

University of Maine Foundation

REPORT ON FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With comparative totals for 2018)

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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, 2019, and the related statements of activities, functional expenses 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, University of Maine Foundation adopted Financial Accounting Standards Board Update (ASU) No. 2016-14 – *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University of Maine Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Brantron Whibodian & Associates

Bangor, Maine

October 18, 2019

University of Maine Foundation
Statement of Financial Position
For the Year Ended June 30, 2019
(With comparative totals for 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,675,643	\$ 2,726,578
Other receivables	84,704	99,882
Promises to give, net	11,398,904	10,900,723
Short-term investments	11,384,531	5,200,682
Cash surrender value of life insurance	162,342	153,370
Long-term investments, endowment	227,085,170	220,678,744
Long-term investments, life income plans	4,976,727	5,054,229
Notes receivable	46,914	149,973
Equity in Buchanan Alumni House	2,671,817	2,684,493
Investment real estate	5,820,731	5,876,615
Property and equipment, net of accumulated depreciation of \$232,016 and \$273,414, respectively	132,425	159,814
Other assets	561,707	576,543
Irrevocable trusts	6,932,675	8,308,195
	\$ 272,934,290	\$ 262,569,841
LIABILITIES		
Accounts payable	\$ 445,011	\$ 468,607
Distributions due income beneficiaries	1,990,788	1,933,072
Accrued expenses	795,693	764,738
Custodial accounts payable	3,029,582	3,191,557
	6,261,074	6,357,974
NET ASSETS		
Without donor restriction	12,441,375	11,613,227
With donor restrictions	254,231,841	244,598,640
	266,673,216	256,211,867
	\$ 272,934,290	\$ 262,569,841

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2019
(With comparative totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
REVENUE, GAINS, OTHER SUPPORT AND RECLASSIFICATIONS				
Contributions	\$ 4,848,801	\$ 12,660,595	\$ 17,509,396	\$ 26,139,356
Investment income, net	173,767	6,741,172	6,914,939	15,381,690
Investment income (loss), life income plans	342,880	(187,372)	155,508	281,363
Advancement services	3,667,661	-	3,667,661	3,696,084
Other revenue, gains	12,635	639,787	652,422	458,407
Reinvestment of donor funds	667,683	(667,683)	-	-
Net assets released from restrictions				
pursuant to endowment spending distribution	6,221,749	(6,221,749)	-	-
Net assets released from restrictions - other	3,331,549	(3,331,549)	-	-
Total revenue, gains, other support and reclassifications	<u>19,266,725</u>	<u>9,633,201</u>	<u>28,899,926</u>	<u>45,956,900</u>
EXPENSES AND LOSSES				
Program services	14,556,350	-	14,556,350	12,817,207
Management and general	1,348,762	-	1,348,762	1,365,549
Fundraising	2,533,465	-	2,533,465	2,561,328
Total expenses and losses	<u>18,438,577</u>	<u>-</u>	<u>18,438,577</u>	<u>16,744,084</u>
Change in net assets	828,148	9,633,201	10,461,349	29,212,816
NET ASSETS , BEGINNING OF YEAR	<u>11,613,227</u>	<u>244,598,640</u>	<u>256,211,867</u>	<u>226,999,051</u>
NET ASSETS, END OF YEAR	<u>\$ 12,441,375</u>	<u>\$ 254,231,841</u>	<u>\$266,673,216</u>	<u>\$ 256,211,867</u>

University of Maine Foundation
Statement of Functional Expenses
For the Year Ended June 30, 2019
(With comparative totals for 2018)

	Program Services	Management and General	Fundraising	Total Expenses	
				2019	2018
Salaries	\$ 745,064	\$ 726,278	\$ 1,416,216	2,887,558	\$ 2,858,509
Payroll taxes and employee benefits	245,835	239,636	467,282	952,753	1,033,614
Total compensation	990,899	965,914	1,883,498	3,840,311	3,892,123
Endowment distributions to University	9,935,239	-	-	9,935,239	7,017,199
Gifts transferred to University	2,899,702	-	-	2,899,702	3,737,898
Distributions to life income participants	342,880	-	-	342,880	342,087
Distributions, other	116,071	-	-	116,071	437,648
Fundraising and donor relations	-	-	133,792	133,792	132,762
Equity in earnings of Buchanan Alumni House	-	12,676	-	12,676	-
Post-retirement expense	-	-	-	-	90,580
Deferred compensation expense	-	47,486	-	47,486	44,237
Occupancy costs	58,532	57,056	111,256	226,844	220,980
Tax and audit	-	23,738	-	23,738	24,005
Consulting services	-	30,937	-	30,937	-
Insurance	14,465	14,101	27,496	56,062	41,860
Postage	17,136	16,704	32,571	66,411	54,882
Printing	28,962	28,231	55,050	112,243	100,189
Depreciation	17,291	16,855	32,865	67,011	80,007
Interest	-	-	-	-	124
Dues and subscriptions	8,019	7,816	15,242	31,077	36,839
Advertising and public relations	6,199	6,043	11,783	24,025	17,854
Telephone and internet	5,376	5,241	10,220	20,837	18,217
Legal	-	3,299	-	3,299	4,248
Miscellaneous	2,508	2,445	4,766	9,719	7,881
Meetings and entertainment	3,462	3,375	6,581	13,418	14,420
Supplies	18,790	18,316	35,715	72,821	63,747
Education and training	6,132	5,977	11,656	23,765	21,945
Auto expense	2,062	2,010	3,921	7,993	5,989
Travel	29,691	28,942	56,436	115,069	106,756
Technology software, repairs & maintenance	49,238	47,997	93,591	190,826	205,515
Property management	3,696	3,603	7,026	14,325	24,092
Total expenses by function	<u>\$14,556,350</u>	<u>\$ 1,348,762</u>	<u>\$ 2,533,465</u>	<u>18,438,577</u>	<u>16,744,084</u>

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2019
(With comparative totals for 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,461,349	\$ 29,212,816
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	67,011	80,007
Equity in the earnings of Buchanan Alumni House	12,676	(2,769)
(Increase) decrease in cash surrender value of life insurance policies	(8,941)	4,067
Noncash contributions	(3,244,481)	(4,402,022)
Net realized and unrealized gain on investments	(4,470,659)	(13,808,761)
Net realized and unrealized loss on real estate	29,884	-
(Increase) decrease in operating assets		
Other receivables	15,178	18,696
Promises to give	(498,181)	(9,503,851)
Increase (decrease) in operating liabilities		
Accounts payable	(23,596)	182,954
Distributions due income beneficiaries	57,716	30,596
Accrued expenses	30,955	175,735
Custodial funds	(161,975)	125,599
Total adjustments	(8,193,688)	(27,099,749)
Net cash provided by operating activities	2,267,661	2,113,067
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	13,487,443	10,628,887
Purchases of investments	(16,914,946)	(12,221,480)
Purchases of property and equipment	(39,622)	(33,176)
Principal payments on notes receivable	103,059	77,166
(Increase) decrease in other assets	1,526	(6,413)
Proceeds from the sale of other assets	12,585	-
Proceeds from sale of real estate	26,000	-
Proceeds from surrender of life insurance policy	5,359	-
Net cash used by investing activities	(3,318,596)	(1,555,016)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	-	(99,413)
Net change in cash and cash equivalents	(1,050,935)	458,638
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,726,578	2,267,940
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,675,643	\$ 2,726,578

University of Maine Foundation
Notes to Financial Statements
June 30, 2019

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 contributions without donor restrictions, a fee charged to the endowment pool, and advancement services contract revenue (Note 11). For the year ended June 30, 2019, \$2,426,918 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 \$373,777 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 without donor restricted or with donor 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. 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
June 30, 2019

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 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 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 in the amount of \$487,194 designated for Vision for Tomorrow Campaign endowment matching funds, and operating reserve 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, 2019

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.

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, 2016, 2017 and 2018 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 accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Foundation's audited financial statements for the year ended June 30, 2018 from which the summarized information was derived.

University of Maine Foundation
Notes to Financial Statements
June 30, 2019

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.

Change in Accounting Principle

On August 18, 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 Foundation has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2019

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

In addition to financial assets available to meet general expenditures over the next twelve months, the Foundation will receive \$3,642,811 from the University of Maine from a contractual agreement and use unrestricted gifts raised during the year. 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 \$3,497,893 that may be used at the discretion of the Board, it is not anticipated to be used in the year ending June 30, 2020 for general expenditures. Total financial assets available for expenditure within one year as of June 30, 2019 are as follows:

Cash and cash equivalents	\$1,675,643
Short-term investments	2,846,141
Long-term investments, endowment	
Board designated administrative fee for FY20 budget	2,558,168
Unrestricted funds	<u>1,849,887</u>
Total financial assets available for expenditure within one year	<u>\$8,929,839</u>

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 June 30, 2019 are expected to be realized in the following periods, on a calendar year basis:

Within one year	\$ 905,082
Between one to five years	12,291,656
Over five years	<u>13,000</u>
Total	13,209,738
Less discounts to present value	(1,670,834)
Less allowance for uncollectible pledges	<u>(140,000)</u>
Net unconditional promises to give	<u>\$11,398,904</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 June 30, 2019 was \$162,342 and the total death benefit due to the Foundation upon the deaths of those insured for was \$1,319,388.

University of Maine Foundation
Notes to Financial Statements
June 30, 2019

5. LONG-TERM INVESTMENTS, ENDOWMENT

The Foundation manages an investment pool of approximately 1,780 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, \$3,955,033 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.

Changes in Endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$7,155,164	\$213,523,580	\$220,678,744
Investment return, net	179,405	6,450,624	6,630,029
Contributions/additions	296,519	9,228,243	9,524,762
Distributions pursuant to spending policy	-	(6,193,943)	(6,193,943)
Foundation administrative fee	(72,325)	(2,320,496)	(2,392,821)
Other distributions	(591,372)	(570,229)	(1,161,601)
Total long-term investments, endowment	<u>\$6,967,391</u>	<u>\$220,117,779</u>	<u>\$227,085,170</u>

Endowment Spending Policy

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For 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, 2019

5. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

Long-term investments, endowment as of June 30, 2019 were categorized as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Board-designated Unrestricted funds	\$2,087,922 1,849,887	- -	\$2,087,922 1,849,887
Donor-restricted			
Original amount required to be maintained in perpetuity	-	165,271,935	165,271,935
Accumulated investment gains	-	54,845,844	54,845,844
Custodial funds	3,029,582	-	3,029,582
 Total funds	 \$6,967,391	 \$220,117,779	 \$227,085,170

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, 2019:

Pooled Life Income Fund #1 (Growth)	\$ 772,212
Pooled Life Income Fund #2 (Income)	203,023
Charitable Gift Annuities	<u>4,001,492</u>
 Total long-term investments, life income plans	 <u>\$ 4,976,727</u>

The following summarizes the life income plan activity for the year ended June 30, 2019:

	Without Donor Restriction	With Donor Restrictions
Life income plans July 1, 2018	\$ -	\$5,054,229
Investment return (loss), net	386,385	(187,372)
Contributions/additions	-	569,192
Foundation administrative fees	(43,505)	
Distributions	(342,880)	-
Transfers due to terminations	-	(459,322)
 Life income plans June 30, 2019	 \$ -	 <u>\$4,976,727</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2019

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.

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, 2019 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	\$ 1,370,699	\$ -	\$ -	\$ 1,370,699	Daily
Certificates of Deposit	7,978,236	-	-	7,978,236	Daily
Bonds	2,035,596	-	-	2,035,596	Daily
Total short-term investments	<u>\$11,384,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,384,531</u>	

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

Information related to the Foundation's long-term investments, endowment at June 30, 2019 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	\$ 4,554,596	\$ -	\$ -	\$ 4,554,596	Daily
Large cap	37,400,371	-	-	37,400,371	Daily
Blend	14,368,318	-	-	14,368,318	Monthly
Total U.S. equities	<u>56,323,285</u>	<u>-</u>	<u>-</u>	<u>56,323,285</u>	
Non U.S. equities:					
Developed index	10,716,926	-	-	10,716,926	Daily
Other developed	38,689,612	-	-	38,689,612	Monthly
Emerging market	10,453,202	-	-	10,453,202	Daily
Emerging market	7,373,817	-	-	7,373,817	Monthly
Emerging market	5,039,921	-	-	5,039,921	Quarterly
Total non U.S. equities	<u>72,273,478</u>	<u>-</u>	<u>-</u>	<u>72,273,478</u>	
U.S. fixed income:					
TIPS	5,967,332	-	-	5,967,332	Daily
Treasuries	14,272,011	-	-	14,272,011	Daily
Total U.S. fixed income	<u>20,239,343</u>	<u>-</u>	<u>-</u>	<u>20,239,343</u>	
Private Investments					
Venture capital	-	-	2,834,820	2,834,820	Illiquid
Secondaries	-	-	5,873,800	5,873,800	Illiquid
Total private investments	<u>-</u>	<u>-</u>	<u>8,708,620</u>	<u>8,708,620</u>	
Alternative investments:					
Hedge funds					
Global long/short	-	-	5,065,771	5,065,771	Monthly
Global long/short	-	-	4,493,072	4,493,072	Quarterly
Multi-strategy	-	-	1,402,162	1,402,162	Quarterly
Multi-strategy	-	-	6,189,894	6,189,894	Semi-annually
Event-driven	-	-	14,331,385	14,331,385	Quarterly
Event-driven	-	-	5,506,399	5,506,399	Annually
Global Macro	-	-	5,630,979	5,630,979	Monthly
Total hedge funds	<u>-</u>	<u>-</u>	<u>42,619,662</u>	<u>42,619,662</u>	
Other alternative investments:					
Energy infrastructure	-	-	4,068,011	4,068,011	Monthly
Natural Resources	-	-	2,321,236	2,321,236	Monthly
Other	-	-	146,600	146,600	Illiquid
Total other alternative investments	<u>-</u>	<u>-</u>	<u>6,535,847</u>	<u>6,535,847</u>	
Cash	20,384,935	-	-	20,384,935	Daily
Total long term investments, endowment	<u>\$169,221,041</u>	<u>\$ -</u>	<u>\$ 57,864,129</u>	<u>\$227,085,170</u>	

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

Information related to the Foundation's long-term investments, life income plans at June 30, 2019 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	\$ 80,037	\$ -	\$ -	\$ 80,037	Daily
Large cap	657,226	-	-	657,226	Daily
Large cap index	286,621	-	-	286,621	Daily
Blend	252,491	-	-	252,491	Monthly
Total U.S. equities	<u>1,276,375</u>	<u>-</u>	<u>-</u>	<u>1,276,375</u>	
Non U.S. equities:					
Developed index	188,326	-	-	188,326	Daily
Other developed	679,882	-	-	679,882	Monthly
Emerging market	183,691	-	-	183,691	Daily
Emerging market	129,578	-	-	129,578	Monthly
Emerging market	88,565	-	-	88,565	Quarterly
Total non U.S. equities	<u>1,270,042</u>	<u>-</u>	<u>-</u>	<u>1,270,042</u>	
U.S. fixed income:					
TIPS	104,862	-	-	104,862	Daily
Treasuries	299,595	-	-	299,595	Daily
Investment grade	486,058	-	-	486,058	Daily
High yield	105,289	-	-	105,289	Daily
Total U.S. fixed income	<u>995,804</u>	<u>-</u>	<u>-</u>	<u>995,804</u>	
Other Equities:					
Real estate	<u>38,038</u>	<u>-</u>	<u>-</u>	<u>38,038</u>	Daily
Private Investments:					
Venture capital	-	-	49,815	49,815	Illiquid
Secondaries	-	-	103,219	103,219	Illiquid
Total private investments	<u>-</u>	<u>-</u>	<u>153,034</u>	<u>153,034</u>	
Alternative investments:					
Hedge funds					
Global long/short	-	-	89,019	89,019	Monthly
Global long/short	-	-	78,956	78,956	Quarterly
Multi-strategy	-	-	24,640	24,640	Quarterly
Multi-strategy	-	-	108,773	108,773	Semi-annually
Event-driven	-	-	98,952	98,952	Monthly
Event-driven	-	-	251,841	251,841	Quarterly
Event-driven	-	-	96,762	96,762	Annually
Total hedge funds	<u>-</u>	<u>-</u>	<u>748,943</u>	<u>748,943</u>	
Other alternative investments:					
Energy infrastructure	-	-	71,486	71,486	Monthly
Natural Resources	-	-	40,790	40,790	Monthly
Other	-	-	2,576	2,576	Illiquid
Total other alternative investments	<u>-</u>	<u>-</u>	<u>114,852</u>	<u>114,852</u>	
Cash	379,639	-	-	379,639	Daily
Total long term investments, life income plans	<u>\$3,959,898</u>	<u>\$ -</u>	<u>\$1,016,829</u>	<u>\$4,976,727</u>	

University of Maine Foundation
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June 30, 2019

7. FAIR VALUE MEASUREMENTS (CONTINUED)

Long-term investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2019:

Investments, July 1, 2018	\$59,213,911
Purchases/contributions of investments	10,547,970
Investment return, net	1,015,761
Distributions/Redemptions	<u>(11,896,684)</u>
Investments, June 30, 2019	<u>\$58,880,958</u>

8. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2019 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>\$46,914</u>
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9. IRREVOCABLE TRUSTS

The Foundation has a beneficiary interest in various charitable trusts. Irrevocable trusts as of June 30, 2019 consist of the following:

Beneficiary interests in:	
Charitable remainder trusts	\$ 3,889,712
Charitable lead trusts	1,781,229
Perpetual trusts	<u>1,261,734</u>
Total beneficiary interest in irrevocable trusts	<u>\$ 6,932,675</u>

Unrealized gains of \$308,384 are reported in other revenue, gains on the statement of activities. Terminated trusts and trust payments of \$1,683,904 were received as of June 30, 2019.

10. NET ASSETS

Net assets without donor restrictions are as follows:

Undesignated	\$ 3,345,729
Board designated	2,575,116
Custodial funds	3,029,582
Buildings, equipment and other assets	<u>3,490,948</u>
Total net assets without donor restrictions	<u>\$12,441,375</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2019

10. NET ASSETS (CONTINUED)

Net assets with donor restrictions are restricted as follows:

Subject to expenditure for specific purpose:	
Short term investments	
University Support	\$ 7,009,873
Non-University support	<u>89,452</u>
	<u>7,099,325</u>
Subject to the passage of time:	
Life income plans and life insurance	3,148,281
Split interest agreements	5,670,941
Promises to give	<u>10,795,547</u>
	<u>19,614,769</u>
Endowments:	
Scholarship support	138,545,637
Non-scholarship support	81,972,996
Promises to give	<u>603,356</u>
	<u>221,121,989</u>
Not subject to expenditure:	
Beneficial interest in perpetual trusts	1,261,734
Donated real estate	<u>5,134,024</u>
	<u>6,395,758</u>
Total net assets with donor restrictions	<u>\$254,231,841</u>

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, 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 the University of Maine, \$714,887 for the fiscal year ended June 30, 2019 (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.

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

Accrued expenses of the Foundation at June 30, 2019 consist of the following:

Durst education fund	\$ 10,731
Post-retirement benefits (total estimated future benefits of \$534,603 discounted to present value at 8%)	286,265
Deferred compensation liability	100,283
Payroll related	386,531
Other	<u>11,883</u>
Total accrued expenses	<u>\$795,693</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, 2025; 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, 2020 with the remainder to be paid on June 30, 2025 so long as the CEO remains with the Foundation.

The deferred compensation liability under this plan was estimated at \$100,283 as of June 30, 2019 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, 2019 and 2018. The minimum future payment under this non-cancelable lease for the year ended June 30, 2019 is \$13,500.

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 \$250,712 for the year ended June 30, 2019.

University of Maine Foundation
Notes to Financial Statements
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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 net equity value of the Foundation's ownership is \$2,671,817 at June 30, 2019.

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 per month, respectively toward the costs of operating the facility.

16. STATEMENT OF CASH FLOWS DISCLOSURES

During the year ended June 30, 2019, the Foundation received non-cash contributions of investment securities totaling \$3,239,091 and a life insurance policy with a cash surrender value of \$5,390.

17. COMMITMENTS

The Foundation committed an aggregate of \$19,006,101 with \$7,893,899 of committed capital to private investment funds. As of June 30, 2019, the remaining unfunded commitments to those funds were \$11,112,202. 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

On July 1, 2019, \$20,000,000 of cash reported in long term investments at June 30, 2019 was invested in global equities.

Subsequent events were evaluated through October 18, 2019, which is the date the financial statements were available to be issued, and it has been determined that there were no material subsequent events requiring adjustments to or disclosure in the financial statements, other than noted above.