (losses) | 410,750 | (52,337) |
| Investment management fees | (31,192) | - |
| | <u>379,558</u> | <u>(52,337)</u> |
| Contributions/additions | - | 137,029 |
| Distributions | (333,700) | - |
| Foundation administrative fees | (45,858) | - |
| Transfers due to terminations | - | (25,708) |
| | <u>(379,558)</u> | <u>111,321</u> |
| Life income plans June 30, 2018 | <u>\$ -</u> | <u>\$5,054,229</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, 2018:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--------------------------------|------------------|---------------------------|---------------------------|------------------|
| Interest and dividends | \$ 35,767 | \$ - | \$ - | \$ 35,767 |
| Realized gains | 29,360 | - | - | 29,360 |
| Investment fees | (31,192) | - | - | (31,192) |
| Foundation admin fees | (45,858) | - | - | (45,858) |
| Unrealized gains (losses) | 342,623 | (52,337) | - | 293,286 |
| Net investment income (losses) | <u>\$333,700</u> | <u>\$ (52,337)</u> | <u>\$ -</u> | <u>\$281,363</u> |

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Information related to the Foundation’s short-term investments as of June 30, 2018 measured at fair value on a recurring basis is as follows:

| | Fair Value Measurements at Reporting Date Using | | | | Liquidity |
|------------------------------|---|-------------|-------------|--------------------|-----------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Short-term investments | | | | | |
| Money Market | \$1,371,801 | \$ - | \$ - | \$1,371,801 | Daily |
| Certificates of Deposit | 3,828,881 | - | - | 3,828,881 | Daily |
| Total short-term investments | <u>\$5,200,682</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$5,200,682</u> | |

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's long-term investments, endowment at June 30, 2018 measured at fair value on a recurring basis is as follows:

| | Fair Value Measurements at Reporting Date Using | | | | Liquidity |
|--|---|-------------|----------------------|----------------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Long-term investments, endowment | | | | | |
| U.S. equities: | | | | | |
| Small cap | \$ 4,790,159 | \$ - | \$ - | \$ 4,790,159 | Daily |
| Large cap | 37,741,498 | - | - | 37,741,498 | Daily |
| Blend | 13,122,135 | - | - | 13,122,135 | Monthly |
| Total U.S. equities | <u>55,653,792</u> | <u>-</u> | <u>-</u> | <u>55,653,792</u> | |
| Non U.S. equities: | | | | | |
| Developed index | 11,427,478 | - | - | 11,427,478 | Daily |
| Other developed | 42,367,256 | - | - | 42,367,256 | Monthly |
| Emerging market | 7,920,119 | - | - | 7,920,119 | Daily |
| Emerging market | 2,924,209 | - | - | 2,924,209 | Monthly |
| Emerging market | 11,431,399 | - | - | 11,431,399 | Quarterly |
| Total non U.S. equities | <u>76,070,461</u> | <u>-</u> | <u>-</u> | <u>76,070,461</u> | |
| U.S. fixed income: | | | | | |
| TIPS | 2,785,414 | - | - | 2,785,414 | Daily |
| U.S. Treasuries | 22,569,587 | - | - | 22,569,587 | Daily |
| Total U.S. fixed income | <u>25,355,001</u> | <u>-</u> | <u>-</u> | <u>25,355,001</u> | |
| Global fixed income: | | | | | |
| Investment grade | <u>5,046,216</u> | <u>-</u> | <u>-</u> | <u>5,046,216</u> | Monthly |
| Private Investments | | | | | |
| Venture capital | - | - | 735,899 | 735,899 | Illiquid |
| Secondaries | - | - | 3,003,752 | 3,003,752 | Illiquid |
| Total private investments | <u>-</u> | <u>-</u> | <u>3,739,651</u> | <u>3,739,651</u> | |
| Alternative investments: | | | | | |
| Hedge funds | | | | | |
| U.S. long/short | - | - | 170,478 | 170,478 | Quarterly |
| Global long/short | - | - | 4,992,998 | 4,992,998 | Monthly |
| Global long/short | - | - | 6,680,126 | 6,680,126 | Quarterly |
| Multi-strategy | - | - | 5,381,645 | 5,381,645 | Quarterly |
| Multi-strategy | - | - | 5,960,341 | 5,960,341 | Semi-annually |
| Event-driven | - | - | 13,943,674 | 13,943,674 | Quarterly |
| Event-driven | - | - | 1,000,055 | 1,000,055 | Annually |
| Global Macro | - | - | 3,682,614 | 3,682,614 | Monthly |
| Global Macro | - | - | 8,111 | 8,111 | Quarterly |
| Opportunistic | - | - | 1,371,936 | 1,371,936 | Annually |
| Total hedge funds | <u>-</u> | <u>-</u> | <u>43,191,978</u> | <u>43,191,978</u> | |
| Other alternative investments: | | | | | |
| Commodity futures | - | - | 2,708,426 | 2,708,426 | Monthly |
| Energy infrastructure | - | - | 4,059,472 | 4,059,472 | Monthly |
| Natural Resources | - | - | 4,112,221 | 4,112,221 | |
| Other | - | - | 389,687 | 389,687 | Illiquid |
| Total other alternative investments | <u>-</u> | <u>-</u> | <u>11,269,806</u> | <u>11,269,806</u> | |
| Cash | 351,839 | - | - | 351,839 | Daily |
| Total long term investments, endowment | <u>\$162,477,309</u> | <u>\$ -</u> | <u>\$ 58,201,435</u> | <u>\$220,678,744</u> | |

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's long-term investments, life income plans at June 30, 2018 measured at fair value on a recurring basis is as follows:

| | Fair Value Measurements at Reporting Date Using | | | | Liquidity |
|--|---|---------|-------------|-------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Long-term investments, life income plans | | | | | |
| U.S. equities: | | | | | |
| Small cap | \$ 83,330 | \$ - | \$ - | \$ 83,330 | Daily |
| Large cap | 656,553 | - | - | 656,553 | Daily |
| Large cap index | 374,249 | - | - | 374,249 | Daily |
| Blend | 228,273 | - | - | 228,273 | Monthly |
| Total U.S. equities | 1,342,405 | - | - | 1,342,405 | |
| Non U.S. equities: | | | | | |
| Developed index | 198,793 | - | - | 198,793 | Daily |
| Other developed | 737,023 | - | - | 737,023 | Monthly |
| Emerging market | 137,779 | - | - | 137,779 | Daily |
| Emerging market | 50,870 | - | - | 50,870 | Monthly |
| Emerging market | 198,861 | - | - | 198,861 | Quarterly |
| Total non U.S. equities | 1,323,326 | - | - | 1,323,326 | |
| U.S. fixed income: | | | | | |
| TIPS | 48,455 | - | - | 48,455 | Daily |
| U.S. Treasuries | 451,212 | - | - | 451,212 | Daily |
| Investment grade | 575,633 | - | - | 575,633 | Daily |
| High yield | 128,997 | - | - | 128,997 | Daily |
| Total U.S. fixed income | 1,204,297 | - | - | 1,204,297 | |
| Global fixed income: | | | | | |
| Investment grade | 87,784 | - | - | 87,784 | Monthly |
| Other Equities: | | | | | |
| Real estate | 57,410 | - | - | 57,410 | Daily |
| Private Investments: | | | | | |
| Venture capital | - | - | 12,803 | 12,803 | Illiquid |
| Secondaries | - | - | 52,253 | 52,253 | Illiquid |
| Total private investments | - | - | 65,056 | 65,056 | |
| Alternative investments: | | | | | |
| Hedge funds | | | | | |
| U.S. long/short | - | - | 2,966 | 2,966 | Quarterly |
| Global long/short | - | - | 86,859 | 86,859 | Monthly |
| Global long/short | - | - | 116,208 | 116,208 | Quarterly |
| Multi-strategy | - | - | 93,619 | 93,619 | Quarterly |
| Multi-strategy | - | - | 103,686 | 103,686 | Semi-annually |
| Event-driven | - | - | 242,565 | 242,565 | Quarterly |
| Event-driven | - | - | 17,397 | 17,397 | Annually |
| Global Macro | - | - | 64,063 | 64,063 | Monthly |
| Global Macro | - | - | 141 | 141 | Quarterly |
| Opportunistic | - | - | 23,866 | 23,866 | Annually |
| Total hedge funds | - | - | 751,370 | 751,370 | |
| Other alternative investments: | | | | | |
| Commodity futures | - | - | 47,116 | 47,116 | Monthly |
| Energy infrastructure | - | - | 70,619 | 70,619 | Monthly |
| Natural Resources | - | - | 71,536 | 71,536 | |
| Other | - | - | 6,779 | 6,779 | Illiquid |
| Total other alternative investments | - | - | 196,050 | 196,050 | |
| Cash | 26,531 | - | - | 26,531 | Daily |
| Total long term investments, life income plans | \$4,041,753 | \$ - | \$1,012,476 | \$5,054,229 | |

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Long-term investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2018:

| | |
|---|-------------------------|
| Investments, July 1, 2017 | \$50,453,617 |
| Realized and unrealized gain included in investment income on the statement of activities | 2,762,778 |
| Redemptions | (9,956,237) |
| Additions | <u>15,953,753</u> |
| Investments, June 30, 2018 | <u>\$59,213,911</u> |

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2018 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. | \$90,876 |
| Note receivable with University of Maine; due in biannual installments of \$7,284 plus finance charges incurred by the Foundation; unsecured. Matures in 2022. | 59,097 |
| Total notes receivable | <u>\$149,973</u> |

10. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2018 consist of the following:

| | |
|--|---------------------|
| Beneficiary interests in: | |
| Charitable remainder trusts | \$ 5,369,239 |
| Charitable lead trusts | 1,667,783 |
| Perpetual trusts | <u>1,271,173</u> |
| Total beneficiary interest in irrevocable trusts | <u>\$ 8,308,195</u> |

Unrealized gains of \$205,246 are reported in other revenue, gains on the statement of activities. Terminated trusts and trust payments of \$412,007 were received as of June 30, 2018.

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

11. ADVANCEMENT SERVICES AGREEMENT

On May 1, 2016 the Foundation entered into an agreement with the University of Maine System (UMS), effective July 1, 2016, to include all fundraising activities for UMaine. Per the agreement, the University agreed to pay an annual fee of \$2,927,924 (due by July 31) plus an amount equal to 1% market value of endowments managed by UMS for UMaine, \$730,120 for the fiscal year ended June 30, 2018 (due by September 30). The agreement continues year to year for three-year terms unless canceled by either party with written notice at which point the agreement would enter a final three-year term.

12. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2018 consist of the following:

| | |
|---|------------------|
| Durst education fund | \$ 10,731 |
| Post-retirement benefits (total estimated future benefits of \$606,126 discounted to present value at 8%) | 313,945 |
| Deferred compensation liability | 71,797 |
| Payroll related | 359,396 |
| Other | 8,869 |
| | <hr/> |
| Total accrued expenses | <u>\$764,738</u> |

The Foundation has a Supplemental Executive Retirement Plan (SERP) for the purpose of providing supplemental retirement benefits to the Chief Executive Officer (CEO) of the Foundation. The Foundation intends to contribute to the CEO's 457(b) Plan account the maximum amount allowed for the applicable calendar year, and credit required amounts to his unfunded SERP account, an aggregate amount equal to two times the CEO's career average base salary. Interest is to accrue on unfunded credits based on the prime rate reported in The Wall Street Journal.

Contributions and credits shall continue until the first to occur of: (a) June 30, 2026; or (b) separation from service. Payments of vested benefits of the SERP shall be paid to the CEO per the following vesting schedule: 50% of the accrued benefit shall be due June 30, 2021 with the remainder to be paid on June 30, 2026 so long as the CEO remains with the Foundation.

The deferred compensation liability under this plan was estimated at \$71,797 as of June 30, 2018 and was recorded in accrued expenses.

13. OPERATING LEASE

The Foundation maintains a lease with the University of Maine for office space in Falmouth with options to renew for each year. The lease terms require semi-annual payments plus a pro rata share of telephone, internet, and janitorial services. Total lease payments were \$13,500 for the years ended June 30, 2018 and 2017.

The minimum future payment under this non-cancelable lease for the year ended June 30, 2018 is \$13,500.

University of Maine Foundation
Notes to Financial Statements
June 30, 2018

14. DEFINED CONTRIBUTION PLAN

The Foundation sponsors a defined contribution plan covering all full-time and regular part-time employees after completing one full year of service. The Foundation contributes 10% of eligible employees' gross salary to the plan each year. Pension expense that is reported in the schedule of functional expenses with payroll taxes and fringe benefits totaled \$247,998 for the year ended June 30, 2018.

15. BUCHANAN ALUMNI HOUSE

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

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

Buchanan Alumni House was constructed solely from private funds. The Foundation and the Association, as the owners of Buchanan Alumni House, each paid \$16,667 and \$8,250 respectively, per month toward the costs of operating the facility.

16. STATEMENT OF CASH FLOWS DISCLOSURES

During the year ended June 30, 2018, the Foundation received non-cash contributions of real estate valued at \$109,300, investment securities totaling \$4,161,283 and other assets valued at \$131,439. Interest of \$124 was paid during the year.

17. COMMITMENTS

The Foundation committed an aggregate of \$13,455,110 with \$3,444,890 of committed capital to private investment funds. As of June 30, 2018, the remaining unfunded commitments to those funds were \$10,010,220. To the extent the Foundation has unfunded capital commitments to funds, the Foundation will be required to make additional capital contributions on an "as needed" basis.

18. RECENT STANDARDS UPDATE

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the stated purpose of improving financial reporting by not-for-profit entities (NFP). Among other provisions, ASU 2016-14 reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications among other changes. The update is effective for the year ended June 30, 2019. The effect on the Foundation's financial statements is not known at this time.

19. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 15, 2018, which is the date the financial statements were available to be issued, and has determined that there were no material subsequent events requiring adjustments to or disclosure in the financial statements, other than noted above.

University of Maine Foundation
Schedule of Functional Expenses
For the Year Ended June 30, 2018
(With comparative totals for 2017)

| | Program Services | Management and General | Fundraising | Total Expenses | |
|--|---------------------|---------------------------|---------------------|---------------------|---------------------|
| | | | | 2018 | 2017 |
| Salaries | \$ 746,003 | \$ 699,590 | \$ 1,412,916 | \$ 2,858,509 | \$ 2,466,807 |
| Payroll taxes and employee benefits | 269,749 | 252,966 | 510,899 | 1,033,614 | 1,352,321 |
| Total compensation | 1,015,752 | 952,556 | 1,923,815 | 3,892,123 | 3,819,128 |
| Endowment distributions to University | 7,017,199 | - | - | 7,017,199 | 6,318,563 |
| Gifts transferred to University | 3,737,898 | - | - | 3,737,898 | 2,450,212 |
| Distributions to life income participants | 342,087 | - | - | 342,087 | 346,585 |
| Distributions, other | 437,648 | - | - | 437,648 | 85,835 |
| Fundraising and donor relations | - | - | 132,762 | 132,762 | 150,660 |
| Post-retirement expense | - | 90,580 | - | 90,580 | 28,974 |
| Deferred compensation expense | - | 44,237 | - | 44,237 | 38,424 |
| Occupancy costs | 57,671 | 54,083 | 109,226 | 220,980 | 132,515 |
| Tax and audit | - | 24,005 | - | 24,005 | 23,490 |
| Insurance | 10,924 | 10,245 | 20,691 | 41,860 | 50,287 |
| Postage | 14,323 | 13,432 | 27,127 | 54,882 | 62,758 |
| Printing | 26,147 | 24,520 | 49,522 | 100,189 | 108,323 |
| Depreciation | 20,880 | 19,581 | 39,546 | 80,007 | 65,158 |
| Interest | 124 | - | - | 124 | 669 |
| Dues and subscriptions | 9,614 | 9,016 | 18,209 | 36,839 | 34,798 |
| Advertising and public relations | 4,659 | 4,370 | 8,825 | 17,854 | 13,797 |
| Telephone and internet | 4,754 | 4,458 | 9,005 | 18,217 | 19,202 |
| Legal | - | 4,248 | - | 4,248 | 4,258 |
| Miscellaneous | 2,055 | 1,930 | 3,896 | 7,881 | 9,835 |
| Meetings and entertainment | 3,763 | 3,529 | 7,128 | 14,420 | 15,294 |
| Supplies | 16,636 | 15,601 | 31,510 | 63,747 | 34,623 |
| Education and training | 5,727 | 5,371 | 10,847 | 21,945 | 26,178 |
| Auto expense | 1,563 | 1,466 | 2,960 | 5,989 | 10,415 |
| Travel | 27,861 | 26,127 | 52,768 | 106,756 | 116,321 |
| Technology software, repairs & maintenance | 53,635 | 50,298 | 101,582 | 205,515 | 211,797 |
| Property management | 6,287 | 5,896 | 11,909 | 24,092 | 8,538 |
| Total functional expenses (Exhibit B) | <u>\$12,817,207</u> | <u>\$ 1,365,549</u> | <u>\$ 2,561,328</u> | <u>\$16,744,084</u> | <u>\$14,186,637</u> |