



**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, 2003

**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, 2003

**Table of Contents**

Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	Exhibit I
Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with <i>Government Auditing Standards</i>	Exhibit II
Schedule of Findings and Questioned Costs	Exhibit III
Financial Statements and Supplementary Information – Schedule of Expenditures of Federal Awards	Exhibit IV



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**Auditors' 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, 2003, except for those requirements discussed in the third following paragraph. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of 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.

In our opinion, the University of Maine 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, 2003, other than those requirements discussed in the following paragraph. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs (Exhibit III) as items 03-01 through 03-05.

We did not audit the System's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments of the Federal Perkins, Health Professions, Primary Care, and Nursing Loan Programs. Those requirements govern functions that are performed by AMS Servicing Group (AMS). Since we did not apply auditing procedures to satisfy





## Exhibit I

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.

AMS's 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 major programs 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 maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments in accordance with specific requirements of the Federal Perkins, Health Professions, Primary Care, and Nursing Loan Programs are performed by AMS. 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 AMS.

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. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-01, 03-02, and 03-05.



## Exhibit I

A material weakness is a 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 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 that are also considered to be material weaknesses. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, and 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

March 12, 2004



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**Auditors' Report on Compliance and on Internal Control over  
Financial Reporting in Accordance with *Government Auditing Standards***

The Board of Trustees  
University of Maine System:

We have audited the financial statements of the University of Maine System (the System) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 10, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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 grants, 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 that are required to be reported under *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 opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

This report is intended solely for the information and use of the Board of Trustees, management, and 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**

October 10, 2003



UNIVERSITY OF MAINE SYSTEM

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (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 federal awards expressed an unqualified opinion.
- (g) The audit disclosed findings which 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>
Student Financial Aid Cluster	84.007, 84.032, 84.033, 84.038, 84.063, 84.268 and 93.364
TRIO Cluster	84.042, 84.044, 84.047 and 84.066
Cooperative Extension Services	10.500

- (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 Findings and Questioned Costs

Year ended June 30, 2003

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Reference Number:** 03-01

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

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

**Program:** Student Financial Aid Cluster – Federal Family Education Loans (FFELP), Federal Direct Student Loans (Direct), and Federal Perkins Loan Program (Perkins)

**Compliance Requirement:** Eligibility

**Description:**

If a student ceases enrollment without performing an exit interview and has received either a FFELP, Direct or Perkins loan, 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 136 total students selected for eligibility and refund testing in our audit, we noted one student (Orono campus) for whom an exit interview was required but was not evidenced by documentation in the files. We also noted twenty-two students at three campuses (August, Machias, Southern Maine) that did not have an exit interview performed in a timely manner.

**Questioned Costs:** None.

**Recommendation:**

The System should strengthen its 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 to ensure that the System is in compliance with the federal requirements regarding exit interviews.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Findings and Questioned Costs

Year ended June 30, 2003

<b>Reference Number:</b>	03-02
<b>Federal Agency:</b>	U.S. Department of Education
<b>CFDA Numbers:</b>	84.032, 84.063, 84.007
<b>Program:</b>	Student Financial Aid Cluster – Federal Family Education Loan Program (FFELP), Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant Program (SEOG)
<b>Compliance Requirement:</b>	Special Tests and Provisions – Refunds

**Description:**

If a student officially or unofficially withdraws, is expelled, or takes a leave of absence, refunds of aid are required to be made to the Federal aid program account within 30 days or returned to the appropriate FFELP lender within 60 days of when the student leaves the institution. In addition, if a student's or parent's loans result in a credit balance in his or her account, unless otherwise authorized, the institution must refund the amount to the student or parent within 14 days of when the credit balance arose.

- We noted three campuses (Machias, Orono, and Southern Maine) at which federal refund calculations were performed incorrectly, requiring subsequent adjustments. At Machias in particular, the calendar in the refund software was set up incorrectly, resulting in errors (we noted nine individuals in our sample of 10 at that campus who had incorrect calculations because of the error). The funds were properly returned, but not within the required timeframe.
- We also noted two students at one campus (Machias) whose refunds were made more than 30 days after their credit balances arose. In neither case did the students authorize the balances to be withheld.

**Questioned Costs:** None.

**Recommendation:**

Policies and procedures to determine the amount of funds to be returned to the applicable parties within the required timeframes should be strengthened through formal weekly reviews, including periodic review of attendance records, of all student activities that could trigger a refund calculation. In addition, we recommend that a campus person, other than the person setting up the calendar in the software, review the calendar setup to ensure correct entry of dates. In addition, campuses should manually recalculate refunds on a test basis by comparing results to the refunds calculated using the software to further ensure accuracy.

We also recommend that the campuses develop policies and procedures to regularly monitor credit balances in student accounts so that refunds may be made within the statutory 14-day limit.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

**Reference Number:** 03-03  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.033  
**Program:** Student Financial Aid Cluster – Federal Work-Study Program (FWS)  
**Compliance Requirement:** Eligibility

**Description:**

Federal regulations require employers to complete Section 2 of the I-9 form by examining evidence of identity 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.

We noted three students (at the Augusta, Orono and Southern Maine campuses) out of a total of 14 tested who received FWS whose required documents were not turned in within the statutory timeframe and whose I-9 forms were not completed until several weeks after they began working under FWS.

**Questioned Costs:** None.

**Recommendation:**

We suggest that the campuses strengthen policies and procedures by reminding students that all required forms must be completed and submitted before they begin to work. In addition, supervisors should be required to sign off on all necessary paperwork prior to the student being scheduled for work, and the payroll department should not process payroll for any student whose forms are not completed and approved according to policy.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

**Reference Number:** 03-04

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

**CFDA Number:** 84.032

**Program:** Student Financial Aid Cluster - Federal Family Education Loan Program (FFELP)

**Compliance Requirements:** Cash Management; Special Tests and Provisions – Disbursements

**Description:**

Per Federal regulations, schools have three business days to post loans to students’ accounts and then 10 business days to bring students into eligibility if they are temporarily ineligible. If the institution does not disburse FFELP loan proceeds to a student or parent in accordance with the statutory timeframes, it must return the funds to the lender no later than 10 business days after the funds were required to be disbursed.

We noted that one campus (Orono) receives electronic funds transfers (EFT) from lenders before many students have completed prerequisites, and that some of the EFT funds are held longer than allowed before returning the funds to lenders. For example, we noted that while approximately 93% of such funds relating to the spring 2003 semester were disbursed to student accounts within the mandatory three business-day timeframe, the remainder was not. Of the remainder, we noted that \$349,000 could not be posted at all, and was returned to the lender nearly two months later.

**Questioned Costs:** None.

**Recommendation:**

We recommend that before EFT occurs, the eligibility of all expected recipients should be re-evaluated. To the extent students are unable to meet the eligibility requirements within the 13 business days allowed, the funds should be returned promptly to the lender and the students should be required to re-apply for their loans.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

**Reference Number:** 03-05

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

**CFDA Number:** 84.032

**Program:** Student Financial Aid Cluster - Federal Family Education Loan Program (FFELP)

**Compliance Requirement:** Special Tests and Provisions - Student Status Changes

**Description:**

Per Federal regulations, schools must complete and return within 30 days of receipt student status confirmation reports sent by the National Student Loan Data System (NSLDS). Unless the school expects to complete its next student status report within 60 days, the school must notify NSLDS within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis. The separation dates reported to the clearinghouse should be consistent with the System's records.

Through review of either documentation within the student's file or through review of the NSLDS website, we noted two campuses (Augusta and Machias) that did not have procedures in place to ensure May graduates are submitted in a timely manner.

**Questioned Costs:** None.

**Recommendation:**

The System should take the necessary planning procedures to ensure the information can be reported to the clearinghouse within the federal deadlines.

**UNIVERSITY OF MAINE SYSTEM**

Financial Statements and Supplementary Information –  
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003



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## Independent Auditors' Report

The Board of Trustees  
University of Maine System:

We have audited the accompanying statements of net assets of the University of Maine System (the System), a component unit of the State of Maine, as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2003 and 2002, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2003, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (Schedule I) for the year ended June 30, 2003 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 audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**KPMG LLP**

October 10, 2003



UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis  
June 30, 2003 and 2002  
(In Thousands of Dollars)

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 an objective 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, 2003 and 2002. 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. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. As of July 1, 2001, the System adopted GASB Statements 34 and 35 and related standards, as described in the Notes to Financial Statements. The adoption of these changes resulted in financial statements with a single-column format. The objectives of these changes are to increase comparability, understandability, and relevance and to focus on the institution as a whole.

Revenues and expenses are categorized as either operating or nonoperating. Certain significant recurring revenues and expenses including state appropriations, gifts, investment income or loss, and interest expense are considered nonoperating. 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  
June 30, 2003 and 2002  
(In Thousands of Dollars)

**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, 2003, 2002, and 2001 is as follows:

<b>Condensed Net Assets Information</b>	2003	2002	2001
	(\$ in thousands)		
Current assets	\$ 155,174	\$ 152,253	\$ 143,449
Noncurrent assets:			
Endowment	78,344	77,435	87,919
Capital assets	395,695	356,995	326,471
Other noncurrent assets	89,732	109,272	83,512
<b>Total assets</b>	<b>718,945</b>	<b>695,955</b>	<b>641,351</b>
Current liabilities	54,726	56,289	49,776
Noncurrent liabilities:			
Long-term debt	122,557	126,764	85,222
Other noncurrent liabilities	65,641	57,921	54,561
<b>Total liabilities</b>	<b>242,924</b>	<b>240,974</b>	<b>189,559</b>
Net Assets:			
Invested in capital assets, net of related debt	304,930	285,320	268,984
Restricted - nonexpendable	44,225	42,470	42,286
Restricted - expendable	71,859	81,135	100,012
Unrestricted	55,007	46,056	40,510
<b>Total net assets</b>	<b>\$ 476,021</b>	<b>\$ 454,981</b>	<b>\$ 451,792</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 2003 increase of \$19,610 and the 2002 increase of \$16,336 in this category of net assets reflect the System's renewal and expansion of its capital assets to provide technologically advanced research and teaching facilities for its faculty and students.

Restricted-nonexpendable net assets represent the System's permanent endowment funds. The \$1,755 increase in 2003 and the \$184 increase in 2002 is the result of new gifts of \$2,022 and \$1,356, respectively, less various transfers and reclassifications including 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

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis  
June 30, 2003 and 2002  
(In Thousands of Dollars)

externally imposed conditions on spending. Increased spending for property, plant, and equipment is the primary driver behind the reductions in 2003 and 2002 of \$9,276 and \$18,877, respectively.

Although unrestricted net assets are not subject to externally imposed stipulations, a portion has been earmarked for various institutional programs. The increase in unrestricted net assets for 2003 and 2002 of \$8,951 and \$5,546, respectively, are attributable to Educational & General and Auxiliary Operations.

### **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 provides for an annual distribution of 5.5% of the average net market value of the endowment for the prior 12 quarters.

The System's endowment investments had a fair market value of \$78,344 at June 30, 2003, reflecting an increase of \$909 above the fair market value of \$77,435 at June 30, 2002. Gifts, charitable gift annuities, and investment income (net of investment fees) increased during 2003 as did spending for scholarships, operations, and various transfers. The System's endowment investments for 2002 reflected a loss of \$10,484 primarily as the result of declining market values.

The total return on the pooled endowments on a net of fees basis for 2003 was 4.8% as compared to (9.1%) for 2002. This increase in 2003 reflects the continued performance of the fixed income markets and modest returns in the equities market. The decrease in 2002 is primarily attributable to the significant declines suffered in the equities markets.

### **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 before depreciation totaled \$66,147 in 2003 – up from \$56,224 in 2002. Capital additions 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 2003 and 2002 were funded primarily with State of Maine capital appropriations and University of Maine System revenue bonds.

Of the total capital additions before depreciation for 2003, \$54,567 represented capital construction. Classroom construction or renovation included the Engineering/Science Research Complex, Hitchner Hall, and Aubert Hall at UM and the Bioscience Building and the Community Education Facility at USM. Sprinkler systems are being installed in residential halls across the System. Projects in progress also included the Enterprise Resource Planning (ERP) 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 2002, \$44,413 represented capital construction. Construction or renovations during 2002 included the projects listed above as well as the Doris Twitchell Allen Village – Phase II (UM) and Scott Hall (UMF) – both residential halls completed during 2003.

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis  
June 30, 2003 and 2002  
(In Thousands of Dollars)

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, 2003 and 2002 was \$128,117 and \$131,247, respectively. Of the total debt as of June 30, 2003, \$127,781 was in the form of bonds as compared to \$130,856 as of June 30, 2002. In January 2003 revenue bonds were issued to fund capital construction and to refund the outstanding 1993 Series A and B Revenue Bonds which will result in reduced debt service payments. The System continues to experience lower borrowing costs on the 2002 Series A Revenue Bonds (issued June 2002 - \$45,680) as a result of the associated interest rate swap agreement which reduced interest costs by \$1,057 during 2003.

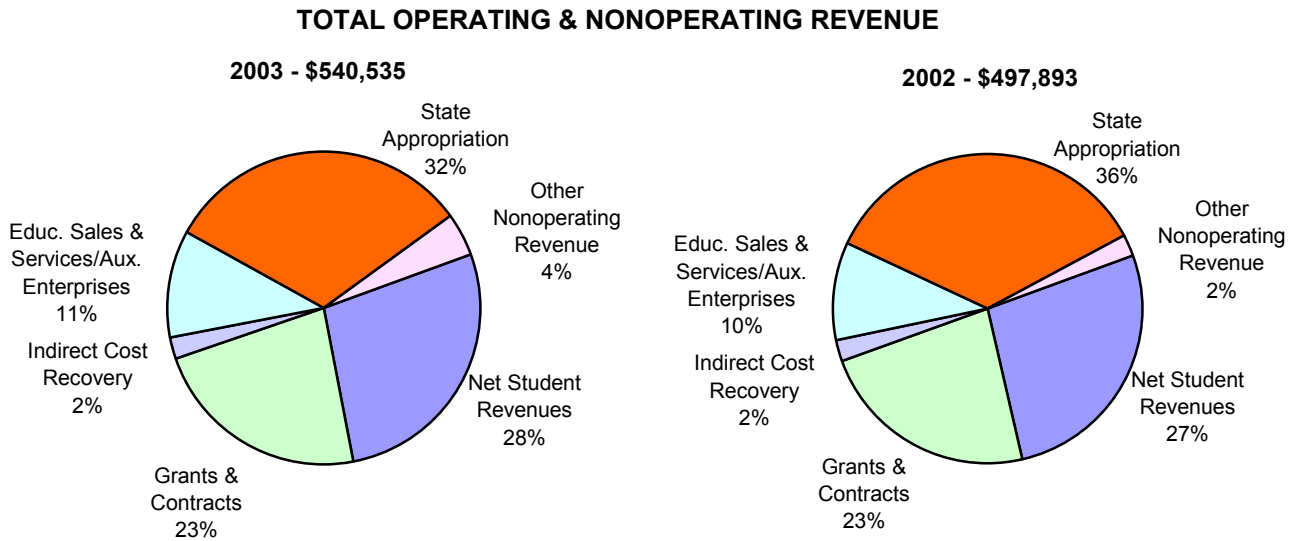
**Condensed Revenues, Expenses, and Changes in Net Assets**

	2003	2002	2001
	(\$ in thousands)		
Operating Revenues:			
Net student revenues	\$ 149,045	\$ 134,612	\$ 123,395
Grants and contracts	122,439	113,550	104,099
Indirect cost recovery	11,546	10,816	9,243
Educational sales and services & Other auxiliary enterprises	59,937	51,216	49,059
Interest income on loans	725	739	725
Total operating revenues	<u>343,692</u>	<u>310,933</u>	<u>286,521</u>
Operating Expenses	<u>531,448</u>	<u>498,322</u>	<u>472,011</u>
Net operating loss	<u>(187,756)</u>	<u>(187,389)</u>	<u>(185,490)</u>
Non-operating revenues (expenses):			
State appropriation - general	173,050	176,388	169,319
Gifts	11,801	11,037	10,284
Endowment income (loss)	2,893	(7,067)	(7,474)
Investment income	9,099	6,602	10,338
Interest expense	(3,575)	(4,079)	(3,834)
Net nonoperating revenues	<u>193,268</u>	<u>182,881</u>	<u>178,633</u>
Income (loss) before other Revenues	\$ 5,512	\$ (4,508)	\$ (6,857)
Other Revenues			
Capital appropriations	11,452	3,035	19,250
Capital grants and gifts	2,054	3,306	9,600
Additions to permanent endowments - gifts	<u>2,022</u>	<u>1,356</u>	<u>1,840</u>
	15,528	7,697	30,690
Increase in Net Assets	21,040	3,189	23,833
Net Assets			
Net Assets - beginning of year	454,981	451,792	427,959
Net Assets - end of year	<u>\$ 476,021</u>	<u>\$ 454,981</u>	<u>\$ 451,792</u>

UNIVERSITY OF MAINE SYSTEM  
 Management's Discussion and Analysis  
 June 30, 2003 and 2002  
 (In Thousands of Dollars)

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 nonoperating revenue sources used to fund the System's activities for the years ended June 30, 2003 and 2002.



**Operating Revenues**

Tuition and fees and residence and dining fees are the primary sources of operating revenue and in 2003 totaled \$149,045 after adjusting for scholarship allowances, reflecting an increase of \$14,433 or 10.7% over 2002 revenue of \$134,612. This change is the result of a 4.6% weighted average increase in tuition, a 3.9% weighted average increase in room and board rates, and an increase in student enrollment and students residing in residence halls. Tuition and fees and residence and dining fees in 2002 increased \$11,217 or 9.1% over 2001 revenue. This change was the result of a 3.9% weighted average increase in tuition, a 6.5% weighted average increase in room and board rates, and an increase in student enrollment and students residing in residence halls.

As state research and development funding continued to leverage federal dollars, grants and contracts revenues increased \$8,889 to \$122,439 in 2003 from \$113,550 in 2002. Sponsored program revenues increased in 2002 by \$9,451. 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 is the largest funding source for educational and general operations. When compared to fiscal year 2002, the state appropriation to the System decreased by \$3,338 or 1.9% for 2003 due to state budgetary constraints. The state appropriation for 2002 reflected an increase of \$7,069 or 4.2% over 2001 funding levels. The

UNIVERSITY OF MAINE SYSTEM  
 Management's Discussion and Analysis  
 June 30, 2003 and 2002  
 (In Thousands of Dollars)

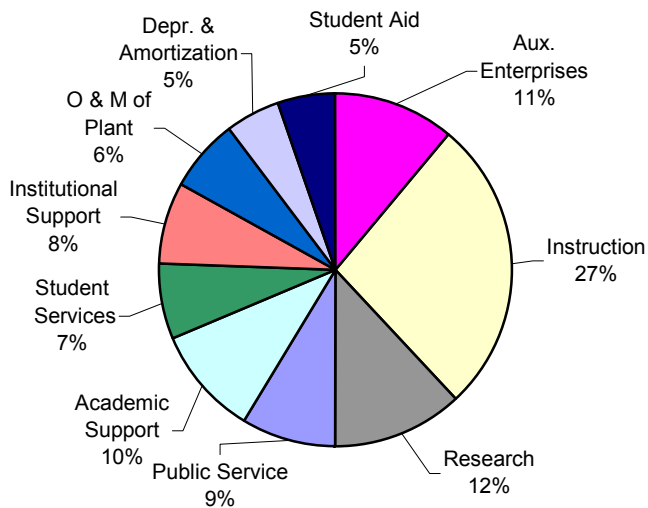
general state appropriation for fiscal year 2003 and 2002 covered 92% and 94% of the net operating loss, respectively.

**Operating Expenses**

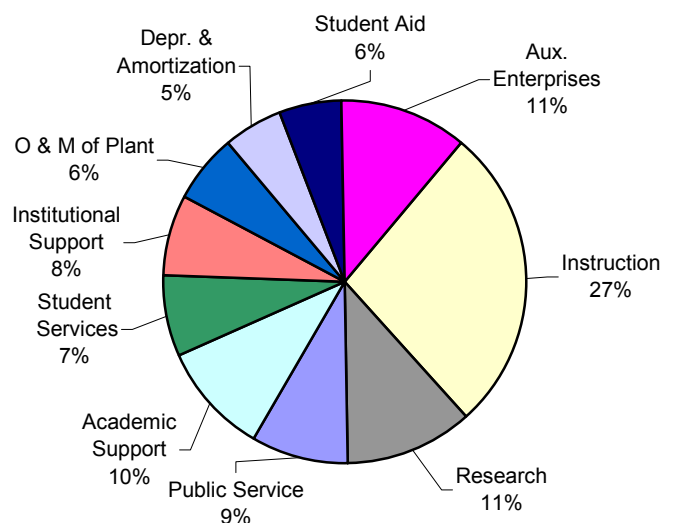
Operating expenses, classified by function, were as follows:

	2003	2002	2001
	(\$ in thousands)		
Instruction	\$142,582	\$135,506	\$128,350
Research	63,913	57,150	50,982
Public service	45,807	42,386	39,357
Academic support	53,300	50,205	47,724
Student services	37,117	35,214	34,445
Institutional support	40,072	37,350	35,841
Operation and maintenance of plant	34,268	29,671	29,284
Depreciation and amortization	27,511	25,736	26,006
Student aid	28,031	28,156	26,903
Auxiliary enterprises	58,847	56,948	53,119
<b>Total</b>	<b>\$531,448</b>	<b>\$498,322</b>	<b>\$472,011</b>

**2003 - \$531,448**



**2002 - \$498,322**

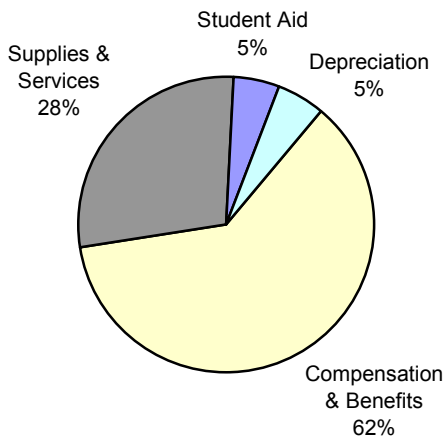


UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis  
June 30, 2003 and 2002  
(In Thousands of Dollars)

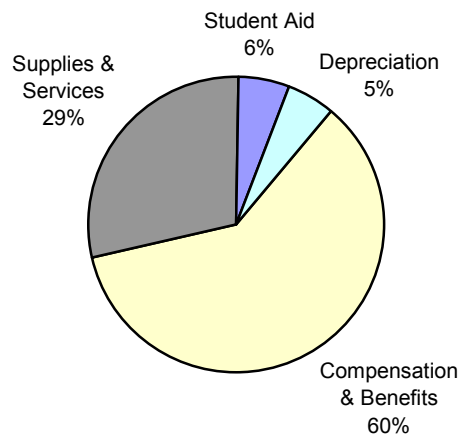
Although the System reports expenses on a functional basis, a comparative summary of the System's expenses based on a natural classification is as follows:

	2003	2002	2001
	(\$ in thousands)		
<b>Operating:</b>			
Compensation and benefits	\$ 325,745	\$ 300,307	\$ 284,671
Supplies and services	150,161	144,123	134,431
Depreciation	27,511	25,736	26,006
Student aid	28,031	28,156	26,903
	<u>531,448</u>	<u>498,322</u>	<u>472,011</u>
<b>Nonoperating:</b>			
Interest	3,575	4,079	3,834
<b>Total Expenses</b>	<u>\$ 535,023</u>	<u>\$ 502,401</u>	<u>\$ 475,845</u>

**2003 - \$531,448**



**2002 - \$498,322**



The amount expended for compensation and benefits increased by \$25,438 or 8.5% for 2003 as compared to the increase of \$15,636 or 5.5% for 2002. The 2003 increase for compensation and benefits is primarily the result of an increase in health care costs for current employees and retirees. Health care costs totaled \$44,486 in 2003 and reflected a 43.7% or \$13,532 increase over the \$30,954 expended in 2002. Annual employee compensation increases are also a factor in the overall compensation increase. The 2002 increase in compensation and benefits also reflected an increase in healthcare costs as well as a 3.6% increase in faculty to support the increased student enrollment and growth in sponsored programs. 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. The 4.4% increase in fall student enrollment and the 2.6% increase in diners and dormitory occupancy for 2003 generated additional revenues but also resulted in additional supplies and services expenditures.

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis  
June 30, 2003 and 2002  
(In Thousands of Dollars)

**Impact of Future Economic Factors**

With the exception of the state appropriation, all sources of operating and nonoperating revenues increased in FY2003 and are expected to increase in FY2004. Total enrollments at the System have been steadily increasing since 1997 with a record number of students entering for the Fall 2002 semester. Enrollments for the Fall 2003 semester are again expected to increase. The University of Maine System and the Maine Community College System have established a collaborative agreement which will allow students from the community colleges to more easily transfer into the University of Maine System's bachelor degree programs. With the anticipated growth in student enrollment, it is expected that auxiliary enterprises, which are designed to be self-supporting, will continue to expand and generate revenue in excess of expenditures.

The System continues to face the need to offer competitive salaries that will aid in attracting and retaining highly developed faculty and staff. The dramatic escalation in health-care costs this past year and the anticipated increases in the future have further burdened the System financially in the area of compensation and benefits. The System will continue to negotiate with health-care providers to obtain the lowest costs combined with the best comprehensive plan as well as seek alternative healthcare partnerships to help reduce the System's costs in this area.

As the result of changes in market conditions and prudent investment strategies during 2003, the System realized endowment income and an increase in investment income. The System will continue to implement its long-term investment strategy of maximizing total returns in conjunction with appropriate risk levels while maintaining a spending rate policy that will protect the System's funds from temporary market volatility.

The System remains committed to its long-term capital plan to revitalize existing facilities and undertake new construction. Consultants will be retained to analyze the need to balance building maintenance, renovations, and new construction with financial resources. A comprehensive strategic facilities plan will be developed which will address both the System's current need to provide technologically advanced research and teaching facilities and future potential growth.

From a fiscal perspective, the most significant economic factor is the State of Maine's continued financial difficulties and its impact on the System. The System's FY2003 state appropriation was originally set at \$183 million. Due to the State's financial situation, the System ultimately received \$173 in state appropriation – a decrease of \$10 million. State appropriation for FY2004 has been budgeted at \$178 million. Although this reflects an increase over the actual amount received for FY2003, this is still below the original budgeted appropriation for FY2003. 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 7.6% for FY2004. The System is continuing to seek additional state support and supplemental revenue sources to alleviate the costs paid by students.

While it is impossible to predict the financial future of the System, management believes that the System has sufficient strategies in place to manage future economic uncertainties.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Net Assets  
 June 30, 2003 and 2002  
 (In Thousands of Dollars)

<b>ASSETS</b>	<u>2003</u>	<u>2002</u>
<u>Current Assets:</u>		
Cash and cash equivalents (Note 2)	\$ 3,507	\$ 7,234
Short-term investments (Note 3)	115,210	113,416
Accounts, grants, and pledges receivable, net (Note 4)	31,475	26,808
Inventories and prepaid expenses	4,982	4,795
Total Current Assets	155,174	152,253
<u>Noncurrent Assets:</u>		
Deposits with bond trustees (Notes 3 and 6)	46,806	64,287
Accounts, grants, and pledges receivable, net (Note 4)	3,648	6,272
Notes receivable, net (Note 5)	37,716	37,371
Endowment investments (Note 3)	78,344	77,435
Bond issuance costs, net (Note 7)	1,562	1,342
Capital assets, net (Note 6)	395,695	356,995
Total Noncurrent Assets	563,771	543,702
Total Assets	\$ 718,945	\$ 695,955
<b>LIABILITIES</b>		
<u>Current Liabilities:</u>		
Accounts payable	\$ 13,432	\$ 11,355
Deferred revenue and deposits (Note 12)	16,195	18,390
Accrued liabilities (Notes 7 and 11)	18,987	21,554
Funds held for others	552	507
Current portion of capital lease obligations (Note 7)	206	171
Current portion of bonds payable (Note 7)	5,354	4,312
Total Current Liabilities	54,726	56,289
<u>Noncurrent Liabilities:</u>		
Accrued liabilities (Notes 7, 11, and 13)	29,772	23,722
Funds held for others (Note 3)	3,379	2,241
Capital lease obligations (Note 7)	130	220
Bonds payable, net (Note 7)	122,427	126,544
Grants refundable (Note 9)	32,490	31,958
Total Noncurrent Liabilities	188,198	184,685
Total Liabilities	242,924	240,974
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	304,930	285,320
Restricted:		
Nonexpendable (Note 10)	44,225	42,470
Expendable (Notes 3 and 10)	71,859	81,135
Unrestricted	55,007	46,056
Contingencies (Note 11)		
Total Net Assets	476,021	454,981
Total Liabilities and Net Assets	\$ 718,945	\$ 695,955

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Revenues, Expenses, and Changes in Net Assets  
 June 30, 2003 and 2002  
 (In Thousands of Dollars)

	<u>2003</u>	<u>2002</u>
<b>REVENUES</b>		
Operating Revenues:		
Tuition and fees	\$ 147,079	\$ 132,928
Residence and dining fees	44,426	41,335
Less: scholarship allowances	(42,460)	(39,651)
Net student fees	149,045	134,612
Federal, state, and private grants and contracts	122,439	113,550
Recovery of indirect costs	11,546	10,816
Educational sales and services and other auxiliary enterprises	59,937	51,216
Interest income on loans	725	739
Total Operating Revenues	343,692	310,933
<b>EXPENSES</b>		
Operating Expenses:		
Instruction	142,582	135,506
Research	63,913	57,150
Public service	45,807	42,386
Academic support	53,300	50,205
Student services	37,117	35,214
Institutional support	40,072	37,350
Operation and maintenance of plant	34,268	29,671
Depreciation and amortization	27,511	25,736
Student aid	28,031	28,156
Auxiliary enterprises	58,847	56,948
Total Operating Expenses	531,448	498,322
Operating Loss	(187,756)	(187,389)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	173,050	176,388
Gifts	11,801	11,037
Endowment income (loss) (Note 3)	2,893	(7,067)
Investment income (Note 3)	9,099	6,602
Interest expense (Notes 7 and 8)	(3,575)	(4,079)
Net Nonoperating Revenue	193,268	182,881
Income (Loss) Before Other Revenues	5,512	(4,508)
<b>OTHER REVENUES</b>		
Capital appropriations	11,452	3,035
Capital grants and gifts	2,054	3,306
Additions to permanent endowments - gifts	2,022	1,356
Total Other Revenues	15,528	7,697
Increase in Net Assets	21,040	3,189
<b>NET ASSETS</b>		
Net Assets - beginning of year (Note 17)	454,981	451,792
Net Assets - end of year	\$ 476,021	\$ 454,981

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Year Ended June 30, 2003 and 2002  
 (In Thousands of Dollars)

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Tuition, residence, dining, and other student fees	\$ 147,887	\$ 134,435
Grants and contracts	132,774	132,212
Educational sales and services and other auxiliary enterprise revenues	54,846	51,136
Payments to and on behalf of employees	(311,407)	(304,691)
Financial aid paid to students	(28,758)	(28,301)
Payments to suppliers	(159,673)	(136,691)
Loans issued to students	(7,767)	(6,852)
Collection of loans to students	6,838	5,891
Interest collected on loans to students	725	739
Other operating receipts	515	425
Net Cash Used For Operating Activities	<u>(164,020)</u>	<u>(151,697)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	173,336	176,388
Noncapital grants and gifts	10,838	10,149
Gifts and appropriations received for permanent endowment	2,022	1,356
Agency transactions	265	1,623
Net Cash Provided By Noncapital Financing Activities	<u>186,461</u>	<u>189,516</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from capital debt issuances	19,980	46,238
Capital appropriations	13,331	6,788
Capital grants and gifts	3,580	3,632
Acquisition and construction of capital assets	(63,700)	(52,139)
Issuance costs on capital debt	(382)	(558)
Principal paid on capital debt and leases	(22,856)	(3,911)
Interest paid on capital debt and leases	(5,543)	(5,436)
Net Cash Used For Capital and Related Financing Activities	<u>(55,590)</u>	<u>(5,386)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	521,776	306,016
Purchases of investments	(504,535)	(340,388)
Earnings from investments	12,181	8,044
Net Cash Provided By (Used For) Investing Activities	<u>29,422</u>	<u>(26,328)</u>
Net (decrease) increase in cash and cash equivalents	(3,727)	6,105
Cash and cash equivalents - beginning of year	<u>7,234</u>	<u>1,129</u>
Cash and cash equivalents - end of year	<u>\$ 3,507</u>	<u>\$ 7,234</u>

See accompanying notes to basic financial statements

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Year Ended June 30, 2003 and 2002  
 (In Thousands of Dollars)

	<u>2003</u>	<u>2002</u>
<b>Reconciliation of net operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (187,756)	\$ (187,389)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	27,511	25,736
Changes in assets and liabilities:		
Accounts and grants receivable, net	(4,348)	5,238
Inventories and prepaid expenses	(187)	(640)
Notes receivable, net	(345)	(423)
Accounts payable	168	(64)
Deferred revenue and deposits	(2,210)	3,433
Accrued liabilities	2,615	2,289
Grants refundable	532	123
Net cash used for operating activities	<u>\$ (164,020)</u>	<u>\$ (151,697)</u>
 <b>Noncash capital activities:</b>		
Capital asset additions included in accounts payable as of June 30	<u>\$ 7,128</u>	<u>\$ 5,163</u>

See accompanying notes to basic financial statements

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ 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, ten centers, and a central administrative office. All activities of the System are included in the accompanying financial statements. Not included in the accompanying financial statements are several independent organizations which operate for the benefit of the System, including the University of Maine Foundation (Note 15) and several other foundations and alumni associations. These 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 adopted GASB Statements 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, and related standards as of July 1, 2001.

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 and interpretations 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. This category excludes the portion of debt attributable to unspent bond proceeds.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Year Ended June 30, 2003 and 2002  
 (In Thousands of Dollars)

	<u>2003</u>	<u>2002</u>
<b>Reconciliation of net operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (187,756)	\$ (187,389)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
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 <b>Noncash capital activities:</b>		
Capital asset additions included in accounts payable as of June 30	<u>\$ 7,128</u>	<u>\$ 5,163</u>

See accompanying notes to basic financial statements

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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fixed-income securities (treasury obligations, agency securities, bankers acceptances, money market funds, CDs, commercial paper) with daily to 3-day liquidity. The average quality of the portfolio will be at least "AA".

- 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. Investments in the intermediate tier may consist of securities rated from "B" to "Aaa" quality, with a maximum of 10% below Baa and in private placements determined by the manager to be of similar credit quality. The overall average quality rating of this pool will be at least "A".
- Long-term Pool – This tier consists of funds that will not be required for at least 36 months. The assets are to be invested in accordance with the diversification and investment guidelines recommended by the System's investment manager(s).

**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**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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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 \$5,000 or more is capitalized. Only capital projects with a projected cost of \$10,000 or more are capitalized. Library materials are generally capitalized and depreciated over a ten-year period. 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
Library books and materials	10

Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized. Equipment and library books and materials are 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 Statements of Revenues, Expenses, and Changes in Net Assets.

The System does not capitalize or 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., salaries, student aid, etc.).

**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 and ultimately

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

payable for such benefit. The System manages and 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.

**I. 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. Actual results could differ from those estimates.

**o. Reclassifications**

Certain fiscal year 2002 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the fiscal year 2003 presentation.

**2. CASH AND CASH EQUIVALENTS**

The following summary presents the amount of the System's deposits representing cash and cash equivalents that are fully insured or collateralized with securities held by the System or by its agent in the System's name (Category 1); collateralized with securities held by the pledging financial institution's trust department or agent in the System's name (Category 2); and not collateralized (Category 3), at June 30:

	Category			Bank Balance	Carrying Amount
	1	2	3		
2003	<u>\$ 643</u>	<u>\$ -</u>	<u>\$ 5,407</u>	<u>\$ 6,050</u>	<u>\$ 3,507</u>
2002	<u>\$ 5,628</u>	<u>\$ -</u>	<u>\$ 8,757</u>	<u>\$ 14,385</u>	<u>\$ 7,234</u>

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**3. INVESTMENTS**

The System categorizes investments according to the level of risk assumed by the System. Category 1 includes investments that are insured, registered, or held by the System or its agent in the System's name. Category 2 includes investments that are uninsured and unregistered for which the securities are held by the bank's trust department or agent in the System's name. Category 3 includes investments that are uninsured and unregistered for which the securities are held by the bank, or its trust department or agent, but not in the System's name. Certain investments, e.g., state pool and mutual funds, are not categorized because they are managed investment pools.

At June 30, 2003, categorization of the System's investments was as follows:

	Category			Not Categorized	Total Carrying Value
	1	2	3		
Short-term investments	\$ -	\$ -	\$ -	\$ 115,210	\$ 115,210
Endowment investments	27,283	-	393	50,668	78,344
Deposits with bond trustees	100	-	1,148	45,558	46,806
Total Investments	<u>\$27,383</u>	<u>\$ -</u>	<u>\$ 1,541</u>	<u>\$ 211,436</u>	<u>\$ 240,360</u>

At June 30, 2002, categorization of the System's investments was as follows:

	Category			Not Categorized	Total Carrying Value
	1	2	3		
Short-term investments	\$ -	\$ 10,091	\$ 15,134	\$ 88,191	\$ 113,416
Endowment investments	45,046	-	379	32,010	77,435
Deposits with bond trustees	100	3,195	531	60,461	64,287
Total Investments	<u>\$45,146</u>	<u>\$ 13,286</u>	<u>\$ 16,044</u>	<u>\$ 180,662</u>	<u>\$ 255,138</u>

Income related to the System's investments for fiscal year 2003 was as follows:

	Net Gains (Losses)	Investment Fees	Interest and Dividends	Total Return
Endowment investments	<u>\$ 1,481</u>	<u>\$ (663)</u>	<u>\$ 2,075</u>	<u>\$ 2,893</u>
Short-term investments	\$ 2,562	\$ (535)	6,526	\$ 8,553
Deposits with bond trustees	(27)	(1)	574	546
Total other investment income	<u>\$ 2,535</u>	<u>\$ (536)</u>	<u>\$ 7,100</u>	<u>\$ 9,099</u>

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

Income related to the System's investments for fiscal year 2002 was as follows:

	Net Gains (Losses)	Investment Fees	Interest and Dividends	Total Return
Endowment investments	\$ (8,527)	\$ (484)	\$ 1,944	\$ (7,067)
Short-term investments	\$ 44	\$ (28)	4,336	\$ 4,352
Deposits with bond trustees	16	(1)	2,235	2,250
Total other investment income	<u>\$ 60</u>	<u>\$ (29)</u>	<u>\$ 6,571</u>	<u>\$ 6,602</u>

The System's investments were comprised of the following at June 30, 2003:

	Short Term	Endowment	Deposits with Bond Trustees	Total
Equity securities	\$ -	\$ 53,348	\$ -	\$ 53,348
Fixed income securities	99,276	24,207	4,099	127,582
State pool	15,934	-	-	15,934
Money funds, savings, CD's	-	789	1,248	2,037
Guaranteed investment contracts	-	-	41,459	41,459
Total investments	<u>\$ 115,210</u>	<u>\$ 78,344</u>	<u>\$ 46,806</u>	<u>\$ 240,360</u>

The System's investments were comprised of the following at June 30, 2002:

	Short Term	Endowment	Deposits with Bond Trustees	Total
Equity securities	\$ -	\$ 52,487	\$ -	\$ 52,487
Fixed income securities	51,106	22,867	3,681	77,654
State pool	37,085	-	-	37,085
Money funds, savings, CD's	-	2,081	631	2,712
Guaranteed investment contracts	-	-	59,975	59,975
Government agency obligations	25,225	-	-	25,225
Total investments	<u>\$ 113,416</u>	<u>\$ 77,435</u>	<u>\$ 64,287</u>	<u>\$ 255,138</u>

**Short-term Investments**

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

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**Endowment Investments**

Except for certain gifts invested separately at the request of the donors (\$489 at June 30, 2003 and \$476 at June 30, 2002), the System's endowment is managed as a pooled investment fund by external investment advisors.

The University of Maine at Augusta Foundation, 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, 2003 and 2002 were \$3,379 and \$2,241, respectively, and were 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 was as follows at June 30:

	<u>2003</u>	<u>2002</u>
Restricted - expendable	\$25,190	\$27,361
Unrestricted	5,308	5,271
Total available for spending	\$30,498	\$32,632

**Deposits With Bond Trustees**

Deposits with bond trustees are comprised of debt service reserves required by bond covenants and unexpended revenue bond proceeds.

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

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

	<u>2003</u>			<u>2002</u>		
	<u>Total</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>	<u>Total</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Student and other accounts receivable	\$ 11,971	\$ 10,927	\$ 1,044	\$ 10,623	\$ 10,080	\$ 543
Grants receivable	22,133	21,571	562	20,257	17,816	2,441
Pledges receivable	3,401	867	2,534	4,262	538	3,724
Total gross receivables	37,505	33,365	4,140	35,142	28,434	6,708
Less allowance for doubtful accounts	(2,166)	(1,890)	(276)	(1,785)	(1,626)	(159)
Less discount on pledges receivable	(216)	-	(216)	(277)	-	(277)
Total receivables, net	\$ 35,123	\$ 31,475	\$ 3,648	\$ 33,080	\$ 26,808	\$ 6,272

In accordance with GASB 34, grants receivable related to the acquisition of capital assets is reported as a noncurrent receivable even though collection is expected within the next twelve months.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**5. NOTES RECEIVABLE**

Notes receivable included the following at June 30:

	<u>2003</u>	<u>2002</u>
Perkins Loans	\$33,591	\$33,473
Nursing Loans	1,017	999
Institutional Loans	<u>3,555</u>	<u>3,303</u>
	38,163	37,775
Less allowance for doubtful accounts	<u>(447)</u>	<u>(404)</u>
Total notes receivable, net	<u>\$37,716</u>	<u>\$37,371</u>

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

**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reclasses</u>	<u>Retirements</u>	Ending <u>Balance</u>
Land	\$ 11,371	\$ -	\$ 466	\$ -	\$ 11,837
Construction in Progress	<u>47,775</u>	<u>54,567</u>	<u>(68,944)</u>	<u>-</u>	<u>33,398</u>
Total Nondepreciable Assets	<u>59,146</u>	<u>54,567</u>	<u>(68,478)</u>	<u>-</u>	<u>45,235</u>
Land Improvements	27,720	-	2,580	-	30,300
Buildings & Improvements	346,634	-	63,046	-	409,680
Equipment	93,598	6,021	2,852	(13,168)	89,303
Library Materials	<u>50,017</u>	<u>5,559</u>	<u>-</u>	<u>(3,579)</u>	<u>51,997</u>
Total Depreciable Assets	<u>517,969</u>	<u>11,580</u>	<u>68,478</u>	<u>(16,747)</u>	<u>581,280</u>
Less Accumulated Depreciation:					
Land Improvements	14,437	1,372	-	-	15,809
Buildings & Improvements	116,666	8,730	-	-	125,396
Equipment	64,921	11,551	-	(13,168)	63,304
Library Materials	<u>24,096</u>	<u>5,794</u>	<u>-</u>	<u>(3,579)</u>	<u>26,311</u>
Total Accumulated Depreciation	<u>220,120</u>	<u>27,447</u>	<u>-</u>	<u>(16,747)</u>	<u>230,820</u>
Net Depreciable Assets	<u>297,849</u>	<u>(15,867)</u>	<u>68,478</u>	<u>-</u>	<u>350,460</u>
Total Capital Assets	<u>\$ 356,995</u>	<u>\$ 38,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 395,695</u>

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reclasses</u>	<u>Retirements</u>	Ending <u>Balance</u>
Land	\$ 11,371	\$ -	\$ -	\$ -	\$ 11,371
Construction in Progress	36,019	44,413	(32,657)	-	47,775
Total Nondepreciable Assets	<u>47,390</u>	<u>44,413</u>	<u>(32,657)</u>	<u>-</u>	<u>59,146</u>
Land Improvements	26,334	-	1,386	-	27,720
Buildings & Improvements	315,888	-	30,746	-	346,634
Equipment	98,654	6,211	525	(11,792)	93,598
Library Materials	44,417	5,600	-	-	50,017
Total Depreciable Assets	<u>485,293</u>	<u>11,811</u>	<u>32,657</u>	<u>(11,792)</u>	<u>517,969</u>
Less Accumulated Depreciation:					
Land Improvements	13,115	1,322	-	-	14,437
Buildings & Improvements	108,924	7,742	-	-	116,666
Equipment	63,817	12,896	-	(11,792)	64,921
Library Materials	20,355	3,741	-	-	24,096
Total Accumulated Depreciation	<u>206,211</u>	<u>25,701</u>	<u>-</u>	<u>(11,792)</u>	<u>220,120</u>
Net Depreciable Assets	<u>279,082</u>	<u>(13,890)</u>	<u>32,657</u>	<u>-</u>	<u>297,849</u>
Total Capital Assets	<u>\$ 326,472</u>	<u>\$ 30,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,995</u>

Additions to equipment in 2003 and 2002 included \$176 and \$555, respectively, of equipment acquired through capital leases. As of June 30, 2003 and 2002, \$42,920 and \$57,322, respectively, in proceeds from the 2003, 2002, 2000, and 1998 revenue bond issuances remained 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, 2003 and 2002 were \$35,520 and \$32,165, respectively, 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, some of which are included in capital assets in the accompanying Statements of Net Assets.

Outstanding commitments on uncompleted construction contracts totaled approximately \$24,784 at June 30, 2003 and \$22,628 at June 30, 2002.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**7. LONG-TERM LIABILITIES**

Changes in long-term liabilities during the year-ended June 30, 2003 consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations	\$ 391	\$ 175	\$ (230)	\$ 336	\$ 206
Bonds payable	130,856	19,805	(22,880)	127,781	5,354
Total leases and bonds payable	<u>131,247</u>	<u>19,980</u>	<u>(23,110)</u>	<u>128,117</u>	<u>5,560</u>
Accrued liabilities:					
Accrued vacation	10,295	3,807	(2,861)	11,241	99
Workers' compensation	2,714	3,611	(1,180)	5,145	1,266
Health insurance	7,618	38,942	(41,425)	5,135	5,135
Incentive retirement	11,914	1,235	(528)	12,621	-
Other	12,735	15,541	(13,659)	14,617	12,487
Total accrued liabilities	<u>45,276</u>	<u>63,136</u>	<u>(59,653)</u>	<u>48,759</u>	<u>18,987</u>
Total long-term liabilities	<u>\$ 176,523</u>	<u>\$ 83,116</u>	<u>\$ (82,763)</u>	<u>\$ 176,876</u>	<u>\$ 24,547</u>

Changes in long-term liabilities during the year-ended June 30, 2002 consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Capital lease obligations	\$ 47	\$ 555	\$ (211)	\$ 391	\$ 171
Bonds payable	88,877	45,682	(3,703)	130,856	4,312
Total leases and bonds payable	<u>88,924</u>	<u>46,237</u>	<u>(3,914)</u>	<u>131,247</u>	<u>4,483</u>
Accrued liabilities:					
Accrued vacation	9,158	4,040	(2,903)	10,295	82
Workers' compensation	2,698	1,183	(1,167)	2,714	1,303
Health insurance	4,644	26,604	(23,630)	7,618	7,618
Incentive retirement	10,512	2,095	(1,333)	11,274	-
Other	15,674	13,374	(15,673)	13,375	12,551
Total accrued liabilities	<u>42,686</u>	<u>47,296</u>	<u>(44,706)</u>	<u>45,276</u>	<u>21,554</u>
Total long-term liabilities	<u>\$ 131,610</u>	<u>\$ 93,533</u>	<u>\$ (48,620)</u>	<u>\$ 176,523</u>	<u>\$ 26,037</u>

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**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 amount to approximately \$11,400 for the year ended June 30, 2003 and approximately \$10,300 for the year ended June 30, 2002.

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, 2003 were 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>		
2004	\$ 206	\$ 11	\$ 1,905	\$ 2,122
2005	82	4	1,461	1,547
2006	28	2	742	772
2007	20	1	271	292
2008	-	-	125	125
2009-2013	-	-	401	401
2014-2018	-	-	29	29
Total minimum lease payments	<u>\$ 336</u>	<u>\$ 18</u>	<u>\$ 4,934</u>	<u>\$ 5,288</u>

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**Bonds Payable**

Bonds payable consisted of the following at June 30:

	<u>2003</u>	<u>2002</u>
2003 Series A Revenue Bonds (\$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.	\$ 19,970	\$ -
Add: unamortized premium	199	-
Less: unamortized deferred redemption fee on 1993 bonds	(355)	-
Total 2003 Series A Bonds	19,814	-
2002 Series A Revenue Bonds (\$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.	42,710	43,020
Add: unamortized premium	2,422	2,640
Total 2002 Series A Bonds	45,132	45,660
2000 Series A Revenue Bonds (\$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%.	27,520	29,075
5.60% Term Bonds, due March 1, 2020	3,560	3,560
5.50% Term Bonds, due March 1, 2030	5,435	5,435
Add: unamortized premium	119	129
Total 2000 Series A Bonds	36,634	38,199
1998 Series A Revenue Bonds (\$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%.	7,230	7,975
5.00% Term Bonds, due March 1, 2018	8,965	8,965
5.00% Term Bonds, due March 1, 2024	10,540	10,540
Less: unamortized discount	(534)	(498)
Total 1998 Series A Bonds	26,201	26,982
1993 Series B Refunding Bonds (\$15,600)		
Serial Bonds, maturing through 2009, with annual principal payments from \$260 to \$595 and coupon interest rates from 3.15% to 5.25%.	-	3,595
5.50% Term Bonds, due March 1, 2015	-	4,295
5.50% Term Bonds, due March 1, 2020	-	4,805
Total 1993 Series B Bonds	-	12,695
1993 Series A Revenue Bonds (\$19,315), maturing through 2009 with annual principal payments from \$725 to \$2,750 and coupon interest rates from 2.3% to 5.2%.	-	7,320
Total bonds payable, net	\$ 127,781	\$ 130,856

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

Costs associated with the issuance of the 2003, 2002, 2000 and 1998 Series A 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 discount on the 1998 Series A Revenue Bonds and the premiums on the 2003, 2002, and 2000 Series A 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 payable for the next five years and in subsequent five-year periods were as follows at June 30, 2003:

Year Ending June 30:	Fixed-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net *	
2004	\$ 5,145	\$ 6,120	\$ (1,163)	\$ 10,102
2005	5,305	5,846	(1,161)	9,990
2006	5,505	5,640	(1,147)	9,998
2007	5,430	5,425	(1,134)	9,721
2008	5,700	5,212	(1,118)	9,794
2009-2013	56,690	20,556	(4,227)	73,019
2014-2018	20,075	8,235	-	28,310
2019-2023	13,945	4,076	-	18,021
2024-2028	5,235	1,396	-	6,631
2029-2032	2,900	299	-	3,199
	<u>\$ 125,930</u>	<u>\$ 62,805</u>	<u>\$ (9,950)</u>	<u>\$ 178,785</u>

\* In conjunction with its June 2002 issuance of fixed-rate revenue bonds, the System entered into an interest rate swap agreement with a financial institution counterparty. This column represents the projected net amount that the System would receive under the swap contract if interest rates were to remain unchanged during the remaining life of the swap. See note 8 for more information.

Interest costs related to the Revenue Bonds for fiscal year 2003 were \$5,113 and were net of \$1,057 in savings from the interest swap noted above and in Note 8. Interest costs related to the Revenue Bonds for fiscal year 2002 were \$4,591. Of the total interest costs, \$1,556 and \$522 was capitalized for the respective years ended June 30, 2003 and 2002.

**Refunding of Debt**

On January 23, 2003, the System issued 2003 Series A Revenue Bonds to help refund outstanding 1993 Series A and B Revenue Bonds and to fund capital construction projects in the amount of \$4,115. The 1993 bonds were refunded using a combination of the refunding bond proceeds, debt service reserves related to the 1993 bonds, and monies the System had budgeted for the March 1, 2003 debt service payment on the 1993 bonds. These monies were deposited into an escrow account and were used to retire the 1993 bonds on March 1, 2003.

The refunding resulted in the System having to pay a redemption premium of \$371. The unamortized portion of this amount is reported in the accompanying Statements of Net Assets as a reduction of the 2003 Series A Revenue Bonds. Amortization of the redemption premium will be charged to operations as an offset to interest expense through the year 2020 using the effective-

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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interest method. The System completed the refunding to reduce its total debt service payments over the next seventeen years by \$1,160 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,117.

## **8. INTEREST RATE SWAP**

### **Objective**

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. The swap effectively reduced the System's fixed interest rate on the bonds to a synthetic variable rate of 1.35% at June 30, 2003 and 1.60% at June 30, 2002.

### **Terms**

The bonds finally mature and the swap terminates on March 1, 2012. The swap's notional amount at inception matched the \$43,020 bonds. The swap's notional amount declines with the payment of principal on the bonds each March 1. Under the swap, the System pays the counterparty monthly payments based on the weighted average rate per The Bond Market Association Municipal Swap Index (BMA) (0.98% and 1.23% at June 30, 2003 and 2002, respectively). In turn, the counterparty pays the System a fixed rate twice a year. The fixed rate received from the counterparty (ranges from 4.833% to 5.307%) is designed to give the System the coupon rate payable by the System to the bondholders each March 1 and September 1.

### **Fair Value**

The fair value of the swap, as provided by the counterparty, at June 30, 2003 and 2002 was an asset of \$3,406 and \$165, respectively. These fair values represent the estimated amounts due to the System if the agreement were cancelled on those dates and are based on discounted cash flow analysis incorporating option pricing models that consider market interest rates and other factors. Such values represent estimates only and may or may not actually be realized. Interest rate volatility, time to maturity, and outstanding principal will affect the swap's fair value at subsequent reporting dates. If the System repays the debt on schedule, the fair value of the swap will reach zero at its final maturity.

### **Credit Risk**

The swap's fair value represented the System's credit exposure to the counterparty as of June 30, 2003 and 2002. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the System would face a maximum possible loss equivalent to the swap's fair value. As of June 30, 2003, the swap counterparty was rated Aa2 by Moody's Investors Services, AAA by Fitch Ratings, and AA+ by Standard & Poor's. To mitigate credit risk, if the counterparty's credit quality falls below A-(S&P)/A3(Moody's), the counterparty is obligated, on demand of the System, to provide and maintain collateral (cash or U.S. Treasury securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap to the System.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

**Interest Rate Risk**

The swap increases the System's exposure to variable interest rates. As BMA increases, the System's net payment on the swap increases.

**Termination Risk**

Either party may terminate the swap if the other party is in default of the swap or has failed to maintain certain ratings. The System may terminate the swap at any time. If at the time of termination the swap has a negative fair value, the System would be liable to the counterparty for that amount.

**9. GRANTS 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, 2003 and 2002 has been included in the accompanying Statements of Net Assets as a noncurrent liability.

**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 were comprised of the following as of June 30:

	<u>2003</u>	<u>2002</u>
Restricted - Nonexpendable:		
Endowment funds	\$ 44,225	\$ 42,470
Restricted - Expendable:		
Student financial aid	\$ 19,771	\$ 20,937
Other	13,602	14,365
Capital assets and retirement of debt	12,241	21,322
Loans	9,653	9,238
Academic support	7,438	6,970
Research and public service	5,595	4,663
Library	3,559	3,640
Total restricted - expendable	<u>\$ 71,859</u>	<u>\$ 81,135</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.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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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 self-insurance obligation for general liability is capped at \$240, except for educator's legal liability risks which are subject to a \$100 per loss retention with no annual cap. The System's estimate of the amount payable under these self-insurance plans has been included in the accompanying Statements of Net Assets as part of current accrued liabilities. As of June 30, 2003 and 2002 certain legal claims existed for which the probability or amount of payment could not be determined. The System, however, does not expect the ultimate costs, 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.

It is the policy of the System not to purchase 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).

The System's health insurance plan is financed through a minimum premium contract with a commercial carrier. The plan allows the System to benefit from favorable claim experience, should paid claims be less than the maximum claim liability under the contract. As of June 30, 2003, the System's paid claims had reached the maximum claim liability amount. 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, 2003, the terminal liability was \$4,620 and is included as a liability 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., incurred allowable costs, are not included in the System's financial statements. The total of such awards as of June 30, 2003 and 2002 was \$45,899 and \$48,421, respectively.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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, 2003 and 2002 System's totaled \$9,431 and \$7,267, respectively.

**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 for these plans was as follows for the years ended June 30:

	<u>2003</u>	<u>2002</u>
<u>Faculty and Professional Employees:</u>		
Basic Retirement Plan	\$ 15,300	\$ 14,600
Incentive Plan	1,875	1,588
 Classified Employees - All Plans	<u>720</u>	<u>76</u>
 Total pension expense	<u>\$ 17,895</u>	<u>\$ 16,264</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 \$6,100 in fiscal 2003 and \$5,900 in fiscal 2002.

**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

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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, full-time, regular equivalent service immediately prior to 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. The latest actuarial valuation, utilizing the projected unit credit actuarial cost method and 30-year declining-period, level-dollar amortization, was performed as of June 30, 2003. Interest was assumed to compound at an annual rate of 6.25%, and salaries were assumed to increase at an annual rate of 4%.

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

	<u>2003</u>	<u>2002</u>
Actuarial accrued liability	\$19,980	\$17,824
Actuarial value of assets	-	-
Unfunded accrued actuarial liability	<u>\$19,980</u>	<u>\$17,824</u>

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 non-current accrued liabilities (see Note 7). Three-year trend information through June 30, 2003, which provides an indication of the progress made in accumulating sufficient assets to pay benefits when they become due, was as follows:

	(a)	(b)	(c)	(d) (a)+(b)-(c)	(e)	(f) (e)/(d)	(g) (d)-(e)	
Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Employer Contributions Made	Percentage of APC Contributed	Change in NPO	Ending NPO Balance
2003	\$ 2,073	\$ 705	\$ 903	\$ 1,875	\$ 528	28%	\$ 1,347	\$ 12,621
2002	\$ 1,768	\$ 688	\$ 868	\$ 1,588	\$ 1,333	84%	\$ 255	\$ 11,274
2001	\$ 1,679	\$ 643	\$ 798	\$ 1,524	\$ 789	52%	\$ 735	\$ 11,019

**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 eligible employees who were hired before July 1, 1998 and who were younger than age 50 as of

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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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 \$1,300 in fiscal 2003 and \$1,300 in fiscal 2002.

### **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, 2003 and 2002, 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 rendered to date. The most recent actuarial valuation, utilizing the projected unit credit actuarial

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

cost method and 10-year declining-period, level-dollar amortization, was performed as of June 30, 2003. 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>2003</u>	<u>2002</u>
Actuarial accrued liability	\$ 69,802	\$ 58,005
Actuarial value of assets	75,058	68,644
Unfunded accrued actuarial liability	<u>\$ (5,256)</u>	<u>\$ (10,639)</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 2003 and 2002, the System funded all employer contributions to the Basic Plan through the transfer of excess assets from the Defined Benefit Plan. Aggregate net annual pension cost for the Basic Plan, ORSP and Defined Benefit Plan for the years ended June 30, 2003 and 2002 was \$720 and \$76. Without transfers of excess assets from the Defined Benefit Plan, the System's total expense for the Basic Plan and ORSP for the years ended June 30, 2003 and 2002 would have been \$2,627 and \$2,455, respectively.

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, 2003, including changes in the NPO (which is included in non-current accrued liabilities in the accompanying Statements of Net Assets), 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
2003	\$ 741	\$ 7	\$ 28	\$ 720	\$ -	-	\$ 720	\$ 836
2002	\$ 81	\$ 3	\$ 8	\$ 76	\$ -	-	\$ 76	\$ 115
2001	\$ (290)	\$ 24	\$ 68	\$ (334)	\$ -	-	\$ (334)	\$ 39

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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**14. POSTEMPLOYMENT HEALTH PLAN**

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. As of June 30, 2003, there were approximately 1,700 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, 2003, there were approximately 1,500 persons 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, 2003, there were approximately 200 persons 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 and accounts for the postemployment health plan on a pay-as-you-go basis. Total gross costs for the years ended June 30, 2003 and 2002 were \$9,200 and \$6,500, respectively, with the participants contributing \$1,900 and \$1,500, respectively toward those costs.

**15. FOUNDATIONS**

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The largest of these foundations is the University of Maine Foundation ("UM Foundation"), an independent not-for-profit organization. Total gifts and income received by the System from the UM Foundation during the fiscal years ended June 30, 2003 and 2002 were \$3,600 and \$4,200, respectively. The reported fair market value of the UM Foundation's assets at June 30, 2003 and 2002 was \$108,400 and \$101,100, respectively.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2003 and 2002**  
**(\$ in thousands)**

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Under currently effective accounting principles, the UM Foundation and the other Foundations are not considered component units of the System; thus, their financial statements are not included with those of the System as of June 30, 2003 and 2002. However, in May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which establishes new criteria for evaluating the need to include supporting foundations and alumni associations in the System's financial statements as component units of the System. The System has reviewed the criteria and concluded that the UM Foundation meets the definition of a component unit under GASB Statement 39. During fiscal year 2004, the System will determine which of its other foundations and alumni associations should be considered component units and included in the System's June 30, 2004 financial statements.

Determination of the UM Foundation as a component unit is based on the nature and significance of the UM Foundation's relationship with the System and is not based on legal control, and does not affect the UM Foundation's ongoing operations. The UM Foundation will remain an independent, not-for-profit corporation operating as a tax-exempt 501(c)(3) organization under the US Internal Revenue Code. Voting members of the UM Foundation will continue to elect its Board of Directors. The Board has responsibility for the overall policy of the UM Foundation, subject to the ultimate control by the UM Foundation's membership.

**16. PASS-THROUGH GRANTS**

During fiscal year 2003 and 2002, the System distributed \$9,313 and \$9,279, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying financial statements.

**17. RECONCILIATION OF FISCAL 2002 BEGINNING NET ASSETS**

The System adopted the provisions of GASB Statements No. 34 and 35 as of July 1, 2001. Following is a reconciliation of total fund balances as of June 30, 2001 as originally reported to total net assets as of July 1, 2001:

Total fund balances as originally reported, June 30, 2001	\$461,697
Federal portion of Perkins and Nursing Loan Programs	(27,958)
Library materials net of depreciation	24,062
Other	<u>(6,009)</u>
Total net assets, July 1, 2001	<u>\$451,792</u>

**UNIVERSITY OF MAINE SYSTEM**

Required Supplementary Information - Retirement Plans  
Schedules of Funding Progress, Employers' Contributions, and Related Note  
Year ended June 30, 2003

(Unaudited)

(In thousands of dollars)

**Schedules of Funding Progress**

<b>Actuarial valuation (date as of June 30)</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll (b-a)/(c)</b>
<b>Incentive Retirement Plan for Faculty and Professionals</b>						
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%
1999	\$ —	\$ 14,220	\$ 14,220	—	\$ 89,311	15.9%
1998	\$ —	\$ 13,704	\$ 13,704	—	\$ 85,876	16.0%
<b>Retirement Plan for Classified Staff</b>						
2003	\$ 75,058	\$ 69,802	\$ (5,256)	107.5%	\$ 8,770	(59.9%)
2002	\$ 68,644	\$ 58,005	\$ (10,639)	118.3%	\$ 9,276	(114.7%)
2001	\$ 69,230	\$ 55,033	\$ (14,197)	125.8%	\$ 9,730	(145.9%)
2000	\$ 73,928	\$ 57,601	\$ (16,327)	128.3%	\$ 10,365	(157.5%)
1999	\$ 71,783	\$ 55,592	\$ (16,191)	129.1%	\$ 11,039	(146.7%)
1998	\$ 68,373	\$ 51,475	\$ (16,898)	132.8%	\$ 11,373	(148.6%)

**Schedules of Employers' Contributions**

<b>Year ended June 30</b>	<b>Annual required contribution</b>	<b>Percentage contributed</b>	<b>Annual required contribution</b>	<b>Percentage contributed</b>
<b>Incentive Retirement Plan for Faculty and Professionals</b>		<b>Retirement Plan for Classified Staff</b>		
2003	\$ 2,073	25%	\$ 741	—
2002	\$ 1,768	75%	\$ 81	—
2001	\$ 1,679	47%	\$ (290)	—
2000	\$ 1,603	53%	\$ 28	—
1999	\$ 1,530	52%	\$ 62	—
1998	\$ 1,434	56%	\$ 610	42%

**Note to Schedules**

The information presented in the required supplementary schedules as of June 30, 2003 was determined using the actuarial valuation as of June 30, 2003 with the following significant assumptions:

	<b>Incentive Retirement Plan for Faculty and Professionals</b>	<b>Retirement Plan for Classified Staff</b>
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	30-year declining period, level dollar	10-year declining period, level dollar
Remaining amortization period	24 years	4 years
Asset valuation method	N/A	5-year smoothing of differences between actual and expected returns
Actuarial assumptions:		
Investment rate of return	6.25%	6.5% (8% for 6/30/1998)
Projected salary increases	4.00%	4.00%
Cost-of-living adjustments	N/A	N/A

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
<b>Student Financial Aid Cluster:</b>			
U.S. Department of Education:			
Federal Supplemental Educational Opportunity Grant Program		84.007	\$ 4,293,175
Federal Family Education Loans (note 2)		84.032	65,828,682
Federal Work-Study Program		84.033	5,125,005
Federal Perkins Loan Program (note 2)		84.038	6,679,381
Federal Perkins Loan Program – administrative cost allowance		84.038	514,759
Federal Pell Grant Program		84.063	23,896,705
Federal Direct Student Loans		84.268	9,347,982
Total U.S. Department of Education			115,685,689
U.S. Department of Health and Human Services:			
Federal Nursing Loan Program (note 2)		93.364	279,500
Total Student Financial Aid Cluster			115,965,189
<b>Child Care Cluster:</b>			
Passed-through:			
Maine Department of Human Services:			
Child Care and Development Block Grant	Various	93.575	221,383
Child Care Mandatory and Matching Funds	Various	93.596	295,440
Total Child Care Cluster			516,823
<b>Child Nutrition Cluster:</b>			
Passed-through:			
Maine Department of Human Services:			
Summer Food Service Program for Children	01305A713005	10.559	14,873
Total Child Nutrition Cluster			14,873
<b>Employment Services Cluster:</b>			
Passed-through:			
Maine Department of Labor:			
Employment Service		17.207	15,974
Total Employment Services Cluster			15,974
<b>Food Stamp Cluster:</b>			
Passed-through:			
Maine Department of Human Services:			
Food Stamps Administration	3019	10.551	28,582
State Admin. Match Grants – Food Stamps		10.561	1,957,337
Total Food Stamp Cluster			1,985,919
<b>Foster Grandparent/Senior Companion Cluster:</b>			
U.S. Corp. for National and Community Service:			
Senior Companion Program		94.016	384,907
Passed-through:			
Maine Department of Human Services:			
Senior Companion Program		94.016	51,219
Total Foster Grandparent/Senior Companion Cluster			436,126
<b>Highway Planning and Construction Cluster:</b>			
Passed-through:			
Maine Department of Transportation:			
Highway Planning and Construction		20.205	106,835
Total Highway Planning and Construction Cluster			106,835

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2003

Schedule I

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
<b>Medicaid Cluster:</b>			
Passed-through:			
Maine Department of Health and Mental Retardation: Medical Assistance Program	Various	93.778	\$ 140,456
Maine Department of Human Services: Medical Assistance Program	Various	93.778	3,398
Maine Department of Behavioral and Developmental Services: Medical Assistance Program	Various	93.778	764,641
Total Medicaid Cluster			<u>908,495</u>
<b>Special Education Cluster:</b>			
Passed-through:			
Maine State Legislative Council: Special Education – Grants to States		84.027	81,102
Maine Department of Education: Special Education – Grants to States	01305A715512	84.027	158,593
Total Special Education Cluster			<u>239,695</u>
<b>TRIO Cluster:</b>			
U.S. Department of Education:			
TRIO – Student Support Services		84.042	1,699,264
TRIO – Talent Search		84.044	532,457
TRIO – Upward Bound		84.047	1,709,899
TRIO – Educational Opportunity Centers		84.066	490,372
Total TRIO Cluster			<u>4,431,992</u>
<b>Research and Development Cluster:</b>			
<i>U.S. Department of Agriculture:</i>			
Department of Agriculture with No CFDA Number		10.000	27,230
Passed-through:			
University of Massachusetts – Amherst: Department of Agriculture with No CFDA Number	5-29030	10.000	2,707
University of Vermont: Department of Agriculture with No CFDA Number		10.000	7,482
University of New Hampshire: Department of Agriculture with No CFDA Number		10.000	8,000
Total CFDA Number 10.000			<u>45,419</u>
Agric Research – Basic and Applied		10.001	216,925
Passed-through:			
NE Regional Agriculture Center: Agric Research – Basic and Applied	NRAC00-3 556703	10.001	27,353
Rutgers University: Agric Research – Basic and Applied		10.001	10,218
Total CFDA Number 10.001			<u>254,496</u>
Plant and Animal Disease, Pest Control, and Animal Care		10.025	14,421
Market Protection and Promotion		10.163	3,757
Grants for Agric Research – Spec. Research		10.200	1,452,459
Passed-through:			
University of Vermont: Grants for Agric Research – Spec. Research	Various	10.200	36,377
University of Massachusetts – Dartmouth: Grants for Agric Research – Spec. Research	556710	10.200	633
Cornell University: Grants for Agric Research – Spec. Research	Various	10.200	20,962
Total CFDA Number 10.200			<u>1,510,431</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Cooperative Forestry Research		10.202	\$ 1,510,907
Payments to Agric Exp Stations-Hatch		10.203	6,236,457
Grants for Agric Research – Comp Research		10.206	438,476
Passed-through:			
University of Mass-Amherst:			
Grants for Agric Research – Comp Research		10.206	806
Total CFDA Number 10.206			<u>439,282</u>
Animal Health and Disease Research		10.207	72,156
Higher Education Challenge Grant		10.217	47,105
Biotechnology Risk Assessment Research		10.219	14,600
Higher Education Multicultural Scholars Program		10.220	12,163
Agricultural and Rural Economic Research		10.250	604,684
Passed-through:			
University of Wisconsin:			
Initiative for Future Agriculture & Food Systems		10.302	40,038
Cornell University:			
Initiative for Future Agriculture & Food Systems		10.302	13,912
Total CFDA Number 10.302			<u>53,950</u>
University of Rhode Island:			
Integrated Programs		10.303	99,031
Cooperative Extension Service		10.500	25,135
Passed-through:			
National 4-H Council:			
Cooperative Extension Service		10.500	2,558
Total CFDA Number 10.500			<u>27,693</u>
Food Donation		10.550	135,011
Passed-through:			
Maine Department of Human Services:			
Special Supplemental Nutrition Woman, Infants and Children		10.557	45,109
Summer Food Service Program for Children		10.559	152,634
Passed-through:			
USM:			
State Admin Match Grants – Food Stamps		10.561	9,400
Maine Department of Human Services:			
Team Nutrition		10.574	90,038
Forestry Research		10.652	345,997
Urban and Community Forestry Assistance		10.664	12,302
Passed-through:			
Maine Department of Conservation:			
Urban and Community Forestry Asst Program		10.664	4,359
Total CFDA Number 10.664			<u>16,661</u>
Rural Abandoned Mine Program		10.910	2,255
Total Department of Agriculture			<u>11,743,657</u>
<i>U.S. Department of Commerce:</i>			
Grants for Public Works and Economic Devel Facilities		11.300	46,338
Economic Development – Technical Assistance		11.303	106,752
Marine Sanctuary Program		11.429	96,072
Marine Fisheries Initiative		11.433	9,384
Marine Mammal Data Program		11.439	242,960
Habitat Conservation		11.463	22,497

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2003

Schedule I

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Unallied Science Program		11.472	\$ 17,284
Passed-through:			
Maine Department of Marine Resources:			
Unallied Science Program		11.472	5,000
University of New Hampshire:			
Unallied Science Program		11.472	43,823
Total CFDA Number 11.472			<u>66,107</u>
Center for Sponsored Coastal Ocean Research		11.478	119,653
Measurement and Engineering Research and Standards		11.609	65,325
Passed-through:			
University of New Hampshire:			
National Oceanic and Atmospheric Admin. with No CFDA Number		11.000	42,318
Econ. Adjustment Assistance		11.307	7,996
Geodetic Surveys and Services		11.400	10,247
Sea Grant Support		11.417	1,262,273
Passed-through:			
Pacific Shellfish Institute:			
Sea Grant Support		11.417	13,666
University of New Hampshire:			
Sea Grant Support	95-089, 99-343	11.417	73,367
Total CFDA Number 11.417			<u>1,349,306</u>
Maine Executive Office:			
Coastal Zone Management Admin Awards	07B G702130	11.419	31,264
Maine State Planning Office:			
Coastal Zone Management Admin Awards	07B G1201056	11.419	(2,018)
Total CFDA Number 11.419			<u>29,246</u>
Undersea Research		11.430	24,242
Passed-through:			
Perry Institute of Marine Sciences:			
Undersea Research	CMRC-01-NRRK-01-02A	11.430	9,707
University of Connecticut:			
Undersea Research	PSA# 3293, 3607	11.430	51,012
Total CFDA Number 11.430			<u>84,961</u>
University of California:			
Oar-Cooperative Institutes	10196726	11.432	66,080
Special Oceanic and Atmospheric Project		11.460	93,859
Passed-through:			
University of New Hampshire:			
Special Oceanic and Atmospheric Project	01-443	11.460	65
Total CFDA Number 11.460			<u>93,924</u>
Total Department of Commerce			<u>2,459,166</u>
<i>U.S. Department of Defense:</i>			
Dept of Defense Awards with no CFDA Number		12.000	638,718
Passed-through:			
University of California at Berkley:			
Dept of Defense Awards with no CFDA Number		12.000	1,861
Regents of the University of California:			
Dept of Defense Awards with no CFDA Number	K-001580-01	12.000	30,508
Gulf of ME Ocean Observing System:			
Dept of Defense Awards with no CFDA Number		12.000	1,440
Total CFDA Number 12.000			<u>672,527</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Washington State University:			
Collaborative Research and Development	G001038	12.114	\$ 309,016
NIMA Research/Development Projects		12.250	22,906
Basic and Applied Scientific Research		12.300	1,286,963
Passed-through:			
Bigelow Lab for Ocean Science:			
Basic and Applied Scientific Research		12.300	3,820
Gulf of ME Ocean Observing System:			
Basic and Applied Scientific Research		12.300	1,700,164
Maine Science Tech Found.:			
Basic and Applied Scientific Research	N00014-01-10818	12.300	59,673
University of Connecticut:			
Basic and Applied Scientific Research	3204	12.300	451
Technology Systems, Inc:			
Basic and Applied Scientific Research	9619TSI-UM02003 03	12.300	28,140
USM:			
Basic and Applied Scientific Research	SA3254	12.300	34,240
Total CFDA Number 12.300			3,113,451
Basic, Applied, and Advanced Research – Sci		12.630	536,391
Research and Technology Development		12.910	1,671,103
Total Department of Defense			6,325,394
<i>U.S. Department of Interior:</i>			
Recreation Resource Management		15.225	(10,982)
Fish and Wildlife Management Assistance		15.608	2,308
Passed-through:			
Maine Department of Inland Fish/Wildlife:			
Fish and Wildlife Management Assistance	924367	15.608	7,234
Total CFDA Number 15.608			9,542
Maine Department of Inland Fish/Wildlife:			
Wildlife Restoration		15.611	11,242
Wildlife Conservation and Appreciation		15.617	52,071
Passed-through:			
Maine Department of Inland Fish/Wildlife:			
Wildlife Conservation and Appreciation		15.617	2,926
Total CFDA Number 15.617			54,997
Assistance to States – Water Resource Res		15.805	154,927
National Water Resource Research Program	1434HQ98AG01927	15.806	8,775
Geological Survey – Research and Data Acquisition		15.808	628,244
National Park Svc with no CFDA Number		15.900	10,673
Passed-through:			
Maine Executive Office:			
Historic Preservation Fund Grants		15.904	11,761
Technical Preservation Services		15.915	37,989
Outdoor Recreation-Acquisition/Development		15.916	(59)
Urban Park and Recreation Recovery		15.919	5,117
Research Information		15.975	334
Passed-through:			
Maine Department of Inland Fish/Wildlife:			
Research Information	09A 999039	15.975	(591)
Total CFDA Number 15.975			(257)
Total Department of Interior			921,969

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
<i>U.S. Department of Justice:</i>			
Passed-through:			
Maine Department of Corrections:			
Juvenile Accountability Incentive Block Grant:	03A G1101039	16.523	\$ 106,462
Maine Department of Human Services:			
Juvenile Accountability Incentive Block Grant:	03A G1101018	16.523	80,070
Total CFDA Number 16.523			186,532
St Justice Stat Prog for Stat Analysis Ctrs		16.550	5,214
Justice Research, Development and Evaluation		16.560	51,588
Passed-through:			
Maine Department of Health/Mental Retard:			
Drug Court Discretionary Grant Program		16.585	81,079
Washington County Cap:			
Reduct & Prevent of Children's Exposure to Violence		16.730	45,821
Maine Department of Human Services:			
Reduct & Prevent of Children's Exposure to Violence		16.730	53,878
Total CFDA Number 16.730			99,699
Violence Against Women Formula Grants		16.588	137,655
Rural Domestic Violence/Child Victimization		16.589	887,340
Total Department of Justice			1,449,107
<i>U.S. Department of Transportation:</i>			
Federal Highway Admin Awards with No CFDA Number		20.000	335,021
Passed-through:			
Maine Department of Transportation:			
Federal Highway Admin Awards with No CFDA Number	Various	20.000	174,911
Total CFDA Number 20.000			509,932
Highway Planning and Construction	MDOT# 02-1, 93-02ABC	20.205	19,003
University of Cincinnati:			
Highway Planning and Construction	OSO99177	20.205	2,498
Total CFDA Number 20.205			21,501
Maine Department of Conservation:			
Recreation Trails Program		20.219	32,565
State Planning and Research		20.515	57,300
Passed-through:			
Eastern Maine Development Corporation:			
State and Comm Highway Safety		20.600	26,430
Massachusetts Institute for Technology:			
University Transportation Centers Program	5710001328	20.701	42,432
Total Department of Transportation			690,160
<i>U.S. NASA:</i>			
Passed-through:			
Maine Science Tech Found:			
NASA Awards with No CFDA Number	Various	43.000	54,729
Maine Space Grant Consortium:			
NASA Awards with No CFDA Number	Various	43.000	60,792
Maine Science Tech Found:			
NASA Awards with No CFDA Number	MSGC# EP-00-01	43.000	(61)
University of California:			
NASA Awards with No CFDA Number	0145GCC922	43.000	111,599
Total CFDA Number 43.000			227,059

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Aerospace Educational Services Program		43.001	\$ 276,612
Passed-through:			
Duke University:			
Aerospace Educational Services Program	00-SC-NASA-1043	43.001	35,098
Maine Space Grant Consortium:			
Aerospace Educational Services Program	EP-03-01	43.001	729
Total CFDA Number 43.001			<u>312,439</u>
Technology Transfer		43.002	257,402
Passed-through:			
California Institute of Tech Jet Prop Lab:			
Technology Transfer	Various	43.002	24,466
Maine Space Grant Consortium:			
Technology Transfer	Various	43.002	22,684
Monterey Bay Aquarium Res Inst:			
Technology Transfer	Various	43.002	31,926
Total CFDA Number 43.002			<u>336,478</u>
Total NASA			<u>875,976</u>
<i>U.S. National Science Foundation:</i>			
National Science Foundation Awards with No CFDA Number		47.000	50,154
Engineering Grants		47.041	445,237
Passed-through:			
UCAR:			
Engineering Grants		47.041	384
Total CFDA Number 47.041			<u>445,621</u>
Mathematical and Physical Sciences		47.049	191,326
Passed-through:			
Ohio State University:			
Mathematical and Physical Sciences		47.049	14,205
Total CFDA Number 47.049			<u>205,531</u>
Geosciences		47.050	3,370,973
Passed-through:			
Texas A&M Research Foundation:			
Geosciences	183-F000997	47.050	191
Smithsonian Institution:			
Geosciences	S02-70204	47.050	18,924
University of Washington:			
Geosciences	652267	47.050	14,411
Total CFDA Number 47.050			<u>3,404,499</u>
Comp/Information Science and Engineering		47.070	822,482
Biological Sciences		47.074	1,889,175
Passed-through:			
Woods Hole Marine Biological Lab			
Biological Sciences	PO# 9486	47.074	39,749
Arizona State University:			
Biological Sciences	00-139	47.074	24,767
University of Alabama:			
Biological Sciences	99-006	47.074	4,673
Total CFDA Number 47.074			<u>1,958,364</u>
Social, Behavioral & Economic Sciences		47.075	292,744

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

**Schedule I**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Passed-through:			
Margaret Chase Smith Qual Assoc.:			
Social, Behavioral & Economic Sciences		47.075	\$ (33)
Total CFDA Number 47.075			<u>292,711</u>
Education and Human Resources		47.076	1,434,023
Passed-through:			
Maine Science Tech Foundation:			
Education and Human Resources	MSTF#97-12A NSF	47.076	25,110
City College of New York:			
Education and Human Resources	402570001D	47.076	1,055
Total CFDA Number 47.076			<u>1,460,188</u>
Academic Research Facilities and Instrumentation		47.077	60,463
Polar Programs		47.078	1,092,514
Passed-through:			
Ohio State University:			
Polar Programs	PO#RF00919572	47.078	28,915
Total CFDA Number 47.078			<u>1,121,429</u>
Total National Science Foundation			<u>9,821,442</u>
<i>U.S. Environmental Protection Agency:</i>			
Passed-through:			
Fisher Charitable Foundation:			
EPA Awards with No CFDA Number		66.000	9,456
Maine Department of Human Services:			
State Underground Water Source Protection	10A 300107	66.433	55,269
State Indoor Radon Grants		66.032	1
National Estuary Program		66.456	6,238
Wetlands		66.461	41,512
Envir. Protection – Consolidated Research		66.500	165,434
Passed-through:			
Maine Department of Conservation:			
Envir. Protection – Consolidated Grant		66.500	67,858
NH Office of State Planning:			
Envir. Protection – Consolidated Grant		66.500	19,525
Total CFDA Number 66.500			<u>252,817</u>
Environmental Protection Consolidated Research		66.600	(7,452)
Passed-through:			
Maine Department of Environmental Protection:			
Performance Partnership Grants	06A 700150	66.605	10,172
Maine Executive Office:			
Performance Partnership Grants	G701357	66.605	229
Total CFDA Number 66.605			<u>10,401</u>
Surveys, Studies, Investig and Spec Purp		66.606	13,695
Training and Fellowships for the EPA		66.607	13,686
Pesticide Environmental Stewardship		66.714	(8)
Environmental Education and Training Program		66.950	17,315
Total Environmental Protection Agency			<u>412,930</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
<i>U.S. Department of Energy:</i>			
Passed-through:			
Brigham Young University:			
Department of Energy Awards with No CFDA Number		81.000	\$ 56,551
Woods Hole Oceanographic Inst:			
Department of Energy Awards with No CFDA Number		81.000	354
Total CFDA Number 81.000			<u>56,905</u>
Office of Science Financial Assistance Program		81.049	257,276
Passed-through:			
Maine Science Tech Foundation:			
Office of Science Financial Assistance Program	MSTF #99-04 DOE	81.049	32,092
Total CFDA Number 81.049			<u>289,368</u>
Office of Scientific and Technical Information		81.064	78,031
Passed-through:			
University of Utah:			
Regional Biomass Energy Programs	2202072	81.079	22,423
Harvard University:			
Conservation Research and Development	901214-HAR	81.086	54,189
Renewable Energy R&D:		81.087	42,272
Lockheed Martin Energy Res Corp:			
Renewable Energy R&D	4000000574	81.087	1,397
Total CFDA Number 81.087			<u>43,669</u>
Total Department of Energy			<u>544,585</u>
<i>U.S. Department of Education:</i>			
Passed-through:			
Center for Applied Special Tech:			
Department of Education Awards W/No CFDA Number		84.000	6,595
Maine Department of Education:			
Special Education – Grants to States	05AU060G999065, 01305A715512	84.027	288,541
National Res Center Fellow Prog for Language		84.015	114,578
Trio – Educational Opportunity Centers		84.066	114,296
Bilingual Education – Professional Development		84.195	505,057
Fund for the Improvement of Education		84.215	380,546
Passed-through:			
Maine Department of Education:			
Fund for the Improvement of Education	01305A502163	84.215	19,035
Total CFDA Number 84.215			<u>399,581</u>
Maine Parent Foundation:			
Parental Assistance Centers		84.310	3,106
Maine Department of Education:			
Teacher Quality Enhancement Grants	01305A514265	84.336	50,415
Special Ed Res and Innovat Child Disabilities		84.324	163,955
Total Department of Education			<u>1,646,124</u>
<i>U.S. Office of Personnel Management:</i>			
Unsolicited Grant Program	01-143-2129	91.001	724

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
<i>U.S. Department of Health and Human Services:</i>			
Department of Human Services Award with no CFDA Number		93.000	\$ 54,006
Passed-through:			
Eastern Area Agency on Aging:			
Department of Health and Human Services Award with no CFDA Number		93.000	119,511
Maine Department of Behavioral & Development Svcs			
Department of Health and Human Services Award with no CFDA Number	22180	93.000	9,989
Total CFDA Number 93.000			<u>183,506</u>
Special Program for Aging – Title IV		93.048	37,045
Passed-through:			
Maine Department of Human Services:			
Special Program for Aging – Title IV	2555, G701128	93.048	125,542
Total CFDA Number 93.048			<u>162,587</u>
Maternal and Child Health Cons Program		93.110	360,780
Applied Toxicological Research and Testing		93.114	316,030
Passed-through:			
Yale University:			
Applied Toxicological Research and Testing		93.114	57,422
Total CFDA Number 93.114			<u>373,452</u>
Biometry and Risk Estim – Health Risks Envir.		93.115	4,008
Passed-through:			
Sunny Buffalo:			
Biometry and Risk Estim – Health Risks Envir.		93.115	25,529
SAD 38:			
Biometry and Risk Estim – Health Risks Envir.		93.115	64,368
Total CFDA Number 93.115			<u>93,905</u>
Rural Health Research Centers		93.155	168,323
Passed-through:			
University of N. Dakota:			
Rural Health Research Centers		93.155	38,558
Total CFDA Number 93.155			<u>206,881</u>
Allied Health Project Grants		93.191	48,262
Research on Healthcare Costs		93.226	30,274
Passed-through:			
Texas A&M:			
Health Service Research & Development Grants	S900290	93.226	33,190
Total CFDA Number 93.226			<u>63,464</u>
Consolid Knowledge Develop and Applic Program		93.230	249,387
Passed-through:			
Maine Department of Human Services:			
Abstinence Education	3266	93.235	17,872
State Rural Hospital Flexibility Program		93.241	187,226
Passed-through:			
Research Triangle Institute:			
Mental Health Research Grants		93.242	(12,391)
ME Judicial Department:			
Substance Abuse and Mental Health Services		93.243	31,980
ME Department of Human Services:			
State Planning Grant Health Care Access		93.256	700,236

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Centers for Disease Control and Prev. – Invest and Tech		93.283	\$ 85,063
Passed-through:			
Maine Department of Human Services:			
Centers for Disease Control and Prev. – Invest and Tech	2544	93.283	53,063
Total CFDA Number 92.283			138,126
Comparative Medicine		93.306	161,464
Advanced Education Nursing Traineeships		93.358	35,634
Academic Research Enhancement Award		93.390	115,908
Passed-through:			
Mount Sinai School of Medicine:			
Cancer Cause & Prevention Research	R01 CA97397-01	93.393	3,998
Kolok Development Group, Inc.:			
Head Start		93.600	(1,610)
Maine Department of Human Services:			
Children’s Justice Grants to States	3631	93.643	69,149
Social Services Research and Demonstration		93.647	428,349
Child Welfare Services Training Grants		93.648	37,909
Adoption Assistance		93.652	871,052
Passed-through:			
Maine Department of Human Services:			
Foster Care – Title IV	3629, 2934	93.658	327,730
Social Services Block Grant	3611	93.667	34,245
Medicaid Infrastructure Grants	3229	93.768	286,011
Maine Department of Health/Mental Retard:			
Medical Assistance Program		93.778	324,816
Maine Department of Human Services:			
Medical Assistance Program	Various	93.778	1,556,160
Total CFDA Number 93.778			1,880,976
Centers for Medicare and Medicaid Svcs		93.779	66,039
Passed-through:			
Health Reach Network:			
Centers for Medicare and Medicaid Svcs		93.779	(1)
Maine Department of Health/Mental Retard:			
Centers for Medicare and Medicaid Svcs	3151	93.779	23,820
Maine Department of Human Services:			
Centers for Medicare and Medicaid Svcs	3151, 3229	93.779	1,039,640
Total CFDA Number 93.779			1,129,498
Heart and Vascular Disease Research		93.837	445,767
Allergy, Immunology and Transplantation		93.855	21,038
Microbiology and Infectious Disease Research		93.856	54,968
Passed-through:			
Trefoil Corp.:			
Center for Research for Mothers and Children		93.865	215,943
Vision Research		93.867	16,723
Passed-through:			
Hudson Valley Tech Dev Ctr, Inc.:			
Indian Health Service Research	ITTG	93.905	30,379
Passed-through:			
Maine Department of Human Services:			
HIV Demo Research, Public and Prof. Education	2473	93.941	41,205
Preventive Health and Health Service Grant	2489, 2939	93.991	9,603
Maternal and Child Hlth Srv Block Grant	373310A103104	93.994	18,749
Total Department of Health and Human Services			9,039,961
Total Research and Development Cluster			45,931,195

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
<b>U.S. Department of Agriculture:</b>			
Passed-through:			
G&B Solutions:			
Department of Agriculture awards w/no CFDA Number		10.000	\$ 44,922
Pennsylvania State University:			
Plant and Animal Disease – Pest Control	2054UM-USDA9759	10.025	153,015
Grants for Agriculture Research – Spec. research		10.200	8,223
Payments to 1890 Land Grant Colleges		10.205	2,159
Crop Insurance		10.450	28,336
Cooperative Extension Services		10.500	6,899,706
Passed-through:			
University of Delaware:			
Cooperative Extension Services	SUB# 500520	10.500	3,384
Michigan State University:			
Cooperative Extension Services	61-4001C	10.500	150
Total CFDA Number 10.500			<u>6,903,240</u>
Passed-through:			
Maine Department of Human Services:			
Special Supplemental Nutrition – Women, Children	3161	10.557	164,454
Nutrition Program for the Elderly	10A G1201213	10.570	21,463
Team Nutrition	2422, 3617	10.574	61,441
Total U.S. Department of Agriculture			<u>7,387,253</u>
<b>U.S. Department of Commerce:</b>			
Sea Grant Support		11.417	22,842
Passed-through:			
Maine Department of Conservation:			
Coastal Zone Mgt Estuarine Research		11.420	7,000
Total Department of Commerce			<u>29,842</u>
<b>U.S. Department of Defense:</b>			
Department of Defense Awards with No CFDA Number		12.000	169,937
Basic and Applied Scientific Research		12.300	26,113
Total Department of Defense			<u>196,050</u>
<b>U.S. Department of Interior:</b>			
Wildlife Conservation and Appreciation		15.617	2,595
<b>U.S. Department of Justice:</b>			
Department of Justice Grants with No CFDA Number		16.000	81,825
Passed-through:			
Penquis Cap:			
Department of Justice Grants with No CFDA Number		16.000	7,000
Total CFDA Number 16.000			<u>88,825</u>
Law Enforcement Assistance FBI Adv Police Training		16.300	22,094
Legal Assistance for Victims		16.524	106,269
Community Prosecution and Project Safe		16.609	33,002
Public Safety Partnership and Community Policing		16.710	548,870
Passed-through:			
Maine Department of Corrections:			
Juvenile Justice and Delinquency Development	G1200055	16.540	(2,894)
Maine Department of Public Safety:			
National Criminal History Improve Program – NCHIF	201168	16.554	(3,804)
Maine Department of Health and Mental Retardation:			
Enforcing Underage Drinking Laws	14G 22176	16.727	3,153
Maine Department of Public Safety:			
Enforcing Underage Drinking Laws		16.727	41,736
Total CFDA Number 16.727			<u>44,889</u>

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2003

Schedule I

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Maine Department of Corrections: State Justice Stat. Program for Stat. Analysis Centers	G1200013	16.550	\$ 90,035
Maine Department of Public Safety: State Justice Stat. Program for Stat. Analysis Centers	16A 1001169	16.550	14,393
Maine Department of Human Services: State Justice Stat. Program for Stat. Analysis Centers	G1200013	16.550	3,902
Total CFDA Number 16.550			<u>108,330</u>
Rural Domestic Violence – Child Victimization		16.589	22,960
Total U.S. Department of Justice			<u>968,541</u>
<b>U.S. Department of Labor:</b>			
ETA Employment and Training – Assist Dislocated Workers Passed-through:		17.246	812,885
Maine Department of Labor: Unemployment Insurance Administration	3150	17.225	53,440
Job Training Partnership Act		17.250	438
Total U.S. Department of Labor			<u>866,763</u>
<b>U.S. NASA:</b>			
NASA Awards with No CFDA Number		43.000	77,725
Aerospace Educational Services Program Passed-through:		43.001	20,187
City College of New York: Aerospace Educational Services Program		43.001	6,586
Total CFDA Number 43.001			<u>26,773</u>
Total NASA			<u>104,498</u>
<b>National Foundation on the Arts and Humanities:</b>			
Promotion of Arts: Grants to Organ & Indiv Institute of Museum and Library Services		45.024	4,832
Passed-through:		45.301	22,679
Maine Humanities Council: Promotion of Humanities – Fed/St Partners		45.129	250
Institute Museum & Library Svcs: Institute Museum & Library Svcs		45.312	85,711
Total National Foundation on the Arts and Humanities			<u>113,472</u>
<b>U.S. National Science Foundation:</b>			
Geosciences		47.050	41,065
Comp/Information Science and Engineering		47.070	7,471
Education and Human Resources		47.076	765,045
Passed-through:			
Maine Math and Science Alliance: Education and Human Resources	Various	47.076	748,786
Maine Science Tech. Foundation: Education and Human Resources	98-02	47.076	1,000
Total CFDA Number 47.076			<u>1,514,831</u>
Academic Research Facilities and Instrumentation		47.077	157,166
Total National Science Foundation			<u>1,720,533</u>
<b>U.S. Small Business Administration:</b>			
Small Business Development Center		59.037	435,957
Veterans Entrepreneurial Training & Counseling		59.044	2,253
Total U.S. Small Business Administration			<u>438,210</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

**Schedule I**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
<b>U.S. Department of Veteran Affairs:</b>			
Post-Vietnam Era Vets Educational Assist		64.120	\$ 198,358
<b>U.S. Environmental Protection Agency:</b>			
National Estuary Program		66.456	335,844
Environmental Justice Grant Small Comm Grp		66.604	(3,878)
Passed-through:			
Maine Department of Environmental Protection:			
Performance Partnership Grants	06AG399190	66.605	5,222
Surveys, Studies, Investig and Spec Purp		66.606	293,292
Passed-through:			
Maine State Planning Office:			
Surveys, Studies, Investig and Spec Purp	07BG103119	66.606	52,383
Total CFDA Number 66.606			<u>345,675</u>
Total Environmental Protection Agency			<u>682,863</u>
<b>U.S. Department of Education:</b>			
Passed-through:			
Center for Civic Education:			
Department of Education Grant with No CFDA Number		84.000	13,390
Maine Department of Education:			
Adult Education – State Grant Program	01305A715909, 01305A629564	84.002	442,143
Maine Community College System:			
Vocational Education – Basic Grants to State		84.048	122,377
National Res. Center Fellow Program for Language		84.015	153,203
Higher Education – Institutional Aid		84.031	4,211
Passed-through:			
Rochester Institute of Technology			
Spec. ED-Postsec. ED Prog. for Persons with Disabilities		84.078	29,406
Funds for Improvements of Postsecondary Education		84.116	67,478
Passed-through:			
City College of New York:			
Funds for Improvements of Postsecondary Education	46141-00-01F	84.116	19,673
University of New Hampshire:			
Funds for Improvements of Postsecondary Education	01-477	84.116	8,443
Total CFDA Number 84.116			<u>95,594</u>
Passed-through:			
Alpha One:			
Rehab Services – Service Project		84.128	6,109
Rehabilitation Long-Term Training		84.129	171,027
International Business Education		85.153	28,264
Passed-through:			
Maine Math and Science Alliance:			
Eisenhower Professional Development	MMSA	84.168	556
Drug Free Schools & Communities		84.184	16,071
Bilingual Education – Professional Development		84.195	124,355
Passed-through:			
Maine Department of Education:			
Even Start State Education Agencies	01305A633613	84.213	33,916
Fund for the Improvement of Education		84.215	228,631
Passed-through:			
Maine Department of Education:			
Assistive Technology	01305A634113	84.224	426,313
National Institute for Literacy		84.257	902,764
Passed-through:			
Maine Parent Foundation:			
Goals 2000		84.276	(12,772)
Maine Math and Science Alliance:			
Eisenhower Professional Development State Grants	MMSA-02-1256	84.281	72,417

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Local Innovations – Challenge Grants		84.303	\$ 33,199
Passed-through:			
National Institute for Community Innov.:			
Local Innovations – Challenge Grants		84.303	19,193
A. McMullen & J. Benetar:			
Local Innovations – Challenge Grants		84.303	35,579
Old Orchard Beach School Dept.:			
Local Innovations – Challenge Grants		84.303	30,584
Total CFDA Number 84.303			<u>118,555</u>
Maine Parent Foundation:			
Parental Assistance Centers		84.310	9,688
Maine Department of Education:			
Even Start – Statewide Family Literacy	0305A633613	84.314	38,845
Special Ed Res. & Innovat. Child Disabilities		84.324	112,886
Special Ed Personnel Prep – Children with Disabilities		84.325	303,788
Passed-through:			
The Spurwink Institute:			
Special Ed Personnel Prep – Children with Disabilities		84.325	51,096
Total CFDA Number 84.325			<u>354,884</u>
Early Awareness and Readiness – Undergrad Prog.		84.334	127,985
Passed-through:			
Maine Department of Education:			
Early Awareness and Readiness – Undergrad Prog.	01305A634113	84.334	60,161
Total CFDA Number 84.334			<u>188,146</u>
Child Care Access Means Parents in School		84.335	34,428
Passed-through:			
Maine Department of Education:			
Reading Excellence	01305A634013	84.338	24,643
Teacher Quality Enhancement Grants	01305A514265	84.336	7,667
Preparing Tomorrows Teachers to Use Tech.		84.342	478,548
Transition to Teaching		84.350	6,761
Passed-through:			
Maine Department of Education:			
Advanced Placement	01305A510562	84.330	90,000
University of California at Berkley:			
National Writing Project	98-ME01	84.928	30,439
Total Department of Education			<u>4,353,465</u>
<b>National Archives and Records Administration:</b>			
National Historical Publications and Records Grants		89.003	10,689
<b>U.S. Department of Health and Human Services:</b>			
Passed-through:			
Maine Department of Behavioral and Developmental Services:			
Department of Health and Human Services with No CFDA Number	10A 602529	93.000	91,525
Maine Department of Human Services:			
Department of Health and Human Services with No CFDA Number	Various	93.000	1,229,708
Total CFDA Number 93.000			<u>1,321,233</u>
Indian Township Tribal Government:			
Mental Health Svcs for Children		93.104	87,409
Maine Department of Human Services:			
Injury Prevention and Control Research		93.136	27,247
Allied Health Project Grants		93.191	89,679
Interdiscip Training-Rural Health Care		93.192	65,991
Passed-through:			
Maine Department of Human Services:			
Childhood Lead Paint Prevention Projects	1553	93.197	15,470

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Indian Township Tribal Govt: Consolid Knowledge Develop and Applic Program		93.230	\$ 24,293
Maine Department of Health/Mental Retardation: Consolid Knowledge Develop and Applic Program		93.230	47,796
Total CFDA Number 93.230			72,089
Maine Department of Behavioral and Developmental Services: Mental Health Clinical and AIDS Service – Training	14C	93.244	13,989
Maine Department of Health/Mental Retardation: Mental Health Clinical and AIDS Service – Training	Various	93.244	54,324
Total CFDA Number 93.244			68,313
Maine Department of Human Services: National Poison Control Systems Stabilization and Support	2642	93.253	2,469
National Collegiate Athletic Association Presidents Council on Physical Fitness	NYSPP02179	93.289	75,608
Advanced Education Nursing Traineeships		93.358	60,660
Basic Nurse Education, Practice & Retention Grants		93.359	180,112
Passed-through: Maine Department of Human Services: Temporary Assistance for Needy Families Child Support Enforcement	244, 1405	93.558 93.563	237,280 73,801
Community Services Block Grant		93.569	241,739
Passed-through: Maine Department of Human Services: Community Services Block Grant	2403	93.569	307,119
Total CFDA Number 93.569			548,858
National Collegiate Athletic Association: Community Services Block Grant Discretionary Awards	NYSPP 03-179	93.570	7,139
Nat'l Youth Sports Corp: Community Services Block Grant Discretionary Awards		93.570	257
Total CFDA Number 93.570			7,396
Coastal Enterprises Inc.: Early Learning Fund		93.577	147,298
Western Maine Access: Early Learning Fund		93.577	59,796
Total CFDA Number 93.577			207,094
University Ctrs for Excellence		93.632	385,608
Passed-through: Maine Department of Human Services: Children's Justice Grants to States	2914	93.643	52,455
Penquis Cap: New Assets for Independence Demonstration Program		93.602	13,738
Child Welfare Services Training Grants		93.648	451,886
Passed-through: Maine Department of Human Services: Child Welfare Services Training Grants		93.648	222,777
Total CFDA Number 93.648			674,663
Colorado Department of Human Services: Foster Care – Title IV(E)	Various	93.658	198,592
Maine Department of Human Services: Foster Care – Title IV(E)	Various	93.658	3,306,349
USM: Foster Care – Title IV(E)		93.658	132,689
Total CFDA Number 93.658			3,637,630

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

<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 Human Services:			
Social Services Block Grant		93.667	\$ 2,051,276
Independent Living – Foster Care	Various	93.674	387,827
Rural Health Outreach and Rural Network Dev Prg.		93.912	539,194
Passed-through:			
Maine Department of Human Services:			
Preventive Health and Health Services Grant	3143	93.991	86,842
Maternal and Child Health Services Block Grant	Various	93.994	316
Total Department of Health and Human Services			<u>10,970,258</u>
<b>U.S. Corp. for National and Community Service:</b>			
Passed-through:			
Maine Campus Compact:			
Learn & Serve America-School & Comm Based Pgms	00LSHME002	94.004	8,057
Learn & Serve America-Higher Education	00LHEVT068	94.005	23,455
Maine Executive Office:			
Planning and Program Development Grants		94.007	3,475
Maine Campus Compact:			
Planning and Program Development Grants	00LHEVT068	94.007	7,735
Maine State Planning Office:			
Planning and Program Development Grants		94.007	5,643
Total CFDA Number 94.007			<u>16,853</u>
Maine State Planning Office:			
Volunteers in Service to America	Various	94.013	85,608
Total Corp. for National and Community Service			<u>133,973</u>
Total Federal Expenditures			<u>\$ 198,730,479</u>

See accompanying independent auditors' report.

## UNIVERSITY OF MAINE SYSTEM

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

**(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, 2003:

Cluster/program title	Federal CFDA number	Amount outstanding
Perkins Loan Program	84.038	\$ 33,591,000
Nursing Loan Program	93.364	1,017,000

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, 2003

**(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 2003, subrecipient expenditures totaled \$5,133,832.

**(4) Indirect Costs**

The System has four-year pre-determined fixed indirect cost rates that are effective from July 1, 1999 through June 30, 2003. 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 four-year period FY2004 to FY2007.