

University of Maine Foundation

REPORT ON FINANCIAL STATEMENTS

For the Year Ended June 30, 2010
(With comparative totals for 2009)

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Independent Auditor's Report

To the Board of Directors
University of Maine Foundation

We have audited the accompanying statement of financial position of the University of Maine Foundation (a nonprofit corporation) as of June 30, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University of Maine Foundation's 2009 financial statements and, in our report dated October 5, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Maine Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University of Maine Foundation taken as a whole. The accompanying schedule of functional expenses on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brantner Thibodeau & Associates

Bangor, Maine
November 1, 2010

University of Maine Foundation
Statement of Financial Position
June 30, 2010
(With comparative totals for 2009)

ASSETS	2010	2009
Cash and equivalents	\$ 59,513	\$ 37,476
Other receivables	203,782	238,250
Promises to give, less allowance for uncollectible pledges of \$50,000 for 2010 and 2009	1,763,611	1,967,714
Short-term investments	2,958,735	4,136,440
Cash surrender value of life insurance	47,816	100,415
Long-term investments, endowment	123,235,557	109,666,998
Long-term investments, life income plans	4,699,495	4,676,705
Notes receivable	1,140,680	932,987
Equity in Buchanan Alumni House	2,820,641	2,881,826
Investment real estate	7,424,356	10,876,356
Property and equipment, net of accumulated depreciation of \$123,680 and \$107,570, respectively	120,983	128,211
Other assets	400,044	400,959
Irrevocable trusts	12,170,345	12,744,074
Assets managed for Buchanan Alumni House	280,009	293,490
Net funding to be provided from Buchanan Alumni House	317,834	345,087
Total assets	\$ 157,643,401	\$ 149,426,988
 LIABILITIES		
Accounts payable	\$ 36,518	\$ 251,363
Distributions due income beneficiaries	2,138,175	2,415,586
Accrued expenses	902,267	866,142
Notes payable	1,252,926	1,351,713
Custodial accounts payable	3,137,226	2,828,119
Total liabilities	7,467,112	7,712,923
 NET ASSETS		
Unrestricted net assets (deficit)	436,812	(3,762,685)
Temporarily restricted net assets	34,598,691	32,284,599
Permanently restricted net assets	115,140,786	113,192,151
Total net assets	150,176,289	141,714,065
 Total liabilities and net assets	\$ 157,643,401	\$ 149,426,988

University of Maine Foundation
Statement of Activities
For the Year Ended June 30, 2010
(With comparative totals for 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
SUPPORT, REVENUES AND RECLASSIFICATION					
Contributions	\$ 1,496,514	\$ 1,436,201	\$ 2,454,507	\$ 5,387,222	\$ 7,748,262
Investment income	6,516,178	5,733,376	84	12,249,638	(29,880,218)
Investment income, life income plans	509,326	6,344	-	515,670	(1,282,769)
Other revenue, gains and (losses)	(2,974,670)	255,850	33,098	(2,685,722)	(2,414,157)
Net assets released from restrictions	5,656,733	(5,117,679)	(539,054)	-	-
Total support, revenues, and reclassification	11,204,081	2,314,092	1,948,635	15,466,808	(25,828,882)
EXPENSES					
Program services	5,663,301	-	-	5,663,301	8,078,945
Management and general	569,877	-	-	569,877	503,010
Fundraising	771,406	-	-	771,406	751,487
Total expenses	7,004,584	-	-	7,004,584	9,333,442
Increase (decrease) in net assets	4,199,497	2,314,092	1,948,635	8,462,224	(35,162,324)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(3,762,685)	32,284,599	113,192,151	141,714,065	176,876,389
NET ASSETS, END OF YEAR	<u>\$ 436,812</u>	<u>\$ 34,598,691</u>	<u>\$ 115,140,786</u>	<u>\$ 150,176,289</u>	<u>\$ 141,714,065</u>

University of Maine Foundation
Statement of Cash Flows
For the Year Ended June 30, 2010
(With comparative totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 8,462,224	\$ (35,162,324)
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	46,788	41,143
Loss on disposal of assets	-	13,686
Equity in the earnings of Buchanan Alumni House	61,185	(6,633)
Decrease in cash surrender value of life insurance policies	(3,628)	(4,652)
Noncash contributions	(1,107,002)	(1,703,845)
Net realized and unrealized (gain) loss on investments	(11,351,544)	36,463,712
Net unrealized loss on real estate	3,033,000	-
(Increase) decrease in operating assets		
Other receivables	34,468	(65,611)
Promises to give	204,103	(191,125)
Increase (decrease) in operating liabilities		
Accounts payable	(214,845)	234,973
Distributions due income beneficiaries	(277,411)	(107,666)
Accrued expenses	36,125	3,102
Custodial funds	309,107	(817,954)
	<u>(9,229,654)</u>	<u>33,859,130</u>
Total adjustments		
Net cash used by operating activities	<u>(767,430)</u>	<u>(1,303,194)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturation of investments	63,428,289	63,853,705
Purchases of investments	(62,809,641)	(62,786,803)
Purchases of property and equipment	(27,460)	(13,279)
Increase in notes receivable	(31,384)	(100,218)
Principal payments on notes receivable	123,691	84,875
(Increase) decrease in other assets	(5,720)	219,920
Proceeds from the sale of property and equipment	12,100	-
Proceeds from the sale of other assets	4,600	1,380
Proceeds from sale of real estate	118,053	13,801
Proceeds from surrender of life insurance policy	56,227	20,321
	<u>868,755</u>	<u>1,293,702</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	7,306
Payment of notes payable	(79,288)	(74,189)
	<u>(79,288)</u>	<u>(66,883)</u>
Net cash used by financing activities		
Net increase (decrease) in cash and equivalents	22,037	(76,375)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>37,476</u>	<u>113,851</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 59,513</u>	<u>\$ 37,476</u>

See accompanying notes.

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The University of Maine Foundation assists in the development activities of the University of Maine by encouraging gifts and bequests for scholarships, instruction, research, endowment, and other purposes that will benefit the University and other charitable organizations. Operating expenses of the Foundation are supported by unrestricted contributions and a fee charged to the endowment pool varying from 1.25-1.43%.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The Organization prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificate of deposits, and all highly liquid debt instruments with original maturities of three months or less, except for investments designated as endowment assets or deposits with trustees which are classified as long-term investments.

Collections

Various art and a Hummell collection donated to the Foundation have been capitalized. Capitalized items totaling \$362,840 are valued as of the date of gift and included with Other Assets on the Statement of Financial Position. Gains and losses on the sale of art are reported as changes in net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and recorded as promises to give on the statement of financial position. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Restricted contributions whose restrictions are met in the period they are received are reported as unrestricted contributions.

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Real Estate

Investment real estate are donated assets recorded as contributions at their fair values as of the date of gift. Donated real estate may have donor restrictions as to use or time the property must be held; therefore, contributions of real estate have been recorded as increases in temporarily or permanently restricted assets. Investment real estate includes an asset held for sale which is impaired due to the decline in the real estate market. An unrealized loss of \$3,033,000 has been recognized and reported with Other revenues, gains and losses on the Statement of Activities.

Custodial Funds

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

Investments

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

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

Split-interest agreements

The Foundation participates in trust or other arrangements initiated by donors under which the Foundation will receive benefits that are shared with the donor or third party beneficiaries. The arrangements include pooled life income plans, charitable remainder trusts, charitable lead trusts, and charitable gift annuities. The contributed assets are recognized at fair market value when received. The carrying values are also at fair market value. Future annuity benefit obligations are discounted to the present value based upon a current rate of return and life expectancies of the annuitants.

Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments that are not held for trading purposes:

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

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

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (Continued)

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

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

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

Concentration of Credit Risk

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

Property and Equipment

Property and equipment with a useful life of more than one year and costing at least \$1,000 is capitalized and recorded at cost. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. Vehicles and equipment are assumed to have useful lives of three, five and ten years. No depreciation is recorded in the year of acquisition. Depreciation expense for the year ended June 30, 2010 was \$46,788.

Income Taxes

The Foundation is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue code and is not a private foundation.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information only in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Functional Allocation of Expenses

The cost of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

2. PROMISES TO GIVE

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

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

In one year or less	\$ 231,973
Between one to five years	1,847,659
Over five years	<u>380,750</u>
Total	2,460,382
Less discounts to present value	(646,771)
Less allowance for uncollectible pledges	<u>(50,000)</u>
Net unconditional promises to give	<u>\$1,763,611</u>

The Foundation may receive conditional promises to give from bequests, revocable trusts. At this time, the University of Maine Foundation may not have been notified as such or provided with the financial information and, therefore, amounts expected to be received from these promises cannot be accurately estimated. As of June 30, 2010, the Foundation received a \$250,000 conditional promise to give for the benefit of University of Maine Football as a 1:1 match in support of the football program.

3. CASH SURRENDER VALUE OF LIFE INSURANCE

The Foundation owns life insurance policies on the lives of certain donors. The cash surrender value as of June 30, 2010 was \$47,816. This represents the value of the policies if they were cancelled as of the statement of financial position date. The total death benefit due the Foundation upon the deaths of those insured for 2010 was \$256,042.

4. LONG-TERM INVESTMENTS, ENDOWMENT

Long-term investments, endowment as of June 30, 2010 were as follows:

	Cost	Market
Cash and cash equivalents	\$ 1,540,472	\$ 1,540,472
Fixed income investments	10,782,257	11,034,375
Equity investments	56,733,568	54,138,806
Alternative investments	<u>56,409,604</u>	<u>56,521,904</u>
Total long-term investments, endowment	<u>\$125,465,901</u>	<u>\$123,235,557</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

The Foundation manages an investment pool of more than 1300 endowed and quasi-endowed funds accounted for monthly on a unitized basis.

Long-term investments endowment as of June 30, 2010 were categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ (7,769,731)	\$14,065,017	\$109,989,123	\$116,284,409
Unrestricted funds	3,912,051	-	-	3,912,051
Custodial funds	3,039,097	-	-	3,039,097
Total funds	\$ (818,583)	\$14,065,017	\$109,989,123	\$123,235,557

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 10%. Actual returns in any given year may vary from this amount.

The following summarizes the endowment activity for the year ended June 30, 2010.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$(8,216,006)	\$10,495,367	\$107,387,637	\$109,666,998
Investment income	7,723,963	5,359,317	84	13,083,364
Investment management fees	-	(420,601)	-	(420,601)
	7,723,963	4,938,716	84	12,662,763
Contributions/additions	199,621	942,984	3,539,629	4,682,234
Distributions	(363,789)	(2,209,787)	-	(2,573,576)
Foundation administrative fee	(1,693,862)	-	-	(1,693,862)
Other transfers	-	-	491,000	491,000
Fund reclassifications	1,531,490	(102,263)	(1,429,227)	-
Total long-term investments, endowment	\$ (818,583)	\$14,065,017	\$109,989,123	\$123,235,557

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

4. LONG-TERM INVESTMENTS, ENDOWMENT (CONTINUED)

Endowment Spending Policy

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed based on 5 ½% of the average market value for the six previous years ending December 31. For permanent endowment, spending is contingent upon a fund's market value exceeding principal balance.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the Maine Legislature to apply to funds existing on or established after July 1, 2009. The new law permits expenditure from endowed funds even if the fund's value is less than its historic dollar value (principal). At this time, the Board of Directors of the University of Maine Foundation believe donors who established endowed funds with the Foundation intended to create funds according to the dictionary definition of endowment, meaning that the principal of the fund would not be invaded for distribution. Funds endowed at the Foundation on or before July 1, 2009 will not be expended if the fund's value is less than its principal value unless the original donor(s) request that UPMIFA be complied.

Investment Fees

Many investments in endowment and life income plans report valuations net of fees. Thus, investment fees disclosed in the notes to the financial statements do not include management fees that are netted against investment income.

5. INVESTMENT INCOME

The following summarizes the investment return and its classification in the statement of activities for short-term and long-term investments on June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ -	\$1,824,579	\$84	\$ 1,824,663
Realized gains	-	3,256,672	-	3,256,672
Investment fees	-	(420,601)	-	(420,601)
Unrealized gains	6,516,178	1,072,726	-	7,588,904
 Net investment income	 \$6,516,178	 \$5,733,376	 \$84	 \$12,249,638

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

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.

Long-term investments, life income plans as of June 30, 2010 were as follows:

	Cost	Market
Cash and cash equivalents	\$ 72,208	\$ 72,208
Stocks and mutual funds	3,515,818	3,768,314
Bonds	860,670	858,973
Total long-term investments	<u>\$ 4,448,696</u>	<u>\$ 4,699,495</u>

Life Income Plans are categorized as follows:

Pooled Life Income Fund #1 (Growth)	\$ 616,629
Pooled Life Income Fund #2 (Income)	593,833
Charitable Gift Annuities	<u>3,489,033</u>
Total long-term investments, life income plans	<u>\$ 4,699,495</u>

The following summarizes the life income plan activity for the year ended June 30, 2010.

	Unrestricted	Temporarily Restricted
Life income plans July 1, 2009	\$ -	\$4,676,705
Investment income	570,264	6,344
Investment management fees	(8,747)	-
	<u>561,517</u>	<u>6,344</u>
Contributions/additions	-	71,542
Distributions	(509,326)	-
Foundation administrative fees	(52,191)	-
Transfers due to terminations	-	(55,096)
Life income plans June 30, 2010	<u>\$ -</u>	<u>\$4,699,495</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

7. INVESTMENT INCOME, LIFE INCOME PLANS

The following summarizes the life income plan investment return and its classification in the statement of activities for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 50,498	\$ -	\$ -	\$ 50,498
Realized gains	12,391	-	-	12,391
Investment fees	(8,747)	-	-	(8,747)
Unrealized gains	455,184	6,344	-	461,528
Net investment income	<u>\$509,326</u>	<u>\$6,344</u>	<u>\$ -</u>	<u>\$515,670</u>

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. 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.

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Information related to the Foundation's assets measured at fair value on a recurring basis is as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 2,958,735	\$ 2,958,735	\$ -	\$ -
Long-term investments, endowment	123,235,557	66,713,653	-	56,521,904
Long-term investments, life income plans	4,699,495	4,699,495	-	-
Irrevocable trusts	12,170,345	12,170,345	-	-
Total Assets	\$143,064,132	\$86,542,228	\$ -	\$56,521,904

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

Alternative investments, July 1, 2009	\$40,944,973
Realized and unrealized gain/loss	2,249,336
Reallocations from Level 1	<u>13,327,595</u>
Alternative investments, June 30, 2010	<u>\$56,521,904</u>

9. NOTES RECEIVABLE

Notes receivable would be considered past due if more than thirty days late. At June 30, 2010 all notes receivable are current. Notes receivable consist of the following:

Donor assigned mortgage; due in monthly installments of \$1,382 including interest at 5%; secured by real estate appraised at \$285,000. Matures in August 2024	\$ 168,107
Note receivable to University of Maine drawn against \$300,000 line of credit; due in semi-annual installments of \$2,759 including interest at 3.67%; unsecured. Matures in October 2013.	17,971
Note receivable with University of Maine; due in annual installments of \$75,000 plus finance charges incurred by the Foundation; unsecured. Matures in 2018.	654,602
Note receivable due in annual installments of principal \$50,000 plus interest compounded annually at 5.50%. Secured by real estate appraised at \$350,000. Matures in 2015.	<u>300,000</u>
Total notes receivable	<u>\$1,140,680</u>

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

10. ACCRUED EXPENSES

Accrued expenses of the Foundation at June 30, 2010 consist of the following:

Durst education fund	\$ 110,633
Post-retirement benefits (total estimated future benefits of \$783,842 discounted to present value of 8% for 2010)	633,953
Accrued vacation and other	<u>157,681</u>
Total accrued expenses	<u>\$ 902,267</u>

11. OPERATING LEASES

The extension term for the general office in South Portland, Maine commenced on March 1, 2008 and ends on February 28, 2011. Under a written arrangement with the University of Maine, the Foundation has assigned the rights, responsibilities, obligations and use of the premises to the University of Maine. The University of Maine will assume the rental obligations; however, the Foundation reimburses the University \$1,927 per month for office space. The minimum future payments under this noncancelable operating lease are as follows.

2011 \$ 15,416

12. DEFINED CONTRIBUTION PLAN

The Foundation sponsors a defined contribution plan covering all full-time and regular part-time employees after completing one full year of service. The Foundation contributes 10% of eligible employees' gross salary to the fund each year. Pension expense that is reported in the schedule of functional expenses with payroll taxes and fringe benefits totaled \$80,692 for the year ended June 30, 2010.

13. BUCHANAN ALUMNI HOUSE

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

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

**University of Maine Foundation
Notes to Financial Statements
June 30, 2010**

13. BUCHANAN ALUMNI HOUSE (CONTINUED)

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

As the legal owner of several Buchanan Alumni designated assets, the Foundation is administering the following assets at June 30, 2010:

Cash and equivalents	\$ 86,464
Certificates of deposit	<u>193,545</u>
 Total assets managed by the University of Maine Foundation	 <u>\$ 280,009</u>

As the obligor of a loan through Peoples United Bank, formerly known as Merrill Bank, the Buchanan Alumni House recognizes the obligation as a pass-through debt managed by the Foundation. The following constitutes debt administered by the Foundation at June 30, 2010:

	2010
Note principal managed by the University of Maine Foundation	<u>\$ 597,843</u>

14. LONG-TERM DEBT

Long-term debt consists of the following:

<p>Note payable to Peoples United Bank, formerly known as Merrill Bank, in monthly installments of \$7,914 with an interest rate at 4.75% for the first five years, thereafter prime plus .50%. Beginning July 25, 2014, the interest rate will adjust thereafter through July 25, 2021 at which time all amounts of interest and principal on the note are due. The loan is secured by University of Maine Foundation pledge of marketable securities in an amount to maintain a loan to value ratio of .65. Matures June 2018.</p>	\$626,642
<p>Note payable to Peoples United Bank, formerly known as Merrill Bank, in monthly installments of \$5,847 with a fixed interest rate of 4.75% for the first five years, thereafter prime plus .50%. Beginning July 25, 2014, the interest rate will adjust thereafter through July 25, 2021 at which time all amounts of interest and principal on the note are due. The loan is secured by University of Maine Foundation pledge of marketable securities in an amount to maintain a loan to value ratio of .65. While legally payable by the Foundation, it is the intent to satisfy this debt through the Buchanan Alumni House ownership and therefore, the debt is recorded on those financial statements. Matures June 2021.</p>	597,843

University of Maine Foundation
Notes to Financial Statements
June 30, 2010

14. LONG-TERM DEBT (CONTINUED)

Note payable to Bangor Savings Bank in monthly installments of \$482 including interest at 7.14%; secured by a vehicle.	\$ -
Note payable to Bangor Savings Bank in monthly installments of \$578 including interest of 7.40%; secured by a vehicle. Matures in July 2011.	7,206
Note payable to Bangor Savings Bank in monthly installments of \$644 including interest at 6.24%; secured by a vehicle.	-
Note payable to Peoples United Bank, formerly known as Merrill Bank, in monthly installments of \$630 including interest at 4.25%; secured by a vehicle. Matures in June 2013.	21,235
Total long-term debt	1,252,926
Less current portion	122,734
Total long-term debt net of current portion	\$1,130,192

Principal payment maturities during the next five years, assuming a continuation of June 30, 2010 interest rates are as follows:

June 30,	
2011	\$ 122,734
2012	122,298
2013	127,564
2014	126,033
2015	132,152
Due thereafter	622,145
Total	\$ 1,252,926

15. STATEMENT OF CASH FLOWS DISCLOSURES

During 2010, the Foundation received non-cash contributions of investment securities totaling \$1,107,002 and paid interest of \$6,289 during the year. During 2010, the Foundation purchased an automobile totaling \$33,335 by paying cash down of \$12,100 and obtaining a note payable of \$21,235. The Foundation sold real estate for \$350,000 and issued a note receivable for \$300,000. During 2010, the Foundation received life insurance proceeds of \$150,000 from a terminated life insurance contract.

16. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 1, 2010, which is the date the financial statements were available to be issued.

University of Maine Foundation
Schedule of Functional Expenses
For the Year Ended June 30, 2010
(With comparative totals for 2009)

	Program Services	Management and General	Fundraising	Total Expenses	
				2010	2009
Salaries	\$ 198,364	\$ 236,966	\$ 364,961	\$ 800,291	\$ 805,587
Payroll taxes and employee benefits	59,150	70,662	108,828	238,640	224,887
Total compensation	257,514	307,628	473,789	1,038,931	1,030,474
Distributions supporting University	4,626,066	-	-	4,626,066	6,774,928
Distributions to life income participants	509,326	-	-	509,326	515,180
Distributions, other	156,630	-	-	156,630	401,203
Fundraising and public relations	-	-	99,879	99,879	92,084
Equity in earnings of Buchanan Alumni House	-	61,185	-	61,185	18,367
Post-retirement expense	-	42,902	-	42,902	12,874
Occupancy costs	27,545	32,905	50,678	111,128	109,294
Tax and audit	-	15,350	-	15,350	13,590
Consulting	-	12,366	-	12,366	7,290
Travel	5,361	6,403	9,863	21,627	12,792
Insurance	4,218	5,038	7,760	17,016	26,594
Postage	5,112	6,106	9,405	20,623	18,123
Printing	6,935	8,285	12,759	27,979	34,258
Depreciation	11,597	13,854	21,337	46,788	41,143
Interest	6,289	-	-	6,289	18,436
Dues and subscriptions	3,026	3,616	5,568	12,210	12,044
Advertising	1,855	2,216	3,413	7,484	6,156
Telephone	1,847	2,207	3,398	7,452	8,077
Legal	-	2,055	-	2,055	1,751
Miscellaneous	1,636	1,955	3,010	6,601	4,031
Entertainment	2,719	3,248	5,002	10,969	35,393
Supplies	1,623	1,938	2,985	6,546	8,963
Education and training	2,564	3,064	4,718	10,346	4,791
Auto expense	1,963	2,345	3,612	7,920	4,840
Equipment expense	3,433	4,100	6,316	13,849	12,219
Property management	26,042	31,111	47,914	105,067	108,547
Total functional expenses (Exhibit B)	\$ 5,663,301	\$ 569,877	\$ 771,406	\$ 7,004,584	\$ 9,333,442