

Financial Statements and Report of Independent Certified
Public Accountants

The University of Massachusetts Foundation, Inc.

June 30, 2019

(With summarized comparative financial information for
the year ended June 30, 2018)

Contents

	Page
Report of Independent Certified Public Accountants	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
The University of Massachusetts Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Massachusetts Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 2019 financial statements referred to above present fairly, in all material respects, the financial position of the 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 U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note B to the financial statements, in 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying financial statements of the Foundation as of June 30, 2018 and for the year then ended were audited by other auditors whose report thereon dated December 17, 2018, expressed an unmodified opinion on those financial statements.

KPMG LLP

Boston, Massachusetts
November 26, 2019

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Statement of Financial Position

As of June 30, 2019 (with summarized comparative information for June 30, 2018)

	Foundation	Agency	Total 2019	Total 2018
Assets				
Cash	\$ 511,635	\$ -	\$ 511,635	\$ 237,190
Bequests receivable	2,310,655	-	2,310,655	398,920
Pledges receivable, net of allowance for doubtful accounts	20,295,754	-	20,295,754	24,051,999
Investments of the Foundation and held on behalf of the University	572,510,219	763,827,794	1,336,338,013	1,220,463,787
Prepaid expenses	208,767	-	208,767	67,854
Land, property, plant and equipment, net	16,480,701	-	16,480,701	16,906,290
Total assets	<u>\$ 612,317,731</u>	<u>\$ 763,827,794</u>	<u>\$ 1,376,145,525</u>	<u>\$ 1,262,126,040</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 462,843	\$ -	\$ 462,843	\$ 304,576
Deferred revenue	943,596	-	943,596	1,049,429
Obligations to beneficiaries of split-interest agreements	2,385,644	-	2,385,644	2,384,098
Assets held on behalf of the University & EMKI - custodial	-	763,827,794	763,827,794	680,454,614
Total liabilities	<u>3,792,083</u>	<u>763,827,794</u>	<u>767,619,877</u>	<u>684,192,717</u>
Net assets				
Without donor restrictions	36,844,661	-	36,844,661	33,729,428
With donor restrictions	571,680,987	-	571,680,987	544,203,895
Total net assets	<u>608,525,648</u>	<u>-</u>	<u>608,525,648</u>	<u>577,933,323</u>
Total liabilities and net assets	<u>\$ 612,317,731</u>	<u>\$ 763,827,794</u>	<u>\$ 1,376,145,525</u>	<u>\$ 1,262,126,040</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Statement of Activities

For the year ended June 30, 2019 (with summarized comparative information for the year ended June 30, 2018)

	Without Donor Restrictions		With Donor Restrictions	Total 2019	Total 2018
	Foundation	Agency			
Support and Revenue					
Contributions, bequests and grants	\$ 253,273	\$ 559,356	\$ 18,946,747	\$ 19,759,376	\$ 29,164,091
Other contributions	-	-	97,450	97,450	155,039
State matching funds	-	-	487,650	487,650	50,578
Campus matching funds	440,778	45,477,464	28,354,532	74,272,774	63,555,157
Investment return, net	10,934,932	-	-	10,934,932	11,021,539
Administrative fee income	122	-	166,065	166,187	235,815
Other income	21,430,521	-	(21,430,521)	-	-
Net assets released from restrictions	33,059,626	46,036,820	26,621,923	105,718,369	104,182,219
Total support and revenue					
	\$ 253,273	\$ 559,356	\$ 18,946,747	\$ 19,759,376	\$ 29,164,091
	-	-	97,450	97,450	155,039
	440,778	45,477,464	28,354,532	74,272,774	63,555,157
	10,934,932	-	-	10,934,932	11,021,539
	122	-	166,065	166,187	235,815
	21,430,521	-	(21,430,521)	-	-
	33,059,626	46,036,820	26,621,923	105,718,369	104,182,219
Expenses					
Program Services					
For the University	19,164,640	17,169,535	-	36,334,175	36,400,140
For the Edward M. Kennedy Institute	-	5,450,179	-	5,450,179	-
Total program services	19,164,640	22,619,714	-	41,784,354	36,400,140
Supporting Services					
Fundraising	7,885,388	-	-	7,885,388	5,969,774
General and administrative	1,760,951	-	-	1,760,951	2,585,072
Total supporting services	9,646,339	-	-	9,646,339	8,554,846
Total expenses	28,810,979	22,619,714	-	51,430,693	44,954,986
Excess of support and revenue over expenses	4,248,647	23,417,106	26,621,923	54,287,676	59,227,233
Other Changes					
Funds received from University	-	60,014,627	51,089	60,065,716	893,067
Transfers to (from) other funds	(745,527)	(58,553)	804,080	-	-
Change in value of split interest agreements	(387,887)	-	-	(387,887)	(387,116)
Less: Fiscal 2019 activity related to assets held on behalf of University	-	(87,384,063)	-	(87,384,063)	(18,697,379)
Less: Fiscal 2019 activity related to assets held on behalf of Edward M. Kennedy Institute	-	4,010,883	-	4,010,883	(1,683,409)
Change in net assets	3,115,233	-	27,477,092	30,592,325	39,352,396
Net assets, beginning of year	33,729,428	-	544,203,895	577,933,323	538,580,927
Net assets, end of year	\$ 36,844,661	\$ 36,844,661	\$ 571,680,987	\$ 608,525,648	\$ 577,933,323

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Statement of Cash Flows

For the years ended June 30, 2019 and June 30, 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 30,592,325	\$ 39,352,396
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	425,589	425,589
Net (gains)/losses on investments	(69,093,121)	(55,948,367)
Contributions received for long-term purposes	(23,591,702)	(25,257,532)
Non-cash contributions	-	-
(Increase) decrease in assets		
Bequests receivable	(1,911,735)	564,080
Pledges receivable	3,756,245	(516,369)
Prepaid expenses	(140,913)	21,010
(Decrease) increase in liabilities		
Accounts payable and accrued expenses	158,267	252,681
Deferred revenue	(105,833)	(112,678)
Obligations to beneficiaries of split-interest agreements	1,547	(379,471)
Assets held on behalf of the University & EMKI	83,373,180	20,380,788
Net cash provided by (used in) operating activities	<u>23,463,849</u>	<u>(21,217,873)</u>
Cash flows from investing activities		
Purchases of investments	(470,762,469)	(294,914,765)
Proceeds from sales of investments	423,981,363	290,996,023
Net cash used in investing activities	<u>(46,781,106)</u>	<u>(3,918,742)</u>
Cash flows from financing activities		
Contributions received for long-term purposes	23,591,702	25,257,532
Net cash provided by financing activities	<u>23,591,702</u>	<u>25,257,532</u>
Net increase in cash	274,445	120,917
Cash, beginning of year	<u>237,190</u>	<u>116,273</u>
Cash, end of year	<u>\$ 511,635</u>	<u>\$ 237,190</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements

June 30, 2019 and June 30, 2018

NOTE A - ORGANIZATION

The University of Massachusetts Foundation, Inc. (the “Foundation”) was established on August 7, 1950 to foster and promote the growth, progress and general welfare of the University of Massachusetts (the “University”). The Foundation fulfills this mission primarily through fundraising support, asset management and alumni relations. The Foundation solicits and receives gifts and bequests and administers and invests such assets. The Foundation disburses funds in accordance with the terms under which they were given to aid, supplement, improve and enlarge the educational, cultural, recreational and research activities of the University. The University includes campuses at Amherst, Boston, Dartmouth, Lowell and the Medical School in Worcester. The Foundation is also affiliated with the Edward M. Kennedy Institute (EMKI), the UMass Building Authority (UMBA), the UMass Dartmouth Foundation, and the UMass Memorial Foundation (the “Affiliates”).

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) applicable to not-for-profit entities. Following the rules of fund accounting, resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund.

For financial reporting purposes, net assets, revenues, expenses, gains, and losses are classified into two categories based on the existence or absence of donor-imposed restrictions. This is accomplished by classification into two categories of net assets: without donor restrictions and with donor restrictions.

Without Donor Restrictions - Net assets that are not subject to explicit donor restrictions that specify how the donation must be used or maintained. Certain fees and other income earned by the Foundation are also reported as unrestricted. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation’s management and Board of Directors to support the Foundation’s purposes and operations.

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation and/or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions, including gifts and pledges, which must be maintained in perpetuity by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income and capital gains earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e. the donor stipulated purpose has been fulfilled and /or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Board-designated net assets are net assets without donor restrictions that are used only for specific purposes approved by Foundation Board resolution. Changes to designations require a subsequent Board resolution.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Net assets consisted of the following at June 30:

Detail of net assets	2019		
	Without donor restrictions	With donor restrictions	Total
Operating	\$ 26,615,338	\$ -	\$ 26,615,338
Unexpended funds received for University programs	-	7,898,982	7,898,982
Pledges & bequests receivable	-	22,606,409	22,606,409
Endowment funds	2,741,919	531,095,531	533,837,450
Annuity & life income funds, net of obligations	-	1,086,768	1,086,768
Investment in property, plant & equipment	7,487,404	8,993,297	16,480,701
Total	\$ 36,844,661	\$ 571,680,987	\$ 608,525,648

Detail of net assets	2018		
	Without donor restrictions	With donor restrictions	Total
Operating	\$ 23,691,952	\$ -	\$ 23,691,952
Unexpended funds received for University programs	-	8,227,932	8,227,932
Pledges & bequests receivable	-	24,450,919	24,450,919
Endowment funds	2,347,164	501,018,252	503,365,416
Annuity & life income funds, net of obligations	-	1,290,814	1,290,814
Investment in property, plant & equipment	7,690,312	9,215,978	16,906,290
Total	\$ 33,729,428	\$ 544,203,895	\$ 577,933,323

The endowment component of net assets without donor restrictions is comprised of amounts designated by the Board to function as endowment which amounted to \$2,741,919 and \$2,347,164 as of June 30, 2019 and 2018, respectively.

Comparative Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset classification. 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 audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets 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 of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Contributions of cash and other assets that must be used to acquire or construct long-lived assets are initially recorded as a donor restricted gift until the related asset is placed in service. Absent explicit donor stipulations, when donated or acquired long-lived assets are placed in service they are reflected as net assets released from restriction.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, which approximates fair value at the date of the pledge. Unconditional promises to give in future periods are initially recorded at estimated fair value determined using the discounted present value of expected cash flows, net of an allowance for uncollectible pledges. The discount rates are determined at the time the unconditional promise to give is initially received.

The allowance for doubtful accounts is based upon the Foundation's analysis of past collection experience, current economic conditions, pledge activity and other judgmental factors. Large pledges are reviewed on a case-by-case basis. The allowance captures the risk premium to bring the contributions receivable balance to a risk-adjusted expected cash flow.

Investments

Investments in debt and equity securities are measured at fair value primarily based on quoted market prices. Changes in fair value are recorded as unrealized gains or losses on investments. Purchases and sales of investments are recorded as of the trade date. Other investments for which no such quotation or valuations are readily available (alternative investments) are carried at net asset value as a practical expedient to fair value. The estimated fair value of these investments is based on valuations provided by the external investment managers and reviewed by management. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Such differences could be material. Investments contributed to the Foundation are recorded at fair value on the date of the gift.

The Foundation utilizes the pooled investment concept whereby all invested funds are included in one investment pool, except for investments of certain funds that are otherwise restricted. Additions, redemptions and transfers to pooled investment funds are assigned a number of shares based upon their fair value at the date of receipt from the pool. On a monthly basis, investment income and capital gains are distributed among unit holders of each pooled investment fund based upon their respective shares held.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Spending Rate Policy

Pooled investment funds receive an annual distribution of 4% of the endowment fund's average fair value for the preceding twelve quarters on a one-year lag. Only quarters with funds on deposit shall be included in the average. In addition, a prudence rule is utilized, limiting spending from a particular endowment fund to no lower than 93% of its carrying value. In fiscal year 2019, \$28,425,058 was distributed to the University. In fiscal year 2018, \$26,877,257 was distributed to the University. These distributions are included within Program Services for the University in the statement of activities.

The Foundation fully transfers, at the start of each new fiscal year, the annual spending allocation to the University for direct expenditure. At the end of the fiscal year, the University is required to return unexpended cash for reinvestment in principal for those funds where it is a donor requirement and provide attestation that the funds were spent in accordance with donor conditions.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Contributions of land and property are recorded at fair value on the date of receipt. Depreciation of buildings is charged to expense on a straight-line basis (half-year convention) over its estimated useful life of 40 years. Depreciation of equipment is charged to expense on a straight-line basis (half-year convention) over their estimated useful lives which range from 5 to 10 years.

When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities.

Additions, renewals and replacements are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Obligation to Beneficiaries from Split-Interest Agreements

The Foundation records a liability for the estimated future payments to life income trust beneficiaries. The liability is recorded based on the present value of future obligations under these agreements.

Agency

Agency accounts include investments held on behalf of the University and the Edward M. Kennedy Institute. The agency accounts for the University consist of quasi endowment funds and operating balances of the University that have been transferred to the Foundation for investment purposes only. By definition, agency funds are custodial in nature whereby the agency assets held by the Foundation are 100% offset by a liability on the Foundation's statement of financial position.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from those estimates. Accounting and reporting of pledges receivable, fair value of investments and obligations to beneficiaries under split-interest agreements involve significant estimates.

Income Taxes

The Foundation is an organization described in section 501(c)(3) of the Internal Revenue Code, as amended (the “Code”), and is generally exempt from income taxes pursuant to section 501(a) of the Code, except to the extent the Foundation has unrelated business income. The Foundation is required to assess uncertain tax positions and has determined that there were no such positions that were material to the financial statements as of June 30, 2019 or June 30, 2018.

Concentration of Credit

The Foundation’s cash and investments at June 30, 2019 and 2018 are primarily held in two financial institutions.

Recent Accounting Pronouncements

In 2019, the Foundation adopted *ASU No. 2016-14-Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The primary changes of this update include revisions to simplify and enhance the presentation of net assets; a requirement to present functional and natural expenses in a single location; expanded disclosures regarding liquidity and availability of resources; reporting investment return net of external and direct internal investment expenses; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The following is a summary of the net asset reclassifications resulting from the adoption of ASU No. 2016-14.

	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restrictions	Total Net Assets
June 30, 2018 net assets as previously reported:			
Unrestricted	\$ 33,379,764		\$ 33,379,764
Temporarily restricted		\$ 111,185,268	111,185,268
Permanently restricted		433,368,291	433,368,291
Total net assets before adoption of ASU 2016-14	<u>33,379,764</u>	<u>544,553,559</u>	<u>577,933,323</u>
Reclassification to implement ASU 2016-14:			
Underwater endowment funds	349,664	(349,664)	-
Total net assets after adoption of ASU 2016-4	<u>\$ 33,729,428</u>	<u>\$ 544,203,895</u>	<u>\$ 577,933,323</u>

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE C - FINANCIAL ASSETS and LIQUIDITY RESOURCES

The Foundation's financial assets available within one year of the balance sheet date for general operating expenditures as of June 30, 2019 are as follows:

	<u>2019</u>
Total Assets, at year end, excluding Agency Funds	\$ 612,317,731
Less nonfinancial assets:	
Land, buildings and equipment, net of accumulated depreciation	16,480,701
Prepaid Expenses	<u>208,767</u>
Financial assets, at year-end	595,628,263
Less those unavailable for general expenditure within one year due to:	
Restricted by donor with time or purpose restrictions:	
Pledges Receivable	20,295,754
Bequests Receivable	2,310,655
Annuity & Life Income Funds	3,472,411
Current Restricted Funds	<u>8,842,696</u>
	<u>34,921,516</u>
Endowment funds subject to appropriation and satisfaction of donor restrictions including board designated endowments:	
Donor restricted endowment funds	\$ 531,095,531
Board designated endowment funds	\$ 2,741,919
Fiscal 2020 endowment appropriation	<u>\$ (17,950,325)</u>
	<u>\$ 515,887,125</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 44,819,622</u>

At June 30, 2019, the Foundation has \$44.8 million of financial assets that are available within one year to meet cash needs for general operating expenditures consisting of cash of \$.5 million and money market mutual funds of \$44.3 million. As part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments, including money market mutual funds and short term bond mutual funds.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE D - PLEDGES RECEIVABLE

Pledges receivable, for both the University and Affiliates, at June 30, are expected to be realized in the following time frame:

	<u>2019</u>	<u>2018</u>
In one year or less	\$ 16,366,963	\$ 10,882,491
Between one year and five years	12,937,748	14,584,167
More than five years	1,960,000	1,140,000
Less: Allowance for doubtful accounts	(8,063,478)	(160,774)
Less: Discount	(2,905,479)	(2,393,885)
Pledges receivable, net	\$ <u>20,295,754</u>	\$ <u>24,051,999</u>

Multi-year pledges receivable are recorded at the present value of future cash flows. The discount applied to these pledges is computed using rates commensurate with the risks involved and applicable to the year(s) in which the promise is expected to be paid. Discount rates ranged from 7.21% to 7.50% and from 7.33% to 7.85% for 2019 and 2018, respectively.

The increase in the allowance for doubtful accounts at June 30, 2019 was primarily attributable to two donors.

NOTE E - INVESTMENTS OF THE FOUNDATION AND HELD ON BEHALF OF THE UNIVERSITY

The assets of the Foundation, acting as a custodian and agent for the University, include investments held on behalf of the University, as well as investments of the Foundation. The University transferred \$60,065,716 and \$893,067 to the Foundation for investment in its Pooled Endowment Fund (Fund I) for the benefit of the University for the years ended June 30, 2019 and 2018, respectively.

Fund I - this fund is the pool of funds that represent the endowment funds held at the University of Massachusetts Foundation. These funds include both donor-restricted endowments and quasi-endowments. Certain portions of these funds are agency accounts that are held and invested by the Foundation on behalf of the University and the Edward M. Kennedy Institute. The investment horizon for this portfolio is 5 to 10 years.

Fund II - this fund represents a portion of the operating cash balances of the University that have been transferred to the University of Massachusetts Foundation for investment purposes only. The University assessed its operating cash needs and determined that a certain portion of the University's operating cash would not be immediately required for normal daily operations and could be invested more "aggressively". The University adopted a policy allowing such investment support and management from the Foundation. The investment horizon is 3 to 5 years.

Other Investments - represent endowment gifts of non-publicly traded securities. These gifts do not have the ability to buy shares in the pooled endowment fund (Fund I), thus they are separately managed in their own endowment specific fund. Also included in this category are the stock portfolios of six student managed funds.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE E - INVESTMENTS OF THE FOUNDATION AND HELD ON BEHALF OF THE UNIVERSITY - Continued

Investments are guided by asset allocation policies established by the Investment Committee of the Foundation Board of Directors and implemented primarily through external investment managers with oversight by a Chief Investment Officer. These investments may be held in separately managed accounts, publicly traded mutual funds, Exchange Traded Funds (“ETFs”), commingled funds and limited partnerships.

A breakdown of investments as of June 30 is as follows:

	2019		
	<u>Foundation</u>	<u>Agency</u>	<u>Total</u>
Pooled Investments, Fund I	\$ 532,767,742	\$ 440,508,747	\$ 973,276,489
Pooled Investments, Fund II	-	323,302,108	323,302,108
Current Funds	31,897,135	16,939	31,914,074
Annuity and Life Income Funds	3,472,411	-	3,472,411
Other Investments	4,372,931	-	4,372,931
	<u>\$ 572,510,219</u>	<u>\$ 763,827,794</u>	<u>\$ 1,336,338,013</u>

	2018		
	<u>Foundation</u>	<u>Agency</u>	<u>Total</u>
Pooled Investments, Fund I	\$ 501,411,931	\$ 370,538,055	\$ 871,949,986
Pooled Investments, Fund II	-	309,898,965	309,898,965
Current Funds	30,527,308	17,592	30,544,900
Annuity and Life Income Funds	3,674,912	-	3,674,912
Other Investments	4,395,024	-	4,395,024
	<u>\$ 540,009,175</u>	<u>\$ 680,454,612</u>	<u>\$ 1,220,463,787</u>

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE E - INVESTMENTS OF THE FOUNDATION AND HELD ON BEHALF OF THE UNIVERSITY - Continued

Total investments by type as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Pooled Investments, Fund I		
Cash & cash equivalents	\$ 25,516,297	\$ 118,016,049
Domestic equities	173,067,287	205,972,648
International equities	142,240,069	171,953,103
REITS	26,797,074	24,540,733
Fixed income securities	66,537,752	68,933,500
Alternative investments	539,118,010	282,533,953
Total Fund I	<u>973,276,489</u>	<u>871,949,986</u>
Pooled Investments, Fund II		
Cash & cash equivalents	10,884,970	15,160,991
Domestic equities	15,094,954	34,978,881
International equities	14,101,883	36,518,194
REITS	9,177,537	8,404,779
Fixed income securities	142,074,188	116,082,416
Alternative investments	131,968,576	98,753,704
Total Fund II	<u>323,302,108</u>	<u>309,898,965</u>
Current Funds		
Cash & cash equivalents	31,914,074	30,544,900
Total current funds	<u>31,914,074</u>	<u>30,544,900</u>
Annuity and Life Income Funds		
Cash & cash equivalents	47,859	71,154
Fixed income securities	1,316,684	1,362,312
Domestic equities	2,107,868	2,241,446
Total annuity and life income funds	<u>3,472,411</u>	<u>3,674,912</u>
Other Investments		
Domestic equities	2,392,987	2,354,514
Alternative investments	1,979,944	2,040,510
Total other investments	<u>4,372,931</u>	<u>4,395,024</u>
Total investments	<u>\$ 1,336,338,013</u>	<u>\$ 1,220,463,787</u>

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE E - INVESTMENTS OF THE FOUNDATION AND HELD ON BEHALF OF THE UNIVERSITY - Continued

Unsettled trades at June 30, 2019 are as follows: pending purchases of domestic equities (\$250,814) and fixed income securities (\$1,463,606), and pending sales of domestic and international equities (\$896,414) and fixed income securities (\$1,499,414). All pending transactions were settled by July 2, 2019. Pending purchases and sales are included within investments on the Statement of Financial Position.

Unsettled trades at June 30, 2018 were as follows: pending redemption of an alternative investment (\$9,588,065). This transaction was settled by July 27, 2018. This pending redemption was included within investments on the Statement of Financial Position.

NOTE F - FAIR VALUE MEASUREMENTS

The Foundation follows accounting guidance related to fair value measurements and disclosures. ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following is a description of the Foundation's valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that the Foundation has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Foundation does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all. Unobservable inputs reflect the Foundation's or its investment managers own assumptions about the assumptions that market participants would use in pricing the investment. These inputs are developed based on the best information available in the circumstances, which might include the Foundation's or its investment manager's own data.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The fair value of investments in private investment funds or limited partnerships is based on the calculated value of their capital account, or net asset value (NAV). As a practical expedient, the Foundation is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV. The Foundation's alternative investments, which include multi-strategy, private equity and debts funds, are reported at fair value based on the most current NAV.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value amounts presented in the table below at NAV are intended to permit reconciliation of the fair value hierarchy to the amounts present in the statements of financial position.

The following table presents the investments carried at fair value, on a recurring basis, as of June 30, 2019, by the ASC 820 valuation hierarchy defined above:

	Investments measured at NAV	Investments classified in the fair value hierarchy			Total Market Value
		Level 1	Level 2	Level 3	
Cash Equivalents					
Money Market Funds	\$ -	\$ 68,363,200	\$ -	\$ -	\$ 68,363,200
Debt Securities					
US Treasury Securities	\$ -	\$ 73,914,335	\$ -	\$ -	\$ 73,914,335
Bond Funds	\$ -	\$ 136,014,289	\$ -	\$ -	\$ 136,014,289
Total debt securities	\$ -	\$ 209,928,624	\$ -	\$ -	\$ 209,928,624
Equity Securities					
Domestic Equities	\$ -	\$ 192,663,096	\$ -	\$ -	\$ 192,663,096
International Equities	\$ -	\$ 156,341,952	\$ -	\$ -	\$ 156,341,952
Total equity securities	\$ -	\$ 349,005,048	\$ -	\$ -	\$ 349,005,048
Alternative Investments					
Multi Strategy Hedge Funds					
Equity	\$ 217,029,738	\$ -	\$ -	\$ -	\$ 217,029,738
Long/Short	\$ 175,041,780	\$ -	\$ -	\$ -	\$ 175,041,780
Fixed Income	\$ 99,513,455	\$ -	\$ -	\$ -	\$ 99,513,455
Absolute Return	\$ 62,985,325	\$ -	\$ -	\$ -	\$ 62,985,325
Real Assets	\$ 20,639,959	\$ -	\$ -	\$ -	\$ 20,639,959
Private Equity	\$ 42,764,098	\$ -	\$ -	\$ -	\$ 42,764,098
Private Debt	\$ 37,702,806	\$ -	\$ -	\$ -	\$ 37,702,806
Private Real Estate	\$ 17,389,369	\$ -	\$ -	\$ -	\$ 17,389,369
Total alternative investments	\$ 673,066,530	\$ -	\$ -	\$ -	\$ 673,066,530
Other securities					
REITS	\$ -	\$ 35,974,611	\$ -	\$ -	\$ 35,974,611
Total Investments	\$ 673,066,530	\$ 663,271,483	\$ -	\$ -	\$ 1,336,338,013

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following table presents the investments carried at fair value, on a recurring basis, as of June 30, 2018, by the ASC 820 valuation hierarchy defined above:

	Investments measured at NAV	Investments classified in the fair value hierarchy			Total Market Value
		Level 1	Level 2	Level 3	
Cash Equivalents					
Money Market Funds	\$ -	\$ 163,793,094	\$ -	\$ -	\$ 163,793,094
Debt Securities					
US Treasury Securities	\$ -	\$ 76,062,218		\$ -	\$ 76,062,218
Bond Funds	\$ -	\$ 110,316,010	\$ -	\$ -	\$ 110,316,010
Total debt securities	\$ -	\$ 186,378,228	\$ -	\$ -	\$ 186,378,228
Equity Securities					
Domestic Equities	\$ -	\$ 245,547,489	\$ -	\$ -	\$ 245,547,489
International Equities	\$ -	\$ 208,471,297	\$ -	\$ -	\$ 208,471,297
Total equity securities	\$ -	\$ 454,018,786	\$ -	\$ -	\$ 454,018,786
Alternative Investments					
Multi Strategy Hedge Funds					
Equity	\$ 127,961,523	\$ -	\$ -	\$ -	\$ 127,961,523
Long/Short	\$ 36,447,584	\$ -	\$ -	\$ -	\$ 36,447,584
Fixed Income	\$ 51,185,390	\$ -	\$ -	\$ -	\$ 51,185,390
Absolute Return	\$ 73,645,206	\$ -	\$ -	\$ -	\$ 73,645,206
Real Assets	\$ 20,166,435	\$ -	\$ -	\$ -	\$ 20,166,435
Private Equity	\$ 22,093,760	\$ -	\$ -	\$ -	\$ 22,093,760
Private Debt	\$ 39,667,343	\$ -	\$ -	\$ -	\$ 39,667,343
Private Real Estate	\$ 12,160,926	\$ -	\$ -	\$ -	\$ 12,160,926
Total alternative investments	\$ 383,328,167	\$ -	\$ -	\$ -	\$ 383,328,167
Other securities					
REITS	\$ -	\$ 32,945,512	\$ -	\$ -	\$ 32,945,512
Total Investments	\$ 383,328,167	\$ 837,135,620	\$ -	\$ -	\$ 1,220,463,787

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Fair value guidance requires additional disclosures on alternative investments to enable users of the financial statements to understand the nature and risk of these investments, which are presented below:

Category	Fair Value at June 30, 2019	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Multi-Strategy Hedge Funds:				
Equity	\$ 217,029,738	\$ -	Redemption terms range from daily to quarterly with 1 to 60 days notice.	No lock-up provisions.
Long/Short	175,041,780	10,000,000	Redemption terms range from quarterly to annual with 45 to 80 days notice.	Lock-up provisions range from none to 1 year.
Fixed Income	99,513,455	-	Redemption terms range from quarterly to not eligible with 30 - 90 days notice.	Lock-up provisions range from none to 2 years.
Absolute Return	62,985,325	-	Redemption terms range from quarterly to annual with 45 to 65 days notice.	No lock-up provisions.
Real Assets	20,639,959	-	Redemption terms are annual with 90 days notice.	No lock-up provisions.
Private Equity & Venture Capital	42,764,098	34,265,968	Closed end funds not eligible for redemption.	Not redeemable. (1)
Private Debt	37,702,806	39,119,422	Closed end funds not eligible for redemption.	Not redeemable. (1)
Private Real Estate	17,389,369	6,767,577	Closed end funds not eligible for redemption.	Not redeemable. (1)
	\$ 673,066,530	\$ 90,152,967		

(1) The Foundation has made commitments to various private equity and venture debt partnerships. The Foundation expects these funds to be called over the next 1-5 years. Liquidity is expected to be received in the next 1-9 years.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE G - ENDOWMENTS

The Foundation's endowment consists of approximately 2,500 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. The net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift amount as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as principal of a donor-restricted endowment (a) the original value of initial and subsequent gifts restricted to the endowment and (b) accumulations and additions stipulated by the applicable donor gift instrument to be added to principal. The appreciation of a donor-restricted endowment is: (a) accumulated net investment returns, net of (b) amounts appropriated for spending by the Board of Directors. The fair value of a donor-restricted endowment is the combination of principal and appreciation.

A donor-restricted endowment is classified as either perpetual (donor stipulates investment in perpetuity of certain net assets). Unless stipulated by the donor as a term endowment, all donor-restricted endowment funds are classified as perpetual.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE G - ENDOWMENTS - Continued

The Foundation had the following endowment activities during the year ended June 30, 2019, delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 531,095,531	\$ 531,095,531
Board-designated endowment funds	<u>2,741,919</u>	<u>-</u>	<u>2,741,919</u>
Total endowment funds	<u>\$ 2,741,919</u>	<u>\$ 531,095,531</u>	<u>\$ 533,837,450</u>

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,347,164	\$ 501,018,252	\$ 503,365,416
Investment return, net	142,221	27,223,257	27,365,478
Contributions	136,673	18,820,910	18,957,583
Other additions	-	596,261	596,261
Appropriation of endowment assets for expenditure	(192,248)	(16,083,108)	(16,275,356)
Net transfers to (from) endowment funds	<u>308,109</u>	<u>(480,041)</u>	<u>(171,932)</u>
Endowment net assets, end of year	<u>\$ 2,741,919</u>	<u>\$ 531,095,531</u>	<u>\$ 533,837,450</u>

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE G - ENDOWMENTS - Continued

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 501,018,252	\$ 501,018,252
Board-designated endowment funds	2,347,164	-	2,347,164
Total endowment funds	<u>\$ 2,347,164</u>	<u>\$ 501,018,252</u>	<u>\$ 503,365,416</u>

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,290,526	\$ 460,339,795	\$ 462,630,321
Investment return, net	138,070	27,984,629	28,122,699
Contributions	8,235	26,555,705	26,563,940
Other additions	50,068	1,495,745	1,545,813
Appropriation of endowment assets for expenditure	(157,366)	(15,915,791)	(16,073,157)
Net transfers to (from) endowment funds	17,631	558,169	575,800
Endowment net assets, end of year	<u>\$ 2,347,164</u>	<u>\$ 501,018,252</u>	<u>\$ 503,365,416</u>

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE G - ENDOWMENTS - Continued

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (historic dollar value) as a result of unfavorable market fluctuations and returns. The Board of Directors monitors underwater endowment funds as part of its decision-making process for determining amounts to appropriate for spending, and currently applies the endowment spending policy outlined below to underwater endowments.

Underwater endowment funds consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Net assets (fair value)	\$ 1,829,025	\$ 5,163,941
Principal (historic dollar value)	2,174,951	5,513,605
Underwater amount	\$ <u>(345,926)</u>	\$ <u>(349,664)</u>

Return Objectives and Risk Parameters

The endowment portfolio is invested to preserve the principal of the Foundation's funds and at the same time provide a dependable source of income for current operations and programs of the Foundation and the University. In addition, the endowment portfolio's secondary goal is to realize a total return (income plus capital change) that will enhance, in real and nominal terms, future available income using prudent strategies that will accommodate relevant, reasonable, or probable events.

Strategies Employed for Achieving Investment Objectives

In recognition of the prudence required of fiduciaries, the Foundation diversifies its investments reasonably. Experience has shown that financial markets and inflation rates are cyclical, and therefore, control of volatility is achieved through diversification of asset classes and selection of managers of diverse styles. Determining asset classes and the weighting of assets is the responsibility of the Investment Committee of the Board of Directors. The Committee considers the impact of asset class weightings on the return and volatility of the portfolio and each asset selection is carefully considered in accordance with a systematic allocation process.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Directors determines the method to be used to appropriate endowment funds for expenditure. The spending policy for the University of Massachusetts endowment balances the conflicting goals of providing substantial support for current operations and preserving the purchasing power of endowment assets. The policy is designed to release substantial current income to the operating budget in a stable stream while protecting the value of endowment assets against inflation, thereby allowing programs to be supported at today's level far into the future. The policy computes the distribution at the rate of 4% of the endowment fund's average fair value for the preceding twelve quarters on a one-year lag. Only quarters with funds on deposit are included in the average. In addition, a prudence rule is utilized limiting spending from a particular endowment fund to no lower than 93% of its book value.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE H - NET ASSETS

Net assets with donor restrictions by purpose as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Student Aid	\$ 198,788,170	\$ 184,934,371
Faculty & Staff Support	188,992,044	181,329,687
General Purpose	56,398,473	58,399,808
Research	31,075,213	29,476,975
Academic Divisions	30,760,710	28,233,512
Physical Plant	17,812,329	16,567,550
Other	47,854,048	45,261,992
	<u>\$ 571,680,987</u>	<u>\$ 544,203,895</u>

Net assets without donor restrictions at June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Undesignated funds	\$ 26,349,429	\$ 23,503,797
Designated funds	3,007,828	2,535,319
Net investment in property, plant & equipment	7,487,404	7,690,312
	<u>\$ 36,844,661</u>	<u>\$ 33,729,428</u>

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE I - FUNCTIONAL EXPENSES

Natural expenses attributable to more than one functional expense category are allocated on a reasonable and consistently applied basis: compensation is allocated based on estimates of time and effort; rent and depreciation of buildings is allocated based on square footage; and other expenses are allocated based on estimates of usage.

Expenses by function and natural classification for the year ended June 30, 2019 are as follows:

	2019			
	Program Services	Fundraising Support	General and Administrative	Total
Distributions to the University of Massachusetts:				
Student aid	\$ 7,200,619	\$ -	\$ -	\$ 7,200,619
Faculty & staff support	\$ 5,864,164	\$ 1,500,000	\$ -	\$ 7,364,164
Research	\$ 1,162,174	\$ -	\$ -	\$ 1,162,174
Academic Divisions	\$ 824,566	\$ -	\$ -	\$ 824,566
Athletics	\$ 583,194	\$ -	\$ -	\$ 583,194
Physical Plant	\$ 547,068	\$ -	\$ -	\$ 547,068
Public Service	\$ 468,315	\$ -	\$ -	\$ 468,315
Libraries	\$ 336,581	\$ -	\$ -	\$ 336,581
Program support	\$ 17,977,779	\$ -	\$ -	\$ 17,977,779
Distributions to Edward M. Kennedy Institute	\$ 5,450,179	\$ -	\$ -	\$ 5,450,179
Compensation	\$ -	\$ 2,064,448	\$ 964,300	\$ 3,028,748
Information systems	\$ 97,547	\$ 2,266,258	\$ 201,635	\$ 2,565,440
Travel, events and communications	\$ 349,104	\$ 1,582,060	\$ 227,210	\$ 2,158,374
Professional services	\$ 273,749	\$ 274,424	\$ 219,095	\$ 767,268
Depreciation and insurance	\$ 445,292	\$ 39,855	\$ 27,887	\$ 513,034
Occupancy and office expenses	\$ 4,289	\$ 149,816	\$ 115,398	\$ 269,503
Supplies	\$ 199,734	\$ 8,527	\$ 5,426	\$ 213,687
Total expenses	\$ 41,784,354	\$ 7,885,388	\$ 1,760,951	\$ 51,430,693

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE J - LAND, PROPERTY, PLANT AND EQUIPMENT, NET

Land, property, plant, and equipment as of June 30 consist of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,069,140	\$ 3,069,140
Wind turbine	-	101,953
Other buildings	15,843,523	15,843,523
Other assets	54,405	58,120
	<u>18,967,068</u>	<u>19,072,736</u>
Accumulated depreciation	<u>(2,486,367)</u>	<u>(2,166,446)</u>
Land, property, plant and equipment, net	<u>\$ 16,480,701</u>	<u>\$ 16,906,290</u>

Depreciation expense for each of the years ended June 30, 2019 and June 30, 2018 was \$425,589. The Foundation retired or disposed of \$105,669 and \$14,751 of fully depreciated assets for the years ended June 30, 2019 and June 30, 2018, respectively.

NOTE K - ADMINISTRATIVE SERVICES & INVESTMENT MANAGEMENT FEES

An administrative services fee of 1% is assessed to fund expenses incurred in meeting the Foundation's fiduciary and fundraising responsibilities to donors and the University. The 1% fee is assessed based upon the prior year-end value of the pooled endowment fund (Fund I). The calculated fee is charged in equal monthly installments against the investment return allocated to endowment unit holders monthly. Income earned by the Foundation from this fee for the years ended June 30, 2019 and 2018 was \$7,804,483 and \$7,922,895, respectively.

The Foundation also assesses a 1% administrative services fee based upon the average fair value of Fund II for the previous twelve months. The Foundation separately invoices the University for these fees at the end of the fiscal year. Income earned from this fee for the years ended June 30, 2019 and 2018 was \$3,130,449 and \$3,098,644, respectively.

The Foundation charges the internal costs of its Investment Office to Fund I (pooled endowment fund) and Fund II. Fund I was charged \$1,074,497 and Fund II was charged \$364,485 for the year ended June 30, 2019. All investment expenses, including the internal costs of the Foundation's Investment Office, outside custody fees and fees for external investment managers are shown as netted against investment return on the statement of activities.

Investment returns presented on the statement of activities are shown net of 1) the Foundation's 1% administrative fee on endowment accounts, and 2) all external and direct internal investment expenses.

THE UNIVERSITY OF MASSACHUSETTS FOUNDATION, INC.

Notes to Financial Statements - Continued

June 30, 2019 and June 30, 2018

NOTE L - RETIREMENT PLAN

Employees hired before July 1, 2017 are employees of the University and are eligible for retirement benefits under University sponsored programs. The Foundation staff members participate in the University's retirement plans. The University manages all plan administration, payment and disclosure obligations. The Foundation has no unfunded liabilities with respect to the plans.

Employees hired after July 1, 2017 were hired directly by the Foundation and are eligible to participate in the Foundation's defined contribution retirement plan formed under Section 401(k) of the IRC. The Foundation contributes annually 10% of each employee's eligible compensation for the plan year. Total employer contributions to the plan for the years ended June 30, 2019 and 2018 were \$92,140 and \$52,048, respectively.

NOTE M - RELATED PARTY TRANSACTIONS

Various members of the Board of Directors of the Foundation are associated with organizations which manage a portion of the Foundation's assets, or in which the Foundation has invested. These associations include investment by the directors in entities in which the Foundation has also invested, business relationships between the directors and entities in which the Foundation has invested, employment of the directors by an investment manager or one of its affiliates, and participation by the directors on the Board of Directors of an investment manager. Members of the Board of Directors do not participate in investment, operational or other decisions by the Foundation with respect to entities with which those directors are associated.

NOTE N – SUBSEQUENT EVENTS

In July 2019, the University transferred \$100 million to the Foundation for investment in its Pooled Endowment Fund (Fund I). These are agency assets to be held and invested by the Foundation on behalf of the University.

Subsequent events have been evaluated through November 26, 2019, the date the financial statements were available to be issued.