



**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, 2004

**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, 2004

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**Exhibit I**

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

The Board of Trustees  
University of Maine System:

**Compliance**

We have audited the compliance of the University of Maine System (the System) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement (Compliance Supplement)* that are applicable to each of its major federal programs for the year ended June 30, 2004, except for those requirements discussed in the third following paragraph. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

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

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004, other than those requirements applicable to the student financial aid cluster discussed in the following paragraph. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying current year schedule of findings and questioned costs (Exhibit III) as items 04-01 through 04-08.

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



## Exhibit I

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

### Internal Control over Compliance

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

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the System's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-01, 04-02, 04-07 and 04-08.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.



**Exhibit I**

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

November 24, 2004



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**Exhibit II**

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

The Board of Trustees  
University of Maine System:

We have audited the financial statements of the University of Maine System (the System), a component unit of the State of Maine, and its aggregate discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the System's basic financial statements and, based on our audit and the reports of other auditors, have issued our report thereon dated October 15, 2004. Our report refers to the System's adoption, effective July 1, 2003, of Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

**Internal Control over Financial Reporting**

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

**Compliance and Other Matters**

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



## Exhibit II

We noted other matters involving the internal control over financial reporting, which have reported to management of the System in a separate letter dated October 15, 2004.

This report is intended solely for the information and use of the Board of Trustees 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 15, 2004

UNIVERSITY OF MAINE SYSTEM

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

(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 the System's major federal award programs expressed an unqualified opinion.
- (g) The audit disclosed findings that are required to be reported by OMB Circular A-133.
- (h) The System's major programs are as follows:

Program name	CFDA number(s)
Student Financial Aid Cluster	84.007, 84.032, 84.033, 84.038, 84.063, 84.268 and 93.364
Social Services Block Grant	93.667

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

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

No matters are reported.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

**Reference Number:** 04-01

**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 72 total students selected for exit interview testing in our audit, we noted four students (three from Augusta and one from Orono) for whom an exit interview was required but was not evidenced by documentation in the files. We also noted four students from Presque Isle who did not have an exit interview performed in a timely manner, and three students from Southern Maine for whom it was unclear how the 30-day federal requirement would apply.

**Questioned Costs:** None.

**Recommendation:**

The System should consider the feasibility of establishing comprehensive policies and procedures to be applied to all campuses uniformly 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. Any such policies should provide guidance for various withdrawal scenarios to ensure proper and consistent application of the 30-day limit across the System to ensure compliance with the federal requirements regarding the timing of exit interviews.

**Management’s View:**

See Management’s Corrective Action Plan at Exhibit IV.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

<b>Reference Number:</b>	04-02
<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 one campus (Orono) at which certain federal refund calculations were performed incorrectly, requiring subsequent adjustments. For two of the 21 students we tested at Orono, room and board charges were excluded from the calculation. Another student had an error requiring a small additional refund.

We also noted one student at Orono whose credit balance refund was made more than 14 days after the credit balance occurred.

**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.

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.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

**Reference Number:** 04-03

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

**CFDA Number:** 84.032, 84.063, 84.268, 84.038, 84.033, 84.007

**Program:** Student Financial Aid Cluster – Federal Family Education Loan Program (FFELP), Federal Pell Grant Program, Federal Direct Loan Program, Federal Perkins Loan Program, Federal Work Study Program, Federal Supplemental Education Opportunity Grant Program (SEOG)

**Compliance Requirement:** Eligibility

**Description:**

Federal regulations require a student to have a high school diploma or equivalent or to pass an ability-to-benefit test in order to be eligible for federal financial aid.

Out of a sample of ten students, we noted two students at the Fort Kent campus who did not have evidence of a high school diploma or equivalent in their files.

**Questioned Costs:** None.

**Recommendation:**

We recommend that the campus strengthen its procedures by training all staff within the process of the required documents for a student to be eligible for federal financial aid.

**Management’s View:**

See Management’s Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

**Reference Number:** 04-04  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.033  
**Program:** Federal Work Study Program  
**Compliance Requirements:** Special Tests and Provisions – Disbursements to Students

**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. Federal regulations also require the completion of Form W-4 so that an employer can withhold the correct federal income tax.

Out of a sample of 30 students tested for Federal Work Study disbursements, we noted one student (Orono) whose I-9 form was not signed, dated, or otherwise completed by the employer and one student (Fort Kent) whose Form W-4 was not signed or dated by the student.

**Questioned Costs:** None.

**Recommendation:**

The campus should institute procedures to ensure that all of the required forms are received and complete for students in the Federal Work Study Program.

**Management’s View:**

See Management’s Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

**Reference Number:** 04-05  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.038  
**Program:** Student Financial Aid Cluster - Federal Perkins Loan Program (Perkins)  
**Compliance Requirement:** Eligibility

**Description:**

34 CFR 674.9 states that a student at an institution of higher education is eligible to receive a Perkins loan for an award year if the student is willing to repay the loan.

One of the 20 students tested at the Southern Maine Campus received a Perkins loan disbursement prior to the promissory note being signed. We noted that the note was subsequently signed.

**Questioned Costs:** None.

**Recommendation:**

The campus should institute procedures to ensure Perkins loan disbursements can only occur after the promissory note has been signed.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

**UNIVERSITY OF MAINE SYSTEM**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

**Reference Number:** 04-06

**Federal Agency:** U.S. Department of Education (ED)

**CFDA Number:** 84.038

**Program:** Student Financial Aid Cluster – Federal Perkins Loan Program (Perkins)

**Compliance Requirement:** Special Tests and Provisions – Student Loan Repayments – Due Diligence

**Description:**

For borrowers in default status on Perkins loans, the school must continue to make yearly attempts to collect from the borrower until the loan is recovered, the account is assigned to the ED, or the loan is written off.

One Perkins loan borrower out of a sample of 5 students tested at Presque Isle had no activity on his loan accounts since October 17, 2002. His account had been placed with two collection agencies and returned to the campus when the collection agencies did not place the account into regular repayment status by the end of twelve months.

**Questioned Costs:** None.

**Recommendation:**

The campus should continue collection efforts until the loan is re-paid, written off, or assigned to ED.

**Management’s View:**

See Management’s Corrective Action Plan at Exhibit IV.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

## (3) Findings and Questioned Costs Relating to Federal Awards (Continued)

**Reference Number:** 04-07

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

**CFDA Number:** 84.038, 84.007 and 84.033

**Program:** Student Financial Aid Cluster – Federal Perkins Loan Program (Perkins), Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work Study Program (FWS)

**Compliance Requirement:** Reporting

**Description:**

Institutions participating in the Perkins, FWS and FSEOG programs are required to file the Fiscal Operations Report and Application to Participate (FISAP) each year. The FISAP provides certain information about the above-referenced programs, as well as information with regards to the operations of the Institution.

During the testwork performed over the System's FISAPs (each campus prepares a separate FISAP), we noted that the amounts reported in Section E, Line 22(a) and (b), "total tuition and fees for the Award Year July 1, 2003 – June 30, 2004," did not include the remission of waivers of costs, as required in the instructions to the FISAP. Total waivers for the System approximated \$11,338,000 for the year ended June 30, 2004. In addition, two campuses, Orono and Presque Isle, used incorrect source data to report their total tuition and fees, resulting in an underreporting of tuition and fees of approximately \$3,174,000 for Orono and an overreporting of tuition and fees of approximately \$1,375,000 for Presque Isle.

**Questioned Costs:** None.

**Recommendation:**

The System's campuses should institute procedures to ensure that amounts reported as tuition and fees include the required items as detailed in the instructions to the FISAP. In addition, the System should perform a reconciliation between the FISAPs and the general ledger prior to the annual FISAP filing to ensure accurate and complete reporting of information in the FISAPs.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.

## UNIVERSITY OF MAINE SYSTEM

## Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2004

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

**Reference Number:** 04-08

**Federal Agency:** Department of Health and Human Services

**CFDA Number:** 93.667

**Program:** Social Services Block Grant

**Compliance Requirement:** Activities Allowed or Unallowed/Allowable Costs

**Description:**

Project directors are required to monitor expenditures charged to grants on a monthly basis and report back to the Office of Sponsored Programs with any transfers that need to be made. The System has a cost transfer policy requiring cost transfers to be completed within 60 days of the close of the month in which the original charge occurred. Federal regulations require a time frame of 90 days to complete cost transfers and also require that such transfers be supported by documentation which supports the justification for the transfer. Employees are also required to certify their time spent on federal grants on either a monthly or a bi-weekly basis, depending on the type of employee. These effort reports are reviewed and approved by the project directors.

Of the 30 reports submitted to the Office of Sponsored Programs we selected, 14 reports were submitted to the Office of Sponsored Programs more than 60 days after the close of the month and 10 of those 14 were submitted more than 90 days after the close of the month. In addition, a salary adjustment was made at the end of the grant period because the original allocation was set up with cost sharing on the salary; however, there was no cost-sharing provision for the salary under the grant. This was not detected during the regular effort certification process, nor was the transfer of the salary supported by sufficient justification.

**Questioned Costs:** \$19,545

**Recommendation:**

The System should institute procedures to ensure that effort reports are certified correctly within the required time frames. The System should also ensure that employees are adequately trained in applying the System's cost transfer policy appropriately.

**Management's View:**

See Management's Corrective Action Plan at Exhibit IV.



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University of Maine  
at Farmington

University of Maine  
at Fort Kent

University of Maine  
at Machias

University of Maine  
at Presque Isle

University of  
Southern Maine

## A-133 Audit Report

June 30, 2004

### SUMMARY OF CORRECTIVE ACTION PLAN

**Reference Number:** 04-01  
**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

#### Exit Interviews Completion & Timeliness:

##### General Response

Agree. The system will discuss the feasibility of System-Wide policies and procedures regarding exits, including the 30-day limit requirement.

##### UMA [Augusta]

Agree with finding. UMA has taken the following steps to ensure compliance with federal exit interview requirements.

1. Modified computer programs to identify all students (by loan type) who have received financial aid funds, in current or past semesters, who:
  - A. fell below half-time status.
  - B. are registered for six credit hours or more at UMA and/or another University of Maine System (UMS) institution; this check is to determine whether any of these students are now in degree programs at other UMS institutions and should be sent an exit interview by UMA.
  - C. have graduated.
2. Created a computer program tracking system for archiving exit interview materials sent and exit interviews completed; maintain a log of exit interview programs run.
3. Developed an exit interview schedule; the computer programs are run bimonthly, and exit interview materials are sent to the appropriate students.
4. Manually completed exit interviews are recorded in the archive system as they occur.
5. Electronically completed exit interviews are recorded and updated bimonthly through the computer program.
6. Established a process of documenting completion of the various steps on a networked drive.

**UMPI [Presque Isle]**

Agree with finding. UMPI has reviewed and strengthened its policies and procedures to ensure exit interviews are conducted in a timely manner. The Academic Affairs Office has been given exit postcards to hand to students who are taking a leave or withdrawing from school. The students have a notice in hand that an exit interview is part of the requirement for exiting school. The Registrar's Office notifies the Financial Aid Office, Business Office and other departments of students' official withdrawal dates.

**UM [Orono]**

Agree with finding. UM believes that the procedures that are currently in place are working. The student in this finding was picked up on the cancellation/withdrawal list and was tagged for an exit interview. However, due to an oversight by an individual staff member, the exit interview form was not sent. UM will look into implementing a safeguard that will prevent this from happening in the future.

**USM [Southern Maine]**

Agree that the procedures to determine when a borrower has left school are complicated and varied because of the many circumstances under which students actually leave school, making determination of when the 30-day federal requirements begins challenging. USM will document its procedures for applying the 30-day requirement to ensure consistent application in like circumstances.

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**Reference Number:** 04-02

**Federal Agency:**

U.S. Department of Education

**CFDA Numbers:**

84.032, 84.063, 84.007

**Program:**

Student Financial Aid Cluster – Federal Family Education Loan Program (FFELP), Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant Program (SEOG)

**Compliance Requirement:**

Special Tests and Provisions – Refunds

**Refund Calculation Errors:**

**UM [Orono]**

Agree. UM transferred the program oversight for the R2T4 from the Programmer/Computing Specialist to the Assistant Director for Customer Service. She has reviewed the entire process, including a thorough reading of the University's Administrative Practice Letters. With a greater understanding of the regulations and the process, in addition to performing a second review of the calculations, we believe that errors found this year will not be recurring. Also, the support staff person entering the information into the R2T4 software has been spoken to regarding the errors. She will be printing and reviewing the charges on the student information systems (both on ISIS and DSIS) to ensure no charges are overlooked.

**Credit Balance Refunds**

**UM [Orono]**

Agree. UM has determined that existing automatic refund controls in place should have issued the refund within the 14-day requirement. UM will take the necessary steps to review all existing automatic refund programs, determine any gaps given this example and modify the program accordingly to avoid this finding in the future.

**Reference Number:** 04-03  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.032, 84.063, 84.268, 84.038, 84.033, 84.007  
**Program:** Student Financial Aid Cluster – Federal Family Education Loan Program (FFELP), Federal Pell Grant Program, Federal Direct Loan Program, Federal Perkins Loan Program, Federal Work Study Program, Federal Supplemental Education Opportunity Grant Program (SEOG)  
**Compliance Requirement:** Eligibility

**High School Diploma or Equivalent:**

**UMFK [Fort Kent]**

Agree. UMFK will retrain both Admissions and Financial Aid Office personnel on the student eligibility requirements with particular attention to the need for documentation of high school graduation and the conditions for acceptable equivalents.

**Reference Number:** 04-04  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.033  
**Program:** Federal Work Study Program  
**Compliance Requirement:** Special Tests and Provisions – Disbursements to Students

**I-9 Completion**

**UM [Orono]**

Agree. For the student in this finding, the required documents were photocopied and attached to the I9, but the I9 was not signed and completed. The following steps will be taken:

1. The department employing this student will be contacted and reminded of their responsibility for collecting and verifying the I9.
2. Human Resources staff will be reminded to review I9's more carefully when received to make sure they are complete.
3. All employers will be reminded of their responsibilities for I9's when hiring student employees at the University's annual workshop for

supervisors.

**W- 4 Completion**

**UMFK [Fort Kent]**

Agree. UMFK has increased staff in the Work Study area to more closely monitor all aspects of student employment and the relationship between our financial aid system (Financier) and our human resource/payroll system (PeopleSoft). New staff and existing staff will be retrained with a particular focus on proper completion of forms.

**Reference Number:** 04-05  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.038  
**Program:** Student Financial Aid Cluster - Federal Perkins Loan Program  
**Compliance Requirement:** Eligibility

**Perkins Loan Disbursement Prior to Signing of Promissory Note:**

**USM [Southern Maine]**

USM concurs with the finding that a student's Perkins loan was disbursed without a signed promissory note. The records indicate that this occurred as a result of human error. The promissory note was coded as not needed in an award cancellation process while the award was inadvertently left on the computer file. The code used to cancel the document requirement permitted the disbursement of the award. The Student Loan Office while performing a reconciliation caught the error and notified the student of the requirement to sign a promissory note.

The student complied and a signed promissory note is now on file. A revised procedure has also been implemented so that if a student rejects an award, we are using a new code of D to delete the required document. This new code in our database will prevent the disbursement of an associated award should we happen to leave an award up in error.

**Reference Number:** 04-06  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.038  
**Program:** Student Financial Aid Cluster – Federal Perkins Loan Program (Perkins)  
**Compliance Requirement:** Student Loan Repayments – Due Diligence

**Perkins Loans and attempts to collect from borrower**

**UMPI [Presque Isle]**

Agree. UMPI has reviewed it procedures for loan collections. The Loan Officer tried many times to contact the borrower but the borrower did not respond to calls. The Presque Isle campus is utilizing an additional collection agency to track

students and to litigate if they are unable to collect. The Loan Collection Officer has taken on additional duties in the Business Office due to the resignations and replacement of other office staff. The Presque Isle campus is aggressively assigning accounts to the Department of Education.

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**Reference Number:** 04-07  
**Federal Agency:** U.S. Department of Education  
**CFDA Number:** 84.038, 84.007 and 84.033  
**Program:** Student Financial Aid Cluster –Federal Perkins Loan Program (Perkins), Federal Supplemental Education Opportunity Grant Program (SEOG) and Federal Work Study Program (FWS)  
**Compliance Requirement:** Reporting

**FISAP**

**UMA, UMF, UMFK, UMM, UM, USM, UMPI**

Agree. New procedures are now in place to include waivers in the System’s Tuition and Fees Revenue Summary Report. Each University will ensure their FISAP reconciles to the General Ledger.

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**Reference Number:** 04-08  
**Federal Agency:** Department of Health and Human Services  
**CFDA Number:** 93.667  
**Program:** Social Services Block Grant  
**Compliance Requirement:** Activities Allowed or Unallowed

**Cost Transfer Reports**

**USM [Southern Maine]**

Agree. USM will strengthen its procedures to ensure that effort reports are certified correctly and timely. In addition, USM will remind employees about cost transfer requirements.

**UNIVERSITY OF MAINE SYSTEM**

Financial Statements and Supplementary  
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004



**KPMG LLP**  
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**Exhibit V**

## 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, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the statement of financial position of the System's aggregate discretely presented component units as of June 30, 2004, and the related statement of activities for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented units were not audited in accordance with *Government Auditing Standards*. An audit includes 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, and the financial position of the System's aggregate discretely presented component units as of June 30, 2004, and the changes in their net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 16, the System adopted, effective July 1, 2003, Statement No. 39 of the Governmental Accounting Standards Board (GASB), *Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement 14)*.

The management's discussion and analysis on pages V-3 through V-11 and the supplementary schedules of funding progress and employers' contributions on page V-43 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of



**Exhibit V**

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2004 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

October 15, 2004

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(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, 2004 and 2003. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying basic financial statements and related notes.

**Overview of the Financial Statements**

The University of Maine System's financial statements include three primary components: 1) the Statements of Net Assets, 2) the Statements of Revenues, Expenses, and Changes in Net Assets, and 3) the Statements of Cash Flows. Also included for the first time in FY2004 is the Statement of Financial Position and the Statement of Activities for aggregate discretely presented component units. These have been included as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The MD&A only includes information for the System and not its component units. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

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

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(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, 2004, 2003, and 2002 is as follows:

<b>Condensed Net Assets Information</b>	2004	2003	2002
Current assets	\$ 168,927	\$ 155,174	\$ 152,253
Noncurrent assets:			
Endowment	92,833	78,344	77,435
Capital assets	440,319	395,695	356,995
Other noncurrent assets	84,068	89,732	109,272
<b>Total assets</b>	<b>786,147</b>	<b>718,945</b>	<b>695,955</b>
Current liabilities	59,891	54,726	56,289
Noncurrent liabilities:			
Long-term debt	141,936	122,557	126,764
Other noncurrent liabilities	71,142	65,641	57,921
<b>Total liabilities</b>	<b>272,969</b>	<b>242,924</b>	<b>240,974</b>
Net Assets:			
Invested in capital assets, net of related debt	326,859	304,930	285,320
Restricted - nonexpendable	47,047	44,225	42,470
Restricted - expendable	81,985	68,935	81,135
Unrestricted	57,287	57,931	46,056
<b>Total net assets</b>	<b>\$ 513,178</b>	<b>\$ 476,021</b>	<b>\$ 454,981</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 2004 increase of \$21,929 and the 2003 increase of \$19,610 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 \$2,822 increase in 2004 and the \$1,755 increase in 2003 is the result of new gifts of \$1,513 and \$2,022, 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 externally imposed conditions on spending. Increased spending for property, plant, and

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(In Thousands of Dollars)

equipment is the primary driver behind the reduction in 2003. The increase of \$13,050 in 2004 is primarily the result of improved market conditions impacting the endowment fund.

Although unrestricted net assets are not subject to externally imposed stipulations and are sometimes referred to as "reserves", these assets have been committed to specific projects, operational and capital needs, or endowment funds for committed scholarships. Given both the physical and financial size of the University of Maine System, funds must be readily available to meet emergency needs, fund accounting pronouncement requirements, cover occasional annual operating losses and over-expenditures on capital projects, pay severance arrangements during periods of restructuring and address an excessive maintenance backlog. The decrease in unrestricted net assets for 2004 of \$644 is primarily attributable to a decline in investment income. The increase in unrestricted net assets in 2003 of \$11,875 is attributable to Educational & General and Auxiliary Operations.

The table below summarizes the components of unrestricted net assets as of June 30, 2004.

**Unrestricted Net Assets as of June 30, 2004 designated for:**

Specific Projects	\$10,110
Operational and Capital Needs	40,851
Endowment Funds	<u>6,326</u>
Total	<u><u>\$57,287</u></u>

**Endowment Investments (Noncurrent Assets)**

The System manages its endowment to generate a predictable stream of annual support for current needs, while at the same time preserving the endowment as a whole to ensure funds for future years. The endowment spending rate policy provided for an annual distribution of 5.5% of the average net market value of the endowment for the prior 12 quarters. For FY05, this rate will be changing to 5.25%.

The System's endowment investments had a fair market value of \$92,833 at June 30, 2004, reflecting an increase of \$14,489 above the fair market value of \$78,344 at June 30, 2003 which is primarily attributable to market value appreciation. Gifts, charitable gift annuities, and investment income (net of investment fees) remained relatively unchanged while spending for scholarships, operations, and various transfers decreased during 2004. The System's endowment investments for 2003 reflected an increase of \$909 primarily as the result of increasing market values.

The total return on the pooled endowments on a net of fees basis for 2004 was 19.2% as compared to 4.8% for 2003. This increase in 2004 reflects solid returns in the equities market. The increase in 2003 reflected the continued performance of the fixed income markets and modest returns in the equities market.

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(In Thousands of Dollars)

**Capital Assets and Debt Activities**

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

Capital additions of \$65,243 in 2004 and \$66,147 in 2003 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 2004 and 2003 were funded primarily with State of Maine capital appropriations and University of Maine System revenue bonds.

Of the total capital additions before depreciation for 2004, \$58,329 represented capital construction. Classroom construction or renovation included the Advanced Manufacturing Center and the Engineering/Science Research Complex at UM and the Bioscience Building, John Mitchell Center, and the Community Education Facility at USM. A new residential hall was constructed at UMFK and sprinkler systems continue to be installed in residential halls across the System. Projects in progress also included the digital library and the Project Enterprise implementation of PeopleSoft. This software will integrate information and business processes to enable the efficient and effective sharing of information throughout the organization and, thus, maximize productivity. Of the total capital additions before depreciation for 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 were installed in various residential halls across the System. Projects in progress also included the Enterprise Resource Planning (ERP) implementation of PeopleSoft.

The System strives to manage all its financial resources effectively including the prudent use of debt to finance capital projects that support the System's mission, thereby placing the System in a better position to achieve its strategic goals. Total debt as of June 30, 2004 and 2003 was \$147,951 and \$128,117, respectively. Of the total debt as of June 30, 2004, \$147,245 was in the form of bonds as compared to \$127,781 as of June 30, 2003. In March 2004 revenue bonds were issued to fund capital construction and to partially refund the 1998 Series A and 2000 Series A Revenue Bonds which will result in reduced debt service payments.

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(In Thousands of Dollars)

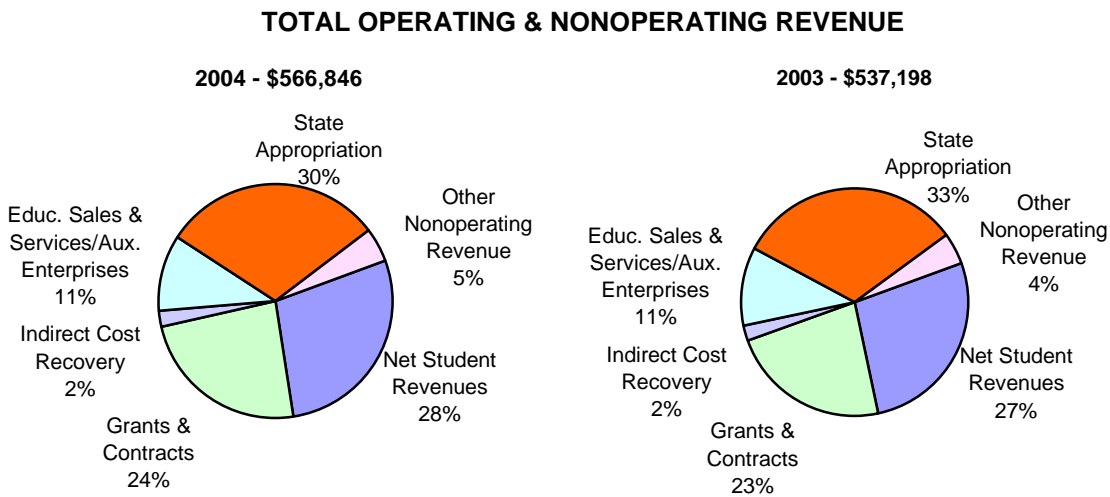
**Condensed Revenues, Expenses, and Changes in Net Assets**

	2004	2003	2002
Operating Revenues:			
Net student revenues	\$ 159,447	\$ 145,708	\$ 131,302
Grants and contracts	134,046	122,439	113,550
Indirect cost recovery	12,873	11,546	10,816
Educational sales and services & Other auxiliary enterprises	60,678	59,937	51,216
Interest income on loans	789	725	739
Total operating revenues	<u>367,833</u>	<u>340,355</u>	<u>307,623</u>
Operating Expenses	<u>552,262</u>	<u>528,111</u>	<u>495,012</u>
Net operating loss	<u>(184,429)</u>	<u>(187,756)</u>	<u>(187,389)</u>
Non-operating revenues (expenses):			
State appropriation - general	172,121	173,050	176,388
Gifts	9,835	11,801	11,037
Endowment income distributed for operations	4,765	5,104	5,271
Investment income	2,625	9,099	6,602
Interest expense	(3,370)	(3,575)	(4,079)
Other nonoperating expenses	(1,328)	-	-
Sub-total	<u>184,648</u>	<u>195,479</u>	<u>195,219</u>
<b>Income before endowment return (net of amount used for operations) and other revenues</b>	<b>219</b>	<b>7,723</b>	<b>7,830</b>
Endowment return (net of amount used for operations)	<u>9,667</u>	<u>(2,211)</u>	<u>(12,338)</u>
Income (loss) before other Revenues	\$ 9,886	\$ 5,512	\$ (4,508)
Other Revenues			
Capital appropriations	20,725	11,452	3,035
Capital grants and gifts	5,033	2,054	3,306
Additions to permanent endowments - gifts	1,513	2,022	1,356
	<u>27,271</u>	<u>15,528</u>	<u>7,697</u>
Increase in Net Assets	37,157	21,040	3,189
Net Assets			
Net Assets - beginning of year	476,021	454,981	451,792
Net Assets - end of year	<u>\$ 513,178</u>	<u>\$ 476,021</u>	<u>\$ 454,981</u>

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(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 non-operating revenue sources used to fund the System's activities for the years ended June 30, 2004 and 2003.



**Operating Revenues**

Tuition and fees and residence and dining fees are the primary sources of operating revenue and in 2004 totaled \$159,447 after adjusting for scholarship allowances, reflecting an increase of \$13,739 or 9.4% over 2003 revenue of \$145,708. This change is the result of a 7.6% weighted average increase in tuition, a 4.6% weighted average increase in room and board rates, and an increase in student enrollment and students residing in residence halls. Tuition and fees and residence and dining fees in 2003 after adjusting for scholarship allowances, reflected an increase of \$14,406 or 11.0% over 2002 revenue. This change was the result of a 4.6% weighted average increase in tuition, a 3.9% weighted average increase in room and board rates, an adjustment for reciprocating amounts between student revenues and financial aid, 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 \$11,607 to \$134,046 in 2004 from \$122,439 in 2003. Sponsored program revenues increased in 2003 by \$8,889. 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.

**UNIVERSITY OF MAINE SYSTEM**  
**Management's Discussion and Analysis (unaudited)**  
**June 30, 2004 and 2003**  
**(In Thousands of Dollars)**

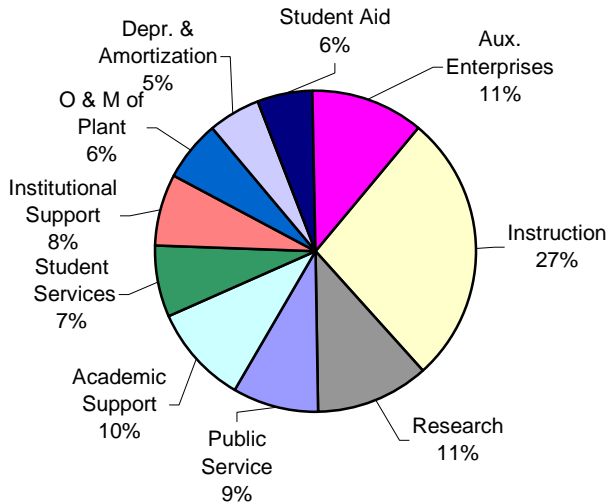
Although not considered an operating revenue, the state appropriation for operations is the largest funding source for educational and general operations. When compared to fiscal year 2003, the state appropriation to the System decreased by \$929 or .5% for 2004 due to state budgetary constraints. The state appropriation for 2003 reflected a decrease of \$3,338 or 1.9% over 2002 funding levels. For fiscal years 2004 and 2003, the general state appropriation covered 93% and 92% respectively of the net operating losses.

**Operating Expenses**

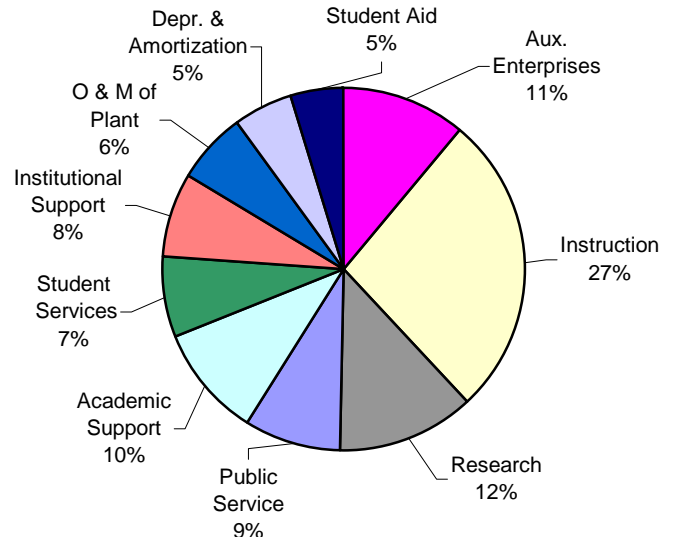
Operating expenses, classified by function, were as follows:

	2004	2003	2002
Instruction	\$147,374	\$142,582	\$135,506
Research	72,216	63,913	57,150
Public service	47,849	45,807	42,386
Academic support	61,336	53,300	50,205
Student services	38,661	37,117	35,214
Institutional support	39,973	40,072	37,350
Operation and maintenance of plant	35,562	34,268	29,671
Depreciation and amortization	20,724	27,511	25,736
Student aid	26,319	24,694	24,846
Auxiliary enterprises	62,248	58,847	56,948
<b>Total</b>	<b>\$552,262</b>	<b>\$528,111</b>	<b>\$495,012</b>

**2004 - \$552,262**



**2003 - \$528,111**

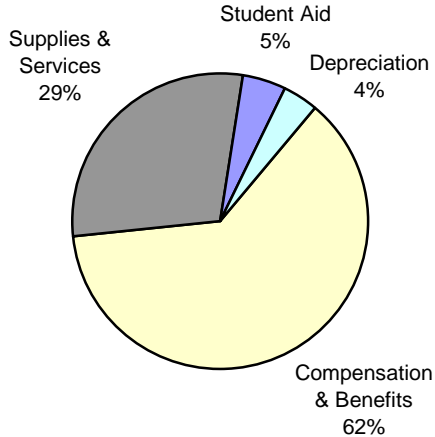


UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(In Thousands of Dollars)

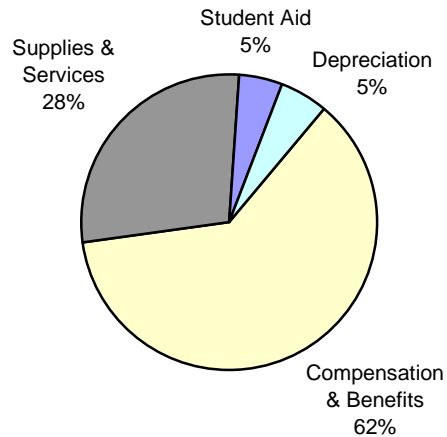
Although the System reports expenses on a functional basis, a comparative summary of the System's expenses based on a natural classification is as follows:

	2004	2003	2002
<b>Operating:</b>			
Compensation and benefits	\$ 344,086	\$ 325,745	\$ 300,307
Supplies and services	161,133	150,161	144,123
Depreciation	20,724	27,511	25,736
Student aid	26,319	24,694	24,846
	552,262	528,111	495,012
<b>Nonoperating:</b>			
Interest and other	4,698	3,575	4,079
Total Expenses	\$ 556,960	\$ 531,686	\$ 499,091

**2004 - \$552,262**



**2003 - \$528,111**



The amount expended for compensation and benefits increased by \$18,341 or 5.6% for 2004 as compared to the increase of \$25,438 or 8.5% for 2003. This increase in 2004 is primarily the result of annual employee compensation increases and employment growth. The 2003 increase in compensation and benefits was 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. 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 2.4% increase in fall full-time equivalent student enrollment and the 1.6% increase in diners and dormitory occupancy for 2004 generated additional revenues but also resulted in additional supplies and services expenditures and employment growth.

UNIVERSITY OF MAINE SYSTEM  
Management's Discussion and Analysis (unaudited)  
June 30, 2004 and 2003  
(In Thousands of Dollars)

**Impact of Future Economic Factors**

All sources of operating revenues increased in FY2004 and are expected to increase in FY2005. Total enrollments at the System have been steadily increasing since 1997 with a record number of students entering for the Fall 2003 semester. With the number of Maine high school graduates projected to decline over the next few years, the System is working to offset the potential decline in enrollment by increasing recruitment efforts with out-of-state and non-traditional student populations.

During FY2004, the University of Maine System Senior Staff and Board of Trustees developed a Strategic Plan which was approved at the September 2004 Board of Trustees meeting. The following strategies were identified to close a projected financial structural gap over the next five years:

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

The Strategic Plan features nine strategic directions covering academic quality, administrative structure, cost-effectiveness, and entrepreneurial partnerships. Some of these directions include increased collaboration with the Maine Community College System to assume more associate degree programs currently administered by the UMS, adequate compensation and support for faculty and staff, administrative connection between distance education centers and universities, library enhancements, increased research, require appropriate goals and objectives accountability, centralization of appropriate business/administrative functions, and defining the missions, niches, and interrelationships of the individual universities within the University of Maine System.

University of Maine System management feels that the Strategic Plan will provide the foundation for the System to strengthen Maine's public higher education system, both financially and academically, to ensure that students will have broad access to a high-quality, affordable education.

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 FY2004 state appropriation was originally budgeted at \$177 million. Due to the State's financial situation, the System ultimately received \$172 in state appropriation – a decrease of \$5 million. State appropriation for FY2005 has been budgeted at \$180 million. Although this reflects an increase over the actual amount received for FY2004, this is still below the original budgeted appropriation for FY2003 of \$183 million. 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 FY2005. The System is continuing to seek additional state support and supplemental revenue sources to alleviate the costs paid by students.

**UNIVERSITY OF MAINE SYSTEM**  
**Statements of Net Assets**  
**June 30, 2004 and 2003**  
(In Thousands of Dollars)

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
<u>Current Assets:</u>		
Cash and cash equivalents (Note 2)	\$ -	\$ 3,507
Short-term investments (Note 3)	131,925	115,210
Accounts, grants, and pledges receivable, net (Note 4)	31,345	31,475
Inventories and prepaid expenses	5,657	4,982
Total Current Assets	<u>168,927</u>	<u>155,174</u>
<u>Noncurrent Assets:</u>		
Deposits with bond trustees (Notes 3 and 6)	37,822	46,806
Accounts, grants, and pledges receivable, net (Note 4)	5,868	3,648
Notes receivable, net (Note 5)	38,374	37,716
Endowment investments (Note 3)	92,833	78,344
Bond issuance costs, net (Note 7)	2,004	1,562
Capital assets, net (Note 6)	440,319	395,695
Total Noncurrent Assets	<u>617,220</u>	<u>563,771</u>
Total Assets	<u>\$ 786,147</u>	<u>\$ 718,945</u>
<b>LIABILITIES</b>		
<u>Current Liabilities:</u>		
Accounts payable	\$ 12,354	\$ 13,432
Deferred revenue and deposits (Notes 8 and 12)	20,348	16,195
Accrued liabilities (Notes 7 and 11)	20,571	18,987
Funds held for others	603	552
Current portion of capital lease obligations (Note 7)	265	206
Current portion of bonds and note payable (Note 7)	5,750	5,354
Total Current Liabilities	<u>59,891</u>	<u>54,726</u>
<u>Noncurrent Liabilities:</u>		
Accrued liabilities (Notes 7 and 11)	33,637	29,772
Funds held for others (Note 3)	5,401	3,379
Capital lease obligations (Note 7)	441	130
Bonds and note payable, net (Note 7)	141,495	122,427
Government advances refundable (Note 9)	32,104	32,490
Total Noncurrent Liabilities	<u>213,078</u>	<u>188,198</u>
Total Liabilities	<u>272,969</u>	<u>242,924</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	326,859	304,930
Restricted:		
Nonexpendable (Note 10)	47,047	44,225
Expendable (Notes 3 and 10)	81,985	68,935
Unrestricted	57,287	57,931
Contingencies (Note 11)	-	-
Total Net Assets	<u>513,178</u>	<u>476,021</u>
Total Liabilities and Net Assets	<u>\$ 786,147</u>	<u>\$ 718,945</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
Statement of Financial Position – Aggregate Discretely Presented Component Units  
June 30, 2004  
(In Thousands of Dollars)

**ASSETS**

Cash and cash equivalents	\$ 15
Accounts receivable and promises to give	677
Investments	125,879
Other assets	<u>19,661</u>
Total Assets	<u><u>\$ 146,232</u></u>

**LIABILITIES**

Accounts payable and other liabilities	1,837
Notes payable	5,811
Custodial accounts payable	<u>1,332</u>
Total Liabilities	<u><u>8,980</u></u>

**NET ASSETS**

Unrestricted net assets	14,349
Temporarily restricted net assets	30,333
Permanently restricted net assets	<u>92,570</u>
Total Net Assets	<u><u>137,252</u></u>
Total Liabilities and Net Assets	<u><u>\$ 146,232</u></u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Revenues, Expenses, and Changes in Net Assets  
 Years Ended June 30, 2004 and 2003  
 (In Thousands of Dollars)

	<u>2004</u>	<u>2003</u>
<b>REVENUES</b>		
Operating Revenues:		
Tuition and fees	\$ 156,824	\$ 143,742
Residence and dining fees	46,832	44,426
Less: scholarship allowances	<u>(44,209)</u>	<u>(42,460)</u>
Net student fees	159,447	145,708
Federal, state, and private grants and contracts	134,046	122,439
Recovery of indirect costs	12,873	11,546
Educational sales and services and other auxiliary enterprises	60,678	59,937
Interest income on loans	789	725
Total Operating Revenues	<u>367,833</u>	<u>340,355</u>
<b>EXPENSES</b>		
Operating Expenses:		
Instruction	147,374	142,582
Research	72,216	63,913
Public service	47,849	45,807
Academic support	61,336	53,300
Student services	38,661	37,117
Institutional support	39,973	40,072
Operation and maintenance of plant	35,562	34,268
Depreciation and amortization	20,724	27,511
Student aid	26,319	24,694
Auxiliary enterprises	<u>62,248</u>	<u>58,847</u>
Total Operating Expenses	<u>552,262</u>	<u>528,111</u>
Operating Loss	<u>(184,429)</u>	<u>(187,756)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Noncapital State of Maine appropriations	172,121	173,050
Gifts	9,835	11,801
Endowment income distributed for operations (Note 3)	4,765	5,104
Endowment return, net of amount used for operations (Note 3)	9,667	(2,211)
Investment income (Note 3)	2,625	9,099
Interest expense (Notes 7 and 8)	(3,370)	(3,575)
Other nonoperating expenses	<u>(1,328)</u>	<u>-</u>
Net Nonoperating Revenue	<u>194,315</u>	<u>193,268</u>
Income Before Other Revenues	<u>9,886</u>	<u>5,512</u>
<b>OTHER REVENUES</b>		
State of Maine capital appropriations	20,725	11,452
Capital grants and gifts	5,033	2,054
Additions to permanent endowments - gifts and state appropriation	<u>1,513</u>	<u>2,022</u>
Total Other Revenues	<u>27,271</u>	<u>15,528</u>
Increase in Net Assets	37,157	21,040
<b>NET ASSETS</b>		
Net Assets - beginning of year	<u>476,021</u>	<u>454,981</u>
Net Assets - end of year	<u>\$ 513,178</u>	<u>\$ 476,021</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
Statement of Activities – Aggregate Discretely Presented Component Units  
Year Ended June 30, 2004  
(In Thousands of Dollars)

**CHANGES IN UNRESTRICTED NET ASSETS**

Public Support, Revenues, and Reclassification	
Contributions and Memberships	\$ 641
Investment and other income	2,160
Net assets released from restrictions	4,970
Total Support, Revenues, and Reclassification	<u>7,771</u>
Expenses	
Program	5,672
Management and general	805
Fundraising	704
Total Expenses	<u>7,181</u>
Increase in Unrestricted Net Assets	<u>590</u>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	2,160
Investment and other income	14,801
Net assets released from restrictions	<u>(4,865)</u>
Increase in Temporarily Restricted Net Assets	<u>12,096</u>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions	8,034
Investment and other income	1,201
Net assets released from restrictions	<u>(105)</u>
Increase in Permanently Restricted Net Assets	<u>9,130</u>
Increase in Total Net Assets	21,816

**NET ASSETS**

Net Assets, beginning of year	<u>115,436</u>
Net Assets, end of year	<u><u>\$ 137,252</u></u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Years Ended June 30, 2004 and 2003  
 (In Thousands of Dollars)

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Tuition, residence, dining, and other student fees	\$ 160,182	\$ 144,550
Grants and contracts	146,597	132,774
Educational sales and services and other auxiliary enterprise revenues	60,276	54,846
Payments to and on behalf of employees	(341,051)	(311,407)
Financial aid paid to students	(24,456)	(25,421)
Payments to suppliers	(157,087)	(159,673)
Loans issued to students	(9,102)	(7,767)
Collection of loans to students	7,361	6,838
Interest collected on loans to students	788	725
Other operating receipts	514	515
Net Cash Used For Operating Activities	<u>(155,978)</u>	<u>(164,020)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	171,835	173,336
Noncapital grants and gifts	11,286	10,838
Gifts and appropriations received for permanent endowment	1,513	2,022
Agency transactions	(334)	265
Net Cash Provided By Noncapital Financing Activities	<u>184,300</u>	<u>186,461</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from capital debt issuances	44,638	19,980
Capital appropriations	17,762	13,331
Capital grants and gifts	4,090	3,580
Acquisition and construction of capital assets	(66,400)	(63,700)
Issuance costs on capital debt	(729)	(382)
Principal paid on capital debt and leases	(24,453)	(22,856)
Interest paid on capital debt and leases	(4,681)	(5,543)
Net Cash Used For Capital and Related Financing Activities	<u>(29,773)</u>	<u>(55,590)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	476,719	521,776
Purchases of investments	(486,584)	(504,535)
Earnings from investments	7,809	12,181
Net Cash (Used For) Provided By Investing Activities	<u>(2,056)</u>	<u>29,422</u>
Net decrease in cash and cash equivalents	(3,507)	(3,727)
Cash and cash equivalents - beginning of year	<u>3,507</u>	<u>7,234</u>
Cash and cash equivalents - end of year	<u>\$ -</u>	<u>\$ 3,507</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF MAINE SYSTEM  
 Statements of Cash Flows  
 Years Ended June 30, 2004 and 2003  
 (In Thousands of Dollars)

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

	<u>2004</u>	<u>2003</u>
Operating loss	\$ (184,429)	\$ (187,756)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation and amortization	20,724	27,511
Changes in assets and liabilities:		
Accounts and grants receivable, net	(60)	(4,348)
Inventories and prepaid expenses	(675)	(187)
Notes receivable, net	(658)	(345)
Accounts payable	2,206	168
Deferred revenue and deposits	3,688	(2,210)
Accrued liabilities	3,612	2,615
Grants refundable	(386)	532
Net cash used for operating activities	<u>\$ (155,978)</u>	<u>\$ (164,020)</u>

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

Capital asset additions included in accounts payable as of June 30	<u>\$ 3,947</u>	<u>\$ 7,128</u>
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See accompanying notes to basic financial statements.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

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

**b. Basis of Presentation**

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

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

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

**c. Net Assets**

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

**Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. This category excludes the portion of debt attributable to unspent bond proceeds.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

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

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

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

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

**d. Cash and Cash Equivalents**

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

**e. Investments**

The System's investment in the State of Maine Pool is reported at amortized cost, which approximates fair value. All other investments are reported at fair value.

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

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

For FY2004 and FY2003, the Investment Committee of the University of Maine System Board of Trustees established a policy whereby the Endowment's expendable income objective is 5.5% of the average of the previous twelve quarter-end fair values. The income produced by the fund, including realized gains, can be used to meet this spending objective.

**Authorized Investment Vehicles:**

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

- Cash Pool (bank accounts, state pool) – This tier consists of funds that will be needed within a one-month period, that are invested in a portfolio of highest quality short-term

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ 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.
- Long-term Pool – This tier consists of funds that will not be required for at least 36 months.

**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.

**i. Capital Assets**

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

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

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

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

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

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

Prior to July 1, 2003, library materials were generally capitalized and depreciated over a ten-year period. Effective July 1, 2003, the System began to expense library materials as incurred. The estimated effect of this change on current and future operations is not expected to be material. The System elected this change to enhance reporting comparability with other state systems. The System will retain the undepreciated library materials balance as a core non-depreciating asset.

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

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

**j. Deferred Revenue and Deposits**

Deferred revenue in the Statements of Net Assets consists primarily of deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. The deferred revenue is presented net of related expenses for the summer programs (e.g., 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, including related benefits ultimately payable for such benefit. The System accounts for the vacation leave hours on a last-in, first-out basis. A portion of this liability is classified as current and represents the System's estimate of vacation time that will be paid during the next fiscal year to employees leaving the System.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

**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. The most significant estimates in the financial statements include liabilities for self-insured plans, pension and other retirement benefit obligations, as well as allowances for uncollectible receivables. Actual results could differ from those estimates.

**o. Reclassifications**

Certain fiscal year 2003 items in the accompanying financial statements have been reclassified, without effect on total net assets, to conform to the fiscal year 2004 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		
2004	\$ 567	\$ -	\$ 2,344	\$ 2,911	\$ -
2003	\$ 643	\$ -	\$ 5,407	\$ 6,050	\$ 3,507

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ 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, 2004, categorization of the System's investments is as follows:

	Category			Not Categorized	Total Carrying Value
	1	2	3		
Short-term investments	\$ -	\$ -	\$ -	\$ 131,925	\$ 131,925
Endowment investments	28,021	-	136	64,676	92,833
Deposits with bond trustees	100	-	1,196	36,526	37,822
Total Investments	<u>\$28,121</u>	<u>\$ -</u>	<u>\$ 1,332</u>	<u>\$ 233,127</u>	<u>\$ 262,580</u>

At June 30, 2003, categorization of the System's investments is 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>

Income related to the System's investments for fiscal year 2004 was as follows:

	Net Gains (Losses)	Investment Fees	Interest and Dividends	Total Return
Endowment investments	<u>\$ 11,542</u>	<u>\$ (696)</u>	<u>\$ 3,586</u>	<u>\$ 14,432</u>
Short-term investments	\$ (448)	\$ (696)	\$ 3,429	\$ 2,285
Deposits with bond trustees	-	-	340	340
Total other investment income	<u>\$ (448)</u>	<u>\$ (696)</u>	<u>\$ 3,769</u>	<u>\$ 2,625</u>

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

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	\$ 1,481	\$ (663)	\$ 2,075	\$ 2,893
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>

The System's investments are comprised of the following at June 30, 2004:

	Short Term	Endowment	Deposits with Bond Trustees	Total
Equity securities	\$ -	\$ 62,804	\$ -	\$ 62,804
Fixed income securities	106,451	22,687	3,078	132,216
State pool	25,474	-	-	25,474
Money funds, savings, CD's	-	755	1,296	2,051
Multi-strategy	-	6,587	-	6,587
Guaranteed investment contracts	-	-	33,448	33,448
Total investments	<u>\$ 131,925</u>	<u>\$ 92,833</u>	<u>\$ 37,822</u>	<u>\$ 262,580</u>

The System's investments are 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>

**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, 2004 and 2003**  
**(\$ in thousands)**

**Endowment Investments**

Except for certain gifts invested separately at the request of the donors (\$291 at June 30, 2004 and \$489 at June 30, 2003), 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, 2004 and 2003 are \$5,401 and \$3,379, respectively, and are reported as funds held for others in the accompanying Statements of Net Assets.

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

	<u>2004</u>	<u>2003</u>
Restricted - expendable	\$33,841	\$25,190
Unrestricted	<u>6,326</u>	<u>5,308</u>
Total available for spending	<u>\$40,167</u>	<u>\$30,498</u>

**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 include the following at June 30:

	2004			2003		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	\$ 11,650	11,551	99	\$ 11,971	\$ 10,927	\$ 1,044
Grants receivable	24,179	20,709	3,470	22,133	21,571	562
Pledges receivable	3,468	571	2,897	3,401	867	2,534
Total gross receivables	39,297	32,831	6,466	37,505	33,365	4,140
Less allowance for doubtful accounts	(1,809)	(1,486)	(323)	(2,166)	(1,890)	(276)
Less discount on pledges receivable	(275)	-	(275)	(216)	-	(216)
Total receivables, net	<u>\$ 37,213</u>	<u>\$ 31,345</u>	<u>\$ 5,868</u>	<u>\$ 35,123</u>	<u>\$ 31,475</u>	<u>\$ 3,648</u>

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

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

**5. NOTES RECEIVABLE**

Notes receivable include the following at June 30:

	<u>2004</u>	<u>2003</u>
Perkins Loans	\$33,872	\$33,591
Nursing Loans	1,037	1,017
Institutional Loans	<u>3,993</u>	<u>3,555</u>
	38,902	38,163
Less allowance for doubtful accounts	<u>(528)</u>	<u>(447)</u>
Total loans receivable, net	<u>\$38,374</u>	<u>\$37,716</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, 2004 is as follows:

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

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

Capital asset activity for the year ended June 30, 2003 is 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	47,775	54,567	(68,944)	-	33,398
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	50,017	5,559	-	(3,579)	51,997
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	24,096	5,794	-	(3,579)	26,311
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>

Additions to capital assets in 2004 and 2003 include \$1,756 and \$1,556 of interest costs less \$546 and \$1,181, respectively, of interest earnings on unexpended revenue bond proceeds. Additions to equipment in 2004 and 2003 include \$702 and \$175, respectively of equipment acquired through capital leases.

As of June 30, 2004 and 2003, \$33,830 and \$42,920, respectively, in proceeds from the 2004, 2003, 2002, 2000, and 1998 revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Assets as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2004 are \$33,826 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 total \$29,462 at June 30, 2004.

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**7. LONG-TERM LIABILITIES**

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

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

Changes in long-term liabilities during the year ended June 30, 2003 consist 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:					
Workers' compensation - Note 11	2,714	3,611	(1,180)	5,145	1,266
Health insurance - Note 11	7,618	38,942	(41,425)	5,135	5,135
Other employee benefit programs - Note 13	24,535	8,533	(5,714)	27,354	2,751
Other	10,409	12,050	(11,334)	11,125	9,835
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>

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**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 \$4,300 for the year ended June 30, 2004 and \$4,034 for the year ended June 30, 2003.

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, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>		<u>Operating Leases</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2005	\$ 265	\$ 30	\$ 1,366	\$ 1,661
2006	168	17	788	973
2007	135	10	426	571
2008	92	5	311	408
2009	46	2	241	289
2010-2014	-	-	367	367
2015-2019	-	-	15	15
Total minimum lease payments	<u>\$ 706</u>	<u>\$ 64</u>	<u>\$ 3,514</u>	<u>\$ 4,284</u>

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**Bonds and Note Payable**

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

	<u>2004</u>	<u>2003</u>
<b>2004 Series A Revenue Bonds (\$43,270)</b>		
Serial bonds, maturing from 2005 to 2029, with annual principal payments from \$335 to \$5,080 and coupon interest rates from 2.0% to 5.0%. Issued to partially refund the 1998A and 2000A Series Revenue Bonds and to provide funding for capital projects.	\$ 36,860	\$ -
4.25% Term Bonds, due March 1, 2034	6,410	-
Add: unamortized premium	2,763	-
Less: unamortized deferred amount on refunding of 1998A and 2000A bonds	<u>(2,405)</u>	<u>-</u>
Total 2004 Series A Bonds	<u>43,628</u>	<u>-</u>
<b>2003 Series A Revenue Bonds (\$19,970)</b>		
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.	18,435	19,970
Add: unamortized premium	184	199
Less: unamortized deferred redemption fee on 1993 bonds	<u>(320)</u>	<u>(355)</u>
Total 2003 Series A Bonds	<u>18,299</u>	<u>19,814</u>
<b>2002 Series A Revenue Bonds (\$43,020)</b>		
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.	41,500	42,710
Add: unamortized premium	<u>2,181</u>	<u>2,422</u>
Total 2002 Series A Bonds	<u>43,681</u>	<u>45,132</u>
<b>2000 Series A Revenue Bonds (\$41,725)</b>		
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%.	11,565	27,520
5.60% Term Bonds, due March 1, 2020	2,385	3,560
5.50% Term Bonds, due March 1, 2030	5,435	5,435
Add: unamortized premium	<u>72</u>	<u>119</u>
Total 2000 Series A Bonds	<u>19,457</u>	<u>36,634</u>
<b>1998 Series A Revenue Bonds (\$29,540)</b>		
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%.	6,455	7,230
5.00% Term Bonds, due March 1, 2018	5,495	8,965
5.00% Term Bonds, due March 1, 2024	10,540	10,540
Less: unamortized discount	<u>(457)</u>	<u>(534)</u>
Total 1998 Series A Bonds	<u>22,033</u>	<u>26,201</u>
Total bonds payable, net	<u>147,098</u>	<u>127,781</u>
<b>US Department of Agriculture Note</b>		
Part of a \$326 combination grant and loan award. Loan portion is \$246 of which \$147 has been advanced. The loan is payable monthly over a period not to exceed ten years with interest at a variable rate equal to the average market yield on Treasury securities of comparable maturity to the loan (4.77% at June 30, 2004).	<u>147</u>	<u>-</u>
Total bonds and note payable	<u>\$ 147,245</u>	<u>\$ 127,781</u>

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Costs associated with the issuance of the 2004, 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 2004, 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 and note payable for the next five years and in subsequent five-year periods are as follows at June 30, 2004:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
2005	\$ 5,654	\$ 6,587
2006	5,975	6,525
2007	5,945	6,302
2008	6,226	6,078
2009	5,677	5,833
2010-2014	59,090	22,040
2015-2019	21,975	10,904
2020-2024	17,515	6,367
2025-2029	8,620	3,167
2030-2034	8,550	986
	<u>\$ 145,227</u>	<u>\$ 74,789</u>

Interest costs related to the Revenue Bonds for fiscal year 2004 and fiscal year 2003 were \$5,092 and \$5,113, respectively. These amounts are net of savings of \$843 and \$1,057, respectively, from an interest swap on the 2002 Series A Revenue Bonds – see Note 8. Of the total interest costs, \$1,756 and \$1,556 was capitalized as part of capital assets for the respective years ended June 30, 2004 and 2003 – see Note 6.

**Refunding of Debt – Fiscal Year 2004**

On March 31, 2004, the System issued 2004 Series A Revenue Bonds to advance refund a total of \$18,975 in 2000 Series A and 1998 Series A Revenue Bonds and to fund new capital projects. The principal amount of debt refunded through in-substance defeasance and still outstanding at June 30, 2004 was \$18,975. Refunding bond proceeds of \$21,284 were placed in an escrow account to pay the interest due on the refunded 2000A and 1998A bonds and to retire the bonds on their respective call dates of September 1, 2010 and September 1, 2008. The total amount to be paid from the escrow account is \$25,245. As of June 30, 2004 the balance of the escrow account was \$21,451. The escrow account is invested to yield enough earnings to pay the difference between the June 30, 2004 balance and the required future payments.

The transaction to advance refund a portion of the 2000A and 1998A bonds met the requirements of an “in-substance defeasance” as defined by accounting principles generally accepted in the United States of America, and as a result, the liability for the refunded bonds has been removed from the FY2004 financial statements.

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This refunding resulted in a deferred amount on refunding of \$2,509, of which the unamortized balance was \$2,405 as of June 30, 2004. This represents the difference between the reacquisition price and the carrying value of the refunded bonds. The unamortized portion of this amount is reported in the accompanying Statements of Net Assets as a reduction of the 2004 Series A Revenue Bonds. Amortization of this deferred amount will be charged to operations as additional interest expense through the year 2017 using the effective-interest method. The System completed the refunding to reduce its total debt service payments over the following thirteen years by \$1,006 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$792.

**Refunding of Debt – Fiscal Year 2003**

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-interest method. The System completed the refunding to reduce its total debt service payments over the following 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.

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

**Terms**

The swap agreement was originally scheduled to mature on March 1, 2012 when the related bonds mature. The swap's notional amount at inception matched the \$43,020 bonds. The swap's notional amount declined with the payment of principal on the bonds each March 1. Under the swap, the System paid the counterparty monthly payments based on the weighted average rate per The Bond

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Market Association Municipal Swap Index (BMA) (0.98% at June 30, 2003). In turn, the counterparty paid the System a fixed rate twice a year. The fixed rate received from the counterparty was designed to give the System the coupon rate (ranges from 4.833% to 5.307%) 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 was an asset of \$3,406. The fair value represents the estimated amount due to the System if the agreement was terminated on that date and is based on discounted cash flow analysis incorporating option pricing models that consider market interest rates and other factors.

**9. GOVERNMENT ADVANCES REFUNDABLE**

The System participates in the Federal Perkins Loan and Nursing Loan Programs. These programs are funded through a combination of Federal and Institutional resources. The portion of these programs that has been funded with Federal funds is ultimately refundable to the U.S. Government upon the termination of the System's participation in the programs. The portion that would be refundable if the programs were terminated as of June 30, 2004 and 2003 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 are comprised of the following as of June 30:

	<u>2004</u>	<u>2003</u>
Restricted - Nonexpendable:		
Endowment funds	\$ <u>47,047</u>	\$ <u>44,225</u>
Restricted - Expendable:		
Student financial aid	\$ 25,333	\$ 19,771
Capital assets and retirement of debt	15,842	9,317
Loans	9,949	9,653
Academic support	8,310	7,438
Research and public service	5,944	5,595
Library	2,341	3,559
Other	<u>14,266</u>	<u>13,602</u>
Total restricted - expendable	<u>\$ 81,985</u>	<u>\$ 68,935</u>

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## **11. COMMITMENTS AND CONTINGENCIES**

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

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

The System's annual retention obligation for general liability is capped at \$300, 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 retention levels has been included in the accompanying Statements of Net Assets as part of current accrued liabilities. As of June 30, 2004 and 2003 certain legal claims existed for which the probability or amount of payment could not be determined. The System, however, does not expect these amounts, if any, to be material to the financial statements.

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

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

The System's health insurance plan is financed through a minimum premium contract with a commercial carrier. The contract in effect at June 30, 2004 ends December 31, 2004. The plan allows the System to benefit from favorable claims experience, should paid claims be less than the maximum claim liability under the contract. As of June 30, 2004, the System's paid claims for the six months then ended had not reached the maximum claim liability amount for the same six month period. Under a traditional premium arrangement, a component of the premium paid to the insurance carrier each month covers the terminal liability, or claims incurred during the period of coverage but not paid until after the period of coverage. However, under this minimum premium contract, the System retains the terminal liability component until the contract is terminated. As of June 30, 2004, and 2003, the

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estimated liability for claims incurred but not paid was \$4,600 and \$4,620 and is included in accrued liabilities in the accompanying Statements of Net Assets (see note 7).

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

**12. UNEXPENDED GRANTS**

Generally, grants and contracts awarded to the System, but for which it has not fulfilled the eligibility requirements (e.g., incur allowable costs) are not included in the System's financial statements. The total of such awards as of June 30, 2004 and 2003 was \$50,131 and \$45,899, respectively.

In certain circumstances, however, the System receives cash in advance of fulfilling its obligations. In such situations the System reports the cash as an asset and reports an offsetting deferred revenue liability in the Statements of Net Assets. Outstanding advances as of June 30, 2004 and 2003 System's totaled \$10,183 and \$9,431, 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 (income) for each of these plans was as follows for the years ended June 30:

	<u>2004</u>	<u>2003</u>
<u>Faculty and Professional Employees:</u>		
Basic Retirement Plan	\$ 16,300	\$ 15,300
Incentive Plan	2,090	1,875
Classified Employees - All Plans	<u>(811)</u>	<u>720</u>
Total net pension expense	<u>\$ 17,579</u>	<u>\$ 17,895</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

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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 \$6,400 in fiscal 2004 and \$6,100 in fiscal 2003.

**Incentive Retirement Plan**

Employees enrolled in the Contributory Plan may elect to retire at any age after 55. Such employees, except for represented faculty who became employed on or after July 1, 1996, also participate in the University of Maine System Incentive Retirement Plan (Incentive Plan), a defined benefit plan, which was established on July 1, 1975. The Board of Trustees has authority to establish and amend provisions under the Incentive Plan. The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular service immediately prior to retirement will receive a benefit equivalent to 1½% times their completed years of service times their final annual base salary (up to a maximum of 27 years). This amount is to be paid as a lump-sum contribution to the participant's TIAA or CREF account. Employees do not make contributions under the Incentive Plan.

The Incentive Plan, which is funded on a termination basis (i.e., when costs become due and payable), holds no assets. Actuarial valuations, utilizing the projected unit credit actuarial cost method and 30-year declining-period, dollar amortization, were performed as of June 30, 2004 and 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 actuarial liability and actuarial value of assets at June 30.

	<u>2004</u>	<u>2003</u>
Actuarial accrued liability	\$ 21,219	\$ 19,980
Actuarial value of assets	-	-
Unfunded actuarial accrued liability	<u>\$ 21,219</u>	<u>\$ 19,980</u>

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The net pension obligation (NPO) represents the cumulative difference between annual pension cost and employer contributions to the plan. The NPO is included in the accompanying Statements of Net Assets in noncurrent accrued liabilities (see other employee benefit programs in Note 7). Three-year trend information through June 30, 2004, which provides an indication of the progress made in accumulating sufficient assets to pay benefits when they become due, was as follows:

Fiscal Year Ended June 30	(a) Annual Required Contribution (ARC)	(b) Interest on NPO	(c) ARC Adjustment	(d) (a)+(b)-(c) Annual Pension Cost (APC)	(e) Employer Contributions Made	(f) (e)/(d) Percentage of APC Contributed	(g) (d)-(e) Change in NPO	Ending NPO Balance
2004	\$ 2,330	\$ 789	\$ 1,029	\$ 2,090	\$ 689	33%	\$1,401	\$14,022
2003	\$ 2,073	\$ 705	\$ 903	\$ 1,875	\$ 528	28%	\$1,347	\$12,621
2002	\$ 1,768	\$ 688	\$ 868	\$ 1,588	\$ 1,333	84%	\$255	\$11,274

## 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 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.

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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 \$1,200 in fiscal 2004 and \$1,100 in fiscal 2003.

**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, 2004 and 2003, 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. Actuarial valuation, utilizing the projected unit credit actuarial cost method and 10-year declining-period, dollar amortization, were performed as of June 30, 2004 and 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>2004</u>	<u>2003</u>
Actuarial accrued liability	\$ 70,032	\$ 69,802
Actuarial value of assets	72,476	75,058
Unfunded actuarial accrued liability	<u>\$ (2,444)</u>	<u>\$ (5,256)</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.

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

**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 2004 the System funded \$595 of employer contributions to the Basic Plan through the transfer of excess assets from the Defined Benefit Plan. Aggregate net annual pension plan cost for the Basic Plan, ORSP and Defined Benefit Plan for the year ended June 30, 2004 was \$2,177. Without the transfers of excess assets from the Defined Benefit Plan, the System's total expense for the Basic Plan and ORSP for the year ended June 30, 2004 would have been \$2,772.

During fiscal 2003, 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 year ended June 30, 2003 was \$720. Without transfers of excess assets from the Defined Benefit Plan, the System's total expense for the Basic Plan and ORSP for the year ended June 30, 2003 would have been \$2,627.

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, 2004, including changes in the NPO (which is included in accrued liabilities in the accompanying Statements of Net Assets - see other employee benefit programs in Note 7), 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
2004	\$ (620)	\$ 54	\$ 244	\$ (810)	\$ -	-	\$ (810)	\$ 26
2003	\$ 741	\$ 7	\$ 28	\$ 720	\$ -	-	\$ 720	\$ 836
2002	\$ 81	\$ 3	\$ 8	\$ 76	\$ -	-	\$ 76	\$ 115

**14. POSTEMPLOYMENT HEALTH PLAN**

The System provides postemployment health insurance to retirees meeting certain age and years-of-service requirements. As of June 30, 2004 and 2003, there were approximately 1,700 persons (including widows/widowers) receiving postemployment health benefits.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

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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, 2004 and 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, 2004 and 2003, there were approximately 150 and 200 persons, respectively, participating in the plan but not receiving a subsidy from the System.

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

The System finances the postemployment health plan on a pay-as-you-go basis. Total gross costs for the year ended June 30, 2004 and 2003 were \$10,500 and \$9,200, respectively, with the participants contributing \$2,400 and \$1,900, respectively toward the costs.

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

During fiscal year 2004 and 2003, the System distributed \$10,134 and \$9,313, 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.

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**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

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**16. COMPONENT UNITS**

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

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

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

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

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

**UNIVERSITY OF MAINE SYSTEM**  
**Notes To Financial Statements**  
**June 30, 2004 and 2003**  
**(\$ in thousands)**

Condensed financial information of the Foundation is as follows as of and for the year ended June 30, 2004:

<b><u>Assets</u></b>	
Investments at fair value	\$ 107,659
Other	20,266
Total Assets	<u>\$ 127,925</u>
<b><u>Liabilities and Net Assets</u></b>	
Notes payable and other liabilities	<u>\$ 8,980</u>
Net Assets:	
Unrestricted	6,797
Temporarily restricted	27,303
Permanently restricted	84,845
Total Net Assets	<u>118,945</u>
Total Liabilities and Net Assets	<u>\$ 127,925</u>
<b>Changes in Unrestricted Net Assets:</b>	
Revenues and other support:	
Contributions and net assets released from restrictions	\$ 5,403
Investment income and other revenue	598
Total revenues and other support	<u>6,001</u>
Expenses:	
Program	5,003
Other	1,076
Total expenses	<u>6,079</u>
Decrease in unrestricted net assets	<u>(78)</u>
<b>Changes in Temporarily Restricted Net Assets:</b>	
Contributions and net assets released from restrictions	(2,705)
Investment income and other revenue	13,282
Increase in temporarily restricted net assets	<u>10,577</u>
<b>Changes in Permanently Restricted Net Assets:</b>	
Contributions and net assets released from restrictions	7,874
Investment income and other revenue	1,042
Increase in permanently restricted net assets	<u>8,916</u>
Increase in total net assets	19,415
Net assets, beginning of year	<u>99,530</u>
Net assets, end of year	<u>\$ 118,945</u>

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

**UNIVERSITY OF MAINE SYSTEM**  
**Required Supplemental Information – Retirement Plans**  
**Schedules of Funding Progress, Employers' Contributions, and Related Note**  
**Year ended June 30, 2004**  
**(Unaudited)**  
**(\$ in thousands)**

**Schedules of Funding Progress**

Actuarial valuation (date as of June 30)	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c)
<b>Incentive Retirement Plan for Faculty and Professionals</b>						
2004	\$ —	\$ 21,219	\$ 21,219	—	\$ 130,216	16.3%
2003	\$ —	\$ 19,980	\$ 19,980	—	\$ 127,531	15.7%
2002	\$ —	\$ 17,824	\$ 17,824	—	\$ 100,463	17.7%
2001	\$ —	\$ 15,371	\$ 15,371	—	\$ 96,599	15.9%
2000	\$ —	\$ 14,739	\$ 14,739	—	\$ 92,883	15.9%
1999	\$ —	\$ 14,220	\$ 14,220	—	\$ 89,311	15.9%
<b>Retirement Plan for Classified Staff</b>						
2004	\$ 72,476	\$ 70,032	\$ (2,444)	103.5%	\$ 7,279	(33.6%)
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%)

**Schedules of Employers' Contributions**

Year ended June 30	Annual required contribution	Percentage contributed	Annual required contribution	Percentage contributed
	<b>Incentive Retirement Plan for Faculty and Professionals</b>		<b>Retirement Plan for Classified Staff</b>	
2004	\$ 2,330	30%	\$ (620)	—
2003	\$ 2,073	25%	\$ 741	—
2002	\$ 1,768	75%	\$ 81	—
2001	\$ 1,679	47%	\$ (290)	—
2000	\$ 1,603	53%	\$ 28	—
1999	\$ 1,530	52%	\$ 62	—

**Note to Schedules**

The information presented in the required supplementary schedules as of June 30, 2004 was determined using the actuarial valuation as of June 30, 2004 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	23 years	3 years
Asset valuation method	N/A	5-year smoothing of differences between actual and expected returns
Actuarial assumptions:		
Investment rate of return	6.25%	6.50%
Projected salary increases	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, 2004

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	\$ 4,321,435
Federal Family Education Loans (note 2)		84.032	70,005,176
Federal Work-Study Program		84.033	4,836,376
Federal Perkins Loan Program (note 2)		84.038	8,055,073
Federal Perkins Loan Program Administrative Cost Allowance		84.038	727,965
Federal Pell Grant Program		84.063	24,964,468
Federal Direct Student Loans		84.268	10,134,274
Total U.S. Department of Education			<u>123,044,767</u>
U.S. Department of Health and Human Services:			
Federal Nursing Loan Program (note 2)		93.364	310,135
<b>Total Student Financial Aid Cluster</b>			<u>123,354,902</u>
<b>Child Care Cluster:</b>			
Passed-through:			
Maine Department of Human Services:			
Child Care and Development Block Grant		93.575	81,147
Child Care Mandatory and Matching Funds		93.596	523,012
<b>Total Child Care Cluster</b>			<u>604,159</u>
<b>Child Nutrition Cluster:</b>			
Passed-through:			
Maine Department of Human Services:			
Summer Food Service Program for Childrer	01305A713005	10.559	36,869
<b>Total Child Nutrition Cluster</b>			<u>36,869</u>
<b>Employment Services Cluster:</b>			
Passed-through:			
Maine Department of Labor:			
Employment Service		17.207	27,089
<b>Total Employment Services Cluster</b>			<u>27,089</u>
<b>Food Stamp Cluster:</b>			
Passed-through:			
Maine Department of Human Services:			
State Admin. Match Grants – Food Stamps		10.561	2,558,457
<b>Total Food Stamp Cluster</b>			<u>2,558,457</u>
<b>Foster Grandparent/Senior Companion Cluster:</b>			
U.S. Corp. for National and Community Service:			
Senior Companion Program		94.016	446,149
Passed-through:			
Maine Department of Human Services:			
Senior Companion Program		94.016	50,038
<b>Total Foster Grandparent/Senior Companion Cluster</b>			<u>496,187</u>
<b>Highway Planning and Construction Cluster:</b>			
Passed-through:			
Maine Department of Transportation:			
Highway Planning and Construction		20.205	66,779
<b>Total Highway Planning and Construction Cluster</b>			<u>66,779</u>
<b>Medicaid Cluster:</b>			
Passed-through:			
Maine Department of Health and Mental Retardation:			
Medical Assistance Program		93.778	5,169
Maine Department of Human Services:			
Medical Assistance Program		93.778	22,617

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Maine Department of Behavioral and Developmental Services: Medical Assistance Program		93.778	\$ 28,535
<b>Total Medicaid Cluster</b>			<u>56,321</u>
<b>Special Education Cluster:</b>			
Passed-through:			
Maine State Legislative Council Special Education – Grants to States		84.027	72,100
Maine Department of Education: Special Education – Grants to States	01305A715512	84.027	<u>145,816</u>
<b>Total Special Education Cluster</b>			<u>217,916</u>
<b>TRIO Cluster:</b>			
U.S. Department of Education:			
TRIO – Student Support Services		84.042	1,808,833
TRIO – Talent Search		84.044	776,524
TRIO – Upward Bound		84.047	1,898,641
TRIO – Educational Opportunity Centers		84.066	<u>682,881</u>
<b>Total TRIO Cluster</b>			<u>5,166,879</u>
<b>Research and Development Cluster:</b>			
U.S. Department of Agriculture:			
Department of Agriculture Awards with No CFDA Number		10.000	3,031
Passed-through:			
NE Regional Agricultural Ctr: Department of Agriculture Awards with No CFDA Number	NRAC# 03-2	10.000	24,281
University of Vermont: Department of Agriculture Awards with No CFDA Number		10.000	9,025
Natl Council of Paper Industry: Department of Agriculture Awards with No CFDA Number		10.000	<u>2,071</u>
Total CFDA Number 10.000			<u>38,408</u>
Agricultural Research – Basic and Applied		10.001	220,268
Passed-through:			
NE Regional Agriculture Center: Agric Research – Basic and Applied	NRAC00-3 556703	10.001	68,103
Rutgers University: Agric Research – Basic and Applied	S108555	10.001	<u>59,955</u>
Total CFDA Number 10.001			<u>348,326</u>
Market Protection and Promotion	99-35400-7851	10.163	1,023
Grants for Agric Research – Spec. Research		10.200	1,496,595
Passed-through:			
University of Vermont: Grants for Agric Research – Spec. Research		10.200	121,500
University of Massachusetts – Dartmouth: Grants for Agric Research – Spec. Research		10.200	29,480
Cornell University: Grants for Agric Research – Spec. Research		10.200	<u>15,839</u>
Total CFDA Number 10.200			<u>1,663,414</u>
Cooperative Forestry Research		10.202	1,993,506
Payments to Agric. Exp Stations-Hatch		10.203	6,631,272
Grants for Agric Research – Comp Research		10.206	505,553
Passed-through:			
University of Mass-Amherst: Grants for Agric Research – Comp Research	ST#119115	10.206	<u>29,135</u>
Total CFDA Number 10.206			<u>534,688</u>
Animal Health and Disease Research		10.207	73,429
Higher Education Challenge Grant		10.217	134,762

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Rutgers University			
Higher Education Challenge Grant	1753	10.217	\$ 5,781
Total CFDA Number 10.217			<u>140,543</u>
Biotechnology Risk Assessment Research		10.219	64,582
Higher Education Multicultural Scholars Program		10.220	23,164
Agricultural and Rural Economic Research		10.250	613,130
Passed-through:			
University of Wisconsin:			
Initiative for Future Agriculture & Food System:	P572250	10.302	31,281
Cornell University:			
Initiative for Future Agriculture & Food System:	40438-6697	10.302	13,185
Total CFDA Number 10.302			<u>44,466</u>
Integrated Programs		10.303	12,366
Passed-through:			
University of Rhode Island		10.303	96,232
Total CFDA Number 10.303			<u>108,598</u>
Cooperative Extension Service		10.500	10,209
Passed-through:			
Natl 4-H Council:			
Cooperative Extension Service		10.500	2,896
University of Vermont:			
Cooperative Extension Service		10.500	81,167
Total CFDA Number 10.500			<u>94,272</u>
Food Donation		10.550	77,195
Passed-through:			
Maine Department of Human Services:			
Special Supplemental Nutrition Woman, Infants and Childrer		10.557	3,343
Passed-through:			
Maine Department of Education:			
Summer Food Service Program for Childrer	01305A713005	10.559	7,011
Passed-through:			
Maine Department of Human Services:			
State Admin Match Grants – Food Stamps		10.561	1,521
Maine Department of Human Services:			
Team Nutrition		10.574	15,709
Forestry Research		10.652	429,613
Urban and Community Forestry Assistance		10.664	28,499
Passed-through:			
Maine Department of Conservation:			
Urban and Community Forestry Asst Program		10.664	3,044
Oregon State University:			
Urban and Community Forestry Asst Program	Sub#W0321A	10.664	10,350
Total CFDA Number 10.664			<u>41,893</u>
Rural Business Opportunity Grants		10.773	15,542
Total Department of Agriculture			<u>12,964,648</u>
U.S. Department of Commerce:			
Department of Commerce Awards with No CFDA Number		11.000	29,942
Passed-through:			
Gulf of ME Ocean Observing System:			
Department of Commerce Awards with No CFDA Number		11.000	59,005
Me Dept of Marine Resources:			
Department of Commerce Awards with No CFDA Number	G303281	11.000	14,496
Cumberland Soil and Water Conserv.:			
Department of Commerce Awards with No CFDA Number		11.000	6,968

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
University of New Hampshire: Department of Commerce Awards with No CFDA Number	Sub# 02-613, Sub# 02-628	11.000	\$ 18,171
Total CFDA Number 11.000			<u>128,582</u>
Polar Programs		11.247	117,577
Economic Development-Technical Assistance		11.303	91,165
Sea Grant Support		11.417	1,299,970
Passed-through:			
Pacific Shellfish Institute: Sea Grant Support		11.417	8,054
Total CFDA Number 11.417			<u>1,308,024</u>
Fisheries Dev/Util Res and Dev Grants		11.427	80,641
Marine Sanctuary Program		11.429	38,274
Passed-through:			
Perry Institute of Marine Science: Undersea Research		11.430	32,815
University of Connecticut: Undersea Research		11.430	32,219
Total CFDA Number 11.430			<u>65,034</u>
Passed-through:			
University of California: OAR – Cooperative Institutes		11.432	58,852
Marine Fisheries Initiative		11.433	3,696
Marine Mammal Data Program		11.439	413,831
Special Oceanic and Atmospheric Projects		11.460	106,303
Passed-through:			
University of Connecticut: Special Oceanic and Atmospheric Project	PSA# 4330	11.460	16,089
Total CFDA Number 11.460			<u>122,392</u>
Habitat Conservation		11.463	10,907
Passed-through:			
Natl Fish and Wildlife Found: Habitat Conservation	2003-0170-003	11.463	11,346
Total CFDA Number 11.463			<u>22,253</u>
Unallied Science Program		11.472	164,643
Passed-through:			
Maine Department of Marine Resources: Unallied Science Program		11.472	49,538
University of New Hampshire: Unallied Science Program		11.472	30,877
Bigelow Lab for Ocean Science: Unallied Science Program		11.472	2,940
Maine Department of Inland Fish/Wildlife: Unallied Science Program	94V 703135	11.472	67,530
NE Consortium For Integrated Care: Unallied Science Program	Sub# 04-806, Sub# 04-807	11.472	143,069
Total CFDA Number 11.472			<u>458,597</u>
Center for Sponsored Coastal Ocean Research		11.478	419,143
Passed-through:			
Woods Hole Oceanographic Inst: Center for Sponsored Coastal Ocean Research	A100336	11.478	32,796
Gulf of ME Ocean Observing System: Center for Sponsored Coastal Ocean Research		11.478	65,531
Total CFDA Number 11.478			<u>517,470</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

<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:			
Maine Dept of Corrections:			
Technology Opportunities Program		11.552	\$ 12,106
Measurement and Engineering Research and Standards		11.609	61,454
Total Department of Commerce			<u>3,499,948</u>
U.S. Department of Defense:			
Department of Defense Awards with no CFDA Number		12.000	1,819,409
Passed-through:			
BAE Systems:			
Dept of Defense Awards with no CFDA Number		12.000	17,599
Regents of the Univ of California:			
Dept of Defense Awards with no CFDA Number	K-001580-01	12.000	274,282
Gulf of ME Ocean Observing System:			
Dept of Defense Awards with no CFDA Number		12.000	57,425
Total CFDA Number 12.000			<u>2,168,715</u>
Collaborative Research and Development		12.114	11,229
Passed-through:			
Washington State University:			
Collaborative Research and Development	G001038	12.114	78,797
Total CFDA Number 12.114			<u>90,026</u>
Basic and Applied Scientific Research		12.300	1,726,026
Passed-through:			
Gulf of ME Ocean Observing System:			
Basic and Applied Scientific Research		12.300	1,090,691
Maine Science Tech Found.:			
Basic and Applied Scientific Research	N00014-01-10818	12.300	84,195
University of Calif At Berkley:			
Basic and Applied Scientific Research		12.300	58,629
Technology Systems, Inc:			
Basic and Applied Scientific Research		12.300	57,360
Total CFDA Number 12.300			<u>3,016,901</u>
Basic Scientific Research		12.431	209,476
Basic, Applied, and Advanced Research – Sci		12.630	875,614
Research and Technology Development		12.910	728,825
Passed-through:			
Bath Iron Works:			
Research and Technology Development		12.910	55,141
Total CFDA Number 12.910			<u>783,966</u>
Total Department of Defense			<u>7,144,698</u>
U.S. Department of Housing and Urban Development:			
Department of HUD Awards with No CFDA Number		14.000	41,622
Total Department of HUD			<u>41,622</u>
U.S. Department of Interior:			
Department of Interior Awards with No CFDA Number		15.000	122,044
Passed-through:			
University of Idaho:			
Department of Interior Awards with No CFDA Number		15.000	15,265
Total CFDA Number 15.000			<u>137,309</u>
Recreation Resource Management		15.225	45
Fish and Wildlife Management Assistance		15.608	1,965
Passed-through:			
Maine Department of Inland Fish/Wildlife:			
Fish and Wildlife Management Assistance	924367	15.608	2,941
Total CFDA Number 15.608			<u>4,906</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Maine Department of Inland Fish/Wildlife:			
Wildlife Restoration		15.611	\$ (263)
Wildlife Conservation and Appreciation		15.617	55,443
Assistance to States – Water Resource Res		15.805	143,894
Geological Survey – Research and Data Collection		15.808	626,206
Passed-through:			
The Open University:			
Geological Survey – Research and Data Collection		15.808	2,000
Total CFDA Number 15.808			<u>628,206</u>
Cooperative Research Units Program		15.812	7,000
Technical Preservation Svcs		15.915	3,352
Urban Park and Recreation		15.919	(203)
Passed-through:			
Maine Executive Office:			
Historic Preservation Fund Grants		15.904	1,774
Total Department of Interior			<u>981,463</u>
U.S. Department of Justice:			
Passed-through:			
Maine Department of Corrections:			
Juvenile Accountability Incentive Block Grants		16.523	136,008
Justice Research, Development and Evaluation		16.560	2,064
Passed-through:			
Maine Department of Health/Mental Retard:			
Drug Court Discretionary Grant Program		16.585	87,323
Violence Against Women Formula Grants		16.588	163,849
Rural Domestic Violence/Child Victimization		16.589	1,673,696
Passed-through:			
Maine Judicial Department:			
Grants to encourage arrest Policies and Enforcement of Protection Orders		16.590	14,278
Maine Department of Human Services:			
Reduct & Prevent of Children's Exposure to Violence		16.730	107,570
Total Department of Justice			<u>2,184,788</u>
U.S. Department of Labor:			
Department of Labor Awards with No CFDA Number		17.000	18,797
Total Department of Labor			<u>18,797</u>
U.S. Department of Transportation:			
Federal Highway Admin Awards with No CFDA Number		20.000	564,580
Passed-through:			
Maine Department of Transportation:			
Federal Highway Admin Awards with No CFDA Number		20.000	75,429
Total CFDA Number 20.000			<u>640,009</u>
Passed-through:			
Maine Department of Transportation:			
Highway Planning and Contraction		20.205	6,181
Maine Department of Conservation:			
Recreation Trails Program		20.219	8,998
Battelle Memorial Institute:			
State Planning and Research		20.515	1,100
Massachusetts Institute for Technology:			
University Transportation Centers Program	5710001328	20.701	17,568
University of Connecticut:			
University Transportation Centers Program		20.701	23,528
Total CFDA Number 20.701			<u>41,096</u>
Total Department of Transportation			<u>697,384</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
U.S. NASA:			
NASA Awards with No CFDA Number		43.000	\$ 94,478
Passed-through:			
Ohio State University:			
NASA Awards with No CFDA Number		43.000	2,562
Maine Space Grant Consortium::			
NASA Awards with No CFDA Number		43.000	44,752
University of California:			
NASA Awards with No CFDA Number	0145GCC922	43.000	23,209
Total CFDA Number 43.000			<u>165,001</u>
Aerospace Educational Services Program		43.001	202,111
Passed-through:			
Duke University:			
Aerospace Educational Services Program	00-SC-NASA-1043	43.001	57,611
Maine Space Grant Consortium:			
Aerospace Educational Services Program		43.001	16,415
Total CFDA Number 43.001			<u>276,137</u>
Technology Transfer		43.002	73,213
Passed-through:			
California Institute of Tech Jet Prop Lab:			
Technology Transfer		43.002	64,495
Maine Space Grant Consortium:			
Technology Transfer		43.002	28,230
Monterey Bay Aquarium Res Inst:			
Technology Transfer		43.002	32,297
Total CFDA Number 43.002			<u>198,235</u>
Total NASA			<u>639,373</u>
National Endowment for the Humanities			
Promotion of Humanities-Preservation/Access		45.149	93,426
Passed-through:			
University of Wisconsin System:			
Promotion of Humanities-Preservation/Access		45.149	29,837
Total CFDA Number 45.149			<u>123,263</u>
Promotion of The Humanities Research		45.161	85,519
Total National Endowment for the Humanities			<u>208,782</u>
Institute of Museum & Library Services:			
Institute of Museum & Library Service Awards with No CFDA Number		45.300	28,802
Total Institute of Museum & Library Services			<u>28,802</u>
U.S. National Science Foundation:			
National Science Foundation Awards with No CFDA Number		47.000	106,087
Engineering Grants		47.041	737,790
Passed-through:			
UCAR:			
Engineering Grants		47.041	(4,669)
Total CFDA Number 47.041			<u>733,121</u>
Mathematical and Physical Sciences		47.049	266,905
Geosciences		47.050	2,649,250
Passed-through:			
Woods Hole Oceanographic Inst.:			
Geosciences	183-F000997	47.050	9,586
Smithsonian Institution:			
Geosciences		47.050	17,744

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
University of Washington: Geosciences	652267	47.050	\$ 36,143
Total CFDA Number 47.050			<u>2,712,723</u>
Comp/Information Science and Engineering		47.070	610,444
Biological Sciences		47.074	1,997,182
Passed-through:			
University of Mass-Amherst: Biological Sciences		47.074	217
Arizona State University: Biological Sciences	03-059	47.074	36,538
University of Alabama: Biological Sciences	99-006	47.074	7,334
Total CFDA Number 47.074			<u>2,041,271</u>
Social, Behavioral & Economic Sciences		47.075	203,716
Education and Human Resources		47.076	3,072,048
Passed-through:			
Northeastern Illinois University Education and Human Resources		47.076	3,837
Total CFDA Number 47.076			<u>3,075,885</u>
Polar Programs		47.078	1,141,004
Passed-through:			
Oregon State University: Polar Programs	S0793A-B	47.078	281
CRREL: Polar Programs	W913E5-04-P-0063	47.078	79
Total CFDA Number 47.078			<u>1,141,364</u>
Total National Science Foundation			<u>10,891,516</u>
U.S. Environmental Protection Agency:			
Passed-through:			
Fisher Charitable Foundation: EPA Awards with No CFDA Number		66.000	6,290
Maine Department of Human Services: EPA Awards with No CFDA Number		66.000	12,661
Total CFDA Number 66.000			<u>18,951</u>
Passed-through:			
Maine Department of Human Services State Underground Water Source Protection Surveys, Studies, Investigations, Demonstrations, and Training Grants		66.433	(24,891)
National Estuary Program		66.436	8,359
Wetlands		66.456	2
Passed-through:			
Maine Department of Human Services: Capitalization Grants For Drinking Water		66.468	28,149
Envir. Protection – Consolidated Research		66.500	158,743
Passed-through:			
Institute of Ecosystem Studies: Envir. Protection – Consolidated Research		66.500	568
Maine Department of Conservation: Envir. Protection – Consolidated Research		66.500	29,729
NH Dept of Environmental Serv: Envir. Protection – Consolidated Research		66.500	9,732
Total CFDA Number 66.500			<u>198,772</u>
Science to Achieve Results (STAR) Program		66.509	77,635

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Georgia State University:			
Science to Achieve Results (STAR) Program	Sub# DLM44	66.509	\$ 21,879
Total CFDA Number 66.509			<u>99,514</u>
Environmental Protection Consolidated Research		66.600	1,953
Passed-through:			
Maine Department of Environmental Protection			
Performance Partnership Grants		66.605	5,279
Surveys, Studies, Investig and Spec Purp		66.606	72,445
Passed-through:			
City of Portland, Maine:			
Surveys, Studies, Investig and Spec Purp		66.606	15,072
Total CFDA Number 66.606			<u>87,517</u>
Training and Fellowships for the EPA		66.607	15,286
Pesticide Environmental Stewardship		66.714	10,443
Environmental Education and training Program		66.950	31,383
Total Environmental Protection Agency			<u>518,237</u>
U.S. Department of Energy:			
Passed-through:			
Brigham Young University:			
Department of Energy Awards with No CFDA Number	Sub# 02-0098	81.000	86,164
Woods Hole Oceanographic Inst:			
Department of Energy Awards with No CFDA Number	A-100296	81.000	709
Total CFDA Number 81.000			<u>86,873</u>
Office of Science Financial Assistance Program		81.049	274,178
Office of Scientific and Technical Information		81.064	232,454
Passed-through:			
University of Utah:			
Regional Biomass Energy Programs	2202072	81.079	(3,259)
Harvard University:			
Conservation research and Development	901214-HAR	81.086	82,092
Lockheed Martin Energy Res Corp:			
Renewable Energy R&D	4000000574	81.087	7,679
Total Department of Energy			<u>680,017</u>
U.S. Department of Education:			
Passed-through:			
Center for Applied Special Tech:			
Department of Education Awards W/No CFDA Number		84.000	104,569
Maine Department of Education:			
Adult Education-State Grant Program	01305A629564	84.002	206,572
Maine Department of Education::			
Special Education – Grants to States	01305A715512	84.027	315,844
National Res Center Fellow Prog for Language		84.015	196,735
Passed-through:			
Maine Dept of Behavioral and Developmental Ser			
Safe and Drug-Free Schools and Communities National Programs		84.184	23,081
Bilingual Education – Professional Development		84.195	556,656
Passed-through:			
Maine Department of Education;			
Even Start-State Educational Agencies	01305A110213	84.213	37,219
Fund for the Improvement of Education		84.215	638,930
Passed-through:			
Maine Department of Education:			
Fund for the Improvement of Education	01305A502163	84.215	6,965
Total CFDA Number 84.215			<u>645,895</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Maine Department of Education: Twenty-First Century Community Learning Center:	01305A110213	84.287	\$ 44,559
Maine Parent Fed; Goals 2000: Parental Assistance		84.310	2,606
Maine Department of Education: Education Technology State Grants	01305A100607	84.318	146,221
Special Ed Research and Innovation to Improve Services for Childrer with Disabilities		84.324	13,150
Special Ed Personnel Prep-Children W/Disab Passed-through:		84.325	299,293
Maine Department of Education: Advanced Placement Program	01305A510562	84.330	160,000
Teacher Quality Enhancement Grants	01305A514265	84.336	4,580
Total Department of Education			2,756,980
U.S. Department of Health and Human Services: Department of Human Services Awards with no CFDA Number		93.000	106,854
Passed-through:			
Eastern Area Agency on Aging: Department of Health and Human Services Awards with no CFDA Number		93.000	137,122
Maine Department of Behavioral and Development Svcs Department of Health and Human Services Awards with no CFDA Number		93.000	11
Total CFDA Number 93.000			243,987
Special Program for Aging – Title IV		93.048	63,949
Passed-through:			
Maine Department of Human Services: Special Program for Aging – Title IV		93.048	162,205
Total CFDA Number 93.048			226,154
Maternal and Child Health Cons Program		93.110	288,305
Applied Toxicological Research and Testing		93.114	543,950
Passed-through:			
Yale University: Applied Toxicological Research and Testing		93.114	7,893
Total CFDA Number 93.114			551,843
Passed-through:			
State University of New York: Biometry and Risk Estim – Health Risks Envir.		93.115	150,095
Rural Health Research Centers		93.155	152,117
Passed-through:			
University of North Carolina at Chapel Hill: Rural Health Research Centers		93.155	4,614
University of North Dakota: Rural Health Research Centers		93.155	26,810
University of Nebraska Medical Center: Rural Health Research Centers		93.155	97,734
Total CFDA Number 93.155			281,275
Passed-through:			
Griffin Hospital: Research and Training in Complementary and Alternative Medicine		93.213	5,999
University of Minnesota: Development and Coordination of Rural Health Services		93.223	197,733
Research on Healthcare Costs		93.226	19,936
Passed-through:			
Texas A&M: Health Service Research and Development Grants	S900290	93.226	11,961
Total CFDA Number 93.226			31,897

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
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Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Consolid Knowledge Develop and Applic Program		93.230	\$ (4,649)
Passed-through:			
Maine Department of Health/Mental Retardation:			
Consolid Knowledge Develop and Applic Program		93.230	13,942
Total CFDA Number 93.230			<u>9,293</u>
Passed-through:			
Maine Department of Human Services:			
Abstinence Education		93.235	109
State Rural Hospital Flexibility Program:		93.241	32,178
Passed-through:			
New Hampshire Department of Health and Human Services:			
State Rural Hospital Flexibility Program		93.241	2,654
Total CFDA Number 93.241			<u>34,832</u>
Passed-through:			
Maine Dept of Behavioral and Developmental Services			
Mental Health Research Grants		93.242	39,080
Maine Judicial Department:			
Substance Abuse and Mental Health Services		93.243	57,938
National Rural Health Assoc.:			
Health Centers Grants for Migrants and Seasonal Farmworkers		93.246	7,817
Maine Dept of Human Services:			
State Planning Grant-Health Care Access For The Uninsured		93.256	572,313
Alcohol Research Programs		93.273	62,326
Centers for Disease Ctrl and Prev-Invest and Tech		93.283	94,473
Passed-through:			
University of GUAM:			
Centers for Disease Ctrl and Prev-Invest and Tech		93.283	16,472
Maine Department of Human Services::			
Centers for Disease Ctrl and Prev-Invest and Tech		93.283	374,465
Total CFDA Number 92.283			<u>485,410</u>
Comparative Medicine		93.306	55,209
Academic Research Enhancement Award		93.390	58,404
Passed-through:			
Mount Sinai School of Medicine:			
Cancer Cause & Prevention Research	R01 CA97397-01	93.393	6,091
Cancer Treatment Research		93.395	16,812
Passed-through:			
Kolok Development Group, Inc			
Head Start		93.600	4,931
Maine Department of Human Services:			
Children's Justice Grants to States		93.643	41,489
Social Services Research and Demonstration		93.647	285,900
Child Welfare Services Training Grants		93.648	11,353
Adoption Assistance		93.652	1,364,198
Passed-through:			
Maine Department of Human Services:			
Adoption Assistance		93.652	32,803
Total CFDA Number 92.652			<u>1,397,001</u>
Passed-through:			
Maine Department of Human Services:			
Foster Care – Title IV		93.658	300,199
Social Services Block Grant		93.667	8,902
Maine Department of Health/Mental Retard:			
Medical Assistance Program		93.778	289,536
Maine Department of Human Services:			
Medical Assistance Program		93.778	2,335,791
Total CFDA Number 93.778			<u>2,625,327</u>

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Maine Dept of Behavioral & Developmental Services			
Centers For Medicare and Medicaid Svcs		93.779	\$ 126,359
Maine Department of Health/Mental Retard:			
Centers For Medicare and Medicaid Svcs		93.779	10
Maine Department of Human Services:			
Centers For Medicare and Medicaid Svcs		93.779	1,275,426
Maine Executive Offices:			
Centers For Medicare and Medicaid Svcs		93.779	61,550
The Medstat Group:			
Centers For Medicare and Medicaid Svcs		93.779	74,728
Total CFDA Number 93.779			1,538,073
Heart and Vascular Disease Research		93.837	501,466
Allergy, Immunology and Infectious Diseases Research		93.855	(91)
Microbiology and Infectious Disease research		93.856	15,417
Passed-through:			
Trefoil Corp.:			
Center for Research for Mothers and Children		93.865	55,661
Vision Research		93.867	39,417
Passed-through:			
Maine Department of Human Services:			
HIV Demo Research, Public and Prof. Education		93.941	19,863
Preventive Health and Health Service Grant		93.991	56,222
Maternal and Child Hlth Srv Block Grant		93.994	1,504
Total Department of Health and Human Services			10,285,556
<b>Total Research and Development Cluster</b>			53,542,611
U.S. Department of Agriculture:			
Department of Agriculture Awards with No CFDA Number		10.000	38,978
Passed-through:			
University of Vermont:			
Department of Agriculture Awards with No CFDA Number		10.000	1,309
Total CFDA Number 10.000			40,287
Passed-through:			
Pennsylvania State University:			
Plant and Animal Disease – Pest Control		10.025	161,989
Grants for Agriculture Research – Spec. research		10.200	9,814
Payments to 1890 Land Grant Colleges		10.205	5,398
Passed-through:			
Cornell University:			
Homeland Security-Agricultural		10.304	21,815
Crop Insurance		10.450	185,630
Cooperative Extension Services		10.500	8,145,342
Passed-through:			
Michigan State University:			
Cooperative Extension Services	61-4001C	10.500	2,103
Total CFDA Number 10.500			8,147,445
Passed-through:			
Maine Department of Human Services:			
Special Supplemental Nutrition – Women, Childrer		10.557	146,489
Nutrition Program for the Elderly	10A G1201213	10.570	8,101
Cooperative Forestry Assistance		10.664	7,733
Passed-through:			
Maine Department of Conservation:			
Cooperative Forestry Assistance		10.664	11,590
Total CFDA Number 10.664			19,323

**UNIVERSITY OF MAINE SYSTEM**  
Schedule of Expenditures of Federal Awards  
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Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Maine Department of Human Services:			
Team Nutrition		10.574	\$ 60,180
Rural Business Enterprise Grants		10.769	35
Distance Learning and Telemedicine Loans and Grant:		10.855	161,587
Total U.S. Department of Agriculture			<u>8,968,093</u>
U.S. Department of Commerce:			
U.S. Dept of Commerce Awards with No CFDA Number		11.000	17,912
Sea Grant Support		11.417	22,955
Total Department of Commerce			<u>40,867</u>
U.S. Department of Defense:			
Department of Defense Awards with No CFDA Number		12.000	152,845
Passed-through:			
Bath Iron Works:			
Department of Defense Awards with No CFDA Number	A-5723-H22	12.000	96,950
Total CFDA Number 12.000			<u>249,795</u>
Basic and Applied Scientific Research		12.300	8,886
Basic, Applied, and Advanced Res in Science and Engineering		12.630	9,308
Total Department of Defense			<u>267,989</u>
U.S. Department of Justice:			
Department of Justice Awards with No CFDA Number		16.000	151,521
Passed-through:			
Maine Department of Human Services:			
Department of Justice Awards with No CFDA Number		16.000	227,749
Total CFDA Number 16.000			<u>379,270</u>
Maine Department of Corrections:			
Offender Reentry Program		16.202	27,778
Law Enforcement Assistance FBI Adv Police Training		16.300	11,731
Legal Assistance for Victims		16.524	102,397
Passed-through:			
Justice Research and Stat Assoc			
Executive Office for Weed and Seed	ME21-2003-001	16.595	30,122
Community Prosecution and Project Safe		16.609	27,777
Public Safety Partnership and Community Policing		16.710	84,090
Passed-through:			
Maine Department of Corrections:			
Juvenile Justice and Delinquency Development	G1200055	16.540	32,100
Maine Department of Health and Mental Retardation:			
Enforcing Underage Drinking Laws		16.727	19,741
Maine Department of Public Safety:			
Enforcing Underage Drinking Laws		16.727	(150)
Total CFDA Number 16.727			<u>19,591</u>
Maine Department of Corrections:			
State Justice Stat. Program for Stat. Analysis Centers	G1200013	16.550	88,395
Maine Department of Public Safety:			
State Justice Stat. Program for Stat. Analysis Centers		16.550	5
Maine Department of Human Services:			
State Justice Stat. Program for Stat. Analysis Centers	G1200013	16.550	1,194
Total CFDA Number 16.550			<u>89,594</u>
Rural Domestic Violence – Child Victimization		16.589	348,429
Total U.S. Department of Justice			<u>1,152,879</u>
U.S. Department of Labor:			
Dept of Labor Awards with No CFDA Number		17.000	233,266
ETA Employment and Training – Assist Dislocated Workers		17.246	687,219

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<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Passed-through:			
Maine Department of Labor:			
Unemployment Insurance Administrator		17.225	\$ 46,002
Occupational Safety and Health State Program		17.502	107,971
Total U.S. Department of Labor			<u>1,074,458</u>
U.S. Department of Transportation:			
Highway Training and Education		20.215	10,000
Total U.S. Department of Transportation			<u>10,000</u>
U.S. Office of Personnel Management			
Office of Personnel Management Awards with No CFDA Number		27.000	1,070
Total Office of Personnel Management			<u>1,070</u>
U.S. NASA:			
NASA Awards with No CFDA Number		43.000	14,004
Passed-through:			
Space Telescope Science Institute		43.000	4,477
Total CFDA Number 43.000			<u>18,481</u>
Aerospace Educational Services Program		43.001	9,582
Total NASA			<u>28,063</u>
National Endowment for the Arts:			
Promotion of Arts: Grants to Organizations & Individuals		45.024	1,499
Total National Endowment for the Arts			<u>1,499</u>
National Endowment for the Humanities:			
Passed-through:			
Maine Humanities Council:			
Promotion of the Humanities -Federal/State Partnership		45.129	600
Maine Executive Office:			
Promotion of the Humanities -Federal/State Partnership		45.129	1,000
Total CFDA Number 45.129			<u>1,600</u>
Promotion of the Humanities-Teaching and Learning Resources and Carr Development		45.162	24,023
Total National Endowment for the Humanities			<u>25,623</u>
Institute of Museum & Library Services:			
Museum for America Grants		45.301	11,892
National Leadership Grants		45.312	248,200
Total Institute of Museum & Library Services			<u>260,092</u>
U.S. National Science Foundation:			
Geosciences		47.050	49,203
Comp/Information Science and Engineering		47.070	35,577
Education and Human Resources		47.076	1,340,029
Passed-through:			
Maine Math and Science Alliance:			
Education and Human Resources		47.076	981,402
Total CFDA Number 47.076			<u>2,321,431</u>
Academic Research Facilities and Instrumentation		47.077	(15,425)
Total National Science Foundation			<u>2,390,786</u>

**UNIVERSITY OF MAINE SYSTEM**  
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<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. Small Business Administration:			
Small Business Development Center		59.037	\$ 633,009
Veterans Entrepreneurial Training & Counseling		59.044	747
Total U.S. Small Business Administration			633,756
U.S. Department of Veteran Affairs:			
Post-Vietnam Era Vets Educational Assist		64.120	192,177
Total Department of Veteran Affairs			192,177
U.S. Environmental Protection Agency:			
National Estuary Program		66.456	339,553
Passed-through:			
Maine Department of Environmental Protection			
Performance Partnership Grants	06AG399190	66.605	268
Surveys, Studies, Investig and Spec Purp		66.606	273,424
Passed-through:			
Maine State Planning Office:			
Surveys, Studies, Investig and Spec Purp	07BG103119	66.606	151,690
Total CFDA Number 66.606			425,114
Environmental Education and Training Program		66.950	70,300
Environmental Education Grants		66.951	3,959
Total Environmental Protection Agency:			839,194
U.S. Department of Energy:			
Department of Energy Awards with No CFDA Number		81.000	962,000
Passed-through:			
Maine Department of Economic and Community Development			
State Energy Program Special Projects		81.119	18,043
Total U.S. Department of Energy			980,043
U.S. Department of Education:			
Passed-through:			
Center for Civic Education:			
Department of Education Awards with No CFDA Number		84.000	15,955
Maine Department of Education:			
Adult Education – State Grant Program	01305A629564	84.002	57,362
Maine Community College System			
Vocational Education – Basic Grants to State		84.048	119,087
Maine Department of Education:			
Vocational Education – Basic Grants to State	01305A515908	84.048	2,107
Total CFDA Number 84.048			121,194
National Res. Center Fellow Program for Language		84.015	148,062
Passed-through:			
Rochester Institute of Technology:			
Spec. ED-Postsec. ED Prog. for Persons with Disabilities		84.078	30,431
Funds for Improvements of Postsecondary Education		84.116	32,194
Passed-through:			
City College of New York:			
Funds for Improvements of Postsecondary Education	46141-00-01F	84.116	9,158
University of New Hampshire:			
Funds for Improvements of Postsecondary Education	01-477	84.116	10,385
Total CFDA Number 84.116			51,737
Passed-through:			
Alpha One:			
Rehab Services – Service Project		84.128	7,285
Rehabilitation Long-Term Training		84.129	175,123
International Business Education		85.153	2,548
Drug Free Schools & Communities		84.184	19,614

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

Federal grantor/pass-through grantor/program title	Pass-through number	Federal CFDA number	Federal expenditures
Passed-through:			
Maine Department of Behavioral and Developmental Services			
Drug Free Schools and Communities		84.184	\$ 77,449
Total CFDA Number 84.184			<u>97,063</u>
Bilingual Education – Professional Development		84.195	267,036
Passed-through:			
Maine Department of Education:			
Even Start State Education Agencies	01305A633613	84.213	7,571
Fund for the Improvement of Education		84.215	150,859
Passed-through:			
Maine Department of Education:			
Fund for the Improvement of Education	01305A502163	84.215	4,838
Sanford High School:			
Fund for the Improvement of Education		84.215	11,525
Total CFDA Number 84.215			<u>167,222</u>
Passed-through:			
Maine Department of Education:			
Assistive Technology	01305A632237	84.224	265,161
Maine Department of Corrections:			
Literacy Programs for Prisoners		84.255	5,830
National Institute for Literacy		84.257	192,183
Passed-through:			
Maine Department of Education:			
Twenty First Century Community Learning Center:	01305A110213	84.287	97,702
Maine Math and Science Alliance:			
Eisenhower Professional Development State Grants	MMSA-02-1256	84.281	4,222
Local Innovations – Challenge Grants		84.303	(4,543)
Passed-through:			
Coalition of Essential Schools:			
Local Innovations – Challenge Grants		84.303	4,185
A. McMullen & J. Benetar:			
Local Innovations – Challenge Grants		84.303	24,927
Total CFDA Number 84.303			<u>24,569</u>
Maine Parent Foundation:			
Parental Assistance Centers		84.310	2,791
Maine Department of Education:			
Special Education-State Program Improvement Grants	01305A632814	84.323	113,958
Special Ed Res. & Innovat. Child Disabilities		84.324	82,737
Special Ed Personnel Prep – Children with Disabilities		84.325	4,711
Passed-through:			
Multiple School Districts:			
Comprehensive School Reform Demonstrator		84.332	200,897
Early Awareness and Readiness – Undergrad Prog.		84.334	129,692
Passed-through:			
Maine Department of Education:			
Early Awareness and Readiness – Undergrad Prog.	01305A634113	84.334	34,906
Total CFDA Number 84.334			<u>164,598</u>
Child Care Access Means Parents in School		84.335	45,932
Passed-through:			
Maine Department of Education:			
Teacher Quality Enhancement Grants	01305A514265	84.336	31,911
Preparing Tomorrows Teachers to Use Tech.		84.342	131,443
Transition to Teaching		84.350	145,714
Passed-through:			
University of California at Berkley:			
National Writing Project	98-ME01	84.928	30,842
Total Department of Education			<u>2,693,790</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. National Archives and Records Administration: National Historical Publications and Records Grants		89.003	\$ 45,003
Total National Archives and Records Administration			<u>45,003</u>
U.S. Department of Health and Human Services: Department of Health and Human Services Awards With No CFDA Number		93.000	9,503
Passed-through:			
Maine Department of Behavioral and Developmental Services Department of Health and Human Services Awards With No CFDA Number		93.000	160,338
Maine Department of Human Services: Department of Health and Human Services Awards With No CFDA Number		93.000	819,862
Total CFDA Number 93.000			<u>989,703</u>
Passed-through:			
Southern Maine Agency on Aging: Special Programs for the Aging- Title IV		93.048	19,197
Indian Township Tribal Govt: Comprehensive Comm Mental Health Services for Children with Emotiona Disturbances		93.104	8,301
Maine Department of Human Services: Maternal and Child Health Federal Consolidated Programs		93.110	(11,474)
Injury Prevention and Control Research and State and Comm Based Programs		93.136	60,444
Allied Health Project Grants		93.191	128,517
Interdiscip Training-Rural Health Care		93.192	159
Passed-through:			
Maine Dept of Health/Mental Retardation: Mental Health Clinical and AIDS Service Related Training Grant:		93.244	49,902
Maine Department of Human Services: Centers for Disease Control and Prevention		93.283	573,974
Advanced Education Nursing Traineeships		93.358	80,320
Nurse Education, Practice and Retention Grants		93.359	323,893
Bilingual Education – Professional Development		93.448	37,637
Passed-through:			
Maine Department of Human Services: Temporary Assistance for Needy Families		93.558	122,978
Child Support Enforcement		93.563	55,555
Community Services Block Grant		93.569	729,665
Passed-through:			
National Collegiate Athletic Association: Community Services Block Grant Discretionary Awards:		93.570	88,648
Nat'l Youth Sports Corp: Community Services Block Grant Discretionary Awards:		93.570	69,485
Total CFDA Number 93.570			<u>158,133</u>
Passed-through:			
City of Lewiston: Refugee and Entrant Assistance-Discretionary Awards		93.576	17,142
Catholic Charities of Maine: Early Learning Fund		93.576	20,000
Total CFDA Number 93.576			<u>37,142</u>
Coastal Access Local Council: Early Learning Fund		93.577	127,175
Coastal Enterprises, Inc: Early Learning Fund		93.577	(1,341)
Kennebec Valley Comm Action Program Early Learning Fund		93.577	83,758
Western Maine Access: Early Learning Fund		93.577	172,213
Western Maine Centers for Children: Early Learning Fund		93.577	14,312
Total CFDA Number 93.577			<u>396,117</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Catholic Charities of Maine: Refugee and Entrant Assistance Targeted Assist		93.584	\$ 7,501
Glenwood Research: Head Start		93.600	26,289
Penquis Cap, Inc: New Assets for Independence Demonstration Program		93.602	12,069
University Centers for Excellence in Developmental Disabilities, Ed, Res, and Svc		93.632	416,243
Passed-through:			
Maine Department of Human Services: Children's Justice Grants to States		93.643	71,649
Child Welfare Services Training Grants		93.648	305,039
Passed-through:			
Maine Department of Human Services: Child Welfare Services Training Grants		93.648	82,050
Total CFDA Number 93.648			<u>387,089</u>
Colorado Department of Human Services: Foster Care – Title IV(E)		93.658	11,051
Maine Department of Human Services: Foster Care – Title IV(E)		93.658	3,132,835
Total CFDA Number 93.658			<u>3,143,886</u>
Colorado Department of Human Services: Social Services Block Grant	04 IHA 00039	93.667	1,219,354
Maine Department of Human Services: Social Services Block Grant		93.667	2,072,087
Total CFDA Number 93.667			<u>3,291,441</u>
Maine Department of Human Services: Independent Living – Foster Care		93.674	494,419
Maine Dept of Behavioral and Developmental Services: Centers for Medicare and Medicaid Services Res., Demonstrations and Eval.		93.779	547,068
Rutgers Center for State Health: Centers for Medicare and Medicaid Services Res., Demonstrations and Eval.		93.779	59,299
Total CFDA Number 93.779			<u>606,367</u>
Rural Health Outreach and Rural Network Dev Prg.		93.912	14,461
Passed-through:			
Maine Department of Behavioral and Developmental Services: Block Grants for Prevention and Treatment of Substance Abuse		93.959	14,988
Maine Department of Human Services: Preventive Health and Health Services Block Grant		93.991	18,312
Total Department of Health and Human Services			<u>12,264,877</u>
U.S. Corp. for National and Community Service: Passed-through:			
Maine Campus Compact: Learn and Serve America-School and Comm Based Pgms	00LSHME002	94.004	(2,492)
Learn and Serve America-Higher Education		94.005	3,249
Maine State Planning Office: Americorps		94.006	4,394
Maine Executive Office: Planning and Program Development Grants		94.007	4,029
Maine Campus Compact: Planning and Program Development Grants		94.007	35
Maine State Planning Office: Planning and Program Development Grants		94.007	34,452
Total CFDA Number 94.007			<u>38,516</u>

**UNIVERSITY OF MAINE SYSTEM**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2004

<u>Federal grantor/pass-through grantor/program title</u>	<u>Pass-through number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Volunteers in Service to America		94.013	\$ 89,742
Passed-through:			
Maine State Planning Office:			
Volunteers in Service to America		94.013	<u>170,239</u>
Total CFDA Number 94.013			<u>259,981</u>
Total Corp. for National and Community Service			<u>303,648</u>
Passed-through:			
Maine Department of Defense:			
State Domestic Preparedness Equipment Support Program		97.004	<u>35,549</u>
Total Department of Homeland Security			<u>35,549</u>
Total Federal Expenditures			<u>\$ 218,337,625</u>

UNIVERSITY OF MAINE SYSTEM

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

(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, 2004:

Cluster/program title	Federal CFDA number	Amount outstanding
Perkins Loan Program	84.038	\$ 33,872,231
Nursing Loan Program	93.364	1,037,098

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, 2004

**(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 2004, subrecipient expenditures totaled \$6,921,598.

**(4) Indirect Costs**

The System has provisional fixed indirect cost rates that are effective from July 1, 2003 through when the amended rates are received. These rates were based on 1999 financial information. The base rate for on-campus research is 47%. Base rates for other indirect cost recoveries range from 21.8% to 56.7%. The System is in the process of negotiating new rates for the four-year period FY2004 to FY2007.