



**UNIVERSITY OF MAINE SYSTEM**

Auditors' Reports as Required by Office of  
Management and Budget (OMB) Circular A-133 and  
*Government Auditing Standards* and Related Information

Year ended June 30, 2005

**UNIVERSITY OF MAINE SYSTEM**

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Management and Budget (OMB) Circular A-133 and  
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Year ended June 30, 2005

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**Exhibit I**

**Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
over Compliance in Accordance with OMB Circular A-133**

The Board of Trustees  
University of Maine System:

**Compliance**

We have audited the compliance of the University of Maine System (the System) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement (Compliance Supplement)* that are applicable to each of its major federal programs for the year ended June 30, 2005, except for those requirements discussed in the third following paragraph. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the System's compliance with those requirements.

As described in item 05-01 in the accompanying schedule of current year findings and questioned costs, the System did not comply with requirements regarding allowable costs/cost principles that are applicable to its research and development cluster. Compliance with such requirements is necessary, in our opinion, for the System to comply with the requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005, other than those requirements applicable to the student financial aid cluster discussed in the following paragraph. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit III) as items 05-02 through 05-15.



## Exhibit I

We did not audit the System's compliance with requirements governing student loan repayment processing services. Those requirements govern functions that are performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

Campus Partners' compliance with the requirements governing the functions that it performs for the System was examined by accountants for the servicer whose report has been furnished to us. The report of the accountants for the servicer indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' report, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the student financial aid cluster in which the System participates are addressed in either our report or the report of the service organization accountants. Further, based on our review of the service organization accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on the System's major programs.

### Internal Control over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Requirements governing student loan repayment processing services are performed by Campus Partners. Internal control over compliance relating to such functions was reported on by accountants for the servicer in accordance with the Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. A copy of the service organization accountants' report has been furnished to us. However, the scope of our work did not extend to internal control maintained at Campus Partners.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the System's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01, 05-02, 05-03, 05-04, 05-05, 05-08, 05-09, and 05-10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions



**Exhibit I**

that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 10, 2006



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**Exhibit II**

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
University of Maine System:

We have audited the accompanying financial statements of the business type activities and the aggregate discretely presented component units of the University of Maine System (the System), a component unit of the State of Maine, as of and for the year ended June 30, 2005, which collectively comprise the System's basic financial statements and, based on our audit and the reports of other auditors, have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The financial statements of the aggregate discretely presented component units were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Exhibit II**

However, we noted other matters involving the internal control over financial reporting, which have reported to management of the System in a separate letter dated November 4, 2005.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2005

UNIVERSITY OF MAINE SYSTEM

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

(1) **Summary of Auditors' Results**

- (a) The independent auditors' report on the financial statements expressed unqualified opinions.
- (b) No reportable conditions or material weaknesses in internal control over financial reporting were reported.
- (c) No instance of noncompliance considered material to the financial statements was disclosed by the audit.
- (d) Reportable conditions in internal control over compliance with requirements applicable to a major federal award program were reported.
- (e) No material weaknesses in internal control over compliance with requirements applicable to major federal award programs were reported.
- (f) The independent auditors' report on compliance with requirements applicable to the System's major federal award programs expressed a qualified opinion.
- (g) The audit disclosed findings that are required to be reported by OMB Circular A-133.
- (h) The System's major programs are as follows:

<u>Program name</u>	<u>CFDA number(s)</u>
Research and Development Cluster	Various
Student Financial Aid Cluster	84.007, 84.032, 84.033, 84.038, 84.063, 84.268 and 93.364
Social Services Block Grant	93.667

- (i) A threshold of \$3,000,000 was used to distinguish between "Type A" and "Type B" programs as those terms are defined in OMB Circular A-133.
- (j) The System qualified as a "low-risk" auditee as that term is defined in OMB Circular A-133.

(2) **Findings Relating to Financial Statements Reported in Accordance with *Government Auditing Standards***

No matters are reported.

UNIVERSITY OF MAINE SYSTEM

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

(3) Findings and Questioned Costs Relating to Federal Awards

**Reference Number:** 05-01  
**Federal Agencies:** Various  
**CFDA Numbers:** Various  
**Programs:** Research and Development Cluster  
**Compliance Requirements:** Allowable Costs/Cost Principles

**Description:**

Office of Management and Budget (OMB) Circular A-21 stipulates that in order for costs to be considered allowable they must be allocable. Specifically, in order for payroll costs to be considered allocable, they are charged to federal grants based on the amount of actual time worked (timesheets) or an after the fact payroll effort certification is performed at least biennially.

During our testwork, we noted that neither Orono nor Southern Maine obtained effort certifications or allocated payroll costs based on actual time worked for their graduate student employees.

Since an after the fact payroll certification of the effort charged for payroll was not performed, nor was payroll allocated based on actual time worked, we are questioning all costs drawn down for graduate student salaries at Orono and Southern Maine.

**Questioned Costs:**

Orono Total \$ 3,385,540

<u>CFDA #</u>	<u>Amount</u>	<u>CFDA #</u>	<u>Amount</u>	<u>CFDA #</u>	<u>Amount</u>
10.000	\$ 28,600	11.478	6,875	47.076	738,682
10.001	20,376	12.000	48,266	47.078	177,688
10.025	701	12.300	338,857	66.461	271
10.200	96,848	12.431	71,636	66.500	40,600
10.203	9,010	12.630	121,995	66.509	7,000
10.206	98,896	12.910	9,000	66.605	6,084
10.217	2,489	15.000	7,570	66.606	11,677
10.220	1,375	15.608	6,565	66.714	7,168
10.250	14,017	15.805	78,904	81.000	14,954
10.302	24	15.808	90,692	81.049	15,583
10.303	1,250	15.812	13,333	81.064	13,292
10.500	3,395	15.000	6,667	81.087	27,573
10.550	8,697	16.525	3,289	84.047	2,253

UNIVERSITY OF MAINE SYSTEM

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

<u>CFDA #</u>	<u>Amount</u>	<u>CFDA #</u>	<u>Amount</u>	<u>CFDA #</u>	<u>Amount</u>
10.568	9,936	20.000	56,739	84.195	3,556
10.652	60,277	43.000	23,824	84.215	2,875
10.664	1,980	43.001	1,738	84.325	2,422
10.672	16,667	43.002	20,090	89.003	157
11.000	3,338	45.149	1,250	93.000	7,093
11.247	20,000	45.312	1,920	93.114	32,958
11.417	63,953	47.041	305,134	93.172	12,000
11.427	6,417	47.049	33,207	93.273	20,022
11.430	4,281	47.050	177,737	93.632	2,839
11.460	25,554	47.070	41,552	93.865	50
11.463	8,750	47.074	145,218	93.867	14,823
11.470	1,333	47.075	17,108	93.959	2,000
11.472	84,591				

Southern Maine Total           \$ 82,175

<u>CFDA #</u>	<u>Amount</u>	<u>CFDA #</u>	<u>Amount</u>
11.303	\$ 16,820	84.318	12,083
16.526	6,126	93.114	2,312
16.589	12,120	93.155	2,250
47.074	5,680	93.658	15,800
84.215	6,604	93.779	2,380

**Recommendation:**

We recommend that the System implement policies and procedures to ensure that payroll costs for graduate student employees are allocable. This can include obtaining after the fact payroll certifications of the effort charged or drawing funds based on the actual time incurred and documented via timesheets.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

<b>Reference Number:</b>	05-02
<b>Federal Agencies:</b>	U.S. Department of Agriculture U.S. Department of Transportation National Science Foundation Environmental Protection Agency U.S. Department of Education U.S. Department of Health & Human Services
<b>CFDA Numbers:</b>	10.001, 10.500, 20.205, 47.076, 66.468, 84.002, 84.027, 84.318, 93.217, 93.556, 93.575, 93.658, and 93.991
<b>Programs:</b>	Research and Development Cluster – Various
<b>Compliance Requirements:</b>	Equipment and Real Property Management

**Description:**

U.S. Office of Management and Budget (OMB) Circular A-110 stipulates that institutions receiving federal funds to purchase equipment maintain proper control of that equipment. Proper control is defined as the maintenance of equipment records, which is to be reconciled to a physical inventory performed at least once every two years, and an appropriate control system that safeguards equipment.

During our testwork, we noted that Southern Maine periodically performs physical equipment inventory counts, updating the equipment records as appropriate. However, no records of the physical equipment inventory, any resulting adjustments, or conclusions are maintained by Southern Maine. At Orono, we noted that a complete equipment physical inventory has not been performed at least once in the previous two fiscal years.

In addition to the above, for the 30 equipment items tested, we noted various equipment management exceptions as follows:

- Two of the equipment items were purchased and used offsite cooperatively with other organizations and they should have been included in Orono’s equipment inventory but were not. We also noted that Orono helped purchase another piece of equipment via this cooperative agreement but did not recognize partial ownership of the asset.
- The equipment inventory information for two pieces of equipment at Orono included the incorrect account number. The account numbers on the purchase order were entered into the equipment database rather than the account number that the disbursement was ultimately charged to.
- Two equipment inventory values at Orono incorrectly excluded freight charges.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Questioned Costs:** None.

**Recommendation:**

We recommend that policies and procedures be adopted at Southern Maine that would enable responsible personnel to appropriately document the performance of the physical equipment inventory as well as the follow-up of any exceptions found and adjustments made. We also recommend that Orono develop policies and procedures to ensure that an equipment inventory is performed at least once every two years. Orono should also enhance its procedures to ensure that all equipment items owned or partially owned by the System are appropriately captured.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

<b>Reference Number:</b>	05-03
<b>Federal Agencies:</b>	U.S. Department of Justice U.S. Department of Education U.S. Department of Health & Human Services
<b>CFDA Numbers:</b>	16.529, 16.589, 84.318, 93.000, 93.556, 93.652, 93.778, and 93.779
<b>Programs:</b>	Research and Development Cluster – Various
<b>Compliance Requirements:</b>	Allowable Costs/Cost Principles

**Description:**

In order to maintain effective internal controls over costs charged to the various research and development grants, Southern Maine has implemented a management review monitoring control. Southern Maine's Office of Sponsored Programs requires departments to complete and review a Monthly Financial Report (MFR) for each account. The purpose of the MFR is to help ensure that account activity is appropriate and that departments comply with the cost transfer policy. Southern Maine's cost transfer policy requires transfers to be completed within 60 days of the close of the month, while federal regulations stipulate a 90 day timeframe.

At Southern Maine, of the 22 MFRs selected for testing, 12 were submitted to the Office of Sponsored Programs more than 60 days after the close of the month and six of the 12 ended up being more than 90 days after the close of the month. While we found no cost transfer violations, delayed account reviews could cause delays in identifying cost transfers.

At Orono, we noted that the performance of this control is not documented. Campus officials stated that the monthly reviews are performed, however, documentation of the review is not maintained.

**Questioned Costs:** None.

**Recommendation:**

We recommend that Southern Maine enhance their policies and procedures to ensure that the MFRs are completed within the required 60 day timeframe. Additionally, we recommend that the Orono campus require responsible individuals to document their monthly review of account activities. The documentation of reviews can take many forms, therefore we also recommend that they consult with other System employees to determine the most efficient and effective way to document the performance of the control.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-04

**Federal Agencies:** U.S. Department of Justice  
U.S. Department of Health & Human Services

**CFDA Numbers:** 16.526 and 93.779

**Programs:** Research and Development Cluster – Various

**Compliance Requirements:** Allowable Costs/Cost Principles

**Description:**

Office of Management and Budget (OMB) Circular A-21 stipulates that in order for costs to be considered allowable, among other things, the cost must be adequately documented.

Of 30 research and development projects selected for testwork, we noted the following file maintenance shortcomings:

- One Southern Maine project file was missing a grant agreement, the application/proposal, and a project start-up checklist (a partial agreement was located in related project files), and
- One Southern Maine project file was missing a monthly financial report

The System was able to provide additional documentation to adequately support the federal charges, however, the System should strive to maintain control over project files.

**Questioned Costs:** None.

**Recommendation:**

We recommend that Southern Maine enhance its current controls to ensure that all project files are complete, up-to-date and adequately maintained.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-05  
**Federal Agency:** U.S. Department of Health & Human Services  
**CFDA Number:** 93.000  
**Program:** Research and Development Cluster  
**Compliance Requirements:** Subrecipient Monitoring

**Description:**

In accordance with Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d), a pass-through entity shall perform the following for the Federal awards it makes to subrecipients:

- (1) Identify Federal awards made by informing each subrecipient of Catalog of Federal Domestic Assistance (CFDA) title and number, award name, and name of Federal agency.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts and that performance goals are achieved.

During our review of all 26 subrecipients, we noted for one Southern Maine subrecipient that the subrecipient monitoring requirements were not followed in full. Specifically, it appears that Southern Maine did not seek nor obtain the single audit report of the subrecipient. Documentation did not exist that Southern Maine was actively seeking the single audit report of the subrecipient.

**Questioned Costs:** None.

**Recommendation:**

We recommend that Southern Maine enhance their system of internal controls to ensure that Southern Maine actively seeks and obtains the single audit reports of all subrecipients. Further, if a single audit is not required, Southern Maine should seek to verify that assertion with the subrecipient.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-06

**Federal Agencies:** U.S. Department of Agriculture  
U.S. Department of Education

**CFDA Numbers:** 10.203, 10.206, 10.303, 10.562, 10.568,  
84.002, 84.047, 84.213, and 84.287

**Programs:** Research and Development Cluster – Various

**Compliance Requirements:** Reporting

**Description:**

Due to the inherent complexity of the research and development cluster, an institution's ability to accurately and completely track research and development grants is paramount. This is the case not only for budgeting and planning purposes, but also for tracking applicable compliance requirements and annually reporting expenditures on the Schedule of Expenditures of Federal Awards.

During our testing of the research and development cluster, we noted various Catalog of Federal Domestic Assistance (CFDA) coding errors. We noted that the System recorded grants as CFDA 10.001 (Agriculture Research and Applied Research) when they should have been recorded as CFDA Nos. 10.203, 10.206, 10.303, and 10.562.

In addition to the above, we noted eight other accounts funded by the U.S. Department of Education that were incorrectly identified as research and development in the System's accounting system. Five of those were federal funds, but not research and development related, while three were not federally funded.

All of the errors noted above were corrected on the final Schedule of Expenditures of Federal Awards.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the System implement policies and procedures to ensure that all research and development grants are properly set-up on the accounting system. This should include verification of the correct CFDA No. In addition, for projects funded by multiple sources, care should be taken to ensure the Schedule of Expenditures of Federal Awards only includes federal funding sources.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-07  
**Federal Agency:** U.S. Department of Health & Human Services  
**CFDA Numbers:** 93.837, 93.652, and 93.778  
**Programs:** Research and Development Cluster – Various  
**Compliance Requirements:** Period of Availability

**Description:**

U.S. Office of Management and Budget (OMB) Circular A-110 states a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period authorized by the Federal awarding agency. An obligation occurs when an order is placed, contracts and subgrants awarded, or goods and services received.

During our testwork, we noted four of 30 expenses tested where the obligation was incurred outside the period of availability.

**Questioned Costs:**

Southern Maine	93.778	\$	2,918
	93.652		<u>1,185</u>
Total		\$	<u><u>4,103</u></u>

**Recommendation:**

We recommend that the System enhance its existing controls so as to ensure that all expenses charged to federally funded grants are obligated within the period of availability. Further, if expenses are charged to grants and were obligated outside of the period of availability, we recommend that the System identify these items and transfer them to nonfederal funding sources if another allowable federal grant does not exist.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-08  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.268  
**Program:** Federal Direct Student Loans (Direct Loan)  
**Compliance Requirement:** Special Tests and Provisions – Borrower Data Transmission and Reconciliation

**Description:**

34 CFR Section 685.102 requires that institutions report all loan disbursements and submit required records to the Direct Loan Servicing System via the Common Origination and Disbursement (COD) within 30 days of disbursement. Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of cash summary, cash detail, and loan detail records. The institution is required to reconcile these files to the institution's financial records. The rules further suggest that the reconciliation should be performed monthly.

While reviewing reconciliations at the Augusta campus, we noted that only two reconciliations were performed for fiscal year 2005.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the System implement policies and procedures to ensure that the SAS for the Augusta campus is reconciled to the System's books and records on a monthly basis.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

<b>Reference Number:</b>	05-09
<b>Federal Agency:</b>	U.S. Department of Education
<b>CFDA Numbers:</b>	84.032, 84.268 and 84.038
<b>Programs:</b>	Student Financial Aid Cluster – Federal Family Education Loans (FFEL), Federal Direct Student Loans (Direct Loan), and Federal Perkins Loans (FPL)
<b>Compliance Requirement:</b>	Special Tests and Provisions – Disbursements To or On Behalf of Students

**Description:**

According to 34 CFR 668.165, if the System credits a student's account with Direct Loan, FPL, or FFEL funds, no earlier than 30 days before and no later than 30 days after the System must notify the student, or parent, of the date and amount of the disbursement and the student's right to cancel all or a portion of the loan.

For one of the campuses visited, Farmington, although loans were credited to student accounts, we were unable to verify that student loan disbursement notifications were sent timely to students. According to the Farmington financial aid office, notices were sent, however a copy was not retained by the campus. The Farmington campus disbursed approximately \$7.1 million in loans of \$97.5 million (7%) in loan disbursements system-wide.

In addition, we noted in two of 55 (4%) loan disbursements tested, the students were not notified of the loan disbursements. The two loan disbursements in question were from the Orono campus.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the Farmington campus implement policies and procedures to ensure that all loan disbursement notifications sent are also maintained in the students' financial aid file as evidence of the loan disbursement notification. Similarly, we recommend that the Orono campus enhance its policies and procedures to ensure that all students are not only notified, but notified timely.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-10

**Federal Agency:** U.S. Department of Education

**CFDA Numbers:** 84.032, 84.268 and 84.038

**Programs:** Student Financial Aid Cluster – Federal Family Education Loans (FFEL), Federal Direct Student Loans (Direct Loan), and Federal Perkins Loans (FPL)

**Compliance Requirements:** Special Tests and Provisions – Student Loan Repayments

**Description:**

If a student ceases enrollment without performing an exit interview and has received an FFEL, Direct Loan or FPL, the financial aid administrator must confirm that the student has completed on-line counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session.

Out of the 40 students selected for exit interview testing in our audit, we noted two students (one from Southern Maine and one from Orono) who were not notified within 30 days of leaving the school of the exit interview requirement. The student from Southern Maine was notified 84 days late while the student from Orono was notified 19 days late.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the campuses establish policies and procedures to ensure that either the borrower has completed on-line exit counseling or that exit materials are mailed to the borrower at his or her last known address within the 30 day required timeframe.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-11  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.032  
**Program:** Federal Family Education Loans  
**Compliance Requirement:** Eligibility

**Description:**

According to 34 CFR 668.32, in order to be eligible to receive student financial aid, applicants must remain in good standing, including maintaining satisfactory academic progress. When satisfactory academic progress can not be demonstrated, the student can obtain a waiver if he or she meets certain conditions. In order for the waiver to be a valid exception to maintaining satisfactory academic progress, the student must present documentation to support his or her claim.

During our testwork, we noted in one of 20 (5%) sample selections where satisfactory academic progress was not met. The student was granted a waiver by the Farmington campus for medical reasons. However, the campus granted the waiver without obtaining substantiating documentation for the medical waiver.

**Questioned Costs:** \$5,390

**Recommendation:**

We recommend that the System implement policies and procedures to ensure that all satisfactory academic progress waivers are granted only after the appropriate documentation has been retained.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-12  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.033  
**Program:** Federal Work-Study Program (FWS)  
**Compliance Requirements:** Special Tests and Provisions – Disbursements To or On Behalf of Students

**Description:**

Federal regulations require employers to complete Section 2 of the I-9 form by examining evidence of identify and employment eligibility within three business days of the date employment begins. If employees are unable to present the required documents within three business days, they must present a receipt for the application of the document(s) within three business days and the actual documents within 90 days. Federal regulations also require the completion of Form W-4 so that an employer can withhold the correct federal income tax.

Out of the sample of 70 students tested for FWS disbursements, we noted one student (Southern Maine) whose form I-9 or form W-4 was not on file, one student (Augusta) whose form W-4 was not dated, and one student (Orono) whose form I-9 was not dated.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the respective campus institute policies and procedures to ensure that all of the required forms are received and complete for students in the Federal Work-Study Program.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-13  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.033  
**Program:** Federal Work-Study Program (FWS)  
**Compliance Requirements:** Special Tests and Provisions – Disbursements To or On Behalf of Students

**Description:**

Annually, students are determined either eligible or ineligible for various student financial aid programs, including the Federal Work-Study Program. The approval, as well as the award amounts are based on many variables, and are documented on the Student Federal Work-Study Employment Work Authorization form. These forms receive supervisory approval before the student is awarded FWS funds.

Out of a sample of 70 students, one student's (Augusta) pay rate amount was subsequently updated on the work authorization form without supervisory approval.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the Augusta campus update policies and procedures to ensure that all changes to the Student Federal Work-Study Employment Work Authorization form obtain the necessary supervisory approvals.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-14  
**Federal Agency:** U.S. Department of Health and Human Services  
**CFDA Number:** 93.667  
**Program:** Social Services Block Grant  
**Compliance Requirements:** Allowable costs / cost principles

**Description:**

According to Office of Management and Budget (OMB) Circular A-133 section J.8.b(1)(a), distributions of salaries and wages should be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. The System allocates time incurred on grant activities by using "time allocation forms". These forms document the amount of time worked, and subsequently to be charged, to a particular cost center.

During our testwork, we noted two of 30 (7%) payroll charges where the time and effort reported on the supporting documentation did not agree with the time allocated in the accounting system.

Upon further investigation, we noted that the errors off-set each other within the same funding source, therefore, no costs are questioned.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the System implement policies and procedures to ensure that all time allocation forms are properly recorded on the accounting system. The policies and procedures should address the controls necessary to ensure that all time allocation forms, regardless of the impact on funding sources, are properly recorded.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2005

**Reference Number:** 05-15  
**Federal Agency:** U.S. Department of Health and Human Services  
**CFDA Number:** 93.667  
**Program:** Social Services Block Grant  
**Compliance Requirement:** Activities Allowed or Unallowed/Allowable Costs

**Description:**

In order to maintain effective internal controls over amounts charged to the Social Services Block Grant, Southern Maine has implemented a management review monitoring control. Southern Maine's Office of Sponsored Programs requires departments to complete and review a Monthly Financial Report (MFR) for each account. The purpose of the MFR is to help ensure that account activity is appropriate and that departments comply with the cost transfer policy. Southern Maine's cost transfer policy requires transfers to be completed within 60 days of the close of the month, while federal regulations stipulate a 90-day timeframe.

Of the 50 reports submitted to the Office of Sponsored Programs we selected, 10 reports were submitted to the Office of Sponsored Programs more than 60 days after the close of the month and eight of those 10 were submitted more than 90 days after the close of the month.

Although no cost transfer violations were noted, timely reporting to the Office of Sponsored Programs would ensure cost transfers are performed within the appropriate timeframe.

**Questioned Costs:** None.

**Recommendation:**

We recommend that Southern Maine strengthen policies and procedures to ensure that all reports are submitted to the Office of Sponsored Programs within the required timeframes.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.



**University of Maine System  
A-133 Audit Report  
June 30, 2005  
SUMMARY OF CORRECTIVE ACTION PLAN**

<b>Reference Number:</b>	05-01
<b>Federal Agencies:</b>	Various
<b>Programs:</b>	Research and Development Cluster
<b>Compliance Requirements:</b>	Allowable Costs/Cost Principles

**Allocable Payroll Costs**

**System Wide Services:**

Agree. Failure to obtain effort certifications for graduate students was not a deliberate act, but rather a recordkeeping oversight. In transitioning from our old payroll system to the current PeopleSoft system, the method for identifying applicable employees was changed and graduate students were inadvertently left off of the Time and Effort Reports generated by the University of Maine System Office and provided to the campuses. This error has been corrected in FY06.

It is important to note, that while we did not issue these after-the-fact reports, the University does have other procedures which allow us to feel confident that the graduate student expenses charged to grant accounts are appropriate. First, each student must apply for a position and complete a form which they and the supervisor sign, documenting the agreed-upon pay and the period of payment. Next, each graduate student works under the direction of a supervisor (typically a faculty member or other principal investigator) who ensures the graduate student is fulfilling his/her commitment as outlined in the approved proposal. The successful completion of a sponsored project is highly dependent on the completion of work assigned to any graduate student working on the project and our sponsors have been quite pleased with our project work. Also, as a student's graduate work is often tied to his or her class work, faculty members are very aware of the student's performance of work. Finally, once the payroll expenses are charged to the account, responsible personnel review the charges for appropriateness and make any adjustments at that time.

**UM:**

We agree that policies and procedures must be in place to ensure that payroll costs for graduate student employees are allocable. The University of Maine has had a time and effort reporting system in place since 1981 that included graduate student employees. As mentioned above, the recent implementation of the PeopleSoft Human Resources system resulted in the graduate student payroll being inadvertently excluded from the Time and Effort reports that were generated after the conversion took place.

The System Office has revised the PeopleSoft Time and Effort query to include the graduate student employees. Graduate student Time and Effort reports for July 1, 2004 to June 30, 2005 were run on April 13, 2006 and the Office of Research and Sponsored Programs (ORSP)

distributed the reports on April 18, 2006 by e-mail to the various campus departments. ORSP has given the departments 30 days to return the reports realizing that in some cases it may be 60 days before the reports are returned. Many of these students have graduated; therefore, ORSP has requested that the immediate supervisor sign the reports for students no longer at UM. ORSP will monitor the return of the signed reports to ensure that all are returned in a timely manner. All future Time and Effort reports generated will include the graduate student employees.

**USM:**

We agree with the finding and echo the comments noted above.

---

<b>Reference Number:</b>	05-02
<b>Federal Agencies:</b>	U.S. Department of Agriculture U.S. Department of Transportation National Science Foundation Environmental Protection Agency U.S. Department of Education U.S. Department of Health and Human Services
<b>Programs:</b>	Research and Development Cluster
<b>Compliance Requirements:</b>	Equipment and Real Property Management

**Capital Asset Recordkeeping and Inventory**

**UM:**

Agree. The most recent physical inventory of equipment was initiated in February 2005 with about 1/3 of the departments remaining to be inventoried. The physical inventory shall be completed by June 30, 2006.

UM will also write new procedures to provide guidelines for physical inventories and asset records. The UM Purchasing Department will create a new procedure to ensure more accurate and complete information on equipment purchases. This procedure will include step by step processes for conducting the inventories, updating records, and will provide guidelines for maintaining more comprehensive documentation. The documentation will include the following information in each individual equipment file:

- A copy of the purchase order.
- A copy of the invoice(s).
- A copy of the equipment record, listing all the information about the asset.
- A photograph of the asset.

The new procedure will be completed by September 30, 2006.

UM will further ensure equipment is recorded at actual value. In the future, values will be determined from invoices and not purchase orders, and will include all ancillary charges (e.g. freight).

Finally, UM personnel will review the campus procedures for journal vouchering related to capital assets and determine how best to capture account number changes.

**USM:**

We agree with the recommendation. USM is currently in the process of carrying out an inventory of capital equipment and will ensure that it is in compliance with Federal requirements.

**System Wide Services:**

We agree with the recommendation.

As noted above, physical inventories are underway at UM and USM. The completed inventory records will be sent to the System Office and adjustments will be recorded. This will be completed by July 15, 2006 and needed adjustments will be made to the System's records that support our June 30, 2006 audited financial statements. A dated and signed reconciliation record will reside in both the Campus and the System files.

Work has begun on a standard inventory process with input from the campuses. By November 2006 the inventory process will be posted on the University of Maine System website with standardized forms. At the beginning of each applicable fiscal year the System Office will require each campus to provide a timeline of when their equipment inventory will begin and end. The System's records will be updated accordingly.

In February, 2006 the System Office issued a *Capital Asset Policy*. Also in February 2006 the System conducted a training session that included facility, inventory and other campus personnel. The *Capital Asset Policy* states that the actual purchase price including freight should be used when recording the cost of an asset, not the purchase order cost. The *Capital Asset Policy* also states that a physical inventory should be conducted every two years. By June 30, 2006 we will add a section to the *Capital Asset Policy* to address partially owned assets.

On July 1, 2005 the University of Maine System implemented new General Ledger and Purchasing and Accounts Payable systems. Several new reports have been written for these systems to help identify capital equipment purchases and reclassification of costs from one account to another. These reports are sent to each campus for review and updating.

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<b>Reference Number:</b>	05-03
<b>Federal Agency:</b>	U.S. Department of Justice U.S. Department of Education U.S. Department of Health and Human Services
<b>Programs:</b>	Research and Development Cluster
<b>Compliance Requirements:</b>	Allowable Costs/Cost Principles

**Monthly Financial Reviews:**

**UM:** UM will request instructions from UMS as to how departments and research units can verify the performance of monthly reviews for annual audit review. With over 900 accounts active during a fiscal year, it would be administratively overwhelming for the Office of Research and Sponsored Programs or the Vice President for Research to centrally retain hard copy verifications. UM also will determine if the anticipated PeopleSoft Grants Module includes a tool to efficiently document departmental reviews.

**USM:**

We are taking action to reinforce the importance of timely and proper reconciliation of projects.

---

**Reference Number:** 05-04  
**Federal Agency:** U.S. Department of Justice  
National Science Foundation  
U.S. Department of Health and Human Services  
**Programs:** Research and Development Cluster  
**Compliance Requirements:** Allowable Costs/Cost Principles

**File Maintenance:**

**USM:**

We agree with your assessment and will endeavor to be in complete compliance. During fiscal year 2005, we provided the Muskie School, our largest research unit, with information regarding outstanding project file information. Effective immediately, we are providing this information to all research units, schools and colleges.

---

**Reference Number:** 05-05  
**Federal Agency:** U.S. Department of Health and Human Services  
**Programs:** Research and Development Cluster  
**Compliance Requirements:** Subrecipient Monitoring

**Subrecipient Monitoring Requirements:**

**USM:**

We agree with your assessment and will endeavor to be in complete compliance regarding subrecipient monitoring.

---

**Reference Number:** 05-06  
**Federal Agency:** U.S. Department of Agriculture  
U. S. Department of Education  
**Programs:** Research and Development Cluster  
**Compliance Requirements:** Reporting

**Account Attribute Coding:**

**UM:** Agree. UM will strengthen its procedures to ensure greater accuracy in properly identifying CFDA numbers and R&D projects that are entered into the accounting system. The Office of Research and Sponsored Programs will remind office staff of the importance of this policy and will take particular care to update CFDA numbers on accounts set up in advance of receipt of funds.

---

**Reference Number:** 05-07  
**Federal Agency:** U.S. Department of Health and Human Services

**Programs:** Research and Development Cluster  
**Compliance Requirements:** Period of Availability

**Period of Availability:**

**USM:**

We agree with your assessment. We will again remind project staff that allowable costs not only must be encumbered prior to the termination date, but that the goods or services involved must also provide benefit to the project-year account charged. If multiple project-year accounts benefit, then a prorated allocation should occur.

---

**Reference Number:** 05-08  
**Federal Agency:** U.S. Department of Education  
**Program:** Federal Direct Student Loans (Direct Loan)  
**Compliance Requirements:** Special Tests and Provisions - Borrower Data Transmission and Reconciliation

**COD SAS File Reconciliation:**

**UMA:**

Agree with finding, with the following note: UMA does run a monthly reconciliation program that compares Financier (the financial aid system) to ISIS (the student information system) in both areas of disbursed aid and disbursements successfully booked between Financier and COD. This program, referred to as LOAN NET CHECK (LNNETCK), actually picks up more issues than just comparing the monthly SAS report to Financier. For example, if a loan disbursement rejects with COD, then it will have a reject code in Financier, but when the monthly SAS reconciliation is run, both COD and Financier have this disbursement as rejected, therefore no difference is detected. The Loan Net Check program would detect that this same disbursement had been made to the student, but not successfully booked with COD - the difference would be noted. The monthly SAS reconciliations are most definitely a tool in reconciliation, but not a stand alone. UMA used the reject reports that were provided with each loan origination, change and disbursement transaction to address issues. These reject reports along with the Loan Net Check program allowed UMA to be in balance at the end of the year.

UMA will continue to run the loan net check program as well as ensuring that the monthly SAS reconciliation program is run. These two tools, along with the reject reports will ensure that all areas of reconciliation are covered.

---

**Reference Number:** 05-09  
**Federal Agency:** U.S. Department of Education  
**Programs:** Student Financial Aid Cluster - FFEL, DL, & FPL  
**Compliance Requirements:** Special Tests and Provisions - Disbursements To or On Behalf of Students

**Notification of Loan Disbursement & Right to Cancel:**

**UMF:**

UMF's Financial Aid Office has explained to the Director of Business Systems the importance of complying with the Federal requirement that a school must notify a borrower in writing or

electronically whenever the school credits the student's account with Federal Direct, Federal Stafford, Federal PLUS or Federal Perkins Loan program funds. The notification must take place no earlier than 30 days before and no later than 30 days after crediting the student's account. The responsible business officer has indicated that UMF's process is being changed immediately to ensure that UMF has a record of loan notifications and will be brought into compliance. The UMF Financial Aid Office has provided a template notification to the UMF Business Office to facilitate campus compliance with loan notification.

**UM:**

The UM's Associate Bursar is responsible for the corrective action plan. Beginning with the Fall 2005 semester, programs were run to include the current semester disbursements as well as disbursements that are applied early for the following semester. The corrective action plan was put in place during the summer of 2005.

---

<b>Reference Number:</b>	05-10
<b>Federal Agency:</b>	U.S. Department of Education
<b>Programs:</b>	Student Financial Aid Cluster - FFEL, DL, & FPL
<b>Compliance Requirements:</b>	Special Tests and Provisions - Student Loan Repayments

**Exit Interview Notification Requirement:**

**UM:**

UM's Assistant Bursar for Student Loan Collections, Jolynn Campbell, also the contact person, will immediately re-emphasize to employees the importance of following each step as outlined in the exit interview process.

**USM:**

Agree. USM has reviewed and strengthened its policies and procedures. Staff has received additional training on use of computer programs to more quickly identify those students needing an exit interview. Also, new measures are in place and being done on a daily, weekly, monthly and semester basis to ensure exit interviews are conducted in a timely manner and in accordance with federal requirements.

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<b>Reference Number:</b>	05-11
<b>Federal Agency:</b>	U.S. Department of Education
<b>Program:</b>	FFEL
<b>Compliance Requirements:</b>	Eligibility

**Satisfactory Academic Progress Documentation:**

**UMF:**

UMF made a designated SAP exception under the category designated for "Personal Mitigating Circumstances"(5C). This was documented in the student file with a note from the financial aid administrator who had interviewed the student in person. The note is brief but includes hand-written documentation from the personal interview with the financial aid officer recording that "[the student] had a nervous breakdown in fall and medications for depression impaired ability to complete all classes...]"

The student aid director is planning to attend a best practices workshop offered in the spring of 2006 by the National Association of Student Financial Aid Administrators and will be actively seeking ways to strengthen documentation practices with SAP to assure quality control and program integrity.

---

**Reference Number:** 05-12  
**Federal Agency:** U.S. Department of Education  
**Program:** FWS  
**Compliance Requirements:** Special Tests and Provisions - Disbursements To or On Behalf of Students

**I-9 Forms and W-4 Forms:**

**UMA:**

Agree. All W-4's must be dated by the student. UMA is making every effort to ensure that W-4 dates are not overlooked. The Administrative Assistant I in Payroll is double-checking the forms to make sure that information contained on the forms is complete.

**UM:**

In addition to continuing with the 03-04 plan, UM will do the following to "strengthen the Corrective Action Plan": We will email ALL student supervisors, payroll processors, and deans, directors, and department heads reminding them of their responsibility and the institution's liability regarding proper completion of the I-9's for their student employees. Mary Skaggs is the contact person.

**USM:**

We have reinforced with Payroll Department staff the importance of having I-9 and W-4 forms for new employees and reviewing I-9 and W-4 forms for compliance factors (i.e., signature and date). In the last two months, we have also reviewed our I-9 and W-4 files and reorganized them by year and alphabetically within year. This was done to evaluate whether we had any misfiled documents and to improve accessibility. We hope to evaluate these files in the next 12 months to evaluate additional compliance and simplification possibilities.

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**Reference Number:** 05-13  
**Federal Agency:** U.S. Department of Education  
**Program:** FWS  
**Compliance Requirements:** Special Tests and Provisions - Disbursements To or On Behalf of Students

**Supervisor Documentation on Work Authorization:**

**UMA:**

Agree. A supervisor may propose a student wage; however, student wages are ultimately determined by the Financial Aid Office based on the job description that is submitted by the student's supervisor. When a final determination is made as to the correct wage, the supervisor is notified with a carbon copy of the student authorization card, listing the appropriate wage on the lower part of the form "Office Use Only" section. It is the supervisor's responsibility to contact the Financial Aid Office if they disagree with the wage determination. When the hourly wage is

changed after the initial authorization card has been sent to the supervisor, another authorization card with the updated hourly wage is sent followed by a phone call to the supervisor informing them of this change.

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<b>Reference Number:</b>	05-14
<b>Federal Agency:</b>	U.S. Department of Health and Human Services
<b>Program:</b>	Social Services Block Grant
<b>Compliance Requirements:</b>	Allowable Costs/Cost Principles

**Time Allocation Forms:**

**USM:**

We reviewed the payroll for these two employees and found that in one case 100% was to be charged to a State Agreement for a certain month – with a percentage to be charged against one account and the remainder against another. While these two percentages were reversed in error, the correct funding source was charged in total. In the second case, the employee’s level of effort was 90% Full Time Equivalent (FTE). As per the time allocation form, 80% FTE should have been charged to one account and 10% FTE to another. Because of a need to allocate 100% of the 90% effort these percentages should have been converted to 88.89% (80% of 90%) and 11.11% (10% of 90%). However, 87% and 13% were charged in error with an overall difference of \$60.20. These two University accounts were funded by the same State of Maine contract.

The above two findings relate to the Muskie School. With approximately 350 employees, many of whom have monthly salary re-allocations, there are bound to be errors. However, we feel that the processes that are currently in place are sufficient to catch and correct almost all of them on a regular basis. A compensating control is that the remaining errors would be caught at project close-out. We will raise this issue with the Muskie School.

---

<b>Reference Number:</b>	05-15
<b>Federal Agency:</b>	U.S. Department of Health and Human Services
<b>Program:</b>	Social Services Block Grant
<b>Compliance Requirements:</b>	Activities Allowed or Unallowed/Allowable Costs

**Cost Transfer Policy:**

**USM:**

We agree and will again reinforce the importance of timely financial reconciliation of projects. As noted by the auditor who performed the test work, none of the late submissions of these monthly financial reports occurred after the date of the last A-133 audit. This is an indication that the action which we took last year to notify the University community of the issue had a positive impact. However, we still recognize that this is an ongoing concern.

We are creating a new series of reports specifically focusing on this issue which will be distributed to deans and/or department chairs. We continue to work one-on-one with projects directors on this issue.



**Exhibit V**

**UNIVERSITY OF MAINE SYSTEM**

Financial Statements and Supplementary  
Schedule of Expenditures of Federal Awards

Year ended June 30, 2005



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**Exhibit V**

## **Independent Auditors' Report**

The Board of Trustees  
University of Maine System:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Maine System (the System), a component unit of the State of Maine, as of and for the years ended June 30, 2005 and 2004, which collectively comprise the System's basic financial statements as shown on pages V-14 through V-44. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented units were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the System as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



## Exhibit V

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages V-3 through V-12 and the supplementary schedules of funding progress and employers' contributions on page V-45 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming our opinions on the financial statements that collectively comprise the System's basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2005 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

November 4, 2005

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2005 and 2004  
(\$ in thousands)

The following unaudited Management's Discussion and Analysis (MD&A) has been prepared by the management of the University of Maine System ("the System") to provide users with a narrative and analysis of the System's financial position based on currently known facts, decisions, and conditions. This discussion includes an analysis of the financial condition and results of activities of the System for the fiscal years ended June 30, 2005 and 2004. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying basic financial statements and related notes.

**Overview of the Financial Statements**

The University of Maine System's financial statements include three primary components: 1) the Statements of Net Assets, 2) the Statements of Revenues, Expenses, and Changes in Net Assets, and 3) the Statements of Cash Flows. Also included is the Statement of Activities for Aggregate Discretely Presented Component Units. These have been included as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The MD&A includes information only for the System and not its component units. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Revenues and expenses are categorized as either operating or non-operating. Certain significant recurring revenues and expenses including state appropriations, gifts, investment income or loss, and interest expense are considered non-operating. Scholarships and fellowships applied to student accounts are shown as a reduction of student tuition & fees and residence & dining fees revenues while stipends and other payments made directly to students are presented as student aid expenses.

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2005 and 2004  
(\$ in thousands)

**Net Assets**

The Statements of Net Assets present the financial position of the System at the end of the fiscal year and include all assets and liabilities of the System. Net assets is one indicator of the current financial condition of the System and represents the difference between total assets and total liabilities. The change in net assets is an indicator of whether the overall financial condition has improved or deteriorated during the year. A summarized comparison of the System's assets, liabilities, and net assets at June 30, 2005, 2004, and 2003 is as follows:

<b>Condensed Net Assets Information</b>	2005	2004	2003
Current assets	\$ 171,280	\$ 168,927	\$ 155,174
Noncurrent assets:			
Endowment	100,837	92,833	78,344
Capital assets	483,487	440,319	395,695
Other noncurrent assets	69,422	84,068	89,732
<b>Total assets</b>	<b>825,026</b>	<b>786,147</b>	<b>718,945</b>
Current liabilities	60,999	59,891	54,726
Noncurrent liabilities:			
Long-term debt	135,959	141,936	122,557
Other noncurrent liabilities	73,405	71,142	65,641
<b>Total liabilities</b>	<b>270,363</b>	<b>272,969</b>	<b>242,924</b>
Net Assets:			
Invested in capital assets, net of related debt	358,418	326,859	304,930
Restricted - nonexpendable	47,405	47,047	44,225
Restricted - expendable	88,849	81,985	68,935
Unrestricted	59,991	57,287	57,931
<b>Total net assets</b>	<b>\$ 554,663</b>	<b>\$ 513,178</b>	<b>\$ 476,021</b>

Invested in capital assets, net of related debt, represent the System's capital assets less the accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The 2005 increase of \$31,559 and the 2004 increase of \$21,929 in this category of net assets reflect the System's renewal and expansion of its capital assets to provide increased residential capacity, modernized dining facilities, and technologically advanced research and teaching facilities for its faculty and students.

Restricted-nonexpendable net assets represent the System's permanent endowment funds. The \$358 increase in 2005 and the \$2,822 increase in 2004 includes new gifts of \$247 and \$1,513, respectively, and an overall increase in market value when valuing the initial gifts at the lower of the original gift amount or year end market value. Restricted-expendable net assets include such items as endowment appreciation, student financial aid, research, and public service and are subject to externally imposed

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conditions on spending. The increase of \$6,864 in 2005 and \$13,050 in 2004 is primarily the result of improved market conditions impacting the endowment fund.

Although unrestricted net assets are not subject to externally imposed stipulations, these assets have been committed to specific projects, operational and capital needs, or endowment funds for committed scholarships. Given both the physical and financial size of the University of Maine System, funds must be readily available to meet emergency needs, fund accounting pronouncement requirements, cover occasional annual operating losses and over-expenditures on capital projects, pay severance arrangements during periods of restructuring and address an excessive maintenance backlog. The increase in unrestricted net assets for 2005 of \$2,704 is primarily attributable to an increase in investment income. The decrease in unrestricted net assets for 2004 of \$644 is primarily attributable to a decline in investment income.

The table below summarizes the components of unrestricted net assets as of June 30, 2005, 2004 and 2003

<b>Unrestricted Net Assets as of June 30, 2005, 2004, and 2003 designated for:</b>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Specific Projects	\$7,808	\$10,110	\$12,706
Operational and Capital Needs	45,115	40,851	39,917
Endowment Funds	<u>7,068</u>	<u>6,326</u>	<u>5,308</u>
Total	<u><u>\$59,991</u></u>	<u><u>\$57,287</u></u>	<u><u>\$57,931</u></u>

**Endowment Investments (Noncurrent Assets)**

The System manages its endowment to generate a predictable stream of annual support for current needs, while at the same time preserving the endowment as a whole to ensure funds for future years. The endowment spending rate policy provided for an annual distribution of 5.25% of the average net market value of the endowment for the prior 12 quarters (5.5% for 2004). For FY06, this rate has been set at 5.0%.

The System's endowment investments had a fair market value of \$100,837 at June 30, 2005, reflecting an increase of \$8,004 above the fair market value of \$92,833 at June 30, 2004 which is primarily attributable to market value appreciation and income. Gifts and charitable gift annuities remained relatively unchanged, investment income (net of investment fees) increased, while spending for scholarships, operations, and various transfers also increased during 2005. The System's endowment investments for 2004 reflected an increase of \$14,489 over the 2003 value primarily as the result of increasing market values. The total return on the pooled endowments on a net of fees basis for 2005 was 10.1% as compared to 19.2% for 2004.

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**Capital Assets and Debt Activities**

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment necessary to house educational, research, and cultural programs and residential life. The System is continually implementing its long-term capital plan to upgrade older facilities and construct new facilities when necessary.

Capital additions of \$63,032 in 2005 and \$65,243 in 2004 primarily consist of replacement, renovation, and new construction of academic, housing, and research facilities as well as investments in equipment, including information technology. Capital asset additions in 2005 and 2004 were funded primarily with State of Maine capital appropriations and University of Maine System revenue bonds.

Of the total capital additions before depreciation for 2005, \$54,979 represented capital construction. Construction or renovation projects included the Advanced Engineering Wood Composite Expansion, Franklin Aquaculture R&D Facility, and the Walsh Hockey Center at UM and the Bioscience Building, John Mitchell Center, and the Community Education Facility at USM. Sprinkler systems were installed in various residential halls across the System. Projects in progress also included the Project Enterprise implementation of PeopleSoft. This software will integrate information and business processes to enable the efficient and effective sharing of information throughout the organization and, thus, maximize productivity. Of the total capital additions before depreciation for 2004, \$58,329 represented capital construction. Classroom construction or renovation included the Advanced Manufacturing Center and the Engineering/Science Research Complex at UM and the Bioscience Building, John Mitchell Center, and the Community Education Facility at USM. A new residential hall was constructed at UMFK and sprinkler systems continue to be installed in residential halls across the System. Projects in progress also included the Project Enterprise implementation of PeopleSoft.

The System strives to manage all its financial resources effectively including the prudent use of debt to finance capital projects that support the System's mission, thereby placing the System in a better position to achieve its strategic goals. Total debt as of June 30, 2005 and 2004 was \$142,527 and \$147,951, respectively. Of the total debt as of June 30, 2005, \$141,871 was in the form of bonds as compared to \$147,245 as of June 30, 2004. During 2005, the Maine Legislature increased the tax exempt borrowing authority of the System from \$170,000 to \$220,000. Although no new revenue bonds were issued during fiscal year 2005, in November 2005, \$69,125 in revenue bonds were issued to fund residential halls at USM, a recreational center at UM, and other miscellaneous renovations and to partially refinance \$8,800 from the 1998 Series A, 2000 Series A, 2002 Series A, and 2003 Series A Revenue Bonds which will result in reduced debt service payments.

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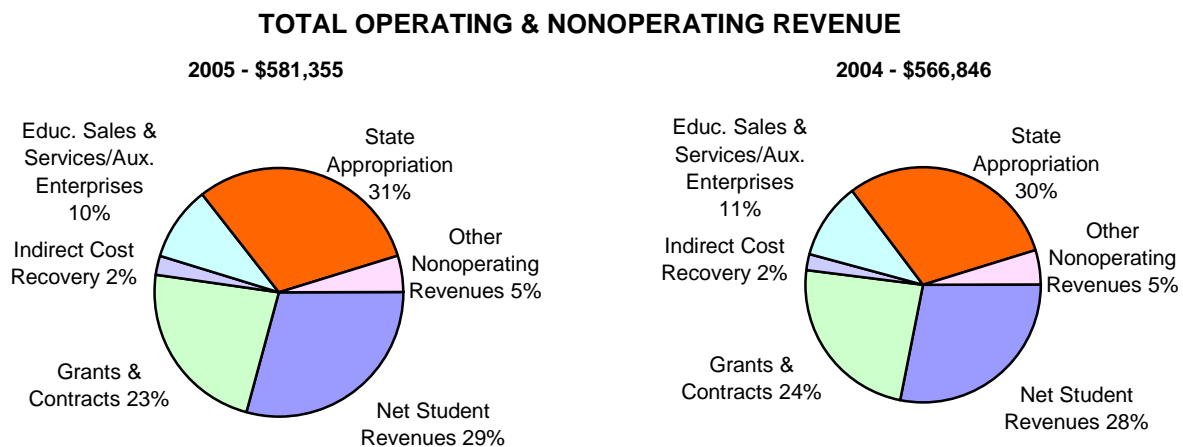
**Condensed Revenues, Expenses, and Changes in Net Assets**

	2005	2004	2003
Operating Revenues:			
Net student revenues	\$ 168,603	\$ 159,447	\$ 145,708
Grants and contracts	135,411	134,046	122,439
Indirect cost recovery	13,468	12,873	11,546
Educational sales and services & other auxiliary enterprises	56,475	60,678	59,937
Interest income on loans	575	789	725
Total operating revenues	<u>374,532</u>	<u>367,833</u>	<u>340,355</u>
Operating Expenses	<u>(562,409)</u>	<u>(552,262)</u>	<u>(528,111)</u>
Net operating loss	<u>(187,877)</u>	<u>(184,429)</u>	<u>(187,756)</u>
Non-operating Revenues (expenses):			
State appropriation - general	179,904	172,121	173,050
Gifts	12,283	9,835	11,801
Endowment income distributed for operations	4,196	4,765	5,104
Investment income	5,827	2,625	9,099
Interest expense	(4,280)	(3,370)	(3,575)
Other nonoperating expenses	-	(1,328)	-
Sub-total	<u>197,930</u>	<u>184,648</u>	<u>195,479</u>
<b>Income before endowment return (net of amount used for operations) and other revenues</b>	<b>10,053</b>	<b>219</b>	<b>7,723</b>
Endowment return (net of amount used for operations)	4,613	9,667	(2,211)
Income before Other Revenues	14,666	9,886	5,512
Other Revenues			
Capital appropriations	18,360	20,725	11,452
Capital grants and gifts	7,904	5,033	2,054
Additions to permanent endowments - gifts	247	1,513	2,022
Gain on sale of capital assets	308	-	-
	<u>26,819</u>	<u>27,271</u>	<u>15,528</u>
Increase in Net Assets	41,485	37,157	21,040
Net Assets			
Net Assets - beginning of year	513,178	476,021	454,981
Net Assets - end of year	<u>\$ 554,663</u>	<u>\$ 513,178</u>	<u>\$ 476,021</u>

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In addition to receiving tuition and fees, the System receives revenue from several other diverse sources such as governmental and privately funded sponsored programs, gifts from individuals, foundations, and corporations, state appropriations, and investment income. The System will continue to seek funding from all sources that will supplement student tuition and thereby allow for the enhancement of its educational offerings and research capabilities.

The following graph illustrates both the operating and non-operating revenue sources used to fund the System's activities for the years ended June 30, 2005 and 2004.



**Operating Revenues**

Tuition and fees and residence and dining fees are the primary sources of operating revenue and in 2005 totaled \$168,603 after adjusting for scholarship allowances, reflecting an increase of \$9,156 or 5.7% over 2004 revenue of \$159,447. This change is the result of a 7.7% weighted average increase in tuition, a 5.2% increase in mandatory fees, a 4.0% weighted average increase in room and board rates, and an increase in student full-time equivalent enrollment. Tuition and fees and residence and dining fees in 2004 after adjusting for scholarship allowances, reflected an increase of \$13,739 or 9.4% over 2003 revenue. This change was the result of a 7.6% weighted average increase in tuition, a 4.6% weighted average increase in room and board rates, and an increase in student enrollment and students residing in residence halls.

Financial aid awards are based on a student's financial need compared with their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses. Financial aid is comprised of two components on the Statements of Revenues, Expenses, and Changes in Net Assets:

1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals.
2. Student Aid Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses.

The total financial aid provided for 2005 was \$71,338 and increased \$810 over \$70,528 in 2004. Due to increases in tuition and fees and the number of students residing on-campus, the Scholarship Allowance increased by \$6,408 to \$50,617 in 2005 from \$44,209 in 2004 while Student Aid Expense decreased by \$5,598 to \$20,721 in 2005 from \$26,319 in 2004.

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As state research and development funding continued to leverage federal dollars, grants and contracts revenues increased \$1,365 to \$135,411 in 2005 from \$134,046 in 2004. Sponsored program revenues increased in 2004 by \$11,607. The System receives funding from federal, state, and private sources with the majority of the funding being provided by the federal government for research activities. Funding received from these sources also provides for recovery of indirect costs associated with sponsored programs.

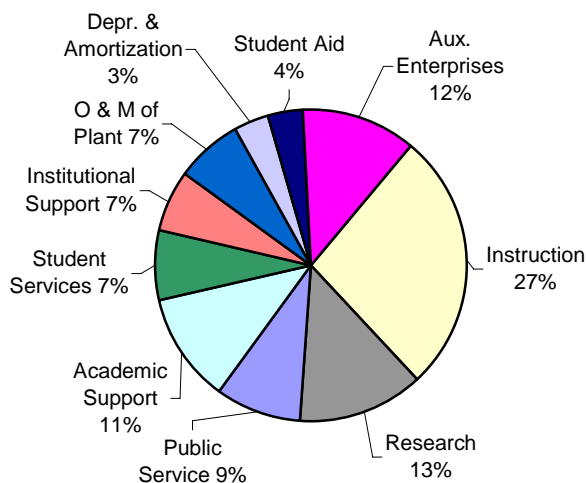
Although not considered an operating revenue, the state appropriation for operations was the largest funding source for educational and general operations. When compared to fiscal year 2004, the state appropriation increased by \$7,783 or 4.5% for 2005 due to the restoration of previously deappropriated funds and an increase in the R&D appropriation. The state appropriation for 2004 reflected a decrease of \$929 or 0.5% over 2003 funding levels. For fiscal years 2005 and 2004, the general state appropriation covered 96% and 93% respectively of the net operating losses.

**Operating Expenses**

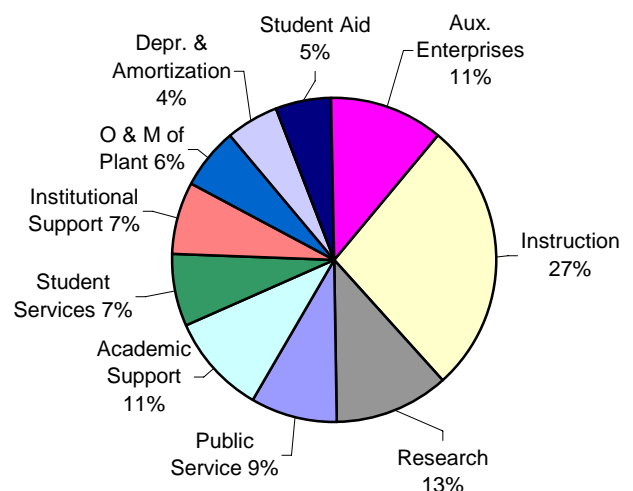
Operating expenses, classified by function, were as follows:

	2005	2004	2003
Instruction	\$152,001	\$147,374	\$142,582
Research	73,191	72,216	63,913
Public service	49,405	47,849	45,807
Academic support	64,356	62,798	53,300
Student services	40,170	38,661	37,117
Institutional support	37,167	38,511	40,072
Operation and maintenance of plant	38,655	35,562	34,268
Depreciation and amortization	19,928	20,724	27,511
Student aid	20,721	26,319	24,694
Auxiliary enterprises	66,815	62,248	58,847
<b>Total</b>	<b>\$562,409</b>	<b>\$552,262</b>	<b>\$528,111</b>

**2005 - \$562,409**



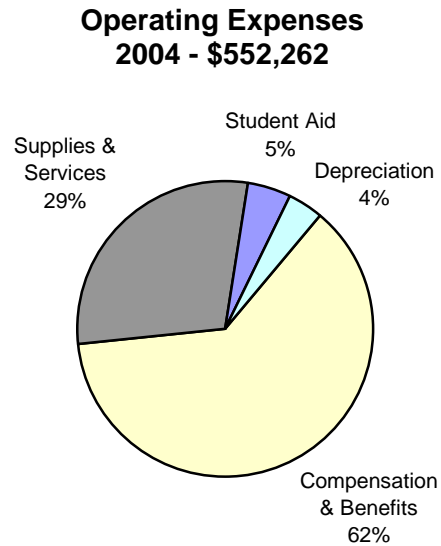
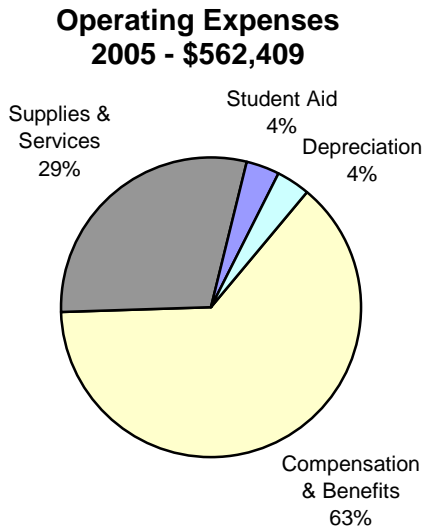
**2004 - \$552,262**



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Although the System reports expenses on a functional basis, a comparative summary of the System's expenses based on a natural classification is as follows:

	2005	2004	2003
<b>Operating:</b>			
Compensation and benefits	\$ 356,262	\$ 344,086	\$ 325,745
Supplies and services	165,498	161,133	150,161
Depreciation	19,928	20,724	27,511
Student aid	20,721	26,319	24,694
	562,409	552,262	528,111
<b>Nonoperating:</b>			
Interest and other	4,280	4,698	3,575
Total Expenses	\$ 566,689	\$ 556,960	\$ 531,686



The amount expended for compensation and benefits increased by \$12,176 or 3.5% for 2005 as compared to the increase of \$18,341 or 5.6% for 2004. This increase in 2005 and 2004 is the result of increased health care costs, annual employee compensation increases, and employment growth. The System continues to work with the State of Maine and other employers to minimize health care costs while also providing quality health-care coverage to employees and retirees.

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**Impact of Future Economic Factors**

Operating revenues from Net Student Fees, Grants and Contracts, and Indirect Cost Recovery increased in FY2005 and are expected to increase in FY2006. Total enrollments at the System had been steadily increasing since 1997 with a record number of students entering for the Fall 2003 semester; however, the number of Maine high school graduates is projected to decline over the next few years. The System is actively pursuing increased student enrollment and retention at each campus while assisting prospective students with the transition to university life through the development of recruitment measures to be utilized by each campus as listed below:

- Increase strategic use of financial aid
- Specific recruiters focused on out-of-state enrollment
- Utilize alumnus volunteers
- Enhance and expand web tools
- Visit all Maine high schools and communicate regularly with high school guidance counselors
- Identify target groups (music, sports, etc.)
- Provide peer advisors/mentors
- Visit community colleges to recruit transferees
- Enhance marketing tools
- Promote open house programs, welcome events, and campus tours

In order to maintain high-quality academic programs and services and to continue meeting the needs of Maine citizens in the future while confronting the challenges of rising costs, evolving educational methodologies, and a changing economy, the University of Maine System adopted a Strategic Plan in September 2004. The following strategies were identified which address academic quality, administrative structure, entrepreneurial partnership, and cost-effectiveness to close a projected financial structural gap over the next five years:

- Restructure the University System
- Seek restoration of de-appropriated State funding
- Advocate for State appropriation increases
- Adopt reasonable and affordable increases in tuition and fees at levels necessary to augment State appropriations and to sustain academic quality
- Institute System-wide efficiencies
- Increase student enrollment & retention
- Increase university endowments
- Broaden the revenue base through alternative sources of funding

The next important step of this process, the Implementation Planning Process, is both expansive and structured and addresses both immediate and long-term goals for improving all aspects of the System. The Implementation Planning Process establishes a network of committees from both the campus and System levels charged with carrying out the objectives of the Strategic Plan. To date, committee members have been appointed and work has begun with the implementation of all strategic directions tentatively planned for May to June 2006.

Currently, extensive research is ongoing in the areas of centralized services as functional areas are being assessed on the feasibility of centrally performing certain tasks in conjunction with the System's implementation of PeopleSoft. The Strategic Plan recommended the System transfer, over time, its associate degree programs to the Maine Community College System, thereby allowing the University of Maine System to focus primarily on offering baccalaureate and above programs. As one institution primarily offers associate degree programs, implementation of this plan would have involved this institution's mission changing and a possible merger with another institution. The Maine Legislature felt that such a merger should require a broad spectrum of input; therefore, the Governor has formed a Task Force with representation from the community, government, and higher education to explore all facets of such a merger. As outlined in the Strategic Plan, collaborative discussions are underway to develop a Consortium under which the System's three most northern campuses would operate.

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Management's Discussion and Analysis (unaudited)  
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(\$ in thousands)

The System currently provides medical benefits to disabled and retired employees and their spouses and dependents and accounts for the benefits on a cash basis. Effective for FY 2008, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will mandate the use of accrual accounting and actuarial valuations. To prepare for the future implementation of this Statement, the System has selected an independent actuary to analyze the requirements of GASB 45, collect data, analyze the data, and provide the actuarial determined unrecorded liability. The System is also reviewing strategies to reduce the cost of postemployment medical benefits.

Currently campus budgets do not fully fund depreciation with facilities capital maintenance needs being funded primarily with operating surpluses which has resulted in a depreciation "gap" that is increasing annually. An assessment study was performed which revealed a \$320,000 deferred maintenance backlog for educational and general facilities. During FY2005 the Maine Legislature did increase the System's tax exempt borrowing authority to \$220,000 from \$170,000, but the System continues to seek State Capital Appropriations and State Bond financing to address this situation.

From a fiscal perspective, the most significant economic factor is the State of Maine's continued financial difficulties and its impact on the System. Despite previous reductions in appropriations, institutions have continued to balance their budgets through cost cutting efforts and tuition increases. Although the State Appropriation received for FY2005 increased over the amount received for FY2004, the total received is still below the original budgeted appropriation for FY2003 of \$183,000. The FY2006 and FY2007 appropriation is scheduled to increase by approximately \$3,000 over the FY2006 level. The System is not currently aware of any pending changes to the FY2006 or FY2007 appropriation; however, no assurances can be made that the appropriation will not change. Due to the direct correlation between the amount of state financial support and the amount of educational costs borne by the students, the System was forced to implement a weighted average tuition increase of 8.2% for FY2006. The System is continuing to seek additional state support and supplemental revenue sources to alleviate the costs paid by students.

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**UNIVERSITY OF MAINE SYSTEM**  
**Statements of Net Assets**  
**June 30, 2005 and 2004**  
**(\$ in thousands)**

<b>ASSETS</b>	<u>2005</u>	<u>2004</u>
<u>Current Assets:</u>		
Cash and cash equivalents (Note 2)	\$ 1,299	\$ -
Short-term investments (Note 3)	131,261	131,925
Accounts, grants, and pledges receivable, net (Note 4)	32,887	31,345
Inventories and prepaid expenses	5,631	5,657
Notes receivable, net (Note 5)	202	-
Total Current Assets	<u>171,280</u>	<u>168,927</u>
<u>Noncurrent Assets:</u>		
Deposits with bond trustees (Notes 3 and 6)	20,907	37,822
Accounts, grants, and pledges receivable, net (Note 4)	5,422	5,868
Notes receivable, net (Note 5)	41,205	38,374
Endowment investments (Note 3)	100,837	92,833
Bond issuance costs, net (Note 7)	1,888	2,004
Capital assets, net (Note 6)	483,487	440,319
Total Noncurrent Assets	<u>653,746</u>	<u>617,220</u>
Total Assets	<u>\$ 825,026</u>	<u>\$ 786,147</u>
<b>LIABILITIES</b>		
<u>Current Liabilities:</u>		
Accounts payable	\$ 11,048	\$ 12,354
Deferred revenue and deposits (Notes 8 and 12)	18,960	20,348
Accrued liabilities (Notes 7 and 11)	22,101	20,571
Funds held for others	2,322	603
Current portion of capital lease obligations (Note 7)	221	265
Current portion of bonds and note payable (Note 7)	6,347	5,750
Total Current Liabilities	<u>60,999</u>	<u>59,891</u>
<u>Noncurrent Liabilities:</u>		
Accrued liabilities (Notes 7 and 11)	34,357	33,637
Funds held for others (Note 3)	7,137	5,401
Capital lease obligations (Note 7)	435	441
Bonds and note payable, net (Note 7)	135,524	141,495
Government advances refundable (Note 9)	31,911	32,104
Total Noncurrent Liabilities	<u>209,364</u>	<u>213,078</u>
Total Liabilities	<u>270,363</u>	<u>272,969</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	358,418	326,859
Restricted:		
Nonexpendable (Note 10)	47,405	47,047
Expendable (Notes 3 and 10)	88,849	81,985
Unrestricted	59,991	57,287
Contingencies (Note 11)		
Total Net Assets	<u>554,663</u>	<u>513,178</u>
Total Liabilities and Net Assets	<u>\$ 825,026</u>	<u>\$ 786,147</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
Statement of Financial Position – Aggregate Discretely Presented Component Units  
As of June 30, 2005 and 2004  
(\$ in thousands)

<b>ASSETS</b>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 67	\$ 15
Accounts receivable and promises to give	2,316	677
Investments	134,961	125,879
Other assets	<u>21,299</u>	<u>19,661</u>
 Total Assets	 <u>\$ 158,643</u>	 <u>\$ 146,232</u>
 <b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 2,099	\$ 1,837
Notes payable	5,597	5,811
Custodial accounts payable	<u>1,386</u>	<u>1,332</u>
Total Liabilities	<u>9,082</u>	<u>8,980</u>
 <b>NET ASSETS</b>		
Unrestricted net assets	12,678	14,349
Temporarily restricted net assets	36,681	30,333
Permanently restricted net assets	<u>100,202</u>	<u>92,570</u>
Total Net Assets	<u>149,561</u>	<u>137,252</u>
 Total Liabilities and Net Assets	 <u>\$ 158,643</u>	 <u>\$ 146,232</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Revenues, Expenses, and Changes in Net Assets  
 Years Ended June 30, 2005 and 2004  
 (\$ in thousands)

	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>		
Operating Revenues:		
Tuition and fees	\$ 169,900	\$ 156,824
Residence and dining fees	49,320	46,832
Less: scholarship allowances	<u>(50,617)</u>	<u>(44,209)</u>
Net student fees	168,603	159,447
Federal, state, and private grants and contracts	135,411	134,046
Recovery of indirect costs	13,468	12,873
Educational sales and services	33,626	37,749
Other auxiliary enterprises	22,849	22,929
Interest income on loans	<u>575</u>	<u>789</u>
Total Operating Revenues	<u>374,532</u>	<u>367,833</u>
 <b>EXPENSES</b>		
Operating Expenses:		
Instruction	152,001	147,374
Research	73,191	72,216
Public service	49,405	47,849
Academic support	64,356	62,798
Student services	40,170	38,661
Institutional support	37,167	38,511
Operation and maintenance of plant	38,655	35,562
Depreciation and amortization	19,928	20,724
Student aid	20,721	26,319
Auxiliary enterprises	<u>66,815</u>	<u>62,248</u>
Total Operating Expenses	<u>562,409</u>	<u>552,262</u>
Operating Loss	<u>(187,877)</u>	<u>(184,429)</u>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Noncapital State of Maine appropriations	179,904	172,121
Gifts	12,283	9,835
Endowment income distributed for operations (Note 3)	4,196	4,765
Endowment income not distributed for operations (Note 3)	4,613	9,667
Investment income (Note 3)	5,827	2,625
Interest expense (Notes 7 and 8)	(4,280)	(3,370)
Other nonoperating expenses	-	(1,328)
Net Nonoperating Revenue	<u>202,543</u>	<u>194,315</u>
Income Before Other Revenues	<u>14,666</u>	<u>9,886</u>
 <b>OTHER REVENUES</b>		
State of Maine capital appropriations	18,360	20,725
Capital grants and gifts	7,904	5,033
Additions to permanent endowments - gifts and state appropriation	247	1,513
Gain on sale of capital assets	<u>308</u>	<u>-</u>
Total Other Revenues	<u>26,819</u>	<u>27,271</u>
Increase in Net Assets	41,485	37,157
 <b>NET ASSETS</b>		
Net Assets - beginning of year	<u>513,178</u>	<u>476,021</u>
Net Assets - end of year	<u>\$ 554,663</u>	<u>\$ 513,178</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
Statement of Activities – Aggregate Discretely Presented Component Units  
For the Years Ended June 30, 2005 and 2004  
(\$ in thousands)

<b>CHANGES IN UNRESTRICTED NET ASSETS</b>	<u>2005</u>	<u>2004</u>
Public Support, Revenues, and Reclassification		
Contributions and Memberships	\$ 1,082	\$ 641
Investment and other income	1,433	2,160
Net assets released from restrictions	3,975	4,970
Total Support, Revenues, and Reclassification	<u>6,490</u>	<u>7,771</u>
Expenses		
Program	6,492	5,672
Management and general	1,041	805
Fundraising	628	704
Total Expenses and Losses	<u>8,161</u>	<u>7,181</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(1,671)</u>	<u>590</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	2,888	2,160
Investment and other income	7,733	14,801
Net assets released from restrictions	<u>(4,273)</u>	<u>(4,865)</u>
Increase in Temporarily Restricted Net Assets	<u>6,348</u>	<u>12,096</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	7,076	8,034
Investment and other income	258	1,201
Net assets released from restrictions	<u>298</u>	<u>(105)</u>
Increase in Permanently Restricted Net Assets	<u>7,632</u>	<u>9,130</u>
Increase in Total Net Assets	12,309	21,816
<b>NET ASSETS</b>		
Net Assets, beginning of year	<u>137,252</u>	<u>115,436</u>
Net Assets, end of year	<u>\$ 149,561</u>	<u>\$ 137,252</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Years Ended June 30, 2005 and 2004  
 (\$ in thousands)

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Tuition, residence, dining, and other student fees	\$ 167,491	\$ 160,182
Grants and contracts	147,771	146,597
Educational sales and services and other auxiliary enterprise revenues	56,173	60,276
Payments to and on behalf of employees	(354,440)	(341,051)
Financial aid paid to students	(20,184)	(24,456)
Payments to suppliers	(165,264)	(157,087)
Loans issued to students	(8,837)	(9,102)
Collection of loans to students	7,117	7,361
Interest collected on loans to students	575	788
Other operating receipts	366	514
Net Cash Used For Operating Activities	<u>(169,232)</u>	<u>(155,978)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	179,904	171,835
Noncapital grants and gifts	11,627	11,286
Gifts and appropriations received for permanent endowment	247	1,513
Agency transactions	(38)	(334)
Net Cash Provided By Noncapital Financing Activities	<u>191,740</u>	<u>184,300</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from capital debt issuances and escrow restructurings	667	44,638
Capital appropriations	19,748	17,762
Capital grants and gifts	7,662	4,090
Proceeds from sale of capital assets	360	-
Acquisition and construction of capital assets	(59,661)	(66,400)
Issuance costs on capital debt	-	(729)
Principal paid on capital debt and leases	(6,004)	(24,453)
Interest paid on capital debt and leases	(6,332)	(4,681)
Net Cash Used For Capital and Related Financing Activities	<u>(43,560)</u>	<u>(29,773)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	375,707	476,719
Purchases of investments	(360,795)	(486,584)
Earnings from investments	7,439	7,809
Net Cash (Used For) Provided By Investing Activities	<u>22,351</u>	<u>(2,056)</u>
Net decrease in cash and cash equivalents	1,299	(3,507)
Cash and cash equivalents - beginning of year	<u>-</u>	<u>3,507</u>
Cash and cash equivalents - end of year	<u>\$ 1,299</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Years Ended June 30, 2005 and 2004  
 (\$ in thousands)

**Reconciliation of net operating loss to net cash used for operating activities:**

	<u>2005</u>	<u>2004</u>
Operating loss	\$ (187,877)	\$ (184,429)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	19,928	20,724
Changes in assets and liabilities:		
Accounts and grants receivable, net	667	(60)
Inventories and prepaid expenses	26	(675)
Notes receivable, net	(1,073)	(658)
Accounts payable	(2,219)	2,206
Deferred revenue and deposits	(696)	3,688
Accrued liabilities	2,205	3,612
Grants refundable	(193)	(386)
Net cash used for operating activities	<u>\$ (169,232)</u>	<u>\$ (155,978)</u>

**Noncash investing, capital, and financing activities:**

Capital asset additions included in accounts payable as of June 30	<u>\$ 4,849</u>	<u>\$ 3,947</u>
Capital asset additions acquired through capital leases	<u>\$ 297</u>	<u>\$ 703</u>

See accompanying notes to basic financial statements.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2005 and 2004**  
**(\$ in thousands)**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

The University of Maine System ("the System"), a component unit of the State of Maine, consists of seven Universities, eleven centers, and a central administrative office. All activities of the System are included in the accompanying financial statements, including those of its discretely presented component units (see Note 16). Those organizations are not-for-profit entities controlled by separate governing boards whose goals are to support the System. They receive funds primarily through donations and contribute funds to the System for student scholarships and institutional support.

**b. Basis of Presentation**

The accompanying financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

The System's policy for defining operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the System's operating and capital appropriations from the State of Maine, net investment income, gifts, and interest expense.

The System applies all pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, to the extent they do not conflict with GASB pronouncements.

**c. Net Assets**

The System's net assets (assets minus liabilities) are classified for accounting purposes in the following four categories:

**Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. It also includes the unamortized issuance costs and premiums/discounts related to the outstanding debt. This category excludes the portion of debt attributable to unspent bond proceeds.

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**UNIVERSITY OF MAINE SYSTEM**  
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**Restricted – nonexpendable:** Net assets subject to externally imposed conditions that the System maintain them in perpetuity.

**Restricted – expendable:** Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the System or by the passage of time.

**Unrestricted:** All other categories of net assets. Unrestricted net assets may be designated by actions of the System's Board of Trustees.

The System has adopted a policy of generally utilizing restricted – expendable resources, when available, prior to unrestricted resources.

**d. Cash and Cash Equivalents**

The System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**e. Investments**

The System's investment in the State of Maine external investment pool is valued at amortized cost, which approximates fair value. All other investments are reported at fair value. University management is responsible for the fair measurements of investments reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the balance sheet date are reasonable.

**Endowment:** The System follows the pooled investment concept for its endowed funds, whereby all invested funds are included in one investment pool, except for investments of certain endowed funds that are otherwise restricted and are separately invested. Investment income is allocated to each endowed fund participating in the pool based on its pro-rata share of the pool. Net assets are included in the following net asset categories:

- Restricted nonexpendable if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- Restricted expendable if the terms of the gift impose restrictions on the current use of income earned on the endowment or net gains recognized on the endowment.
- Unrestricted net assets in all other cases.

For FY2005 and FY2004, the Investment Committee of the University of Maine System Board of Trustees established a policy whereby the Endowment's expendable income objective is 5.25% and 5.5%, respectively, of the average of the previous twelve quarter-end fair values. The income produced by the fund, including realized gains, can be used to meet this spending objective.

**Authorized Investment Vehicles:**

**Short-term Investments:** The Investment Committee of the University of Maine System Board of Trustees has approved the following three-tiered approach regarding the System's short-term investments:

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**UNIVERSITY OF MAINE SYSTEM**  
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- Cash Pool (bank accounts and state pool which is not SEC registered but is State regulated) – This tier consists of funds that will be needed within a one-month period, that are invested in a portfolio of highest quality short-term fixed-income securities (treasury obligations, agency securities, bankers acceptances, money market funds, CDs, commercial paper, short-term bond funds) with daily to 3-day liquidity. The average quality of the pool will be at least “AA”. Up to 100% of the portfolio can be invested in the Cash Pool, with a target weight of 25%.

Intermediate Pool – This tier is invested in a diversified portfolio, in accordance with investment manager guidelines, consisting primarily of fixed income securities with a normal average duration of 1 to 3 years. The average quality of the portfolio will be at least “AA”. Up to 90% of the portfolio can be invested in the Intermediate Pool, with a target weight of 65%.

- Long-term Pool – This tier consists of funds that will not be required for at least 36 months. No minimum quality rating is specified for this pool, since it can invest in non-fixed income securities. Up to 30% of the portfolio can be invested in the Long-term Pool, with a target weight of 10%.

**Endowment Investments:** The fund will be diversified both by asset class and within asset classes. In order to have a reasonable probability of consistently achieving the Fund’s return objectives, the following asset allocation policy has been adopted:

• Equity securities	60-80%
• Fixed income securities	20-40%
• Cash	0-10%

**Deposits with bond trustees:** These monies are invested in accordance with the governing bond covenants and arbitrage certificates.

**f. Inventories**

Inventories are stated at cost. Cost is determined using the first-in, first-out method.

**g. Gifts and Pledges**

Gifts are recorded at their fair value at the date of gift. Promises to donate to the System are recorded as receivables and revenues when the System has met all applicable eligibility and time requirements. Since the System cannot fulfill the time requirement for gifts to endowments until the gift is received, pledges to endowments are not reported. Pledges receivable are reported net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. Because of uncertainties with regard to their realizability and valuation, bequests and intentions to give and other conditional promises are not recognized as assets until the specified conditions are met.

**h. Grants and Contracts and Capital Appropriations**

The System records a receivable and corresponding revenue for these funding sources at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
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**i. Capital Assets**

Capital assets are recorded at cost when purchased or constructed and at fair value at date of donation. In accordance with the System's capitalization policy, only equipment (including equipment acquired under capital leases) with a unit cost of \$5 or more is capitalized. Only capital projects with a projected cost of \$10 or more are capitalized.

Interest costs on debt related to capital assets, net of investment income on unspent bond proceeds, are generally capitalized during the construction period. Software costs are capitalized and depreciated and include amounts paid to third parties and certain internal labor costs incurred to acquire and implement the software.

Depreciation and amortization of assets acquired under capital leases are recorded on a straight-line basis over the estimated useful lives of the related assets, principally as follows:

	<u>Years</u>
Buildings	30 - 60
Improvements	20 - 40
Equipment	5 - 15

Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized. Equipment is removed from the financial statements during the fiscal year following the year they become fully depreciated. When land, buildings, and improvements are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

Prior to July 1, 2003, library materials were generally capitalized and depreciated over a ten-year period. Effective July 1, 2003, the System began to expense library materials as incurred. The System elected this change to enhance reporting comparability with other state systems. The System will retain the undepreciated library materials balance as a core non-depreciating asset.

The System does not capitalize and depreciate its collections of historical treasures and works of art because it is the System's policy that:

- Works of art and historical treasures are to be held for public exhibition, education, or research in furtherance of public service, rather than for financial gain.
- Works of art and historical treasures are to be protected, kept unencumbered, cared for, and preserved.
- The proceeds from sales of works of art and historical treasures are to be used to acquire other items for the collections.

**j. Deferred Revenue and Deposits**

Deferred revenue in the Statements of Net Assets consists primarily of deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. The deferred revenue is presented net of related expenses for the summer programs (e.g., student aid, etc.).

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**UNIVERSITY OF MAINE SYSTEM**  
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**k. Compensated Absences**

Employees earn the right to be compensated during absences for annual vacation leave. The accompanying Statements of Net Assets reflect an accrual for the amounts earned, including related benefits ultimately payable for such benefit. The System accounts for the vacation leave hours on a last-in, first-out basis. A portion of this liability is classified as current and represents the System's estimate of vacation time that will be paid during the next fiscal year to employees leaving the System.

**l. Net Student Fees**

Student tuition, dining, residence, and other fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are generally reflected as expenses.

**m. Tax Status**

The System is exempt from income taxes under Section 115 of the Internal Revenue Code as a governmental entity. It has also been recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Code.

**n. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates in the financial statements include liabilities for self-insured plans, pension and other retirement benefit obligations, as well as allowances for uncollectible receivables. Actual results could differ from those estimates.

**o. Reclassifications**

Certain fiscal year 2004 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the fiscal year 2005 presentation.

**2. CASH AND CASH EQUIVALENTS**

For the year ended June 30, 2005, the System has adopted Government Accounting Standards Board Statement (GASB) No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about their deposits.

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System does not have a deposit policy for custodial credit risk. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of June 30, 2005 and 2004, the bank balances of uninsured and uncollateralized deposits totaled \$2,726 and \$2,344, respectively.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
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**3. INVESTMENTS**

For the year ended June 30, 2005, the System has adopted Government Accounting Standards Board Statement (GASB) No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about their fixed income investments and external investment pools.

**a. Composition and Purpose of Investments**

The System's investments are composed of the following at June 30, 2005 (with a comparative asset listing at June 30, 2004):

	2004		2005		
	Fair Value	Fair Value	Credit Rating		Interest Rate Risk
<b>Short-term Investments:</b>					
Money funds, savings, CD's	\$ -	\$ 5,001			
<b>Equities:</b>					
Mutual funds - multi strategy	10,009	10,489			
<b>Fixed Income:</b>					
Mutual funds - bank loans	-	7,586	Not rated	56 days	Weighted ave days
Mutual funds - bonds	96,442	102,681	Not rated	.49 - 5.37	Duration
State pool	25,474	5,504	Not rated	.28	Duration
<b>Total</b>	<b><u>\$ 131,925</u></b>	<b><u>\$ 131,261</u></b>			
<b>Deposits With Bond Trustees:</b>					
Guaranteed investment contracts	\$ 33,448	\$ 15,222	n/a	n/a	
Money funds, savings, CD's	1,296	259	n/a	n/a	
<b>Fixed Income:</b>					
Mutual funds - bonds	3,078	1,157	Aaa-Moody's	3 days	Ave maturity
State pool	-	4,269	Not rated	.28	Duration
<b>Total</b>	<b><u>\$ 37,822</u></b>	<b><u>\$ 20,907</u></b>			
<b>Endowment Investments:</b>					
Money funds, savings, CD's	\$ 755	\$ 248			
<b>Equities:</b>					
Equities	27,268	31,202			
Mutual funds - equities	35,536	38,221			
Mutual funds - multi-strategy	6,587	7,721			
<b>Fixed Income:</b>					
Mutual funds - bonds	22,687	23,445	Not rated	3.5 - 3.84	Duration
<b>Total</b>	<b><u>\$ 92,833</u></b>	<b><u>\$ 100,837</u></b>			

**Short-term Investments** The System's short-term investments are available to fund operations or other purposes as deemed by System management.

**Endowment Investments:** Except for certain gifts invested separately at the request of the donors (\$148 and \$291 at June 30, 2005 and 2004, respectively), the System's endowment is managed as a pooled investment fund by external investment advisors.

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The University of Maine at Farmington Alumni Foundation, the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. have elected to participate in the System's endowment pool through a management agreement. The fair values of these investments at June 30, 2005 and 2004, respectively are \$7,137 and \$5,401, and are reported as funds held for others in the accompanying Statements of Net Assets.

Under State of Maine law, the System may spend realized and unrealized appreciation on endowments in addition to earnings on the funds. Total Endowment accumulated income and gains available to the System for spending is as follows at June 30:

	<u>2005</u>	<u>2004</u>
Restricted - expendable	\$39,065	\$33,841
Unrestricted	<u>7,068</u>	<u>6,326</u>
Total available for spending	<u>\$46,133</u>	<u>\$40,167</u>

**Deposits With Bond Trustees:** Deposits with bond trustees are comprised of debt service reserves required by bond covenants and unexpended revenue bond proceeds.

**b. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**Short-term Investments:** As a means of limiting its exposure to fair value losses from rising interest rates, the Short-term Investment policy stratifies the portfolio into separate tiers, each with specifications for average maturity/duration. See Note 1.e. for more information regarding the System's Short-term Investment policy.

**Endowment Investments:** As a means of limiting its exposure to fair value losses from rising interest rates, the Endowment's investment policy restricts the average effective duration of the investment grade fixed income portfolio to no more than 1 year greater than the duration of the Lehman Brothers Aggregate Bond Index which is 4.16 at June 30, 2005. The Endowment's Investment Policy does not address non-investment grade fixed income investments. See Note 1.e. for more information regarding the System's investment policy for the Endowment.

**Deposits with Bond Trustees:** These monies are invested in accordance with strict governing bond covenants and arbitrage certificates.

**c. Credit Risk**

Credit risk is the risk that an issuer of other counterparty to an investment will not fulfill its obligations.

See Note 1.e. for information on the System's investment policies regarding the credit rating of its investments.

**UNIVERSITY OF MAINE SYSTEM**  
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**(\$ in thousands)**

**d. Foreign Currency Risk**

Several of the mutual funds in which the System invests include holdings in various foreign currencies. Some of these holdings are hedged to reduce risk of loss. The foreign currency holdings represent less than 1% of the total dollar value of short-term investments and less than 5% of the dollar value of endowment investments.

**Short-term Investments:** The System's investment policy does not address the maximum that can be invested in foreign securities.

**Endowment Investments:** Up to 10% of the portfolio may be invested in international bonds and currency exposure may be hedged or unhedged. Additionally, a target allocation of 15% of the total portfolio is in effect for investment in a diversified portfolio of international equities, which may be hedged or unhedged at the investment manager's discretion.

**Deposits with Bond Trustees:** These monies are invested in accordance with the governing bond covenants and arbitrage certificates.

**e. Investment Income**

Income related to the System's investments were as follows:

	2005			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Total Return
Endowment investments	\$ 6,348	\$ 3,234	\$ (773)	\$ 8,809
Short-term investments	\$ 2,137	\$ 4,267	\$ (912)	\$ 5,492
Deposits with bond trustees	-	335	-	335
Total other investment income	\$ 2,137	\$ 4,602	\$ (912)	\$ 5,827
	2004			
	Net Gains (Losses)	Interest and Dividends	Investment Fees	Total Return
Endowment investments	\$ 11,542	\$ 3,586	\$ (696)	\$ 14,432
Short-term investments	\$ (448)	\$ 3,429	\$ (696)	\$ 2,285
Deposits with bond trustees	-	340	-	340
Total other investment income	\$ (448)	\$ 3,769	\$ (696)	\$ 2,625

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
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**(\$ in thousands)**

**4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE**

Accounts, grants, and pledges receivable include the following at June 30:

	2005			2004		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	\$ 14,815	\$ 13,551	\$ 1,264	\$ 11,650	\$ 11,551	\$ 99
Grants receivable	22,348	20,363	1,985	24,179	20,709	3,470
Pledges receivable	3,348	618	2,730	3,468	571	2,897
Total gross receivables	40,511	34,532	5,979	39,297	32,831	6,466
Less allowance for doubtful accounts	(1,979)	(1,645)	(334)	(1,809)	(1,486)	(323)
Less discount on pledges receivable	(223)	-	(223)	(275)	-	(275)
Total receivables, net	<u>\$ 38,309</u>	<u>\$ 32,887</u>	<u>\$ 5,422</u>	<u>\$ 37,213</u>	<u>\$ 31,345</u>	<u>\$ 5,868</u>

In accordance with GASB 35, grants receivable related to the acquisition of capital assets are reported as a noncurrent receivable even though collection is expected within the next twelve months.

**5. NOTES RECEIVABLE**

Notes receivable include the following at June 30:

	2005			2004		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins Loans	\$ 34,196	\$ -	\$ 34,196	\$ 33,872	\$ -	\$ 33,872
Nursing Loans	1,274	-	1,274	1,037	-	1,037
Institutional Loans	4,601	-	4,601	3,993	-	3,993
Loan to Foundation	1,959	202	1,757	-	-	-
Total notes receivable	42,030	202	41,828	38,902	-	38,902
Less allowance for doubtful accounts	(623)	-	(623)	(528)	-	(528)
Total notes receivable, net	<u>\$ 41,407</u>	<u>\$ 202</u>	<u>\$ 41,205</u>	<u>\$ 38,374</u>	<u>\$ -</u>	<u>\$ 38,374</u>

Collections of the notes receivable for Perkins, Nursing, and Institutional loans may not be used to pay current liabilities, as the proceeds are restricted for making new loans. Accordingly, these notes receivable are recorded in the accompanying Statements of Net Assets as noncurrent assets.

During FY2005 the System made a loan to the University of Southern Maine Foundation in the amount of \$1,959 for the purchase of property adjacent to the University of Southern Maine campus. The loan is secured by a mortgage on the purchased property and is repayable in quarterly installments including interest at a variable rate. The loan is payable in full by March 2010.

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**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	\$ 11,904	\$ -	\$ 462	\$ -	\$ 12,366
Library Materials	25,686	-	-	-	25,686
Construction in Progress	54,549	54,979	(61,082)	-	48,446
Total Nondepreciable Assets	<u>92,139</u>	<u>54,979</u>	<u>(60,620)</u>	<u>-</u>	<u>86,498</u>
Land Improvements	31,139	-	1,172	-	32,311
Buildings & Improvements	439,929	136	57,707	(59)	497,713
Equipment	86,046	7,917	1,037	(26,586)	68,414
Total Depreciable Assets	<u>557,114</u>	<u>8,053</u>	<u>59,916</u>	<u>(26,645)</u>	<u>598,438</u>
Less Accumulated Depreciation:					
Land Improvements	17,206	1,367	-	-	18,573
Buildings & Improvements	135,136	10,588	(704)	(25)	144,995
Equipment	56,592	7,857	-	(26,568)	37,881
Total Accumulated Depreciation	<u>208,934</u>	<u>19,812</u>	<u>(704)</u>	<u>(26,593)</u>	<u>201,449</u>
Net Depreciable Assets	<u>348,180</u>	<u>(11,759)</u>	<u>60,620</u>	<u>(52)</u>	<u>396,989</u>
Total Capital Assets	<u>\$ 440,319</u>	<u>\$ 43,220</u>	<u>\$ -</u>	<u>\$ (52)</u>	<u>\$ 483,487</u>

Capital asset activity for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Land	\$ 11,837	\$ -	\$ 67	\$ -	\$ 11,904
Library Materials	25,686	-	-	-	25,686
Construction in Progress	33,398	58,329	(37,178)	-	54,549
Total Nondepreciable Assets	<u>70,921</u>	<u>58,329</u>	<u>(37,111)</u>	<u>-</u>	<u>92,139</u>
Land Improvements	30,300	114	725	-	31,139
Buildings & Improvements	409,680	-	30,249	-	439,929
Equipment	89,303	6,800	6,137	(16,194)	86,046
Total Depreciable Assets	<u>529,283</u>	<u>6,914</u>	<u>37,111</u>	<u>(16,194)</u>	<u>557,114</u>
Less Accumulated Depreciation:					
Land Improvements	15,809	1,397	-	-	17,206
Buildings & Improvements	125,396	9,740	-	-	135,136
Equipment	63,304	9,482	-	(16,194)	56,592
Total Accumulated Depreciation	<u>204,509</u>	<u>20,619</u>	<u>-</u>	<u>(16,194)</u>	<u>208,934</u>
Net Depreciable Assets	<u>324,774</u>	<u>(13,705)</u>	<u>37,111</u>	<u>-</u>	<u>348,180</u>
Total Capital Assets	<u>\$ 395,695</u>	<u>\$ 44,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440,319</u>

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Additions to capital assets in 2005 and 2004 include \$2,051 and \$1,756 of capitalized interest costs less \$297 and \$546, respectively, of interest earnings on unexpended revenue bond proceeds. Additions to equipment in 2005 and 2004 include \$297 and \$702, respectively, of equipment acquired through capital leases.

As of June 30, 2005 and 2004, \$16,843 and \$33,830, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Assets as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2005 are \$15,369 in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements, e.g., incurred costs.

Both the revenue bond and capital appropriation monies are earmarked for specific projects, most of which are included in capital assets in the accompanying Statements of Net Assets.

Outstanding commitments on uncompleted construction contracts total \$21,494 at June 30, 2005.

## 7. LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2005, consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations	\$ 706	\$ 297	\$ (347)	\$ 656	\$ 221
Bonds payable	147,245	370	(5,744)	141,871	6,347
Total leases and bonds payable	<u>147,951</u>	<u>667</u>	<u>(6,091)</u>	<u>142,527</u>	<u>6,568</u>
Accrued liabilities:					
Workers' compensation - Note 11	4,882	2,149	(1,407)	5,624	1,251
Health insurance - Note 11	4,600	50,185	(50,590)	4,195	4,195
Other employee benefit programs - Note 13	31,495	47,626	(46,268)	32,853	3,142
Other	13,231	12,499	(11,944)	13,786	13,513
Total accrued liabilities	<u>54,208</u>	<u>112,459</u>	<u>(110,209)</u>	<u>56,458</u>	<u>22,101</u>
Total long-term liabilities	<u>\$ 202,159</u>	<u>\$ 113,126</u>	<u>\$ (116,300)</u>	<u>\$ 198,985</u>	<u>\$ 28,669</u>

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Changes in long-term liabilities during the year ended June 30, 2004 consist of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations	\$ 336	\$ 703	\$ (333)	\$ 706	\$ 265
Bonds payable	127,781	43,754	(24,290)	147,245	5,750
Total leases and bonds payable	<u>128,117</u>	<u>44,457</u>	<u>(24,623)</u>	<u>147,951</u>	<u>6,015</u>
Accrued liabilities:					
Workers' compensation - Note 11	5,145	890	(1,153)	4,882	1,216
Health insurance - Note 11	5,135	42,784	(43,319)	4,600	4,600
Other employee benefit programs - Note 13	27,354	17,473	(13,332)	31,495	2,867
Other	11,125	12,596	(10,490)	13,231	11,888
Total accrued liabilities	<u>48,759</u>	<u>73,743</u>	<u>(68,294)</u>	<u>54,208</u>	<u>20,571</u>
Total long-term liabilities	<u>\$ 176,876</u>	<u>\$ 118,200</u>	<u>\$ (92,917)</u>	<u>\$ 202,159</u>	<u>\$ 26,586</u>

**Lease Obligations**

The System leases certain equipment and real estate under leases with terms exceeding one year. The rent expense related to these operating leases amounts to \$4,600 for the year ended June 30, 2005 and \$4,300 for the year ended June 30, 2004.

Future minimum lease payments under capital leases and under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>		<u>Operating Leases</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2006	\$ 221	\$ 24	\$ 1,829	\$ 2,074
2007	185	18	1,080	1,283
2008	144	10	411	565
2009	90	4	330	424
2010	16	-	192	208
2011-2015	-	-	205	205
2016-2020	-	-	9	9
2021-2025	-	-	3	3
Total minimum lease payments	<u>\$ 656</u>	<u>\$ 56</u>	<u>\$ 4,059</u>	<u>\$ 4,771</u>

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**Bonds and Note Payable**

Bonds and note payable consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
2004 Series A Revenue Bonds (original principal of \$43,270)		
Serial bonds, maturing from 2005 to 2029, with annual principal payments from \$335 to \$5,080 and coupon interest rates from 2.0% to 5.0%. Issued to partially refund the 1998A and 2000A Series Revenue Bonds and to provide funding for capital projects.	\$ 36,525	\$ 36,860
4.25% Term Bonds, due March 1, 2034	6,410	6,410
Add: unamortized premium	2,502	2,763
Less: unamortized deferred amount on refunding of 1998A and 2000A bonds	<u>(1,798)</u>	<u>(2,405)</u>
Total 2004 Series A Bonds	<u>43,639</u>	<u>43,628</u>
2003 Series A Revenue Bonds (original principal of \$19,970)		
Serial bonds, maturing from 2004 to 2032, with annual principal payments from \$145 to \$1,610 and coupon interest rates from 3.0% to 4.75%. Issued to refund the 1993A and 1993B Series Revenue Bonds.	16,885	18,435
Add: unamortized premium	168	184
Less: unamortized deferred redemption fee on 1993 bonds	<u>(281)</u>	<u>(320)</u>
Total 2003 Series A Bonds	<u>16,772</u>	<u>18,299</u>
2002 Series A Revenue Bonds (original principal of \$43,020)		
Serial Bonds, maturing from 2002 to 2012, with annual principal payments from \$310 to \$1,525 and coupon interest rates from 2.0% to 5.375%. A balloon payment of \$31,915 is due in 2012.	40,255	41,500
Add: unamortized premium	<u>1,932</u>	<u>2,181</u>
Total 2002 Series A Bonds	<u>42,187</u>	<u>43,681</u>
2000 Series A Revenue Bonds (original principal of \$41,725)		
Serial Bonds, maturing from 2001 to 2015, with annual principal payments from \$1,490 to \$4,465 and coupon interest rates from 4.5% to 5.75%.	9,860	11,565
5.60% Term Bonds, due March 1, 2020	2,385	2,385
5.50% Term Bonds, due March 1, 2030	5,435	5,435
Add: unamortized premium	<u>63</u>	<u>72</u>
Total 2000 Series A Bonds	<u>17,743</u>	<u>19,457</u>
1998 Series A Revenue Bonds (original principal of \$29,540)		
Serial Bonds, maturing from 2000 to 2011, with annual principal payments from \$660 to \$1,050 and coupon interest rates from 3.95% to 4.75%.	5,650	6,455
5.00% Term Bonds, due March 1, 2018	5,495	5,495
5.00% Term Bonds, due March 1, 2024	10,540	10,540
Less: unamortized discount	<u>(435)</u>	<u>(457)</u>
Total 1998 Series A Bonds	<u>21,250</u>	<u>22,033</u>
Total bonds payable, net	<u>141,591</u>	<u>147,098</u>
US Department of Agriculture Note		
Part of a \$326 combination grant and loan award. Loan portion is \$246 and has been received in full. The loan is payable monthly over a period not to exceed ten years with interest at a variable rate equal to the average market yield on Treasury Securities of comparable maturity to the loan (4.06% and 4.77% at June 30, 2005 and 2004, respectively).	<u>280</u>	<u>147</u>
Total bonds and note payable	<u>\$ 141,871</u>	<u>\$ 147,245</u>

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Costs associated with the issuance of revenue bonds have been reported in the accompanying Statements of Net Assets as bond issuance costs, net and are being amortized over the life of the related bond issuance. The discounts and the premiums on the revenue bonds are also being amortized over the life of the respective bond issuances using the effective interest method.

Principal and interest payments on bonds and note payable for the next five years and in subsequent five-year periods are as follows at June 30, 2005:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
2006	\$ 6,240	\$ 6,520
2007	5,930	6,296
2008	6,210	6,073
2009	5,660	5,829
2010	5,890	5,587
2011-2015	60,335	19,093
2016-2020	19,290	9,886
2021-2025	14,565	5,526
2026-2030	9,890	2,765
2031-2034	5,710	601
	<u>\$ 139,720</u>	<u>\$ 68,176</u>

Interest costs related to the Revenue Bonds for fiscal year 2005 and fiscal year 2004 were \$6,289 and \$5,092, respectively. These amounts are net of savings of \$290 and \$843, respectively, from an interest swap on the 2002 Series A Revenue Bonds – see Note 8. Of the total interest costs, \$2,051 and \$1,756 was capitalized as part of capital assets for the respective years ended June 30, 2005 and 2004 – see Note 6.

**Refunding of Debt**

On March 31, 2004, the System issued 2004 Series A Revenue Bonds to advance refund a total of \$18,975 in 2000 Series A and 1998 Series A Revenue Bonds and to fund new capital projects. The System completed the refunding to reduce its total debt service payments over the following thirteen years by \$1,006 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$792. The principal amount of debt refunded through in-substance defeasance and still outstanding at June 30, 2005 and 2004 was \$18,975.

Refunding bond proceeds of \$21,284 were placed in an escrow account to pay the interest due on the refunded 2000A and 1998A bonds and to retire the bonds on their respective call dates of September 1, 2010 and September 1, 2008. The escrow account is invested to yield enough earnings to pay required future payments which are \$24,233 and \$25,245 as of June 30, 2005 and 2004, respectively. In order to achieve higher earnings, during FY2005 the System restructured how the escrow account is invested. The restructuring resulted in net proceeds of \$221 being returned to the System.

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The FY2004 transaction to advance refund a portion of the 2000A and 1998A bonds met the requirements of an "in-substance defeasance" as defined by accounting principles generally accepted in the United States of America, and as a result, neither the escrow account nor the liability for the refunded bonds is included in the accompanying Statements of Net Assets.

The FY2004 refunding resulted in a deferred amount on refunding of \$2,509 which represents the difference between the reacquisition price and the carrying value of the refunded bonds. Amortization of this deferred amount on refunding will be charged to operations as additional interest expense through the year 2017 using the effective-interest method. The unamortized portion of the deferred amount on refunding, which is \$1,798 and \$2,405 as of June 30, 2005 and 2004, respectively, is reported in the accompanying Statements of Net Assets as a reduction of the 2004 Series A Revenue Bonds.

**8. INTEREST RATE SWAP**

As a means to lower its borrowing costs, the System entered into an interest rate swap in connection with the issuance of its \$43,020 Series A Revenue Bonds (see note 7) in June 2002. The purpose of the agreement was to swap the fixed rate on the underlying debt for a variable rate for the term of the debt, and not for any speculative purposes.

In an effort to maximize total savings, the System terminated the swap on April 1, 2004 for a net gain of \$2,291, which is being amortized over the remaining life of the related 2002 Series A Revenue Bonds. The unamortized amount as of June 30, 2005 and 2004 was \$1,929 and \$2,218, respectively and is included in deferred revenue and deposits in the accompanying Statements of Net Assets.

**9. GOVERNMENT ADVANCES REFUNDABLE**

The System participates in the Federal Perkins Loan and Nursing Loan Programs. These programs are funded through a combination of Federal and Institutional resources. The portion of these programs that has been funded with Federal funds is ultimately refundable to the U.S. Government upon the termination of the System's participation in the programs. The portion that would be refundable if the programs were terminated as of June 30, 2005 and 2004 has been included in the accompanying Statements of Net Assets as a noncurrent liability.

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**10. RESTRICTED NET ASSETS**

The System is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. These funds are comprised of the following as of June 30:

	<u>2005</u>	<u>2004</u>
Restricted - Nonexpendable:		
Endowment funds	<u>\$ 47,405</u>	<u>\$ 47,047</u>
Restricted - Expendable:		
Student financial aid	\$ 28,811	\$ 25,333
Capital assets and retirement of debt	14,541	15,842
Loans	10,513	9,949
Academic support	8,489	8,310
Research and public service	7,762	5,944
Library	2,454	2,341
Other	<u>16,279</u>	<u>14,266</u>
Total restricted - expendable	<u>\$ 88,849</u>	<u>\$ 81,985</u>

**11. COMMITMENTS AND CONTINGENCIES**

The System participates in a number of federal programs subject to financial and compliance audits. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the System does not expect these amounts, if any, to be material to the financial statements.

The System is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries; and natural disasters. The System manages these risks through a combination of participation in a public entity risk pool, commercial insurance policies purchased in the name of the System, and through self-insurance programs for workers' compensation claims and physical damage to automobiles.

The System's annual retention obligation for general liability is capped at \$300, plus a \$5 per claim deductible once the retention obligation is met. Educator's legal liability risks are subject to a \$100 per loss retention with no annual cap. The System's estimate of the amount payable under these retention levels has been included in the accompanying Statements of Net Assets as part of current accrued liabilities. As of June 30, 2005 and 2004 certain legal claims existed for which the probability or amount of payment could not be determined. The System, however, does not expect these amounts, if any, to be material to the financial statements.

The System participates in a public entity risk pool with the State of Maine. The System pays an annual premium to the State of Maine for its property and boiler insurance coverage. The risk pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of coverage provided by the fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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It is the policy of the System not to purchase primary commercial insurance for the risk of loss related to workers' compensation. Instead, the System's management believes it is more economical to manage its risk internally and to set aside assets for claims settlement. The liability for unpaid claims is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The System's estimated liability for workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7). In FY2004, the System purchased commercial specific and aggregate excess workers' compensation insurance which limits the exposure for any one incident to \$750 and provides coverage in the event that total claims exceed expectations.

The System's health insurance plan is financed through a minimum premium contract with a commercial carrier. The contract in effect at June 30, 2005 ends December 31, 2005. The plan allows the System to benefit from favorable claims experience, should paid claims be less than the maximum claim liability under the contract. As of June 30, 2005, the System's paid claims for the six months then ended had not reached the maximum claim liability amount for the same six month period. Under a traditional premium arrangement, a component of the premium paid to the insurance carrier each month covers the terminal liability, or claims incurred during the period of coverage but not paid until after the period of coverage. However, under this minimum premium contract, the System retains the terminal liability component until the contract is terminated. As of June 30, 2005 and 2004, the estimated liability for claims incurred but not paid was \$4,195 and \$4,620, respectively, and is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7).

The System continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **12. UNEXPENDED GRANTS**

Generally, grants and contracts awarded to the System, but for which it has not fulfilled the eligibility requirements (e.g., incur allowable costs) are not included in the System's financial statements. The total of such awards as of June 30, 2005 and 2004 was \$50,528 and \$50,131, respectively.

In certain circumstances, however, the System receives cash in advance of fulfilling its obligations. In such situations the System reports the cash as an asset and reports an offsetting deferred revenue liability in the Statements of Net Assets. Outstanding advances as of June 30, 2005 and 2004 System's totaled \$9,991 and \$10,183, respectively.

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**13. PENSION PLANS**

The System has several single-employer pension plans, each of which is described in more detail below. The System's pension expense (income) for each of these plans was as follows for the years ended June 30:

	<u>2005</u>	<u>2004</u>
<u>Faculty and Professional Employees:</u>		
Basic Retirement Plan	\$ 16,920	\$ 16,300
Incentive Plan	2,232	2,090
 <u>Classified Employees:</u>		
Basic Retirement Plan	2,922	2,177
Defined Benefit Plan	<u>(161)</u>	<u>(811)</u>
 Total net pension expense	<u>\$ 21,913</u>	<u>\$ 19,756</u>

**Faculty and Professional Employee Plans**

**Contributory Retirement Plan**

Eligible salaried employees participate in the University of Maine System Retirement Plan for Faculty and Professional Employees (Contributory Plan), a defined contribution retirement plan administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). The Board of Trustees and collective bargaining agreements establish mandatory employee and employer contribution rates.

All full-time employees are eligible once employment begins. Part-time employees are eligible upon achieving the equivalent of five years of continuous, full-time, regular service. All eligible employees are required to participate when they reach thirty years of age. The System contributes an amount equal to 10% of each participant's base salary, and each participant contributes 4% of base salary. Participant and System contributions are fully and immediately vested. Participants may direct up to 100% of existing accumulations and/or future contributions to selected investment vehicles outside of TIAA/CREF. Upon separation from the System, participants may withdraw up to 100% of their account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Contributory Plan.

Employee contributions made to the Contributory Plan were \$6,700 in fiscal 2005 and \$6,400 in fiscal 2004.

**Incentive Retirement Plan**

Employees enrolled in the Contributory Plan may elect to retire at any age after 55. Such employees, except for represented faculty who became employed on or after July 1, 1996, also participate in the University of Maine System Incentive Retirement Plan (Incentive Plan), a defined benefit plan, which was established on July 1, 1975. The Board of Trustees has authority to establish and amend provisions under the Incentive Plan. The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular service immediately prior to

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retirement will receive a benefit equivalent to 1½% times their completed years of service times their final annual base salary (up to a maximum of 27 years). This amount is to be paid as a lump-sum contribution to the participant's TIAA or CREF account. Employees do not make contributions under the Incentive Plan.

The Incentive Plan, which is funded on a termination basis (i.e., when costs become due and payable), holds no assets. Actuarial valuations, utilizing the projected unit credit actuarial cost method and 30-year declining-period, dollar amortization, were performed as of June 30, 2005 and 2004. Interest was assumed to compound at an annual rate of 6.25%. For the purposes of the FY2005 valuation, salaries were assumed to increase at an annual rate of 3.5% (4% for the FY2004 valuation).

Summarized below are the actuarial liability and actuarial value of assets at June 30:

	<u>2005</u>	<u>2004</u>
Actuarial accrued liability	\$ 20,271	\$ 21,219
Actuarial value of assets	-	-
Unfunded actuarial accrued liability	\$ 20,271	\$ 21,219

The net pension obligation (NPO) represents the cumulative difference between annual pension cost and employer contributions to the plan. The NPO is included in the accompanying Statements of Net Assets in noncurrent accrued liabilities (see other employee benefit programs in Note 7). Three-year trend information through June 30, 2005, which provides an indication of the progress made in accumulating sufficient assets to pay benefits when they become due, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2005	\$ 2,521	\$ 876	\$ 1,165	\$ 2,232	\$ 1,434	65%	\$798	\$14,820
2004	\$ 2,330	\$ 789	\$ 1,029	\$ 2,090	\$ 689	33%	\$1,401	\$14,022
2003	\$ 2,073	\$ 705	\$ 903	\$ 1,875	\$ 528	28%	\$1,347	\$12,621

**Classified Employees**

**Basic Retirement Plan**

The Defined Contribution Program of the Basic Retirement Plan for Classified Employees (Basic Plan) was created on July 1, 1998 in accordance with Section 403(b) of the Internal Revenue Code. Classified employees hired July 1, 1998 or later participate in the Basic Plan. Most

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eligible employees who were hired before July 1, 1998 and who were younger than age 50 as of June 30, 1998 rolled over to the Basic Plan the value of their accrued benefit in the Defined

Benefit Retirement Plan for Classified Staff (Defined Benefit Plan, as described further below), which until that time was the primary pension plan for classified employees. Eligible employees who were hired before July 1, 1998 and aged 50 or older on June 30, 1998 could elect to roll over to the Basic Plan the value of their accrued benefit in the Defined Benefit Plan or remain in the Defined Benefit Plan.

Full-time employees are eligible to participate in the Basic Plan once employment begins. Part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time regular service. Upon separation from the System, participants may withdraw up to 100% of their account balances, or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Basic Plan.

Employees hired July 1, 1998 or later are required to contribute at least 1% and may contribute up to 4% of base pay to the Basic Plan. Their contributions are matched 100% by the System. Employees hired prior to July 1, 1998 and who have less than five years of completed service may voluntarily contribute up to 4% of base pay and receive a 100% match from the System.

Employees who (1) have five or more years of completed service and (2) do not participate in the Defined Benefit Plan automatically receive System contributions equal to 6% of their base pay. These employees may also voluntarily contribute 1% to 4% of their base pay and receive a 100% match from the System.

Employee contributions made to the Basic Plan were \$1,430 in fiscal 2005 and \$1,200 in fiscal 2004.

### **Defined Benefit Plan**

The Defined Benefit Plan is maintained for eligible employees who chose not to join the Basic Plan. Normal retirement benefits are paid to participants who attain age 65 and retire. The monthly retirement benefit is based on a formula specified by policy in collective bargaining agreements.

Early retirement benefits are paid to participants who retire upon the attainment of age 55 and who have completed five years of continuous service. The benefit is computed in accordance with the normal retirement benefit, but is reduced by an actuarial factor because benefits will be paid over a longer period of time. No reduction is made if an employee retires after attaining 62 years of age with 25 or more years of service. Deferred vested benefits are paid to participants who have attained five or more years of continuous service. Participants are also eligible for disability and death benefits.

The Defined Benefit Plan holds investment assets consisting principally of equities, bonds and cash equivalents to fund benefits. At June 30, 2005 and 2004, these assets exceeded the Defined Benefit Plan's actuarial accrued liability. Because the Defined Benefit Plan is a separate trust, its assets and liabilities are not included in the accompanying financial statements. The actuarial accrued liability is a standardized measure representing the actuarial present value of credited projected pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future, as a result of employee service

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rendered to date. An actuarial valuation, utilizing the projected unit credit actuarial cost method and 10-year level amortization, was performed as of June 30, 2005. For the FY2005 report, interest was assumed to compound at an annual rate of 6.5%, and salaries were assumed to increase at annual rate of 3.5%. An actuarial valuation, utilizing the projected unit credit actuarial cost method and 10-year declining-period, dollar amortization, was performed as of June 30, 2004. Interest was assumed to compound at an annual rate of 6.5%, and salaries were assumed to increase at annual rate of 4%.

Summarized below are the accrued actuarial liability and actuarial value of assets at June 30:

	<u>2005</u>	<u>2004</u>
Actuarial accrued liability	\$ 53,024	\$ 56,804
Actuarial value of assets	58,988	59,248
Overfunded actuarial accrued liability	<u>\$ (5,964)</u>	<u>\$ (2,444)</u>

Employees who participate in the Defined Benefit Plan may also participate in the Optional Retirement Savings Plan (ORSP). The ORSP is a voluntary, employee-funded defined contribution plan. Employees may contribute up to 4% of their base pay and receive a 100% match from the System. The ORSP is administered by TIAA-CREF.

**Funding of Basic and Defined Benefit Plans**

While the Basic Plan and Defined Benefit Plan are administratively separate, they are both part of the Retirement Plan for Classified Employees and covered by the same plan document. In accordance with Section 414(k) of the Internal Revenue Code, the System may elect to fund employer contributions to the Basic Plan and ORSP from excess assets in the Defined Benefit Plan, subject to certain limitations. During fiscal years 2005 and 2004, the System funded \$-0- and \$595, respectively, of employer contributions to the Basic Plan through the transfer of excess assets from the Defined Benefit Plan.

The NPO balance of the Defined Benefit Plan at transition was zero, since all actuarially determined required contributions were made by the System prior to that date. Annual required contributions and other metrics shown below accordingly reflect the funded status of the Defined Benefit Plan, as well as expected benefits attributable to the Basic Plan and ORSP. Three-year trend information through June 30, 2005, including changes in the NPO, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2005	\$ (153)	\$ 2	\$ 10	\$ (161)	\$ -	-	\$ (161)	\$ (135)
2004	\$ (620)	\$ 54	\$ 244	\$ (810)	\$ -	-	\$ (810)	\$ 26
2003	\$ 741	\$ 7	\$ 28	\$ 720	\$ -	-	\$ 720	\$ 836

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As of June 30, 2005, the NPO is included in the accompanying Statement of Net Assets as part of accounts, grants, and pledges receivable. As of June 30, 2004, the NPO is included in the accompanying Statement of Net Assets as part of accrued liabilities – see other employee benefit programs in Note 7.

#### **14. POSTEMPLOYMENT HEALTH PLAN**

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. As of June 30, 2005 and 2004, there were approximately 1,800 persons (including widows/widowers) receiving postemployment health benefits.

The System subsidizes the cost of insurance for the following persons:

- Retired from the System with at least 10 years of full-time regular service and has reached age 65 or
- A former employee approved for long-term disability benefits regardless of age or service

The subsidy for those meeting the above requirements is 100% of the cost for the retiree and 50% of the costs for eligible dependents. With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria. As of June 30, 2005 and 2004 there were approximately 1,600 and 1,500 persons, respectively, receiving a subsidy from the System.

The following persons may also participate in the System's health insurance plan after retirement; however, they must pay 100% of the cost for themselves and their dependents:

- Retired from the System with at least 10 years of full-time regular service and has reached age 55 but is under age 65 or
- Retired from the System at age 65 or older but had not met the years of service requirement

As of June 30, 2005 and 2004, there were approximately 130 and 150 persons, respectively, participating in the plan but not receiving a subsidy from the System.

Health insurance coverage for eligible persons is provided as part of the System's regular health insurance contract. Persons eligible for a subsidy from the System may not convert their benefit into an in-lieu payment to secure coverage under independent plans.

The System finances the postemployment health plan on a pay-as-you-go basis. Total gross costs for the year ended June 30, 2005 and 2004 were \$11,200 and \$10,500, respectively, with the participants contributing \$2,600 and \$2,400, respectively toward the costs.

#### **15. PASS THROUGH GRANTS**

During fiscal year 2005 and 2004, the System distributed \$11,479 and \$10,134, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2005 and 2004**  
**(\$ in thousands)**

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distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

## **16. COMPONENT UNITS**

Effective July 1, 2003, the System adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB 39), which establishes criteria for determining whether certain related organizations should be reported as component units based on the nature and significance of their relationship with a primary government and clarifies reporting requirements for those organizations.

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The System determined that certain of those entities meet the criteria under GASB 39 for inclusion as discretely presented component units of the System and, accordingly, has presented them in the accompanying financial statements as of and for the years ended June 30, 2005 and 2004.

The discretely presented component units are private, not-for-profit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. Accordingly, certain presentation features and revenue recognition criteria used by the component units are different than those followed by the System under GASB. Under GASB, all changes in net assets are reported in a single statement of revenues, expenses, and changes in net assets, whereas under FASB such changes are reported in three net asset classes – unrestricted, temporarily restricted and permanently restricted – based solely on the existence or absence of donor-imposed restrictions. These FASB net asset classes are not necessarily equivalent from a financial reporting standpoint to the System's unrestricted, restricted expendable and restricted nonexpendable net asset classes, respectively, under GASB. In addition, under FASB principles, unconditional pledges of permanently restricted net assets are recognized at the date the promise becomes unconditional, whereas under GASB such amounts are recognized when received in cash. No modifications have been made to the component unit financial information in the System's financial reporting entity for these or other differences.

The System's major discretely presented component unit is the University of Maine Foundation ("the Foundation"), which is a legally separate, tax-exempt organization that acts primarily as a fund-raising organization to supplement the resources that are available to the System in support of its programs. The board of directors of the Foundation is self-perpetuating and independent of the System's Board of Trustees. Although the System does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the System by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the System (specifically the University of Maine), the Foundation is considered a component unit of the System and is discretely presented in the System's financial statements.

During the years ended June 30, 2005 and June 30, 2004, the Foundation distributed \$4,963 and \$3,485, respectively, to the System for both restricted and unrestricted purposes. The Foundation has reported this amount as part of its total program expenses.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2005 and 2004**  
**(\$ in thousands)**

Condensed financial information of the Foundation is as follows as of and for the year ended June 30:

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Investments at fair value	\$ 115,421	\$ 107,659
Other	23,573	20,266
Total Assets	<u>\$ 138,994</u>	<u>\$ 127,925</u>
 <b><u>Liabilities and Net Assets</u></b>		
Notes payable and other liabilities	<u>\$ 9,082</u>	<u>\$ 8,980</u>
Net Assets:		
Unrestricted	4,927	6,797
Temporarily restricted	32,880	27,303
Permanently restricted	92,105	84,845
Total Net Assets	<u>129,912</u>	<u>118,945</u>
Total Liabilities and Net Assets	<u>\$ 138,994</u>	<u>\$ 127,925</u>
 <b>Changes in Unrestricted Net Assets:</b>		
Revenues and other support:		
Contributions and net assets released from restrictions	\$ 4,870	\$ 5,403
Investment income and other revenue	372	598
Total revenues and other support	<u>5,242</u>	<u>6,001</u>
Expenses:		
Program	5,829	5,003
Other	1,282	1,076
Total expenses	<u>7,111</u>	<u>6,079</u>
Decrease in unrestricted net assets	<u>(1,869)</u>	<u>(78)</u>
 <b>Changes in Temporarily Restricted Net Assets:</b>		
Contributions and net assets released from restrictions	(1,385)	(2,705)
Investment income and other revenue	6,961	13,282
Increase in temporarily restricted net assets	<u>5,576</u>	<u>10,577</u>
 <b>Changes in Permanently Restricted Net Assets:</b>		
Contributions and net assets released from restrictions	7,295	7,874
Investment income and other revenue	(35)	1,042
Increase in permanently restricted net assets	<u>7,260</u>	<u>8,916</u>
Increase in total net assets	10,967	19,415
Net assets, beginning of year	<u>118,945</u>	<u>99,530</u>
Net assets, end of year	<u>\$ 129,912</u>	<u>\$ 118,945</u>

Complete financial statements for the Foundation can be obtained from its offices at Two Alumni Place, Orono, ME 04469-5792.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2005 and 2004**  
**(\$ in thousands)**

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**17. SUBSEQUENT EVENT**

On November 3, 2005, the System issued \$69,125 of 2005 Series A Revenue Bonds to advance refund a total of \$8,800 of previously issued revenue bonds and to fund new capital projects. These bonds mature from 2006 to 2035, with annual principal payments from \$75 to \$3,455 and coupon interest rates from 3.5% to 5.0%.

**UNIVERSITY OF MAINE SYSTEM**  
**Required Supplemental Information – Retirement Plans**  
**Schedules of Funding Progress, Employers' Contributions, and Related Note**  
**Year ended June 30, 2005**  
**(Unaudited)**  
**(\$ in thousands)**

**Schedules of Funding Progress**

Actuarial valuation (date as of June 30)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
<b><u>Incentive Retirement Plan for Faculty and Professionals</u></b>						
2005	\$ —	\$ 20,271	\$ 20,271	—	\$ 135,017	16.2%
2004	\$ —	\$ 21,219	\$ 21,219	—	\$ 130,216	16.3%
2003	\$ —	\$ 19,980	\$ 19,980	—	\$ 127,531	15.7%
2002	\$ —	\$ 17,824	\$ 17,824	—	\$ 100,463	17.7%
2001	\$ —	\$ 15,371	\$ 15,371	—	\$ 96,599	15.9%
2000	\$ —	\$ 14,739	\$ 14,739	—	\$ 92,883	15.9%
<b><u>Retirement Plan for Classified Staff - Classified Plan Only</u></b>						
2005	\$ 58,988	\$ 53,024	\$ (5,964)	111.2%	\$ 6,235	(95.7%)
2004	\$ 59,248	\$ 56,804	\$ (2,444)	104.3%	\$ 7,279	(33.6%)
2003	\$ 59,087	\$ 53,831	\$ (5,256)	109.8%	\$ 8,770	(59.9%)
2002	\$ 62,257	\$ 51,618	\$ (10,639)	120.6%	\$ 9,276	(114.7%)
2001	\$ 64,672	\$ 50,475	\$ (14,197)	128.1%	\$ 9,730	(145.9%)
2000	\$ 63,524	\$ 47,197	\$ (16,327)	134.6%	\$ 10,365	(157.5%)

**Schedules of Employers' Contributions**

Year ended June 30	Annual required contribution	Percentage contributed	Annual required contribution	Percentage contributed
	<b><u>Incentive Retirement Plan for Faculty and Professionals</u></b>		<b><u>Retirement Plan for Classified Staff</u></b>	
2005	\$ 2,521	57%	\$ (153)	—
2004	\$ 2,330	30%	\$ (620)	—
2003	\$ 2,073	25%	\$ 741	—
2002	\$ 1,768	75%	\$ 81	—
2001	\$ 1,679	47%	\$ (290)	—
2000	\$ 1,603	53%	\$ 28	—

**Note to Schedules**

The information presented in the required supplementary schedules as of June 30, 2005 was determined using the actuarial valuation as of June 30, 2005 with the following significant assumptions:

	<b><u>Incentive Retirement Plan for Faculty and Professionals</u></b>	<b><u>Retirement Plan for Classified Staff</u></b>
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	30-year declining period, level dollar	10-year level dollar
Remaining amortization period	22 years	2 years
Asset valuation method	N/A	5-year smoothing of differences between actual and expected returns
Actuarial assumptions:		
Investment rate of return	6.25%	6.50%
Projected salary increases	3.50%	3.50%
Cost-of-living adjustments	N/A	N/A

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Student Financial Assistance Cluster:			
U.S. Department of Education:			
Federal Supplemental Educational Opportunity Grant Program		84.007	\$ 4,260,561
Federal Family Education Loans (note 2)		84.032	78,462,640
Federal Work-Study Program		84.033	4,793,171
Federal Perkins Loan Program (note 2)		84.038	7,509,465
Federal Perkins Loan Program Administrative Cost Allowance		84.038	695,210
Federal Pell Grant Program		84.063	24,791,786
Federal Direct Student Loans		84.268	11,478,383
Total U.S. Department of Education			<u>131,991,216</u>
U.S. Department of Health and Human Services:			
Federal Nursing Loan Program (note 2)		93.364	441,718
Total Student Financial Assistance Cluster			<u>132,432,934</u>
Child Care Cluster:			
Passed-through:			
Maine Department of Human Services:			
Child Care and Development Block Grant		93.575	117,926
Child Care Mandatory and Matching Funds		93.596	623,170
Total Child Care Cluster			<u>741,096</u>
Employment Services Cluster:			
Passed-through:			
Maine Department of Labor:			
Employment Service		17.207	37,348
Total Employment Services Cluster			<u>37,348</u>
Food Stamp Cluster:			
Passed-through:			
Maine Department of Human Services:			
State Admin. Match Grants – Food Stamps		10.561	1,591,970
Total Food Stamp Cluster			<u>1,591,970</u>
Emergency Food Assistance Cluster:			
Passed-through:			
Maine Department of Human Services:			
Emergency Food Assistance Program (Administrative Costs)		10.568	1,073,437
Total Emergency Food Assistance Cluster			<u>1,073,437</u>
Foster Grandparent/Senior Companion Cluster:			
U.S. Corp. for National and Community Service:			
Senior Companion Program		94.016	432,959
Passed-through:			
Maine Department of Human Services:			
Senior Companion Program		94.016	31,920
Total Foster Grandparent/Senior Companion Cluster			<u>464,879</u>
Highway Planning and Construction Cluster:			
Passed-through:			
Maine Department of Transportation:			
Highway Planning and Construction		20.205	33,604
Total Highway Planning and Construction Cluster			<u>33,604</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Medicaid Cluster:			
Passed-through:			
Maine Department of Human Services:			
Medical Assistance Program		93.778	\$ 663
Maine Department of Behavioral and Developmental Services:			
Medical Assistance Program		93.778	55,078
Total Medicaid Cluster			<u>55,741</u>
Special Education Cluster:			
Passed-through:			
Maine State Legislative Council:			
Special Education – Grants to States		84.027	2,886
Maine Department of Education:			
Special Education – Grants to States	01305A715512	84.027	118,446
Total Special Education Cluster			<u>121,332</u>
TRIO Cluster:			
U.S. Department of Education:			
TRIO – Student Support Services		84.042	1,772,087
TRIO – Talent Search		84.044	684,082
TRIO – Upward Bound		84.047	2,031,543
TRIO – Educational Opportunity Centers		84.066	681,791
Total TRIO Cluster			<u>5,169,503</u>
Consolidated Health Centers Cluster:			
Passed-through:			
National Rural Health Association:			
Health Centers Grants for Migrant and Seasonal Farm Workers		93.246	15,114
Total Consolidated Health Centers Cluster			<u>15,114</u>
Research and Development Cluster:			
U.S. Department of Agriculture:			
Department of Agriculture Awards with No CFDA Number		10.000	13,463
Passed-through:			
NE Regional Aquaculture Ctr:			
Department of Agriculture Awards with No CFDA Number	NRAC# 03-2	10.000	30,026
University of Vermont:			
Department of Agriculture Awards with No CFDA Number		10.000	54,765
University of Rhode Island:			
Department of Agriculture Awards with No CFDA Number		10.000	10,287
Natl Council of Paper Industry:			
Department of Agriculture Awards with No CFDA Number		10.000	12,685
Total CFDA Number 10.000			<u>121,226</u>
Agricultural Research – Basic and Applied		10.001	140,002
Passed-through:			
Maine Department of Agriculture:			
Plant and Animal Disease, Pest Control		10.025	8,000

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Grants for Agric Research – Spec. Research		10.200	\$ 1,260,594
Passed-through:			
University of Vermont:			
Grants for Agric Research – Spec. Research		10.200	74,027
University of Massachusetts – Dartmouth:			
Grants for Agric Research – Spec. Research		10.200	1,459
Cornell University:			
Grants for Agric Research – Spec. Research		10.200	10,092
Total CFDA Number 10.200			<u>1,346,172</u>
Cooperative Forestry Research		10.202	607,843
Payments to Agric. Exp Stations – Hatch		10.203	1,864,512
Grants for Agric Research – Comp Research		10.206	303,507
Passed-through:			
University of Mass – Amherst:			
Grants for Agric Research – Comp Research	ST#119115	10.206	7,300
University of Nebraska:			
Grants for Agric Research – Comp Research	25-0526-0006-002	10.206	9,247
University of Tennessee:			
Grants for Agric Research – Comp Research	OR2791-001.01	10.206	12,368
Oregon State University:			
Grants for Agric Research – Comp Research	NS161A-C	10.206	2,486
Total CFDA Number 10.206			<u>334,908</u>
Higher Education Challenge Grant		10.217	27,197
Passed-through:			
Rutgers University:			
Higher Education Challenge Grant	1753	10.217	20,015
Total CFDA Number 10.217			<u>47,212</u>
Biotechnology Risk Assessment Research		10.219	57,859
Higher Education Multicultural Scholars Program		10.220	5,560
Agricultural and Rural Economic Research		10.250	454,312
Passed-through:			
University of Wisconsin:			
Initiative for Future Agriculture & Food Systems	P572250	10.302	16,936
Cornell University:			
Initiative for Future Agriculture & Food Systems	40438-6697	10.302	10,358
Total CFDA Number 10.302			<u>27,294</u>
Integrated Programs		10.303	83,417
Passed-through:			
University of Rhode Island:			
Integrated Programs		10.303	71,178
Rutgers University:			
Integrated Programs		10.303	72,360
Penn State University:			
Integrated Programs	2815-UMUSDA2103 3	10.303	13,042
Total CFDA Number 10.303			<u>239,997</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
University of Vermont:			
Organic Agriculture Research and Extension Initiative		10.307	\$ 20,102
Cooperative Extension Service		10.500	52,772
Passed-through:			
Natl 4-H Council:			
Cooperative Extension Service		10.500	12,876
University of Vermont:			
Cooperative Extension Service	ENE 03-080	10.500	71,975
Total CFDA Number 10.500			<u>137,623</u>
Food Donation		10.550	138,879
Passed-through:			
Maine Department of Human Services:			
Special Supplemental Nutrition Woman, Infants and Children		10.557	2
Maine Department of Human Services:			
State Admin Match Grants – Food Stamps		10.561	5,065
Agric. Research – Basic and Applied		10.562	39,380
Forest Service Cooperative State and Private Programs		10.650	2,881
Forestry Research		10.652	472,715
Passed-through:			
University of Vermont:			
Forestry Research		10.652	7,045
Total CFDA Number 10.652			<u>479,760</u>
Urban and Community Forestry Assistance		10.664	17,653
Passed-through:			
Maine Department of Conservation:			
Urban and Community Forestry Asst Program		10.664	36,903
Oregon State University:			
Urban and Community Forestry Asst Program		10.664	435
Total CFDA Number 10.664			<u>54,991</u>
Rural Development, Forestry, and Communities		10.672	24,095
Rural Business Opportunity Grants		10.773	26,716
Soil and Water Conservation		10.902	48,129
Scientific Cooperation Program		10.961	2,330
Total Department of Agriculture			<u>6,234,850</u>
U.S. Department of Commerce:			
Department of Commerce Awards with No CFDA Number		11.000	17,772
Passed-through:			
Gulf of ME Ocean Observing System:			
Department of Commerce Awards with No CFDA Number		11.000	138,700
University of Connecticut:			
Department of Commerce Awards with No CFDA Number	PSA# 4640	11.000	10,535
Cumberland Soil & Water Conserv.:			
Department of Commerce Awards with No CFDA Number		11.000	32
University of New Hampshire:			
Department of Commerce Awards with No CFDA Number	02-613, 02-628	11.000	(269)
Total CFDA Number 11.000			<u>166,770</u>
Grants for Public Works and Economic Development Facilities		11.300	1,613,350
Economic Development – Technical Assistance		11.303	96,376
Sea Grant Support		11.417	1,238,137
Passed-through:			
Davis Conservation Foundation:			
Sea Grant Support		11.417	(4,253)
Total CFDA Number 11.417			<u>1,233,884</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Coastal Zone Management Admin Awards		11.419	\$ 24,951
Passed-through:			
Maine State Planning Office:			
Coastal Zone Management Admin Awards	07B G505026	11.419	<u>10,000</u>
Total CFDA Number 11.419			<u>34,951</u>
Fisheries Dev/Util Res & Dev Grants		11.427	20,892
Marine Sanctuary Program		11.429	(3,313)
Passed-through:			
Perry Institute of Marine Science:			
Undersea Research		11.430	1,243
University of Connecticut:			
Undersea Research	4124003465	11.430	<u>28,603</u>
Total CFDA Number 11.430			<u>29,846</u>
Climate and Atmospheric Research		11.431	364,541
Passed-through:			
University of Mass – Amherst:			
Climate and Atmospheric Research	04-002487 A00	11.431	<u>24,356</u>
Total CFDA Number 11.431			<u>388,897</u>
Passed-through:			
University of California:			
OAR – Cooperative Institutes		11.432	40,267
Columbia University:			
OAR – Cooperative Institutes		11.432	<u>29,163</u>
Total CFDA Number 11.432			<u>69,430</u>
Marine Fisheries Initiative		11.433	4,311
Marine Mammal Data Program		11.439	169,618
Special Oceanic & Atmospheric Projects		11.460	69,373
Passed-through:			
University of Connecticut:			
Special Oceanic and Atmospheric Project	PSA# 4330	11.460	<u>5,790</u>
Total CFDA Number 11.460			<u>75,163</u>
Habitat Conservation		11.463	6,460
Passed-through:			
Natl Fish & Wildlife Found:			
Habitat Conservation	2003-0170-003	11.463	<u>657</u>
Total CFDA Number 11.463			<u>7,117</u>
Passed-through:			
Maine Atlantic Salmon Conservation Fund:			
Office of Administration Special Programs		11.470	83,554
National Fish & Wildlife Foundation:			
Office of Administration Special Programs		11.470	51,218
Plymouth State University:			
Office of Administration Special Programs		11.470	<u>7,491</u>
Total CFDA Number 11.470			<u>142,263</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Unallied Science Program		11.472	\$ 269,060
Passed-through:			
Maine Department of Marine Resources:			
Unallied Science Program		11.472	26,843
University of New Hampshire:			
Unallied Science Program		11.472	64,251
Maine Department of Inland Fish/Wildlife:			
Unallied Science Program	94V 703135	11.472	31,555
NE Consortium for Integrated Care:			
Unallied Science Program		11.472	73,539
Total CFDA Number 11.472			<u>465,248</u>
Passed-through:			
University of New Hampshire:			
Coastal Services Center		11.473	8,583
Center for Sponsored Coastal Ocean Research		11.478	285,772
Passed-through:			
Gulf of ME Ocean Observing System:			
Center for Sponsored Coastal Ocean Research		11.478	209,117
Total CFDA Number 11.478			<u>494,889</u>
Passed-through:			
Maine Dept of Corrections:			
Technology Opportunities Program	G104005	11.552	297
Measurement and Engineering Research and Standards		11.609	746
Total Department of Commerce			<u>5,019,318</u>
U.S. Department of Defense:			
Department of Defense Awards with no CFDA Number		12.000	2,538,469
Passed-through:			
BAE Systems:			
Dept of Defense Awards with no CFDA Number		12.000	115
Regents of the Univ of California:			
Dept of Defense Awards with no CFDA Number	K-001580-01	12.000	199,626
Total CFDA Number 12.000			<u>2,738,210</u>
Collaborative Research and Development		12.114	43,824
Basic and Applied Scientific Research		12.300	2,868,197
Passed-through:			
Gulf of ME Ocean Observing System:			
Basic and Applied Scientific Research		12.300	1,352,282
Maine Science Tech Found.:			
Basic and Applied Scientific Research	N00014-01-10818	12.300	75,708
Technology Systems, Inc:			
Basic and Applied Scientific Research		12.300	8,114
Total CFDA Number 12.300			<u>4,304,301</u>
Basic Scientific Research		12.431	848,310
Basic, Applied & Advanced Resrch-Sci		12.630	934,353
Mathematical Sciences Grants Program		12.901	1,193
Research & Technology Development		12.910	69,383
Passed-through:			
Bath Iron Works:			
Research & Technology Development		12.910	(4,093)
Total CFDA Number 12.910			<u>65,290</u>
Total Department of Defense			<u>8,935,481</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. Department of Housing & Urban Development: Community Development Block Grants		14.246	\$ 405,453
Total Department of HUD			<u>405,453</u>
U.S. Department of Interior:			
Department of Interior Awards with No CFDA Number		15.000	73,462
Passed-through:			
University of Idaho:			
Department of Interior Awards with No CFDA Number		15.000	41,514
Maine Atlantic Salmon Conservation Fund:			
Department of Interior Awards with No CFDA Number		15.000	55,488
Total CFDA Number 15.000			<u>170,464</u>
Recreation Resource Management		15.225	(21,937)
Passed-through:			
Maine Department of Inland Fish/Wildlife:			
Fish and Wildlife Management Assistance	924367	15.608	33,561
Wildlife Conservation and Appreciation		15.617	51,410
Assistance to States – Water Resource Res		15.805	185,832
Geological Survey – Research and Data Collectior		15.808	318,226
Cooperative Research Units Program		15.812	38,855
Outdoor Recreation – Acquisition/Development		15.916	(1,841)
Total Department of Interior			<u>774,570</u>
U.S. Department of Justice:			
Department of Justice with No CFDA Number		16.000	5,652
Passed-through:			
Maine Department of Corrections:			
Juvenile Accountability Incentive Block Grant:		16.523	54,773
Technical Assistance and Training Initiative		16.526	604,390
Passed-through:			
Maine Department of Health/Mental Retard:			
Drug Court Discretionary Grant Program		16.585	66,241
Maine Judicial Department:			
Drug Court Discretionary Grant Program		16.585	8,204
Total CFDA Number 16.585			<u>74,445</u>
Violence Against Women Formula Grants		16.588	94,160
Rural Domestic Violence/Child Victimization		16.589	898,732
Passed-through:			
Maine Judicial Department:			
Grants to encourage arrest Policies & Enforcement of Protection Orders	304421	16.590	36,389
Maine Department of Human Services:			
Reduct & Prevent of Children’s Exposure to Violence		16.730	111,667
Washington-Hancock Community Agency:			
Reduct & Prevent of Children’s Exposure to Violence		16.730	7,083
Total CFDA Number 16.730			<u>118,750</u>
Total Department of Justice			<u>1,887,291</u>
U.S. Department of Labor:			
Passed-through:			
Stillwater Scientific Instruments:			
Department of Labor with No CFDA Number		17.000	44,516
Total Department of Labor			<u>44,516</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. Department of Transportation:			
Federal Highway Admin Awards with No CFDA Number		20.000	\$ 294,894
Passed-through:			
Maine Department of Transportation:			
Federal Highway Admin Awards with No CFDA Number		20.000	131,740
Total CFDA Number 20.000			<u>426,634</u>
Passed-through:			
Ohio Department of Transportation:			
Highway Planning & Construction	OSP99117	20.205	(11,853)
Maine Department of Conservation:			
Recreation Trails Program		20.219	37
Massachusetts Institute for Technology:			
University Transportation Centers Program	5710001750	20.701	18,708
University of Connecticut:			
University Transportation Centers Program		20.701	1,247
Total CFDA Number 20.701			<u>19,955</u>
Total Department of Transportation			<u>434,773</u>
U.S. NASA:			
NASA Awards with No CFDA Number		43.000	88,885
Passed-through:			
Ohio State University:			
NASA Awards with No CFDA Number		43.000	13,922
Maine Space Grant Consortium:			
NASA Awards with No CFDA Number		43.000	53,285
Duke University:			
NASA Awards with No CFDA Number	05-SC-NASA-1009	43.000	78,979
Total CFDA Number 43.000			<u>235,071</u>
Aerospace Educational Services Program		43.001	153,295
Passed-through:			
Maine Space Grant Consortium:			
Aerospace Educational Services Program		43.001	18,531
Total CFDA Number 43.001			<u>171,826</u>
Technology Transfer		43.002	253,263
Passed-through:			
California Institute of Tech Jet Prop Lab:			
Technology Transfer		43.002	11,153
Maine Space Grant Consortium:			
Technology Transfer	MSGC#SG-05-12	43.002	14,995
Monterey Bay Aquarium Res Inst:			
Technology Transfer		43.002	12,185
Total CFDA Number 43.002			<u>291,596</u>
Total NASA			<u>698,493</u>
National Endowment for the Humanities:			
Promotion of Humanities-Preservation/Access		45.149	128,351
Promotion of The Humanities Research		45.161	14,481
Total National Endowment for the Humanities			<u>142,832</u>
Institute of Museum and Library Services:			
Institute of Museum & Library Service Awards with No CFDA Number		45.300	157,618
Total Institute of Museum and Library Services			<u>157,618</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. National Science Foundation:			
National Science Foundation Awards with No CFDA Number		47.000	\$ 266,670
Engineering Grants		47.041	1,092,216
Mathematical and Physical Sciences		47.049	140,308
Geosciences		47.050	1,609,077
Passed-through:			
Woods Hole Oceanographic Inst:			
Geosciences		47.050	58,243
Smithsonian Institution:			
Geosciences		47.050	(62)
University of Washington:			
Geosciences	652267	47.050	80,770
Stanford University:			
Geosciences	30342-A	47.050	23,311
University of New England:			
Geosciences	OCE-043579	47.050	30,957
Total CFDA Number 47.050			<u>1,802,296</u>
Comp/Information Science and Engineering		47.070	610,898
Biological Sciences		47.074	2,030,762
Passed-through:			
University of Mass-Amherst:			
Biological Sciences	03-002182 A 00	47.074	10,076
Arizona State University:			
Biological Sciences	03-059	47.074	40,644
University of Alabama:			
Biological Sciences	99-006	47.074	1,826
University of Colorado:			
Biological Sciences		47.074	16,330
Total CFDA Number 47.074			<u>2,099,638</u>
Social, Behavioral & Economic Sciences		47.075	363,628
Education and Human Resources		47.076	3,281,173
Passed-through:			
Northeastern Illinois University:			
Education and Human Resources	35202	47.076	1,019
Kennebec Valley Community College			
Education and Human Resources		47.076	31,096
Total CFDA Number 47.076			<u>3,313,288</u>
Polar Programs		47.078	1,143,147
Passed-through:			
Boston University:			
Polar Programs	GC186067NGA	47.078	2,183
CRREL:			
Polar Programs	W913E5-04-P0063	47.078	2,921
Oregon State University:			
Polar Programs	S0793A-B	47.078	18,668
Total CFDA Number 47.078			<u>1,166,919</u>
Total National Science Foundation			<u>10,855,861</u>
U.S. Environmental Protection Agency:			
Passed-through:			
Maine Department of Human Services:			
EPA Awards with No CFDA Number		66.000	1,989
Total CFDA Number 66.000			<u>1,989</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Surveys, Studies, Investigations, Demonstrations, and Training Grants		66.436	\$ 5,868
National Estuary Program		66.456	16,559
Wetlands		66.461	7,645
Passed-through:			
Maine Department of Human Services:			
Capitalization Grants For Drinking Water		66.468	6,198
Maine State Planning Office:			
Beach Monitoring and Notification Program Implementation Grants		66.472	13,774
Envir. Protection – Consolidated Research		66.500	150,071
Passed-through:			
Maine Department of Conservation:			
Envir. Protection – Consolidated Research		66.500	62,878
NH Dept of Environmental Serv:			
Envir. Protection – Consolidated Research		66.500	28,156
Total CFDA Number 66.500			<u>241,105</u>
Science to Achieve Results (STAR) Program		66.509	212,603
Passed-through:			
Fisher Charitable Foundation:			
Environmental Justice Grant Small Comm Grp		66.604	(169)
Maine Department of Environmental Protection:			
Performance Partnership Grants		66.605	11,714
Surveys, Studies, Investing and Spec Purp		66.606	62,918
Passed-through:			
City of Portland, Maine:			
Surveys, Studies, Investing and Spec Purp		66.606	27,465
Total CFDA Number 66.606			<u>90,383</u>
Training and Fellowships for the EPA		66.607	535
Pesticide Environmental Stewardship		66.714	8,221
Environmental Education and training Program		66.950	11,318
Environmental Education Grants		66.951	1,932
Total Environmental Protection Agency			<u>629,675</u>
U.S. Department of Energy			
Passed-through:			
Brigham Young University:			
Department of Energy Awards with No CFDA Number	02-0098	81.000	81,879
Maine Technology Institute:			
Department of Energy Awards with No CFDA Number		81.000	30,637
Total CFDA Number 81.000			<u>112,516</u>
Office of Science Financial Assistance Program		81.049	147,111
Passed-through:			
American Physical Society		81.049	5,445
Total CFDA Number 81.049			<u>152,556</u>
Office of Scientific and Technical Information		81.064	147,671
Passed-through:			
University of Utah:			
Regional Biomass Energy Programs	2202072	81.079	22,130
Harvard University:			
Conservation Research and Development		81.086	133,443
Renewable Energy R&D		81.087	160,138
Total Department of Energy			<u>728,454</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
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Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. Department of Education			
Passed-through:			
Center for Applied Special Tech:			
Department of Education Awards W/No CFDA Number		84.000	\$ 105,241
Maine Department of Education:			
Special Education – Grants to States	01305A715512	84.027	394,253
National Res Center Fellow Prog for Language		84.015	78,052
Passed-through:			
Maine Dept of Behavioral & Developmental Ser.:			
Safe and Drug-Free Schools & Communities			
National Programs		84.184	13,780
Bilingual Education – Professional Development		84.195	365,464
Fund for the Improvement of Education		84.215	245,896
Passed-through:			
Maine Humanities Council:			
Fund for the Improvement of Education		84.215	27,671
Total CFDA Number 84.215			<u>273,567</u>
Passed-through:			
Maine Department of Education:			
Education Technology State Grants	01305A100607	84.318	472,915
Special Ed Research & Innovation to Improve Services			
for Children with Disabilities		84.324	2,896
Special Ed Personnel Prep-Children W/Disab		84.325	299,591
Passed-through:			
Maine Department of Education:			
Advanced Placement Program	01305A510562	84.330	119,593
Total Department of Education			<u>2,125,352</u>
U.S. Department of Health and Human Services:			
Department of Human Services Awards with no CFDA Number		93.000	7,243
Passed-through:			
Eastern Area Agency on Aging:			
Department of Health and Human Services Awards with			
no CFDA Number		93.000	18,545
Betah Associates, Inc:			
Department of Health and Human Services Awards with			
no CFDA Number		93.000	10,501
Harvard University:			
Department of Health and Human Services Awards with			
no CFDA Number	T42CCT122961	93.000	7,500
Kennebec Somerset Access:			
Department of Health and Human Services Awards with			
no CFDA Number		93.000	30,000
Maine Department of Behavioral & Development Svcs:			
Department of Health and Human Services Awards with			
no CFDA Number		93.000	736,481
Total CFDA Number 93.000			<u>810,270</u>
Special Program for Aging – Title IV		93.048	(1,824)
Passed-through:			
Maine Department of Human Services:			
Special Program for Aging – Title IV		93.048	25,537
Total CFDA Number 93.048			<u>23,713</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Maine Department of Human Services:			
Demonstration Grants – Alzheimers Disease		93.051	\$ 156,434
Maternal and Child Health Cons Program		93.110	186,187
Applied Toxicological Research and Testing		93.114	421,803
Rural Health Research Centers		93.155	402,422
Passed-through:			
University of North Carolina at Chapel Hill:			
Rural Health Research Centers		93.155	10,386
University of North Dakota:			
Rural Health Research Centers		93.155	2,007
University of Nebraska Medical Center:			
Rural Health Research Centers	34-5180-2007-004	93.155	57,843
Total CFDA Number 93.155			<u>472,658</u>
Human Genome Research		93.172	66,179
Passed-through:			
Griffin Hospital:			
Research & Training in Complementary & Alternative Medicine		93.213	5,170
Peoples Regional Opportunity Program:			
Family Planning Services		93.217	12,162
University of Minnesota:			
Development & Coordination of Rural Health Services	S6656567201	93.223	303,099
Maine Medical Center:			
Research on Healthcare Costs, Quality & Outcomes		93.226	7,925
Maine Department of Health/Mental Retardation:			
Consolid Knowledge Develop and Applic Program		93.230	40,811
Brain Injury Association of Maine:			
Traumatic Brain Injury State Demonstration Grant		92.234	6,000
New Hampshire Department of Health & Human Services:			
State Rural Hospital Flexibility Program		93.241	12,554
Maine Dept of Behavioral & Developmental Services:			
Mental Health Research Grants		93.242	9,151
Maine Judicial Department:			
Substance Abuse and Mental Health Services		93.243	51,664
Maine Dept of Human Services			
State Planning Grant-Health Care Access for the Uninsured		93.256	206,509
Alcohol Research Programs		93.273	115,405
Centers for Disease Ctrl & Prev – Invest & Tech		93.283	105,858
Passed-through:			
University of GUAM:			
Centers for Disease Ctrl & Prev – Invest & Tech		93.283	26,510
Maine Department of Human Services:			
Centers for Disease Ctrl & Prev – Invest & Tech		93.283	5,672
Total CFDA Number 93.283			<u>138,040</u>
Passed through:			
MT Desert Island Biological Lab:			
National Center For Research Resources		93.389	104,364
Academic Research Enhancement Award		93.390	1,504
Passed-through:			
Mount Sinai School of Medicine:			
Cancer Cause & Prevention Research	0255-6155-4609	93.393	52,482
Cancer Treatment Research		93.395	67,106
Promoting Safe and Stable Families		93.556	720,313
Child Care & Development Block Grant		93.575	159,048
Social Services Research and Demonstration		93.647	118,833
Adoption Assistance		93.652	446,557

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Maine Department of Human Services:			
Adoption Assistance		93.652	\$ 503,937
Total CFDA Number 92.652			<u>950,494</u>
Passed-through:			
Maine Department of Human Services:			
Foster Care – Title IV		93.658	149,404
Medicaid Infrastructure Grants to Support Disabilities		93.768	195,302
Maine Department of Health/Mental Retard:			
Medical Assistance Program		93.778	150,485
Maine Department of Human Services:			
Medical Assistance Program		93.778	1,874,663
Total CFDA Number 93.778			<u>2,025,148</u>
Passed-through:			
Maine Dept of Behavioral & Developmental Services:			
Centers for Medicare and Medicaid Svcs		93.779	409,380
Maine Department of Health/Mental Retard:			
Centers for Medicare and Medicaid Svcs		93.779	44
Maine Department of Human Services:			
Centers for Medicare and Medicaid Svcs		93.779	1,041,413
Ind Living Res Utilization Ctr:			
Centers for Medicare and Medicaid Svcs		93.779	6,634
Rutgers Center For State Health Pol.:			
Centers for Medicare and Medicaid Svcs		93.779	17,939
Maine Executive Offices:			
Centers for Medicare and Medicaid Svcs		93.779	256,293
The Medstat Group:			
Centers for Medicare and Medicaid Svcs		93.779	79,675
Total CFDA Number 93.779			<u>1,811,378</u>
Heart and Vascular Disease Research		93.837	501,101
Passed-through:			
Trefoil Corp.:			
Center for Research for Mothers and Children		93.865	44,969
Vision Research		93.867	28,622
Passed-through:			
Maine Department of Human Services:			
HIV Demo Research, Public and Prof. Education		93.941	3,720
Block Grants for Prevention and Treatment of Substance Abuse		93.959	13,181
Preventive Health and Health Service Grant		93.991	66,015
Total Department of Health and Human Services			<u>10,058,718</u>
U.S. Department of Homeland Security:			
Department of Homeland Security with no CFDA		97.000	5,165
Total Department of Homeland Security			<u>5,165</u>
Total Research and Development Cluster			<u>49,138,420</u>
U.S. Department of Agriculture:			
Department of Agriculture Awards with No CFDA Number		10.000	6,022
Passed-through:			
University of Vermont:			
Department of Agriculture Awards with No CFDA Number		10.000	5,392
Total CFDA Number 10.000			<u>11,414</u>

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
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Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Agricultural Research – Basic and Applied Research		10.001	\$ 12,646
Passed-through:			
Pennsylvania State University:			
Plant and Animal Disease – Pest Control		10.025	108,689
Grants for Agriculture Research – Spec. Research		10.200	7,981
Passed-through:			
University of Mass – Dartmouth:			
Grants for Agriculture Research – Spec. Research		10.200	71,742
Total CFDA Number 10.200			<u>79,723</u>
Payments to 1890 Land Grant Colleges		10.205	5,369
Passed-through:			
Cornell University:			
Homeland Security – Agricultural	42681-7234	10.304	20,134
Crop Insurance		10.450	154,745
Cooperative Extension Services		10.500	7,999,096
Passed-through:			
Michigan State University:			
Cooperative Extension Services	61-4001C	10.500	1,235
Total CFDA Number 10.500			<u>8,000,331</u>
Food Donation		10.550	22,725
Passed-through:			
Maine Department of Human Services:			
Special Supplemental Nutrition – Women, Children		10.557	74,476
Passed-through:			
Maine Department of Education:			
Team Nutrition	01305A714164	10.574	87,466
Maine Department of Human Services:			
Team Nutrition		10.574	33,948
Total CFDA Number 10.574			<u>121,414</u>
Cooperative Forestry Assistance		10.664	32,715
Rural Business Enterprise Grants		10.769	41,735
Distance Learning & Telemedicine Loans and Grants		10.855	164,413
Total U.S. Department of Agriculture			<u>8,850,529</u>
U.S. Department of Commerce:			
Passed-through:			
Eastern Maine Development Corp:			
Department of Commerce Awards with no CFDA Number		11.000	63
Gulf of Maine Cncl on Marine Env:			
Department of Commerce Awards with no CFDA Number		11.000	25,000
Gulf of Maine Ocean Observing System			
Department of Commerce Awards with no CFDA Number		11.000	2,098
Maine State Planning Office:			
Department of Commerce Awards with no CFDA Number	G405058	11.000	20,000
Total CFDA Number 11.000			<u>47,161</u>
Sea Grant Support		11.417	1,106
Passed-through:			
Maine State Planning Office:			
Coastal Zone Management Admin Awards		11.419	11,095

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
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<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Maine Department of Corrections: Coastal Zone Management Admin Awards		11.552	\$ 20,250
Maine Executive Office: Coastal Zone Management Admin Awards		11.552	21,253
Total CFDA Number 11.552			<u>41,503</u>
Total Department of Commerce			<u>100,865</u>
U.S. Department of Defense: Department of Defense Awards with No CFDA Number		12.000	187,277
Passed-through: Bath Iron Works			
Department of Defense Awards with No CFDA Number	A-5723-H22	12.000	123,029
Total CFDA Number 12.000			<u>310,306</u>
Passed-through: Eastern Maine Development Corporation: Procurement Technical Assistance for Business Firms		12.002	6,380
Total Department of Defense			<u>316,686</u>
U.S. Department of Housing and Urban Development: Community Development Block Grants		14.246	330,471
Total Department of Housing and Urban Development			<u>330,471</u>
U.S. Department of Justice: Passed-through:			
Maine Department of Human Services: State and Local Domestic Preparedness Technical Assistance		16.010	184,341
Maine Department of Corrections: Offender Re-entry Program		16.202	28,531
Juvenile Accountability Incentive Block Grant:		16.523	109,489
Legal Assistance for Victims		16.524	134,648
Grants to Reduce Violent Crimes Against Women on Campus		16.525	51,989
Technical Assistance and Training Initiative		16.526	111,216
Passed-through:			
Maine Department of Corrections: Juvenile Justice and Delinquency Development		16.540	(1,601)
Maine Department of Corrections: State Justice Stat. Program for Stat. Analysis Centers		16.550	53,711
Edward Byrne Memorial State & Local Law Enf. Assistance Discretionary Grants Prog.		16.580	75,317
Passed-through:			
Maine Department of Human Services: Crime Victim Assistance/Discretionary Grants		16.582	75,729
Rural Domestic Violence – Child Victimization		16.589	386,843
Passed-through:			
Justice Research & Stat Assoc: Community Capacity Development Office		16.595	100
Corrections-Research & Evaluation & Policy Formulatio		16.602	11,620
Community Prosecution and Project Safe Neighborhoods		16.609	50,075
Passed-through:			
Maine Department of Public Safety: Community Prosecution and Project Safe Neighborhoods		16.609	194
Total CFDA Number 16.609			<u>50,269</u>
Total U.S. Department of Justice			<u>1,272,202</u>
U.S. Department of Labor: Passed-through:			
IMPAQ International, LLC: Dept of Labor Awards with No CFDA Number		17.000	302,044

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<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Maine Department of Labor: Unemployment Insurance Administration		17.225	\$ 58,593
ETA Employment and Training – Assist Dislocated Workers		17.246	10,083
Passed-through:			
Maine Department of Labor: Employment & Training Admin Pilots, Demonstrations, & Research Projects		17.261	9,573
Occupational Safety & Health Training & Education		17.502	77,681
Total U.S. Department of Labor			<u>457,974</u>
U.S. Department of Transportation			
Passed-through:			
Maine Department of Transportation: University Transportation Centers Program		20.701	25,399
Total U.S. Department of Transportation			<u>25,399</u>
U.S. NASA:			
Passed-through:			
Space Telescope Science Institute: NASA with no CFDA Number		43.000	23,039
Museum of Science: NASA with no CFDA Number		43.000	32,650
Total CFDA Number 43.000			<u>55,689</u>
Maine Space Grant Consortium: Technology Transfer Program		43.002	380
Total NASA			<u>56,069</u>
National Endowment for the Arts			
Promotion of Arts: Grants to Organizations & Individuals		45.024	20
Total National Endowment for the Arts			<u>20</u>
National Endowment for the Humanities			
Passed-through:			
Maine Humanities Council: Promotion of the Humanities – Federal/State Partnership		45.129	7,337
Total National Endowment for the Humanities			<u>7,337</u>
Institute of Museum and Library Services			
National Leadership Grants		45.312	275,658
Total Institute of Museum and Library Services			<u>275,658</u>
U.S. National Science Foundation:			
Passed-through:			
University of Massachusetts: National Science Foundation with no CFDA Number		47.000	2,055
Mathematical & Physical Sciences		47.049	7,223
Geosciences		47.050	15,289
Comp/Information Science and Engineering		47.070	11,276
Education and Human Resources		47.076	1,492,070
Passed-through:			
Maine Math and Science Alliance: Education and Human Resources		47.076	979,974
Tennessee Technological University: Education and Human Resources		47.076	20,500
Total CFDA Number 47.076			<u>2,492,544</u>
Total National Science Foundation			<u>2,528,387</u>

**UNIVERSITY OF MAINE SYSTEM**  
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Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. Small Business Administration: Small Business Development Center		59.037	\$ 534,980
Total U.S. Small Business Administration			<u>534,980</u>
U.S. Department of Veteran Affairs: Post-Vietnam Era Vets Educational Assist		64.120	193,658
Total Department of Veteran Affairs			<u>193,658</u>
U.S. Environmental Protection Agency: Surveys, Studies, Investigations, Demonstrations, and Training Grants		66.436	7,305
National Estuary Program		66.456	446,207
Passed-through:			
Maine Executive Office:			
Beach Monitoring & Notification Program Implementation Grants		66.472	139,595
P3 Award – National Student Design Competition For Sustainability		66.516	6,624
Surveys, Studies, Investing and Spec Purp		66.606	267,919
Passed-through:			
Maine State Planning Office:			
Surveys, Studies, Investing and Spec Purp	07BG103119	66.606	(2,904)
Total CFDA Number 66.606			<u>265,015</u>
Environmental Education & Training Program		66.950	223,695
Environmental Education Grants		66.951	1,041
Total Environmental Protection Agency			<u>1,089,482</u>
U.S. Department of Energy: Passed-through:			
Maine Department of Economic & Community Development: State Energy Program Special Projects		81.119	48,295
Total U.S. Department of Energy			<u>48,295</u>
U.S. Department of Education: Passed-through:			
Maine Department of Education: Adult Education – State Grant Program	01305A629564	84.002	126,805
Maine Community College System: Vocational Education – Basic Grants to State		84.048	117
Maine Department of Education: Vocational Education – Basic Grants to State	01305A515908	84.048	117,726
Total CFDA Number 84.048			<u>117,843</u>
National Res. Center Fellow Program for Language Overseas-Group Projects Abroad		84.015	243,119
Passed-through:		84.021	62,152
Rochester Institute of Technology Spec. ED-Postsec. ED Prog. for Persons with Disabilities		84.078	29,766
Funds for Improvements of Postsecondary Education		84.116	1,575,399
Passed-through:			
City College of New York: Funds for Improvements of Postsecondary Education	46141-00-01F	84.116	1,985
University of New Hampshire: Funds for Improvements of Postsecondary Education	01-477	84.116	3,352
University of Missouri: Funds for Improvements of Postsecondary Education	C00005734-4	84.116	8,074
Total CFDA Number 84.116			<u>1,588,810</u>
Rehabilitation Long-Term Training		84.129	184,356

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Maine Department of Corrections:			
Removal of Architectural Barriers to the Handicapped		84.155	\$ 12,281
Drug Free Schools & Communities		84.184	1
Passed-through:			
Maine Department of Behavioral and Developmental Services			
Drug Free Schools & Communities		84.184	152,616
Total CFDA Number 84.184			<u>152,617</u>
Bilingual Education – Professional Development		84.195	324,508
Passed-through:			
Maine Department of Education:			
Even Start State Education Agencies	01305A110213	84.213	177,131
Fund for the Improvement of Education		84.215	62,941
Passed-through:			
Maine Department of Education:			
Fund for the Improvement of Education	01305A502163	84.215	20,779
Total CFDA Number 84.215			<u>83,720</u>
Passed-through:			
Maine Department of Education:			
Assistive Technology	01305A632237	84.224	373,212
Maine Department of Corrections:			
Literacy Programs for Prisoners		84.255	4,915
Maine Department of Education:			
Twenty First Century Community Learning Centers	01305A110213	84.287	22,706
A. McMullen & J. Benetar:			
Local Innovations – Challenge Grants		84.303	7,799
Maine Department of Education:			
Special Education-State Program Improvement Grants	01305A632814 / 01305A632914	84.323	100,087
Special Ed Res. & Innovat. Child Disabilities		84.324	27,121
Passed-through:			
Multiple School Districts:			
Comprehensive School Reform Demonstration		84.332	165,618
Early Awareness and Readiness – Undergrad Prog.		84.334	135,079
Passed-through:			
Maine Department of Education:			
Early Awareness and Readiness – Undergrad Prog.	01305A634113	84.334	6,170
Total CFDA Number 84.334			<u>141,249</u>
Child Care Access Means Parents in School		84.335	59,921
Passed-through:			
Maine Department of Education:			
Teacher Quality Enhancement Grants	01305A514265	84.336	7,467
Preparing Tomorrows Teachers to Use Tech.		84.342	62,153
Transition to Teaching		84.350	113,074
Passed-through:			
Maine Math & Science Alliance:			
Improving Teacher Quality State Grants		84.367	12,029
University of California at Berkley:			
National Writing Project	98-ME01	84.928	45,185
Total Department of Education			<u>4,245,644</u>
U.S. National Archives and Records Administration:			
National Historical Publications and Records Grants		89.003	37,753
Total National Archives and Records Administration			<u>37,753</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. Department of Health and Human Services:			
Department of Health and Human Services Awards with No CFDA Number		93.000	\$ 28,950
Passed-through:			
Maine Department of Behavioral and Developmental Services: Department of Health and Human Services Awards With No CFDA Number		93.000	1,802
Maine Executive Office: Department of Health and Human Services Awards With No CFDA Number		93.000	18,350
Western Maine Access: Department of Health and Human Services Awards With No CFDA Number		93.000	28,809
Total CFDA Number 93.000			77,911
Passed-through:			
Southern Maine Agency on Aging: Special Programs for the Aging – Title IV		93.048	24,405
Maine Department of Behavioral and Developmental Services: Grants for Tech Assistance Activities – Block Grant for Comm Mental Health		93.119	35,549
Maine Department of Human Services: Injury Prevention & Control Research & State & Comm Based Programs		93.136	54,877
Allied Health Project Grants		93.191	60,046
Passed-through:			
Maine Department of Human Services: Substance Abuse & Mental Health Svcs Projects		93.243	35,075
Centers for Disease Control and Prev – Invest and Tech		93.283	1,084,573
Maine Department of Behavioral and Developmental Services: Mental Health Clinical and Aids Service – Training		93.244	(1,473)
National Collegiate Athletic Association President’s Council on Physical Fitness and Sports		93.289	(3,601)
Advanced Education Nursing Traineeships		93.358	70,922
Nurse Education, Practice & Retention Grants		93.359	236,913
Food Safety and Security Monitoring Project		93.448	15,505
Passed-through:			
Maine Department of Human Services: Temporary Assistance for Needy Families		93.558	131,565
Child Support Enforcement		93.563	(1,706)
Community Services Block Grant		93.569	728,467
Passed-through:			
National Collegiate Athletic Association Community Services Block Grant Discretionary Awards		93.570	78,012
Nat’l Youth Sports Corp: Community Services Block Grant Discretionary Awards		93.570	37,162
Total CFDA Number 93.570			115,174
Passed-through:			
City of Lewiston: Refugee & Entrant Assistance – Discretionary Awards		93.576	527
Early Learning Fund		93.577	9,500
Passed-through:			
Coastal Access Local Council: Early Learning Fund		93.577	284,544
Franklin County Children’s Task Force: Early Learning Fund		93.577	30,021
Kennebec Valley Comm Action Program: Early Learning Fund		93.577	203,537
Western Maine Access: Early Learning Fund		93.577	103,619
Western Maine Centers for Children: Early Learning Fund		93.577	32,518
Total CFDA Number 93.577			663,739

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Catholic Charities of Maine:			
Refugee & Entrant Assistance Targeted Assist		93.584	\$ 32,341
Maine Department of Human Services:			
Family Violence Prevention & Services Grants for Battered Women's Shelters		93.592	12,387
Glenwood Research:			
Head Start		93.600	30,331
Maine Department of Human Services:			
Head Start		93.600	10,514
Total CFDA Number 93.600			<u>40,845</u>
Passed-through:			
Penquis Cap, Inc:			
Assets for Independence Demonstration Program		93.602	1,744
University Centers for Excellence in Developmental Disabilities Ed, Res, and Svc			
		93.632	423,472
Passed-through:			
Maine Department of Human Services:			
Children's Justice Grants to States		93.643	158,974
Social Services Research & Demonstration		93.647	160,241
Child Welfare Services Training Grants		93.648	283,013
Passed-through:			
Colorado Department of Human Services:			
Foster Care – Title IV(E)		93.658	17,246
Maine Department of Human Services:			
Foster Care – Title IV(E)		93.658	2,952,539
Total CFDA Number 93.658			<u>2,969,785</u>
Colorado Department of Human Services:			
Social Services Block Grant	04 IHA 00039/05 IHA 00063	93.667	1,773,718
Maine Department of Human Services:			
Social Services Block Grant		93.667	2,217,850
Total CFDA Number 93.667			<u>3,991,568</u>
Passed-through:			
Maine Department of Human Services:			
Foster Care Independence Program		93.674	417,891
Maine Dept of Behavioral & Developmental Services:			
Centers for Medicare & Medicaid Services Res., Demonstrations & Eval.		93.779	2,152,598
Rutgers Center for State Health:			
Centers for Medicare & Medicaid Services Res., Demonstrations & Eval.		93.779	117,422
Total CFDA Number 93.779			<u>2,270,020</u>
Passed-through:			
Maine Department of Behavioral & Developmental Services:			
Block Grants for Prevention & Treatment of Substance Abuse		93.959	16,341
Maine Department of Human Services:			
Preventive Health & Health Services Block Grant		93.978	72,801
Total Department of Health and Human Services			<u>14,179,891</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. Corp. for National and Community Service Retired and Senior Volunteer Program		94.002	\$ 57,715
Passed-through:			
Maine Campus Compact:			
Learn & Serve America-Higher Education		94.005	2,449
Maine State Planning Office:			
Americorps		94.006	9,372
Maine State Planning Office:			
Planning and Program Development Grants		94.007	121,325
Volunteers in Service to America		94.013	313,267
Passed-through:			
Maine State Planning Office:			
Volunteers in Service to America		94.013	325,461
Total CFDA Number 94.013			<u>638,728</u>
Total Corp. for National and Community Service			<u>829,589</u>
U.S. Department of Homeland Security			
Passed-through:			
Maine Department of Defense:			
State Domestic Preparedness Equipment Support Program		97.004	168,290
Maine State Planning Office:			
Citizen Corp		97.053	4,011
Total Department of Homeland Security			<u>172,301</u>
Total Federal Expenditures			<u>\$ 226,428,568</u>

UNIVERSITY OF MAINE SYSTEM

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(1) **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the University of Maine System (the System) and is presented on the accrual basis of accounting. The System is the subrecipient of federal funds, primarily from the State of Maine, which are separately identified and reported as expenditures and listed as federal pass-through funds on the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Certain federal grants and contracts have been over-expended in prior years and are reflected by negative expenditures in the accompanying schedule of expenditures of federal awards. All over-expenditures on federal grants and contracts are funded by the System and the negative amount represents the transfer of expenditures to the System to effectively close the grant or contract.

This report includes the seven campuses of the System and the administrative and management offices of the System (System-Wide Services). The seven campuses and their respective federal identification numbers are as follows:

University of Maine at Augusta (UMA)	1-01-600-0769-A3
University of Maine at Farmington (UMF)	1-01-600-0769-B1
University of Maine at Fort Kent (UMFK)	1-01-600-0769-A5
University of Maine at Machias (UMM)	1-01-600-0769-A9
University of Maine (UM)	1-01-600-0769-A2
University of Maine at Presque Isle (UMPI)	1-01-600-0769-A6
University of Southern Maine (USM)	1-01-600-0769-A8

(2) **Loans Outstanding**

The System had the following loan balances outstanding at June 30, 2005:

Cluster/program title	Federal CFDA number	Amount outstanding
Perkins Loan Program	84.038	\$ 34,195,596
Nursing Loan Program	93.364	1,273,873

Loan balances receivable under the Federal Family Education Loan Program and the William D. Ford Direct Loan Program are not available.

**UNIVERSITY OF MAINE SYSTEM**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

**(3) Subrecipient Expenditures**

Certain funds are passed through to sub-grantee organizations by the System. Expenditures incurred by the sub-grantees and reimbursed by the System are included in the schedule of expenditures of federal awards. It is not practicable to report the amounts of expenditures passed through to each sub-grantee for purposes of this report. In fiscal 2005, subrecipient expenditures totaled \$5,925,531.

**(4) Indirect Costs**

The System has provisional fixed indirect cost rates that are effective from July 1, 2003 through when the amended rates are received. These rates were based on 1999 financial information. The base rate for on-campus research is 47%. Base rates for other indirect cost recoveries range from 21.8% to 56.7%. The System is in the process of negotiating new rates for the three-year period FY2006 to FY2008.