

University of Maine Foundation

REPORT ON FINANCIAL STATEMENTS

For the Six-Month Period Ended December 31, 2021
(With Independent Auditor's Report)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
University of Maine Foundation

Opinion

We have audited the accompanying financial statements of University of Maine Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statement of activities, functional expenses and cash flows for the six-month period then ended, and the related notes to the financial statements.

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 December 31, 2021, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of University of Maine Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University of Maine Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University of Maine Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University of Maine Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Barthelme Whibodan & Associates

Bangor, Maine

September 9, 2022

**University of Maine Foundation
Statement of Financial Position
December 31, 2021**

ASSETS

Cash and cash equivalents	\$ 4,127,801
Other receivables	49,419
Promises to give, net	4,302,687
Short-term investments	32,499,222
Cash surrender value of life insurance	238,153
Long-term investments, endowment	329,042,218
Long-term investments, life income plans	6,453,978
Notes receivable	20,954
Equity in Buchanan Alumni House	2,624,512
Investment real estate	5,516,448
Property and equipment, net of accumulated depreciation of \$252,156	130,956
Other assets	519,478
Irrevocable trusts	7,044,987
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Total assets	\$ 392,570,813
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LIABILITIES

Accounts payable	\$ 1,807,458
Distributions due income beneficiaries	1,868,668
Accrued expenses	987,773
Deferred revenue	1,857,053
Custodial accounts payable	4,115,871
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Total liabilities	10,636,823
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NET ASSETS

Without donor restriction	17,480,206
With donor restrictions (note 10)	364,453,784
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Total net assets	381,933,990
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Total liabilities and net assets	\$ 392,570,813
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University of Maine Foundation
Statement of Activities
For the Six-Month Period Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS			
Contributions	\$ 4,289,125	\$ 8,182,708	\$ 12,471,833
Non-cash contributions	172,000	48,545	220,545
Net investment return	469,425	16,808,438	17,277,863
Net investment return, life income plans	146,431	146,885	293,316
Advancement services revenue	1,857,053	-	1,857,053
Other revenue and gains	6,366	327,475	333,841
Reinvestment of donor funds	78,028	(78,028)	-
Net assets released from restrictions pursuant to endowment spending distribution	3,531,619	(3,531,619)	-
Net assets released from restrictions - other	2,883,203	(2,883,203)	-
Total revenue, gains, other support and reclassifications	<u>\$ 13,433,250</u>	<u>19,021,201</u>	<u>32,454,451</u>
EXPENSES AND LOSSES			
Program services	9,271,819	-	9,271,819
Management and general	540,400	-	540,400
Fundraising	1,555,061	-	1,555,061
Total expenses and losses	<u>11,367,280</u>	<u>-</u>	<u>11,367,280</u>
Change in net assets	2,065,970	19,021,201	21,087,171
NET ASSETS , BEGINNING OF YEAR	<u>15,414,236</u>	<u>345,432,583</u>	<u>360,846,819</u>
NET ASSETS, END OF YEAR	<u>\$ 17,480,206</u>	<u>\$ 364,453,784</u>	<u>\$ 381,933,990</u>

University of Maine Foundation
Statement of Functional Expenses
For the Six-Month Period Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 454,726	\$ 261,877	\$ 902,945	\$ 1,619,548
Payroll taxes and employee benefits	153,964	88,668	305,724	548,356
Total compensation	608,690	350,545	1,208,669	2,167,904
Distributions in support of the University	4,454,186	-	-	4,454,186
Gifts transferred to University	3,789,085	-	-	3,789,085
Distributions to life income participants	146,431	-	-	146,431
Distributions, other	121,743	-	-	121,743
Fundraising and donor relations	-	-	45,206	45,206
Equity in earnings of Buchanan Alumni House	-	37,834	-	37,834
Post-retirement expense	-	23,980	-	23,980
Deferred compensation expense	-	19,500	-	19,500
Occupancy costs	31,846	18,340	63,236	113,422
Tax and audit	-	20,860	-	20,860
Insurance	8,738	5,032	17,351	31,121
Postage	9,417	5,423	18,698	33,538
Printing	16,185	9,321	32,138	57,644
Depreciation	5,145	2,962	10,214	18,321
Dues and subscriptions	6,118	3,523	12,148	21,789
Advertising and public relations	4,282	2,466	8,502	15,250
Telephone and internet	2,866	1,651	5,692	10,209
Legal	-	330	-	330
Miscellaneous	1,529	879	3,031	5,439
Meetings and entertainment	3,638	2,095	7,224	12,957
Supplies	8,325	4,794	16,531	29,650
Education and training	2,899	1,670	5,756	10,325
Auto expense	855	492	1,697	3,044
Travel	11,008	6,339	21,858	39,205
Technology software, repairs & maintenance	34,519	19,880	68,545	122,944
Property management	4,314	2,484	8,565	15,363
Total expenses by function	<u>\$ 9,271,819</u>	<u>\$ 540,400</u>	<u>\$ 1,555,061</u>	<u>\$ 11,367,280</u>

University of Maine Foundation
Statement of Cash Flows
For the Six-Month Period Ended December 31, 2021

	2021
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 21,087,171
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	18,321
Net realized loss on sale of assets	4,600
Equity adjustment in the earnings of Buchanan Alumni House	37,834
Increase in cash surrender value of life insurance policies	(31,039)
Noncash contributions	(3,107,513)
Net realized and unrealized gain on investments	(16,488,238)
Net realized and unrealized loss on real estate	2,882
Contributions to perpetual endowments	(4,879,393)
Decrease in operating assets	
Other receivables	79,620
Promises to give	4,060,945
Increase in operating liabilities	
Accounts payable	1,535,764
Distributions due income beneficiaries	110,442
Accrued expenses	60,605
Deferred revenue	1,724,047
Custodial funds	117,622
Total adjustments	(16,753,501)
Net cash provided by operating activities	4,333,670
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturation of investments	11,389,120
Purchases of investments	(18,052,209)
Increase in other assets	(1,203)
Proceeds from the sale of other assets	3,340
Proceeds from sale of real estate	203,395
Net cash used by investing activities	(6,457,557)
CASH FLOWS FROM FINANCING ACTIVITIES	
Collections of contributions restricted for endowment	4,879,393
Noncash contributions to life income plans	(425,724)
Payments to beneficiaries of split-interest agreements	146,889
Net cash provided by financing activities	4,600,558
Net change in cash and cash equivalents	2,476,671
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,651,130
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,127,801

See accompanying notes to financial statements.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The University of Maine Foundation was founded in 1934 and 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 changed its fiscal year end from June 30, 2021 to December 31, 2021.

The Foundation's operations are supported by contributions without donor restrictions, a fee charged to the endowment pool, and advancement services contract revenue (Note 11). For the sixth month period ended December 31, 2021, \$1,419,583 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 Foundation 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 with donor restrictions 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 \$350,577 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.

Revenue and Revenue Recognition

Contributions received are recorded as without donor restriction or with donor restriction, 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. Contributions with donor restriction whose restrictions are met in the period they are received are reported as contributions without donor restrictions.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Real Estate

Investment real estate consists of donated assets recorded at the fair value as of the date of gift. Donated real estate may have donor restrictions; therefore, may be recorded as with or without donor restrictions. 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 these funds are reported as increases or decreases to the corresponding asset and liability account of the Foundation.

Investments

The Foundation has applied the accounting guidance in Accounting Standards Codification (ASC) *Topic 820* which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of certain investments. Alternative investments, generally referred to as hedge funds, are redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying assets. However, it is possible that these redemption rights may be restricted by the fund manager in the future in accordance with the underlying fund agreements, as applicable. Private investments consisting of investments in private equity or venture capital investment firms, while valued at NAV, are illiquid and not redeemable.

Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds, and consequently, the fair value of the Foundation's interest in such funds. Although certain investments may be sold in a secondary market, the secondary market is not public and not necessarily observable. It is therefore possible that if the Foundation were to sell its interest in the secondary market, the sale could occur at an amount materially different from the reported value.

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. Investment income is reflected in the statement of activities as with or without donor restrictions based upon the existence and nature of any donor-imposed restrictions.

The Foundation also maintains short-term investments in a mix of money market, certificates of deposit and bonds. Short-term investments consist of funds with donor restrictions, board designated funds designated for Vision for Tomorrow Campaign endowment matching funds, and operating reserve funds. Additionally, the Foundation held approximately \$21 million designated for the construction of the Ferland Engineering Education and Design Center as of December 31, 2021.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Held and Liabilities Under Split-interest agreements

The Foundation acts as trustee of various trusts 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 trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to us, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace us as the beneficiary of the trust, we record the assets placed in trust at fair value, with an equal and offsetting liability until such time that we receive distributions from the trust in accordance with its terms. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature are transferred to the endowment.

In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. 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.

Under charitable gift annuity contracts, we receive immediate and unrestricted title to contributed assets and agree to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year.

Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

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

Notes receivable: The carrying value is based on fair value from expected cash flows of the notes receivable.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

Short-term and long-term investments: The fair values of investments are based on quoted market prices for those of similar investments stated at fair value. Investments without an active market are based on valuations provided by fund managers.

Life income plans: the fair values are based on quoted market prices.

Remainder interest, irrevocable trusts: The trustees provide the values based upon their records. Generally, the fair values are of investments based on quoted market prices.

Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting (8%) the future cash flows using a current rate of return.

Concentration of Credit Risk

The Foundation has significant investments in equity and debt securities that are owned and administered by the Foundation and is subject to many types of risk which may impact the Foundation's investments. Investment advisors who are supervised by a Board of Directors of the Foundation manage investments and seek to minimize risk by diversification of assets. Though the market value of investments is subject to fluctuations on a year-to-year basis, the Foundation's Board of Directors believe that the investment policy is prudent for the long-term objective of the organization.

Property and Equipment

Property and equipment with a useful life of more than one year and costing at least \$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.

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, 2019, 2020 and 2021 are subject to examination by the IRS, generally for three years after they are filed.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity

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. These expenses are allocated on the basis of estimates of time and effort.

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and marketable securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of fundraising and managing endowment in support of the University of Maine. The Foundation holds restricted assets in the form of contributions receivable and long-term investments for endowment that are not available to meet current operating needs.

The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. While the Foundation has an operating reserve of \$5,458,048 that may be used at the discretion of the Board, it is not anticipated to be used in the year ending December 31, 2022 for general expenditures. Total financial assets available for expenditure within one year as of December 31, 2021 are as follows:

Cash and cash equivalents	\$ 4,127,801
Short-term investments	3,587,771
Long-term investments, endowment	
Board designated administrative fee for 2022 budget	3,024,080
Unrestricted funds	<u>2,667,589</u>
Total financial assets available for expenditure within one year	<u>\$13,407,241</u>

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

3. 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 December 31, 2021 are expected to be realized in the following periods, on a calendar year basis:

Within one year	\$	2,691,978
Between one to five years		1,922,642
Over five years		<u>32,150</u>
Total		4,646,770
Less discounts to present value		(204,083)
Less allowance for uncollectible pledges		<u>(140,000)</u>
Net unconditional promises to give		<u>\$4,302,687</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.

4. 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 December 31, 2021 was \$238,153 and the total death benefit due to the Foundation upon the deaths of those insured for was \$1,338,840.

5. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of approximately 1,950 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. However, \$5,279,227 of the funds with donor restrictions are designated for other charitable purposes.

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.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

5. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

Long-term investments, endowment as of December 31, 2021 were categorized as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Board-designated Unrestricted funds	\$2,537,141 2,776,516	- -	\$2,537,141 2,776,516
Donor-restricted			
Original amount required to be maintained in perpetuity	-	186,505,550	186,505,550
Accumulated investment gains		133,107,140	133,107,140
Custodial funds	4,115,871	-	4,115,871
 Total funds	 \$9,429,528	 \$319,612,690	 \$329,042,218

Changes in Endowment net assets for the sixth month period ended December 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$9,194,681	\$300,861,513	\$310,056,194
Investment return, net	506,944	16,958,404	17,465,348
Contributions/additions	76,808	7,408,712	7,485,520
Distributions pursuant to spending policy	-	(3,609,647)	(3,609,647)
Foundation administrative fee	(40,480)	(1,356,623)	(1,397,103)
Other distributions	(308,425)	(649,669)	(958,094)
Total long-term investments, endowment	\$9,429,528	\$319,612,690	\$329,042,218

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 period beginning July 1, 2021, 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.

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature at December 31, 2021.

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

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 as of December 31, 2021 were categorized as follows:

Pooled Life Income Fund #1 (Growth)	\$ 870,412
Pooled Life Income Fund #2 (Income)	218,184
Charitable Gift Annuities	<u>5,365,382</u>
 Total long-term investments, life income plans	 <u>\$ 6,453,978</u>

The following summarizes the life income plan activity for sixth month period ended December 31, 2021:

	Without Donor Restriction	With Donor Restrictions
Life income plans July 1, 2021	\$ -	\$5,872,679
Investment return, net	168,807	146,885
Contributions/additions	-	434,414
Foundation administrative fees	(22,376)	
Distributions	<u>(146,431)</u>	<u>-</u>
 Life income plans December 31, 2021	 \$ -	 \$6,453,978

7. 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.

University of Maine Foundation
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7. FAIR VALUE MEASUREMENTS (CONTINUED)

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

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of our investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. We may invest in some CDs traded in the financial markets. Those CDs and U.S. government obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2. The fair values of beneficial interests in charitable gift annuities and perpetual trusts are determined by us using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are considered to be Level 3 measurements.

We use net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Information related to the Foundation's short-term investments as of December 31, 2021 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					
Money Market	\$ 26,959,147	\$ -	\$ -	\$ 26,959,147	Daily
Certificates of Deposit	2,469,911	-	-	2,469,911	Daily
Bonds	3,070,164			3,070,164	Daily
Total short-term investments	<u>\$32,499,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$32,499,222</u>	

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

7. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's long-term investments, endowment at December 31, 2021 measured at fair value on a recurring basis is as follows:

	Fair Value Measurements at Reporting Date Using					Liquidity
	NAV	Level 1	Level 2	Level 3	Total	
Long-term investments, endowment						
U.S. equities:						
Small cap	\$ -	\$ 12,088,994	\$ -	\$ -	\$ 12,088,994	Daily
Blend	-	3,216,927	-	-	3,216,927	Daily
Large cap	77,339,273	-	-	-	77,339,273	Daily
Blend	12,997,477	-	-	-	12,997,477	Monthly
Total U.S. equities	<u>90,336,750</u>	<u>15,305,921</u>	<u>-</u>	<u>-</u>	<u>105,642,671</u>	
Non U.S. equities:						
Other developed	-	18,354,713	-	-	18,354,713	Daily
Emerging market	-	8,967,019	-	-	8,937,019	Daily
Emerging market	6,444,161	-	-	-	6,444,161	Monthly
Other developed	19,494,844	-	-	-	19,494,844	Monthly
Emerging market	5,384,853	-	-	-	5,384,853	Quarterly
Total non U.S. equities	<u>31,323,858</u>	<u>27,321,732</u>	<u>-</u>	<u>-</u>	<u>58,645,590</u>	
Global Equities	15,341,937	-	-	-	15,341,937	Monthly
Global Equities	26,055,871	-	-	-	26,055,871	Quarterly
Total Global Equities	<u>41,397,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,397,808</u>	
U.S. fixed income:						
TIPS	-	9,961,855	-	-	9,961,855	Daily
Treasury	-	25,147,114	-	-	25,147,114	Daily
Total U.S. fixed income	<u>-</u>	<u>35,108,969</u>	<u>-</u>	<u>-</u>	<u>35,108,969</u>	
Private Investments						
Venture capital	33,500,893	-	-	-	33,500,893	Illiquid
Secondaries	13,063,817	-	-	-	13,063,817	Illiquid
Buyout	2,704,237	-	-	-	2,704,237	Illiquid
Total private investments	<u>49,268,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,268,947</u>	
Alternative investments:						
Hedge funds						
Global long/short	4,816,370	-	-	-	4,816,370	Monthly
Global long/short	4,520,699	-	-	-	4,520,699	Quarterly
Credit-oriented	5,830,990	-	-	-	5,830,990	Quarterly
Multi-strategy	8,133,591	-	-	-	8,133,591	Semi-annually
Event-driven	6,822,407	-	-	-	6,822,407	Quarterly
Event-driven	7,893,391	-	-	-	7,893,391	Annually
Total hedge funds	<u>38,017,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,017,448</u>	
Cash	-	960,785	-	-	960,785	Daily
Total long term investments, endowment	<u>\$ 250,344,811</u>	<u>\$78,697,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$329,042,218</u>	

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

7. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's long-term investments, life income plans at December 31, 2021 measured at fair value on a recurring basis is as follows:

	Fair Value Measurements at Reporting Date Using					Liquidity
	NAV	Level 1	Level 2	Level 3	Total	
Long-term investments, life income plans						
U.S. equities:						
Small cap	\$ -	\$ 195,708	\$ -	\$ -	\$ 195,708	Daily
Large cap index	-	326,100	-	-	326,100	Daily
Blend	-	52,079	-	-	52,079	Daily
Large cap	1,252,039	-	-	-	1,252,039	Daily
Blend	210,415	-	-	-	210,415	Monthly
Total U.S. equities	1,462,454	573,887	-	-	2,036,341	
Non U.S. equities:						
Other developed	-	297,143	-	-	297,143	Daily
Emerging market	-	145,166	-	-	145,166	Daily
Emerging market	104,324	-	-	-	104,324	Monthly
Other developed	315,600	-	-	-	315,600	Monthly
Emerging market	87,175	-	-	-	87,175	Quarterly
Total non U.S. equities	507,099	442,309	-	-	949,408	
Global Equities	248,370	-	-	-	248,370	Monthly
Global Equities	421,816	-	-	-	421,816	Quarterly
Total Global Equities	670,186	-	-	-	670,186	
U.S. fixed income:						
TIPS	-	161,272	-	-	161,272	Daily
Treasuries	-	460,064	-	-	460,064	Daily
Investment grade	-	530,996	-	-	530,996	Daily
High yield	-	120,383	-	-	120,383	Daily
Total U.S. fixed income	-	1,272,715	-	-	1,272,715	
Global Real Estate	-	45,932	-	-	45,932	Daily
Private Investments:						
Venture capital	542,343	-	-	-	542,343	Illiquid
Secondaries	211,489	-	-	-	211,489	Illiquid
Buyout	43,779	-	-	-	43,779	Illiquid
Total private investments	797,611	-	-	-	797,611	
Alternative investments:						
Hedge funds						
Global long/short	77,972	-	-	-	77,972	Monthly
Global long/short	73,185	-	-	-	73,185	Quarterly
Credit-oriented	94,397	-	-	-	94,397	Quarterly
Multi-strategy	131,674	-	-	-	131,674	Semi-annually
Event-driven	110,447	-	-	-	110,447	Quarterly
Event-driven	127,786	-	-	-	127,786	Annually
Total hedge funds	615,461	-	-	-	615,461	
Cash	-	66,324	-	-	66,324	Daily
Total long term investments, life income plans	\$4,052,811	\$2,401,167	\$ -	\$ -	\$6,453,978	

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

7. FAIR VALUE MEASUREMENTS (CONTINUED)

Long-term investments measured at net asset value (NAV) per share, or its equivalent for the year ended December 31, 2021:

Investments, July 1, 2021	\$ 227,375,532
Purchases/contributions of investments	12,721,373
Investment return, net	18,501,012
Distributions/Redemptions	<u>(4,200,295)</u>
Investments, December 31, 2021	<u>\$254,397,622</u>

8. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At December 31, 2021 all notes receivable are current. Notes receivable consist of the following:

Note receivable with University of Maine; due in biannual installments of \$7,284 including interest at 4.25%; unsecured. Matures November 2022.	<u>\$20,954</u>
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9. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of December 31, 2021 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 3,641,060
Charitable lead trusts	1,868,849
Perpetual trusts	<u>1,535,078</u>
Total beneficiary interest in irrevocable trusts	<u>\$ 7,044,987</u>

Unrealized gains of \$156,638 are reported in other revenue, gains on the statement of activities. Terminated trusts and trust payments of \$811,686 were received during the six-month period ended December 31, 2021.

10. NET ASSETS

Net assets without donor restrictions are as follows:

Undesignated	\$ 6,896,512
Board designated	2,853,649
Custodial funds	4,115,871
Buildings, equipment and other assets	<u>3,614,174</u>
Total net assets without donor restrictions	<u>\$17,480,206</u>

University of Maine Foundation
Notes to Financial Statements
December 31, 2021

10. NET ASSETS (CONTINUED)

Net assets with donor restrictions are restricted as follows:

Subject to expenditure for specific purpose:
Short term investments

Engineering building construction	\$ 21,140,656
Other University Support	4,305,800
Non-University support	96,479
	<u>25,542,935</u>

Subject to the passage of time:

Life income plans and life insurance	4,823,464
Split interest agreements	5,509,909
Promises to give	4,024,861
	<u>14,358,234</u>

Endowments:

Scholarship support	207,912,198
Non-scholarship support	110,171,338
Promises to give	276,259
	<u>318,359,795</u>

Not subject to expenditure:

Beneficial interest in perpetual trusts	1,535,078
Donated real estate	4,657,742
	<u>6,192,820</u>

Total net assets with donor restrictions	<u>\$364,453,784</u>
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11. ADVANCEMENT SERVICES AGREEMENT

The Foundation has an agreement with the University of Maine System (UMS) to include all fundraising activities for the University of Maine. Per the agreement, UMS 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 the University of Maine, \$832,363 for their fiscal year ended June 30, 2022 (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 December 31, 2021 consist of the following:

Durst education fund	\$ 10,731
Post-retirement benefits (total estimated future benefits of \$589,834 discounted to present value at 8%)	306,217
Deferred compensation liability	105,648
Payroll related	540,059
Other	25,118
	<u>987,773</u>
Total accrued expenses	<u>\$987,773</u>

University of Maine Foundation
Notes to Financial Statements
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12. ACCRUED EXPENSES (CONTINUED)

The Foundation has a Supplemental Executive Retirement Plan (SERP) for the purpose of providing supplemental retirement benefits to a select group of management or highly compensated employees. The Foundation intends to contribute to the 457(b) Plan the maximum amount allowed by the Internal Revenue Code for the applicable calendar year, and credit required amounts to unfunded SERP accounts, an aggregate amount equal to two times the 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 under the current plan shall continue until the first to occur of: (a) December 31, 2028; or (b) separation from service. Distributions of vested benefits shall be paid based on the following vesting schedules as of December 31, 2021:

<u>Date</u>	<u>Amount Due</u>
December 31, 2023	\$ 16,429
June 30, 2025	251,994
December 31, 2028	81,478

The deferred compensation liability under this plan was estimated at \$105,648 as December, 2021 and is included in accrued expenses.

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 \$315,277 for the sixth month period ended December 31, 2021

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 Buchanan Alumni House which was constructed solely from private funds. The owners did not create a partnership and each owns an undivided half interest in the building and land lease with a net asset value of \$2,624,512 at December 31, 2021

The Buchanan Alumni House provides office space for the Foundation and the Association to conduct their respective charitable and non-profit missions and serves campus visitors providing the University with function space to welcome and host alumni, prospective students, faculty, campus guests, and visiting dignitaries.

The Foundation and the Association, as the owners of Buchanan Alumni House, each paid \$16,667 and \$8,250 per month, respectively toward the costs of operating the facility for the six month period ended December 31, 2021

University of Maine Foundation
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16. STATEMENT OF CASH FLOWS DISCLOSURES

During the sixth month period ended December 31, 2021, the Foundation received non-cash contributions of investment securities totaling \$3,314,675, land valued at \$197,395, other assets valued at \$2,000 and a life insurance policy with a cash surrender value of \$19,167.

17. COMMITMENTS

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The Foundation committed an aggregate of \$51,900,000 with \$30,513,197 of committed capital to private investment funds. As of December 31, 2021, the remaining unfunded commitments to those funds were \$21,386,803. 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. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 9, 2022, 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.