Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

Board of Trustees
15 Estabrooke Drive
Orono, ME 04469

Tel: 207-581-5840
Fax: 207-581-9212
www.maine.edu

The University of Maine
University of Maine at Augusta
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

October 19, 2018

TO: Members of the Board of Trustees

FR: Ellen N. Doughty, Clerk of the Board Ellen Doughty

RE: **October 29, 2018 Special Board Meeting**

Enclosed are the materials for the **Special Board of Trustees Meeting** on **Monday, October 29, 2018,** at the UM Wells Conference Center. Directions are included in the Board meeting materials. Parking will be located in the Dunn Hall parking lot.

The Board Meeting materials are available on the Diligent portal, for those who have access, and in PDF format on the Board of Trustees website at: www.maine.edu/UMStrusteesmeetings

On Monday, October 29th, the meeting will begin at approximately 11:05 am. The meeting will be in Wells Conference Center, Room 1.

Overnight accommodations for those that have requested, have been made at the Courtyard Marriott, 236 Sylvan Rd, Bangor, ME 04401. PH: 207-262-0070
Incoming messages can be left with Heather Massey at 991-4724 or Ellen Doughty at 949-4905.

In the event of a postponement, cancellation, or changes in the Board of Trustees meeting, a message will be recorded on the Board Office telephone (991-4724). In addition, every effort will be made to personally contact the Board of Trustees, the Presidents, and the System Staff.

cc: Chancellor James H. Page
University Presidents
System Staff


1865 THE UNIVERSITY OF MAINE
2015–16 Campus Map
VISITOR permits authorize parking in any black lot or visitor space.
RED (Resident Student) permits authorize parking in red lots.
BLACK (Commuter Student) permits authorize parking in black lots.
BLUE (Faculty/Staff) permits authorize parking in any blue or black lot.
GREEN (Carpool) permits authorize use of individually allocated spaces.
Permits MUST be displayed on interior mirror.
Signs governing lots take precedence over all maps and permits
Information
Public Bus Stop
Ambulance
Emergency Phone
Visitor Parking
Visitors need permits. Visitor Permits allow parking in metered spaces, any BLACK lot and they are available free from:
• Visitors Center in Buchanan (F–5)
• MeCard Services in Mem. Union (D–3)
• UMaine Police (E–1)
• Bear Necessities in Alfond (A–5)
Parking Office: 207.581.4047
University Park Housing
Apartments for students, faculty & staff located one mile from campus
Winter Parking Ban
Blue & Black lots, as well as visitor spaces, are closed to parking from midnight to 6:00 am from November 1 to May 1.
Overnight Parking Permits
are available from UMaine Police and the MeCard Services, 130 Memorial Union.
umaine.edu/parking
Wells Conference Center
Parking will be in the Dunn Lot
Welcome!
to the University of Maine, Orono
Please respect that UMaine is a walking campus
Pedestrians have right-of-way at all times
DISTANCE 1/8 MILE
Walking time 2–3 minutes
UMaine ©7/2015
Cartography by Purple Lizard Maps
Please suggest edits to mike@purplelizard.com

UMS Special Board of Trustees Meeting

University of Maine, hosted by UMS
Wells Conference Center, Room 1

October 29, 2018

AGENDA

Monday – October 29, 2018
Call to Order @ 11:00 am – Wells Conference Center, Room 1

Tab 1 – Approval of the FY2018 Annual Financial Report

Consent Agenda
Action items from the October 29, 2018 Audit & Finance, Facilities & Technology Committee Joint Meeting:

Tab 2 - Property Removal, Northern Road Duplexes, UMPI

Tabs noted in red text are action items.
Note: Times are estimated based upon the anticipated length for presentations or discussion of a particular topic. An item may be brought up earlier or the order of items changed for effective deliberation of matters before the Board.

Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

AGENDA ITEM SUMMARY

1. **NAME OF ITEM**: Annual Financial Report – Fiscal Year 2018

2. **INITIATED BY**: James H. Page, Chancellor

3. **BOARD INFORMATION**: **BOARD ACTION: X**

4. **OUTCOME:** **BOARD POLICY:**
   Primary Outcomes: Bylaws – Section 3
   Enhance fiscal positioning

5. **BACKGROUND:**

The University of Maine System's (UMS) fiscal year 2018 (FY18) **draft** Annual Financial Report is presented to the Board of Trustees for approval at the October 29, 2018 meeting. The report was reviewed by the Audit Committee at its October 29, 2018 meeting.

As shown on page 36 of the Annual Financial Report, the UMS ended FY18 with *Loss Before Other Changes in Net Position* of $588 thousand and *Total Other Changes in Net Position* of $16 million, for a *Change in Net Position* for FY18 of $16 million.

As shown on page 34, *Total Net Position* at June 30, 2018 was $814 million increasing $16 million from FY17. Changes in each *Net Position* category were:

Net Position Category:	**Increase (Decrease)**
Net Investment in Capital Assets	$7 million
Restricted Nonexpendable	$1 million
Restricted Expendable	$1 million
Unrestricted	$7 million
Change in Net Position	$16 million

The Audit Committee reviewed this recommendation to be forwarded to the Board of Trustees for approval at the October 29, 2018 Special Board meeting.

6. **TEXT OF PROPOSED RESOLUTION:**

That the Board of Trustees accepts the recommendation of the Audit Committee and approves the FY2018 Annual Financial Report.

10/19/2018

Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

A Component Unit of the State of Maine

DRAFT

Annual Financial Report

Year Ended June 30, 2018


2018

University of Maine
University of Maine at Augusta
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

Electronic statements are available at
http://www.maine.edu/about-the-system/system-office/finances/annual-financial-reports/
Or by contacting:

Controller's Office
5703 Alumni Hall Suite 101
Orono, ME 04469-5703

NON-DISCRIMINATION NOTICE

The University of Maine System is an EEO/AA employer, and does not discriminate on the grounds of race, color, religion, sex, sexual orientation, transgender status, gender expression, national origin, citizenship status, age, disability, genetic information or veteran's status in employment, education, and all other programs and activities. The following person has been designated to handle inquiries regarding non-discrimination policies: Sarah E. Harebo, Director of Equal Opportunity, 101 North Stevens Hall, University of Maine, Orono, ME 04469-5754, 207.581.1226, TTY 711 (Maine Relay System).

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Maine's Public Universities

UNIVERSITY OF MAINE SYSTEM

October 2018

Office of the Chancellor
15 Estabrooke Drive
Orono, ME 04469

Tel: 207-973-3205
www.maine.edu

Dear Friend:

The Maine public university commitment to service, job-creating research, and scholarship must be matched by an equal obligation to stewardship and responsible fiscal management. We are pleased to share financial statements that illustrate the progress we have achieved as an enterprise and the capacity we are building as an institution of discovery and responsive state service.

The University's nation-leading commitment to affordability and historic investments in campus financial aid budgets have lowered the financial barriers to higher education in Maine. The University has leveraged this progress to launch a promise initiative that covers tuition and mandatory fees for new students with the greatest financial need attending four of our institutions. The University Nursing Workforce Plan targeting a nursing shortage projected to grow to about 3,000 vacancies by 2025 is able to include an offer of nursing education to Pell-eligible students in many of the regions of Maine facing the most acute nursing workforce challenges.

The cost of tuition in Maine also provides a competitive advantage in terms of recruiting students from across the Northeast region to our campuses, contributing to out-of-state enrollment growth of more than 13% at a time when the number of students graduating from the state's high schools continues to decline. Many of the 5,727 non-resident students who have come to Maine to attend our universities will begin their careers here as well, helping to address a state need for 158,000 new credentialed workers by 2025.

The Maine Legislature overwhelmingly approved a $49 million University Workforce Development Bond for voter consideration in the Fall of 2018. The bond proposal is the largest ever approved by the Legislature for the University of Maine System and stands as a demonstration of confidence and State House support for public higher education in Maine.

We continue to build on that confidence with ongoing implementation of unified budget reforms that improve transparency, facilitate decision making, and increase our capacity for collaboration across our campuses. In July of 2018 the Board of Trustees approved the first comprehensive update to the state allocation model in the history of the System. The model uses institutional peer group comparisons to establish the costs and resource needs of delivering services across the System's mission-differentiated campuses. The new model will more fairly and accurately distribute state resources and help campus leaders set more informed fiscal goals.

During August 2018, S&P Global Ratings affirmed the System's investment-grade AA- long-term rating with a stable outlook. Their report assessed the System financial profile as very strong reflecting healthy financial management policies, sound financial performance, healthy financial resources, and low debt and contingent liabilities.

A cover story in the Chronicle of Higher Education earlier this year characterized Maine and its One University Initiative as a *"laboratory for the future of public higher education."* While we are pleased our reforms are becoming a national example for other institutions and states, our focus remains providing opportunity and service to the people of Maine. The standard of measure that matters most for our System and the dedicated public servants of the university community is that we have put Maine communities first and helped sustain a quality of life for Maine residents that is second to none.

Sincerely,

James H. Page

James H. Page
Chancellor

The University of Maine
University of Maine at Augusta
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

UNIVERSITY OF MAINE SYSTEM BOARD OF TRUSTEES AND MANAGEMENT AS OF JUNE 30, 2018

BOARD OF TRUSTEES:

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Shawn H. Moody
Elizabeth (Betsey) M. Timm
Karl W. Turner
Robert G. Hasson, *ex officio*

CHANCELLOR:

James H. Page

UNIVERSITY PRESIDENTS:

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Kathryn A. Foster
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University of Maine at Fort Kent

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University of Maine at Presque Isle

Glenn A. Cummings
University of Southern Maine

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Clerk to the Board of Trustees

Tracy E. Elliott
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MF Chip Gavin
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Chief Human Resources Officer

James B. Thelen
General Counsel and Chief of Staff to the Chancellor

Samantha C. Warren
Director of Government and Community Relations

Miriam A. White
Vice President of Budget and Financial Analysis

DRAFT

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
University of Maine System

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the reports of the other auditor. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

The Board of Trustees
University of Maine System

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

Adoption of New Accounting Pronouncements

As discussed in Note 1 to the financial statements, in 2018, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The 2017 financial statements have been restated for the retrospective application of the new accounting guidance. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the required supplementary information related to the System's retirement plans as be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The supplementary information presented in the Schedules of Activities is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Trustees
University of Maine System

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated REPORT DATE 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 solely 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 effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Bangor, Maine
REPORT DATE

UNIVERSITY OF MAINE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017 (UNAUDITED)

The Management's Discussion and Analysis (MD&A) provides a broad overview of the University of Maine System's ("the System" or UMS) financial condition as of June 30, 2018 and 2017, the results of its operations for the years then ended, significant changes from the previous years, and outlook for the future where appropriate and relevant. Management has prepared the financial statements and related note disclosures along with this MD&A. The MD&A should be read in conjunction with the accompanying basic financial statements and related notes.

Mission

Established in 1968 by the Maine State Legislature, the System is the State's largest educational enterprise, uniting its public universities in the common purpose of providing high-quality educational undergraduate and graduate opportunities that are accessible, affordable, and relevant to the needs of Maine students, businesses, and communities. The System features seven universities —some with multiple campuses—located across the state, as well as eight outreach centers, a law school, an additional 32 course sites, and Cooperative Extension. The System carries out the traditional tripartite mission – teaching, research, and public service. A major resource for the State, the System drives economic development by conducting world-class research, commercializing valuable ideas, and partnering successfully with businesses and industries throughout Maine and beyond. Two-thirds of its alumni—approximately 120,000 people—live in Maine.

Universities, Campuses, and Centers

The System is a comprehensive public institution of higher education with nearly 29,000 enrolled students, supported by the efforts of 1,160 regular full-time faculty, 66 regular part-time faculty, 3,041 regular full-time staff, and 280 regular part-time staff members.

From Maine's largest city to its rural northern borders, our universities are known for excellence in teaching and research. Our universities are:

The State's land-grant university and the flagship institution in the System, the University of Maine (UM) is one of New England's premier universities. UM offers baccalaureate, master's, and doctoral degree programs.

With full-service campuses in Maine's state capital of Augusta and in Bangor, the University of Maine at Augusta (UMA) is considered the university of choice for Mainers who want to receive a quality and affordable education without uprooting their lives.

Established in 1864 as Maine's first public institution of higher education, the University of Maine at Farmington (UMF) is Maine's public liberal arts college, offering quality programs in teacher education, human services, and arts and sciences.

Founded as the Madawaska Training School in 1878, the University of Maine at Fort Kent's (UMFK) goal is to be Maine's premier rural public university; educating students to become responsible citizens committed to environmental stewardship through experiential learning.

Through its environmental liberal arts core, distinctive baccalaureate programs, and student-centered community, the University of Maine at Machias (UMM) creates enriching educational opportunities that prepare graduates for professional success and lifelong engagement with the world.

For more than a century, the University of Maine at Presque Isle (UMPI) has been helping students find their path to great professional careers. UMPI provides students with life-changing opportunities in a caring, small-university environment. UMPI combines liberal arts and selected professional programs and serves as a cultural and educational resource for the entire region.

The University of Southern Maine (USM) is northern New England's outstanding public, regional, comprehensive university, dedicated to providing students with a high-quality, accessible, affordable education. From campuses in Portland, Gorham, and Lewiston-Auburn, USM offers baccalaureate, master's, and doctoral degree programs.

The University of Maine School of Law, a freestanding institution within the System, is located in Portland. Lewiston-Auburn College is a campus of USM. The Hutchinson Center in Belfast is a campus of UM. UMA Bangor is a campus of the University of Maine at Augusta. UMA also has eight UMA Centers that provide onsite, distance and online students with access and support to education courses offered by all seven UMS universities at the UMA Centers as well as at 32 Interactive Television (ITV) course receive sites statewide.

Student Enrollment

Chart 1 shows student enrollment, including early college, on a headcount basis with 28,997 students enrolled for the fall 2017 semester, down 1.6% from fall 2016 and down 4.5% since fall 2013. For fall 2017, 65% of the student population was enrolled full-time.

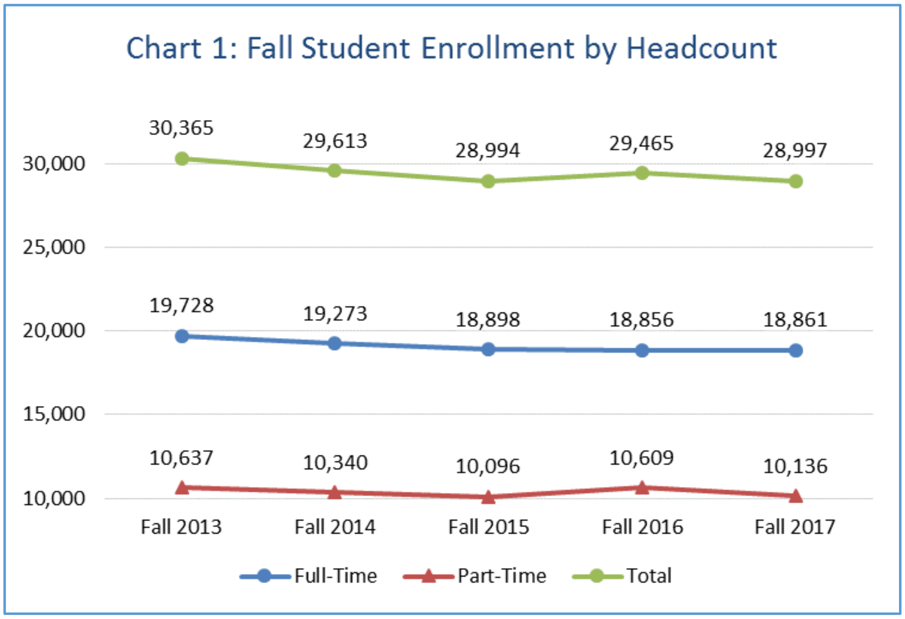


Chart 2 and Table 1 show student enrollment, including early college, on a full-time equivalent (FTE) basis with 21,812 students enrolled for the fall 2017 semester, down 0.3% from fall 2016. Since fall 2013, enrollments declined by a net 714 students, or 3.2%. For fall 2017 and fall 2016, 76% and 79%, respectively, of FTE enrollments were Maine residents.

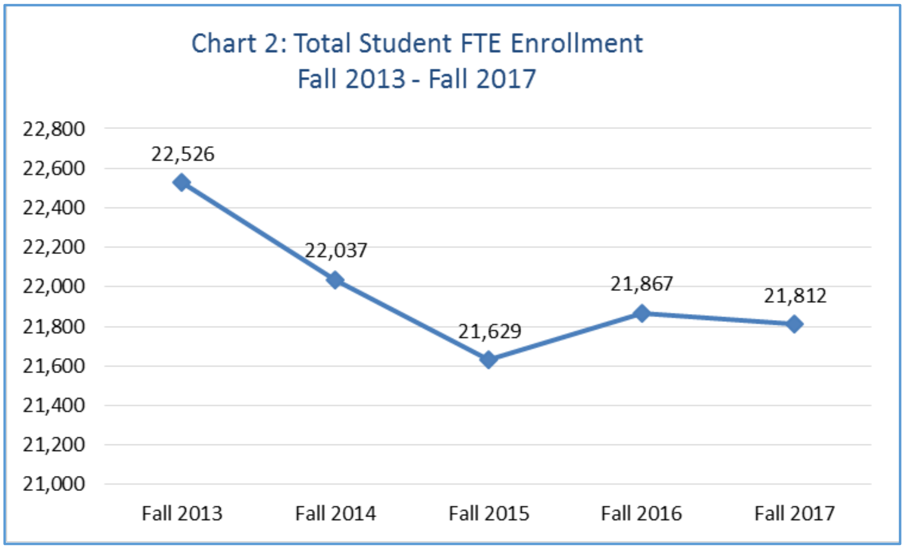


Table 1: Fall Student FTE Enrollment

	% Change Fall 2013 to 2017	Fall 2017	% Change	Fall 2016	% Change	Fall 2015	% Change	Fall 2014	% Change	Fall 2013	% Change
UM	*3.9%*	**9,720**	**1.3%**	**9,594**	**2.4%**	9,371	-1.5%	9,512	1.7%	9,356	3.5%
UMA	*-20.1%*	**2,169**	**-10.4%**	**2,422**	**-7.8%**	2,626	0.4%	2,615	-3.6%	2,713	-5.2%
UMF	*-4.6%*	**1,723**	**0.8%**	**1,709**	**-0.9%**	1,724	1.7%	1,695	-6.2%	1,807	-4.7%
UMFK	*18.0%*	**950**	**-9.7%**	**1,052**	**15.5%**	911	8.7%	838	4.1%	805	3.3%
UMM	*-16.6%*	**452**	**-8.1%**	**492**	**-0.2%**	493	-4.5%	516	-4.8%	542	-5.1%
UMPI	*7.1%*	**903**	**2.0%**	**885**	**7.5%**	823	5.6%	779	-7.6%	843	-13.4%
USM	*-8.7%*	**5,895**	**3.2%**	**5,713**	**0.6%**	5,681	-6.6%	6,082	-5.9%	6,460	-6.0%
Total	*-3.2%*	**21,812**	**-0.3%**	**21,867**	**1.1%**	21,629	-1.9%	22,037	-2.2%	22,526	-2.0%

Student Comprehensive Cost of Education

Net student fee revenue, totaling $256 million in FY18 and $245 million in FY17, is the System's greatest source of revenue, contributing 37% of Total Operating and Net Nonoperating Revenues for FY18 and 36% for each of the prior five years. Net student fees are impacted by enrollment levels; tuition, room and board, and fee levels; and the amount of scholarship allowances provided to students.

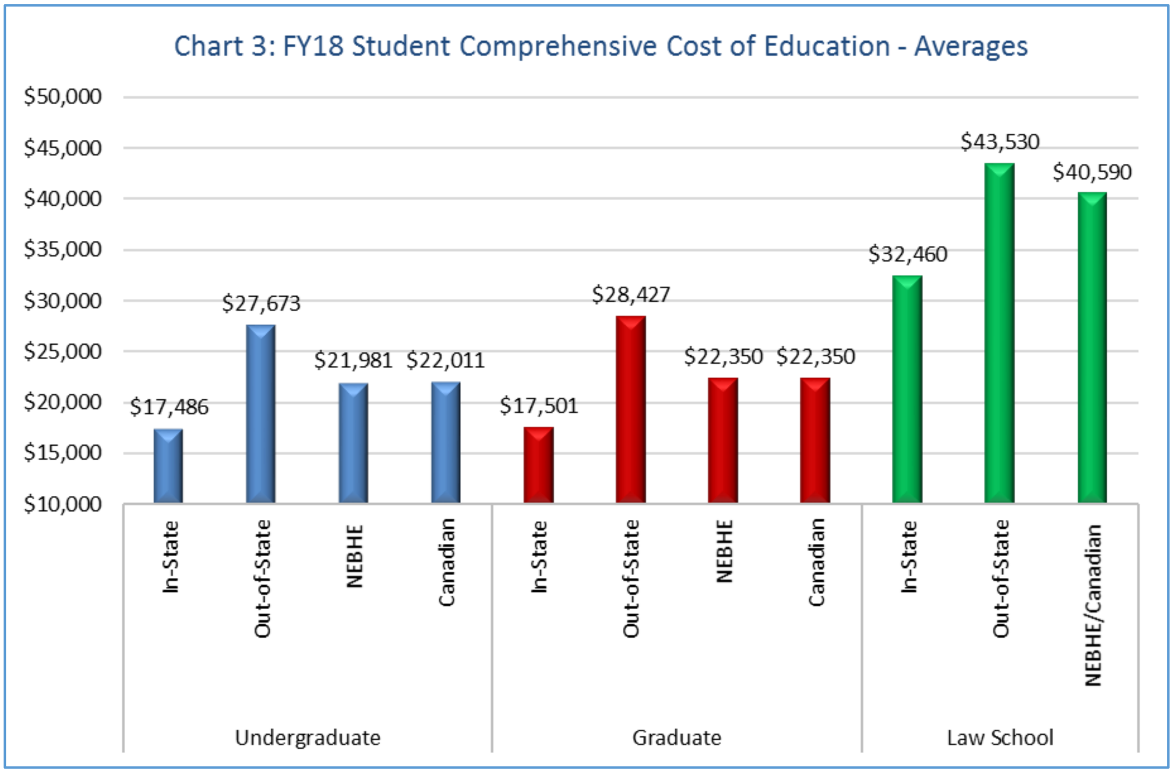
The average comprehensive cost of education (tuition, fees, and room and board) for UMS undergraduate, graduate, and Law School students is shown in Table 2 and Chart 3. Due to a change in the methodology used to calculate the student cost of education from weighted average to average, the FY14 through FY17 information presented in Table 2 has been restated to conform to the FY18 data.

The percentage changes for the comprehensive cost of education in FY18 range from an increase of 4.4% for Undergraduate New England Board of Higher Education (NEBHE) and Canadian students, down to an increase of 0.1% for all categories of Law School students. Percentage changes in FY17 ranged from an increase of 2.0% for Undergraduate NEBHE and Graduate NEBHE and Canadian students, to a decrease of 0.6% for in-state Law School students.

The System increased tuition for in-state undergraduate students in FY18, the first time since FY12. Continuing with its commitment to affordable educational opportunities, the System held the in-state undergraduate tuition increase to a system-wide average of 3.3% and the overall average comprehensive cost of education for this same category of students to an increase of just 2.5%.

Table 2: Student Comprehensive Cost of Education
Tuition, Mandatory Fees, and Room and Board Fiscal Year Averages

	2018		2017		2016		2015		2014	
	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change	Cost	% Change
Undergraduate:										
In-State	**$17,486**	2.5%	**$17,065**	0.3%	$17,008	1.0%	$16,837	0.7%	$16,719	1.3%
Out-of-State	**27,673**	2.8%	**26,922**	1.1%	26,634	0.9%	26,407	-6.1%	28,119	1.0%
NEBHE	**21,981**	4.4%	**21,045**	2.0%	20,633	0.8%	20,462	0.6%	20,344	1.1%
Canadian	**22,011**	4.4%	**21,075**	1.8%	20,710	0.8%	20,539	0.6%	20,421	1.1%
Graduate:										
In-State	**$17,501**	2.3%	**$17,114**	0.5%	$17,031	1.1%	$16,853	0.8%	$16,724	1.4%
Out-of-State	**28,427**	2.7%	**27,674**	1.0%	27,405	1.1%	27,107	1.1%	26,822	1.4%
NEBHE	**22,350**	4.0%	**21,488**	2.0%	21,075	1.3%	20,808	0.2%	20,763	1.1%
Canadian	**22,350**	4.0%	**21,488**	2.0%	21,075	1.3%	20,808	0.2%	20,763	1.1%
Law School:										
In-State	**$32,460**	0.1%	**$32,430**	-0.6%	$32,630	0.8%	$32,380	0.6%	$32,180	0.6%
Out-of-State	**43,530**	0.1%	**43,500**	-0.5%	43,700	0.6%	43,450	0.5%	43,250	0.4%
NEBHE/Canadian	**40,590**	0.1%	**40,560**	-0.5%	40,760	0.6%	40,510	0.5%	40,310	0.5%



OVERVIEW OF THE FINANCIAL STATEMENTS

The System's financial statements are prepared in accordance with U.S. generally accepted accounting principles and include three primary components, the:

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statements of Cash Flows

The University of Maine Foundation is a legally separate tax-exempt component unit of the System. This entity's financial position and activities are discretely presented in the System's financial statements as required by Governmental Accounting Standards Board (GASB) statements. The MD&A includes information only for the System, not its component unit.

STATEMENTS OF NET POSITION

The Statements of Net Position present the financial position of the System at one point in time – June 30 – and include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the System. These statements are the primary statements used to report financial condition. Net position represents the residual interest in the System's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 3 on page 16 shows Condensed Statements of Net Position for the past five years.

Restatement of Prior Years

The FY17 financial statements have been restated to reflect:

- adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75), as described in Notes 1b and 18 to the financial statements,
- adoption of GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB No. 81), as described in Note 1b to the financial statements, and the
- early adoption of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, as described in Note 1b to the financial statements.

The overall impact on the Condensed Statements of Net Position is that the previously reported FY17 beginning of year net position decreased nearly $102 million while the FY17 Change in Net Position increased $12 million, resulting in a nearly $90 million decrease from the previously stated unrestricted net position as of June 30, 2017.

As noted in the FY15 financial statements, the FY14 financial statements were restated to reflect:

- adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* as described in the FY15 financial statements' Notes 1b and 17 and
- early adoption of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as described in the FY15 financial statements' Notes 1b and 17.

The overall impact to the Condensed Statements of Net Position was that the previously reported FY14 beginning of year net position decreased over $11 million while the FY14 Change in Net Position increased almost $4 million, resulting in a nearly $8 million decrease from the previously stated unrestricted net position as of June 30, 2014.

Overview of Condensed Statements of Net Position

As shown in Table 3, assets and liabilities are categorized as either current or noncurrent. Current assets are available to satisfy current liabilities, which in turn are those amounts expected to be payable within the next year. Total assets and deferred outflows of resources of $1.23 billion at June 30, 2018, were relatively flat with the prior year, and increased $33 million, or 3%, since June 30, 2014.

The major component of current assets is operating investments, which totaled $252 million at June 30, 2018 and $243 million at June 30, 2017. Noncurrent assets consist mainly of endowment investments and capital assets, net of depreciation. Endowment investments totaled $154 million at June 30, 2018, an increase of $7 million, or 5%, from the FY17 year-end balance of $147 million and a $4 million, or 3%, increase since June 30, 2014. Capital assets totaled $700 million at June 30, 2018 and 2017.

Current liabilities of $68 million and $69 million at June 30, 2018 and 2017, respectively, consist primarily of accounts payable and various accrued liabilities including those for the System's workers compensation, health, and retirement plans. Impacts to accounts payable and accrued liabilities include the timing of the last check cycle for the fiscal year, the level of construction activity in progress and budget constraints.

At $328 million, total noncurrent liabilities decreased $12 million, or 4%, from June 30, 2017 to 2018. This decrease is primarily the result of a $13 million decrease in bonds and notes payable offset by a $1 million increase in other accrued liabilities. Total noncurrent liabilities increased $82 million, or 32%, from June 30, 2016 to 2017 with the adoption of GASB No. 75 related to the System's postemployment health plan ("OPEB") accounting for $76 million or 93% of the increase. Also included in this change was a $7 million net increase in bonds and notes payable and a decrease in other accrued liabilities of $1 million.

The 2017 restatement is primarily due to the adoption of GASB No. 75 which resulted in a $5 million increase in deferred outflows of resources, an $18 million increase in deferred inflows of resources, and a $90 million decrease in unrestricted net position.

Total net position at June 30, 2018 of $814 million increased $16 million, or 2%, from the June 30, 2017 balance which decreased $69 million or 8% from the June 30, 2016 balance. Additional information about net position is presented on page 22.

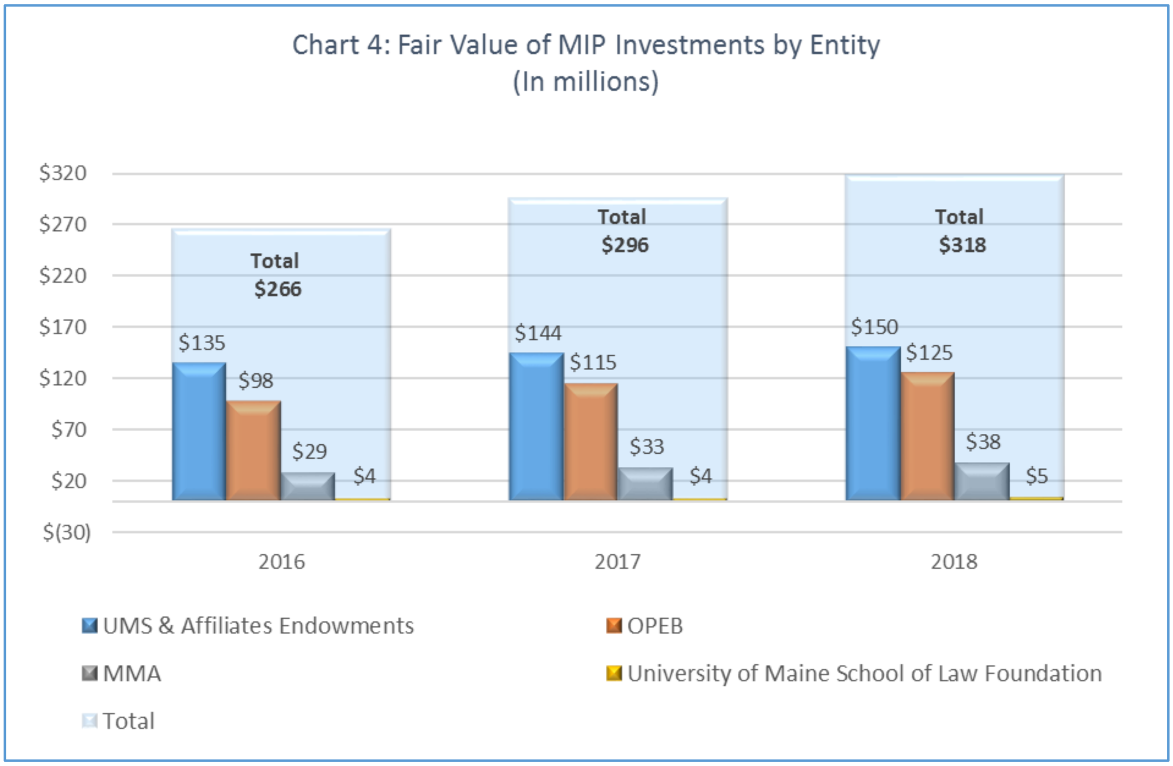
Table 3: Condensed Statements of Net Position as of June 30
(In millions)

	2018	% Change	Restated 2017	% Change	2016	2015	2014
Current Assets	**$307**	**1%**	**$304**	**4%**	$293	$288	$300
Noncurrent Assets							
Endowment investments	**154**	**5%**	**147**	**8%**	136	143	150
Capital assets, net	**700**	**0%**	**700**	**-1%**	707	703	698
Other	**57**	**-15%**	**67**	**49%**	45	60	46
Total Assets	**1,218**	**0%**	**1,218**	**3%**	1,181	1,194	1,194
Deferred Outflows of Resources	**13**	**-7%**	**14**	**56%**	9	8	4
Total Assets and Deferred Outflows	**$1,231**	**0%**	**$1,232**	**4%**	$1,190	$1,202	$1,198
Current Liabilities	**$68**	**-1%**	**$69**	**8%**	$64	$74	$64
Noncurrent Liabilities							
Long-term debt	**148**	**-8%**	**161**	**4%**	155	165	158
Other	**180**	**1%**	**179**	**74%**	103	100	106
Total Liabilities	**396**	**-3%**	**409**	**27%**	322	339	328
Deferred Inflows of Resources	**21**	**-16%**	**25**	**2400%**	1	2	
Total Liabilities and Deferred Inflows	**417**	**-4%**	**434**	**34%**	323	341	328
Net investment in capital assets	**551**	**1%**	**544**	**0%**	544	541	532
Restricted							
Nonexpendable	**59**	**0%**	**59**	**2%**	58	58	57
Expendable	**115**	**1%**	**114**	**6%**	108	106	109
Unrestricted	**89**	**10%**	**81**	**-48%**	157	156	172
Total Net Position	**814**	**2%**	**798**	**-8%**	867	861	870
Total Liabilities, Deferred Inflows and Net Position	**$1,231**	**0%**	**$1,232**	**4%**	$1,190	$1,202	$1,198

Managed Investment Pool (MIP)

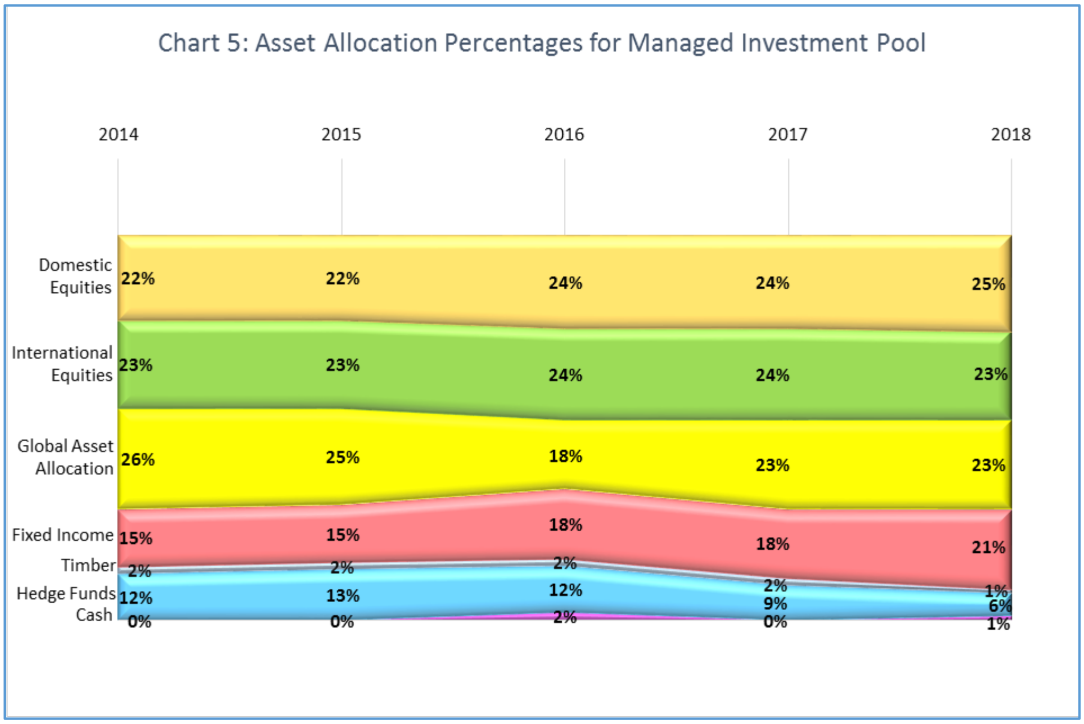
The System pools certain funds for investment purposes including the System's endowment pool monies (including affiliated organizations) and monies on behalf of the following entities: the UMS OPEB Trust, Maine Maritime Academy (MMA), and the University of Maine School of Law Foundation.

Chart 4 shows the June 30, 2016, 2017, and 2018 fair values of the MIP investments, including the amounts held on behalf of each entity.

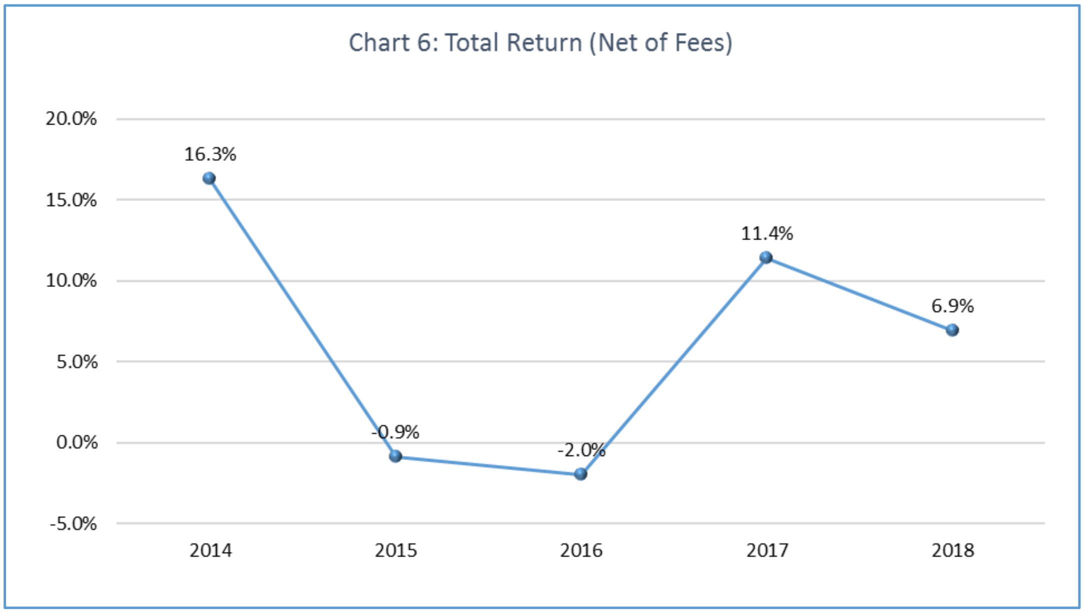


The System's and affiliates' share of the MIP are included in the accompanying Condensed Statements of Net Position as part of endowment investments. The OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation portions of MIP investments are not included in those Statements.

The MIP investments are diversified among a number of asset classes to minimize risk while optimizing return. Chart 5 illustrates the percentage of holdings in each asset class and how they changed over the past 5 years.



As shown in Chart 6, in FY18 the pool realized a net of fees return of 6.9%, down from 11.4% in FY17 and up from -2.0% in FY16. The pooled investments have a 5-year annualized net of fees return of 6.1%.



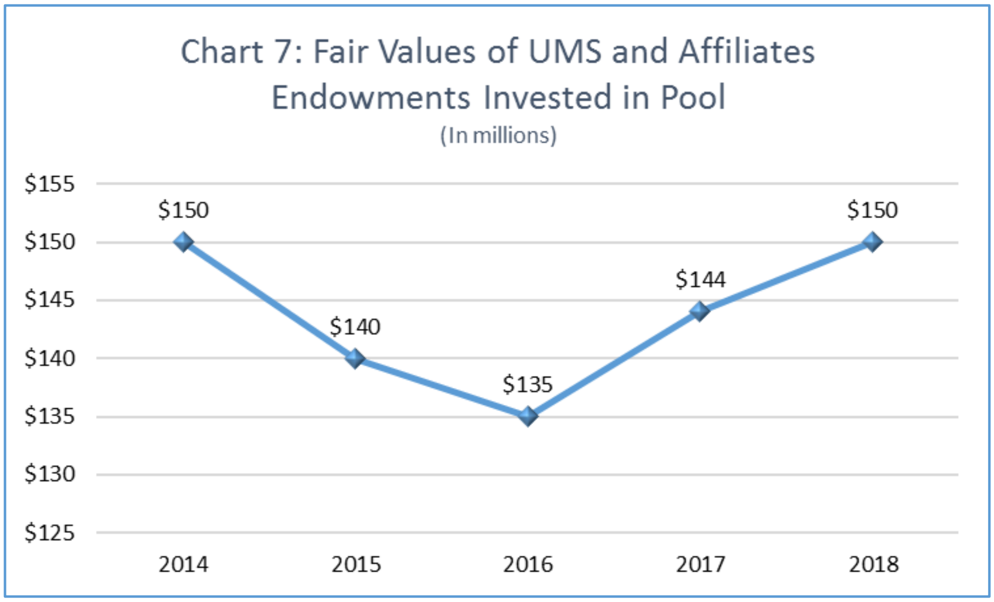
Endowments (Including Affiliates)

Endowments are generally created from donor gifts or bequests with the funds invested to create present and future income with the original amount of the gift (corpus) retained in perpetuity. If the donor established criteria to determine how the expendable amounts are to be used, then such amounts are considered restricted expendable. If the use of expendable amounts is left to the discretion of the System, the endowment income and appreciation are considered unrestricted.

As mentioned in the previous MIP section, the System uses a pooled investment approach for its endowments (unless otherwise specified by the donor) and the endowments of three affiliates. Affiliates investing in the endowment pool include: the University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc.

As shown in Chart 7, the UMS and its affiliates share of these pooled endowment investments had a fair value of $150 million at June 30, 2018, increasing $6 million from the 2017 year-end fair value of $144 million. This increase included endowment contributions of $2 million plus $10 million in positive net performance less $6 million distributed for scholarships and other operating activities.

These pooled investments' fair value of $144 million at June 30, 2017 increased $9 million from the 2016 year-end fair value of $135 million. This increase included endowment contributions of $1 million plus $14 million in positive net performance less $6 million distributed for scholarships and other operating activities.



The UMS endowment distribution formula is designed to smooth market volatility. The method uses a 3-year market value average with a percentage-spending rate applied. The spending rate applied in FY14 thru FY18 was 4.5%.

The fair value of the pooled endowment investments for the UMS and its affiliates and the fair value of separately invested UMS endowments comprise the endowment investments reported in the accompanying Condensed Statements of Net Position. The liability for the affiliates' share of the pooled endowment investments is also recognized in those Statements as part of funds held for others.

Capital Assets and Debt Activities

Table 4 shows the status of major capital construction projects as of June 30, 2018 and the related budget approved by the Board of Trustees.

The System's facilities are critical to each university's mission as they provide the physical framework and environment for education, research, cultural programs and residential life. The System continually evaluates its long-term capital and strategic needs, including which facilities to upgrade, retire, or build. Capital assets are funded with various sources of funds including state bonds, gifts, grants, educational and general funds, and System revenue bonds.

During FY18, the System had capital asset additions of $40 million, which included $32 million of construction in progress and $8 million of equipment. In FY17, the System had capital asset additions of $31 million, which included $27 million of construction in progress and $4 million of equipment. In FY16, the System had capital asset additions of $43 million, which included $38 million of construction in progress and $5 million of equipment.

The System strives to manage all of its financial resources effectively, including the prudent use of debt to finance construction 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, 2018 was $162 million, a decrease of $14 million, or 8%, from the FY17 total debt of $176 million.

In FY17, total debt increased $10 million over the FY16 total debt of $166 million which was primarily due to the System issuing $30 million of revenue bonds to provide $18 million for new projects and to achieve interest savings by refunding previously issued bonds. Refunding some prior bonds allowed the system to reduce the related debt service payments over the following 20 years by $1.5 million and to obtain economic gain (difference between the present value of the old and new debt service payments) of $1.4 million.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources of $13 million at June 30, 2018 decreased just $1 million from the prior year balance of $14 million. The $5 million increase from June 30, 2016 to June 30, 2017 is primarily the result of adopting GASB No. 75 related to the UMS' postemployment health plan, or OPEB.

Deferred inflows of resources of $21 million at June 30, 2018 decreased $4 million from the $25 million at June 30, 2017, primarily due to a $3 million decrease in the deferred inflows of resources related to the UMS' OPEB plan.

In FY17, deferred inflows of resources increased $24 million from the $1 million at June 30, 2016, primarily due to the adoption of GASB No. 75 related to OPEB which accounts for $18 million of the increase. The adoption of GASB No. 81 related to irrevocable split interest agreements accounts for $2 million, and $4 million is attributable to a dining service concession arrangement executed in June 2016 between Sodexo America LLC (Sodexo) and the System to provide food services at six of the System's campuses beginning in FY17.

Table 4: Major Capital Projects Completed During FY18 or In Progress at June 30, 2018
(In millions)

Project	Funding Source	Status	BOT Approved Budget
UMFK			
• Forestry Geographic Info Sys Tech Labs/Nursing Lab Renovation/Teleconference Center Upgrades	2013 State Bond	In Progress	$ 1.20
UMM			
• Campus Card Access Installation	Educational & General, Auxiliary Funds	In Progress	0.60
UM			
• Advanced Structures and Composites Ctr Equipment	Gift	In Progress	1.50
• Cooperative Extension Diagnostic and Research Lab	2017 State Bond, Educational & General, Grants	In Progress	9.40
• Aquatic Animal Health Facility	Grants, Campus Funds	In Progress	2.80
• Barrow's Hall STEM Renovations	Educational & General	Complete	1.90
• Memorial Union Bear's Den Renovations	Auxiliary Funds	Complete	3.60
• Darling Marine Center Waterfront Infrastructure	Grants, Campus Funds	In Progress	3.00
• Engineering Education and Design Center	Anticipated Revenue Bond, Educational & General, Gifts	In Progress	9.00
• Wells Commons Generator	Auxiliary Funds	In Progress	0.53
USM			
• Brooks Kitchen Exhaust Upgrade	Educational & General	Complete	0.89
• Costello Field House Floor Replacement	Gifts, Endowments	Complete	0.90
• Campus Card Access Installation	Educational & General	Complete	0.70
• Anderson Hall Renewal and Renovations	Educational & General	Complete	1.25
• Athletic Field Lighting	Educational & General	In Progress	1.78
• USM Center for the Arts	Gifts	In Progress	1.00
• Corthell Hall HVAC Upgrades	Educational & General	In Progress	0.55
UMS			
• IT Infrastructure - Wireless and Classroom Technology Upgrades	2017 Revenue Bond	In Progress	19.00
• MaineStreet Upgrade	2017 Revenue Bond	In Progress	2.00
TOTAL			$ 61.60

Net Position

Net investment in capital assets represents the historical cost of the System's capital assets reduced by total accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. As seen in Table 3, on page 16, the System's net investment in capital assets was $551 million at June 30, 2018 and $544 million at June 30, 2017.

The FY18 increase in net investment in capital assets of $7 million was primarily the result of an $8 million decrease in debt offset by a $1 million increase in deferred inflows of resources related to the Sodexo dining contract.

The net investment in capital assets did not change from June 30, 2016 to June 30, 2017, as a $7 million net reduction in capital assets after annual depreciation (comprised of $31 million in capital asset additions less $38 million in depreciation) was offset by a $7 million decrease in related debt, which was largely from the refinancing of the 2007 revenue bonds.

The **restricted-nonexpendable net position** of $59 million at June 30, 2018 and June 30, 2017 represents the corpus of the System's permanent endowment funds. Items that impact this category of net position include new endowment gifts and fair value fluctuations for those endowments whose fair value has fallen below the endowment corpus.

The **restricted-expendable net position** of $115 million at June 30, 2018 consists of a variety of funds including unexpended gifts, quasi-endowments and appreciation on true endowments, subject to externally imposed conditions on spending. This category of net position is restricted for various purposes including student financial aid, capital asset acquisitions, research, and public service. The FY18 net increase of $1 million, or 1%, is primarily attributable to a $3 million increase in endowment values mainly due to investment performance, offset by a $2 million decrease in restricted cash gifts mainly from the use of gift dollars for scholarships and other restricted purposes.

For FY17, the $6 million net increase in restricted-expendable net position was primarily the result of a $7 million increase in endowment values mainly due to investment performance. Other notable items in the net change are a $1.2 million increase in unexpended gift balances and the use of $1.4 million for construction projects.

The **unrestricted net position** of $89 million at June 30, 2018 increased by $8 million, or 10%, from the FY17 year-end balance of $81 million. For FY17, the unrestricted net position decreased $76 million from FY16 primarily due to implementation of GASB No. 75 which resulted in a $102 million decrease in the FY17 beginning of year net position that was offset by a $12 million increase in the FY17 Change in Net Position, resulting in a $90 million decrease from the previously stated June 30, 2017 unrestricted net position.

The unrestricted net position category is not subject to externally imposed stipulations; however, these resources are critical for the financial stability of the UMS and have been designated by management for specific areas, including operational and capital needs, compensating for operating investment and other budget fluctuations, and benefits costs including covering the risks associated with self-insured plans. Given both the physical and financial size of the System, funds must be readily available to cover various situations including emergency expenditures, strategic priorities, operating losses, over-expenditures on capital or other projects, and benefits costs.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses, and Changes in Net Position reports operating revenues, operating expenses, nonoperating revenues (expenses), other changes in net position, and the resulting change in net position for the fiscal year.

Table 5 shows Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years ended June 30. The System's total net position increased $16 million in FY18, $33 million in FY17 and $6 million in FY16.

Restatement of Prior Years

As mentioned earlier on page 14, and as further described in FY18 financial statements' Notes 1b and 18, FY17 was restated to reflect application of the change in accounting principles related to OPEB. This restatement resulted in a $12 million decrease to FY17 operating expenses. Accordingly, the change in net position for FY17 (as restated) increased from $21 million to $33 million.

The FY15 financial statements' Notes 1b and 17 explain that FY14 was restated to reflect application of the change in accounting principle related to pensions. This restatement resulted in a $3 million decrease to FY14 operating expenses. Accordingly, the change in net position for FY14 (as restated) increased from $27 million to $30 million.

Table 5: Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30
(In millions)

	2018	Restated 2017	2016	2015	2014
Operating Revenues					
Net student fees	**$ 256**	**$ 245**	$ 237	$ 238	$ 243
Grants, contracts and recovery of indirect costs	**150**	**150**	148	146	156
Other operating revenues	**52**	**53**	52	52	54
Total Operating Revenues	**458**	**448**	437	436	453
Operating Expenses	**(692)**	**(668)**	(660)	(669)	(671)
Operating Loss	**(234)**	**(220)**	(223)	(233)	(218)
Nonoperating Revenues (Expenses)					
Noncapital State of Maine appropriations	**211**	**212**	201	199	198
Gifts currently expendable	**14**	**13**	17	15	14
Endowment return used for operations	**6**	**6**	6	6	5
Investment income	**7**	**10**	3	(1)	13
Interest expense, net	**(4)**	**(5)**	(5)	(5)	(6)
Net Nonoperating Revenues (Expenses)	**234**	**236**	222	214	224
Income (Loss) Before Other Changes in Net Position	**-**	**16**	(1)	(19)	6
Other Changes in Net Position					
State of Maine capital appropriations	**8**	**5**	13	11	2
Capital grants and gifts	**4**	**3**	3	4	7
Endow. return, net of amount used for operations	**3**	**8**	(8)	(6)	14
Other	**1**	**1**	(1)	1	1
Total Other Changes in Net Position	**16**	**17**	7	10	24
Change in Net Position	**$ 16**	**$ 33**	$ 6	$ (9)	$ 30

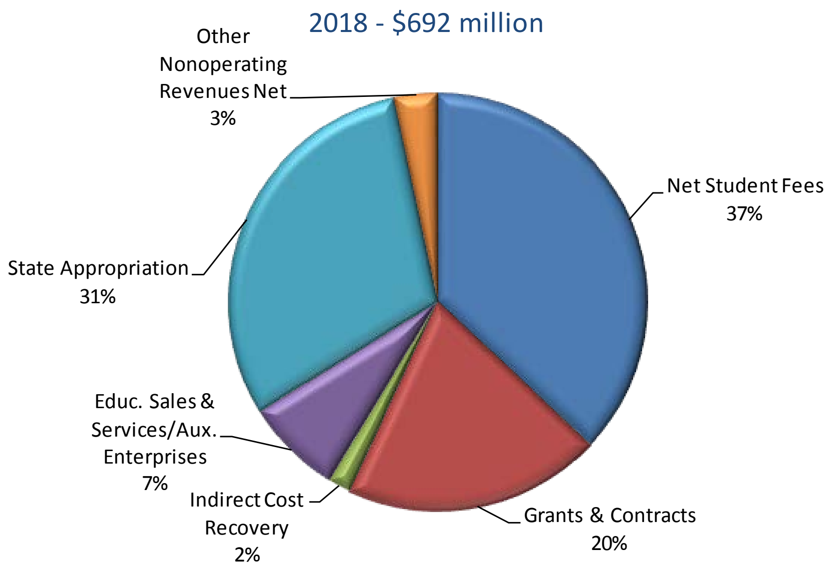
Operating and Nonoperating Revenue

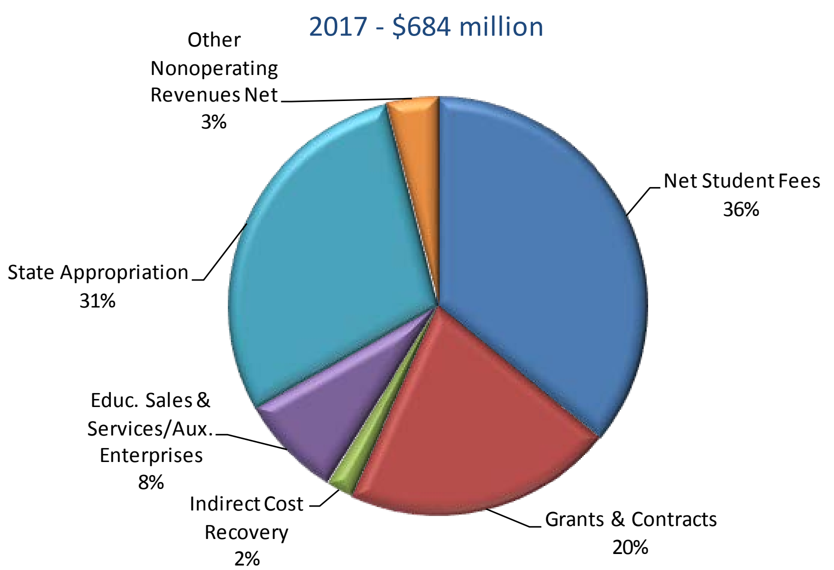
In addition to receiving tuition and fees, the System receives revenue from other sources such as governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; state appropriations; and investment income.

UMS revenues and expenses are categorized as either operating or nonoperating. Certain significant recurring revenues and expenses are considered nonoperating including state noncapital appropriations, gifts, endowment returns used for operations, investment income or loss, and interest expense.

The following pie charts illustrate the total operating and net nonoperating revenue sources used to fund the System's activities for FY18 and FY17.

CHART 8: TOTAL OPERATING AND NET NONOPERATING REVENUE





Net student fees of $256 million for FY18 are the primary source of revenues used to fund operating expenses, representing 37% of total operating and net nonoperating revenues. For FY14 through FY17, net student fees represented 36% of total operating and net nonoperating revenues.

Net student revenues are comprised of tuition and fees and residence and dining fees less scholarship allowances:

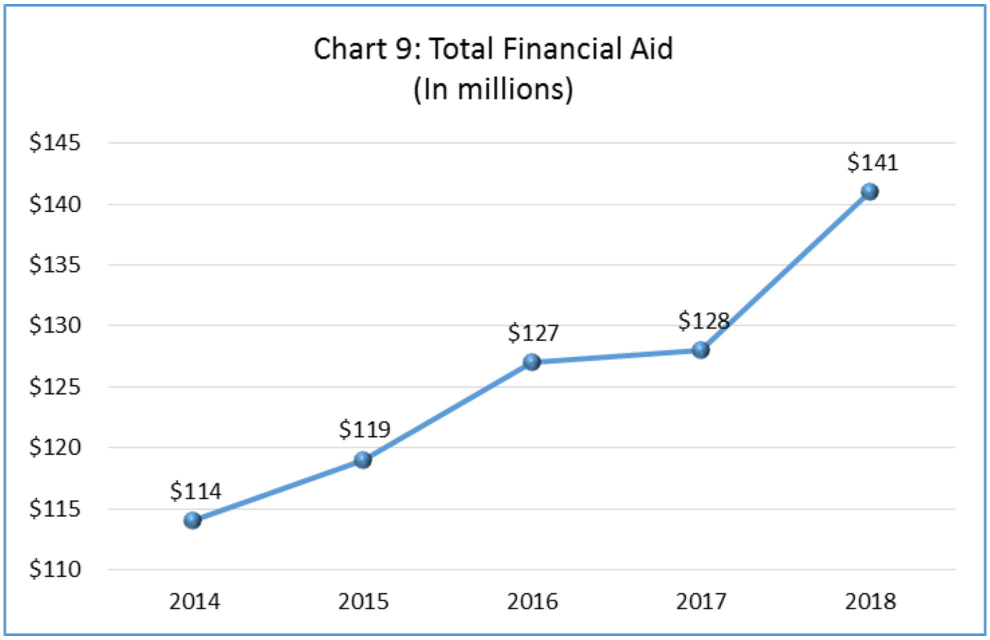
- Tuition and fees totaled $300 million in FY18, increasing $19 million (or 7%) from the prior year. FY17 revenues increased $10 million (or 4%) from FY16, and FY16 revenues increased $2 million (or almost 1%) from FY15.
- Residence and dining fees of $64 million in FY18 were up $2 million (or 3%) compared with FY17, which was up $1 million (or 2%) from FY16, while such revenues were up $3 million in FY16 (or 4%) from FY15.
- Scholarship allowances of $108 million increased $11 million (or 11%) in FY18, increased $3 million (or 3%) in FY17, and increased $6 million (or 7%) in FY16.

Student Financial Aid

Student financial aid awards are made from a variety of sources including federal, state, private, and university funds. Aid received from third parties is recognized as grants and contracts revenue on the Statements of Revenues, Expenses, and Changes in Net Position while the distribution of aid from all sources is shown as one of two components:

1. Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues.
2. Student Aid Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses. These amounts are reported as operating expense.

Federal financial aid awards are based on a student's financial need considering their total cost of education which includes tuition and fees, housing and meals (both on and off campus), books, and other personal living expenses.



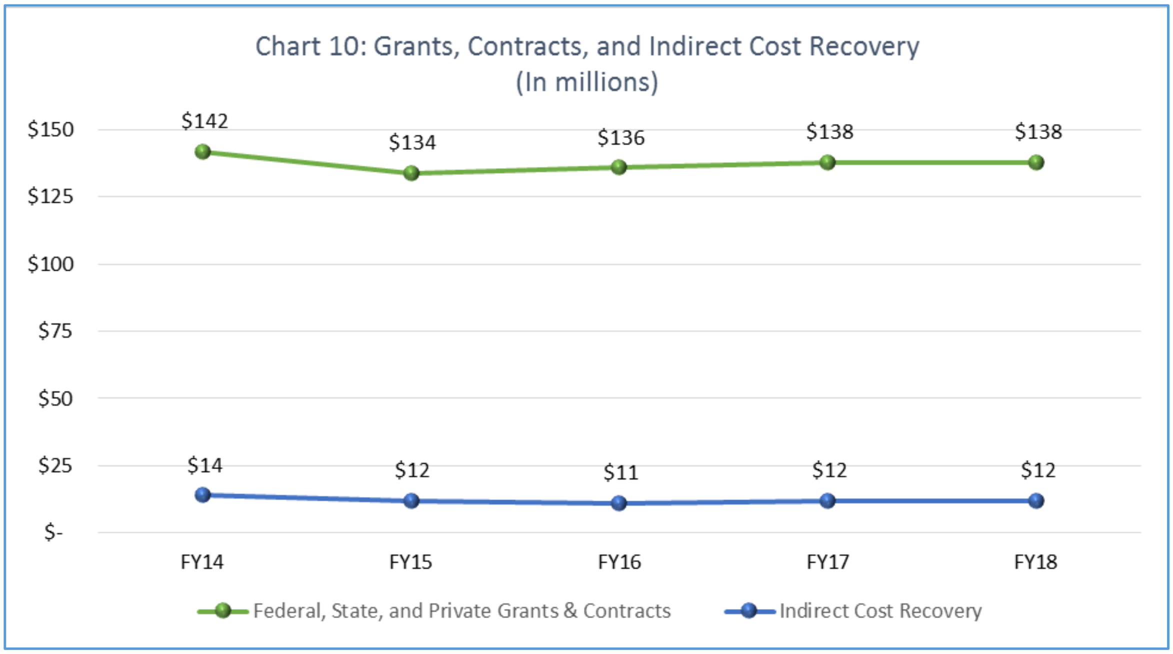
During FY18, total financial aid provided to students was $141 million, increasing $13 million, or 10%, over FY17 aid of $128 million. The increase includes an increase of $13 million in institutional unrestricted aid, an increase of $2 million in aid from the Federal Pell Grant Program, and a decrease of $2 million in State of Maine aid.

In FY17, total financial aid provided to students was $128 million, increasing $1 million, or less than 1%, over FY16 aid of $127 million. The increase includes an increase of $5 million in institutional unrestricted aid, a decrease of $2 million in institutional restricted aid, and a decrease of $3 million in aid from the Federal Pell Grant Program.

For FY16, total financial aid provided to students was $127 million, increasing $8 million, or 7%, over FY15 aid of $119 million. The increase includes an increase of $7 million in institutional unrestricted aid, an increase of $2 million in State of Maine aid, and a decrease of $1 million in aid from the Federal Pell Grant Program.

Grants, Contracts, and Indirect Cost Recovery

Grants and contracts revenues are recognized to the extent of related expenses. Consequently, reported revenues will fluctuate based on the timing of expenses across fiscal years. The System receives funding from federal, state, and private sources with the majority of funding being provided by the federal government for research activities. State research and development funding is often used to leverage federal dollars.



Total grants and contracts revenues were unchanged from the prior year, remaining at $138 million for FY18; however, the composition of these revenues did change from the prior year, as revenues from the U.S. Department of Education increased $2 million and revenues from the Maine Department of Education decreased $2 million.

Grants and contracts revenues totaled $138 million in FY17, increasing $2 million, or 1%, from FY16. This net increase is primarily due to additional funds received by NetworkMaine from the Public Utilities Commission. Reimbursed network and circuit provider costs increased $4 million from FY16 to FY17 as a result of the e-rate reimbursement flowing through NetworkMaine in FY17 rather than being paid directly to the carriers as in FY16. Additionally, Federal student financial aid experienced a decrease of $3 million in Pell revenue. Pell revenue is highly variable and is impacted by the financial status of the enrolling students as well as enrollment levels.

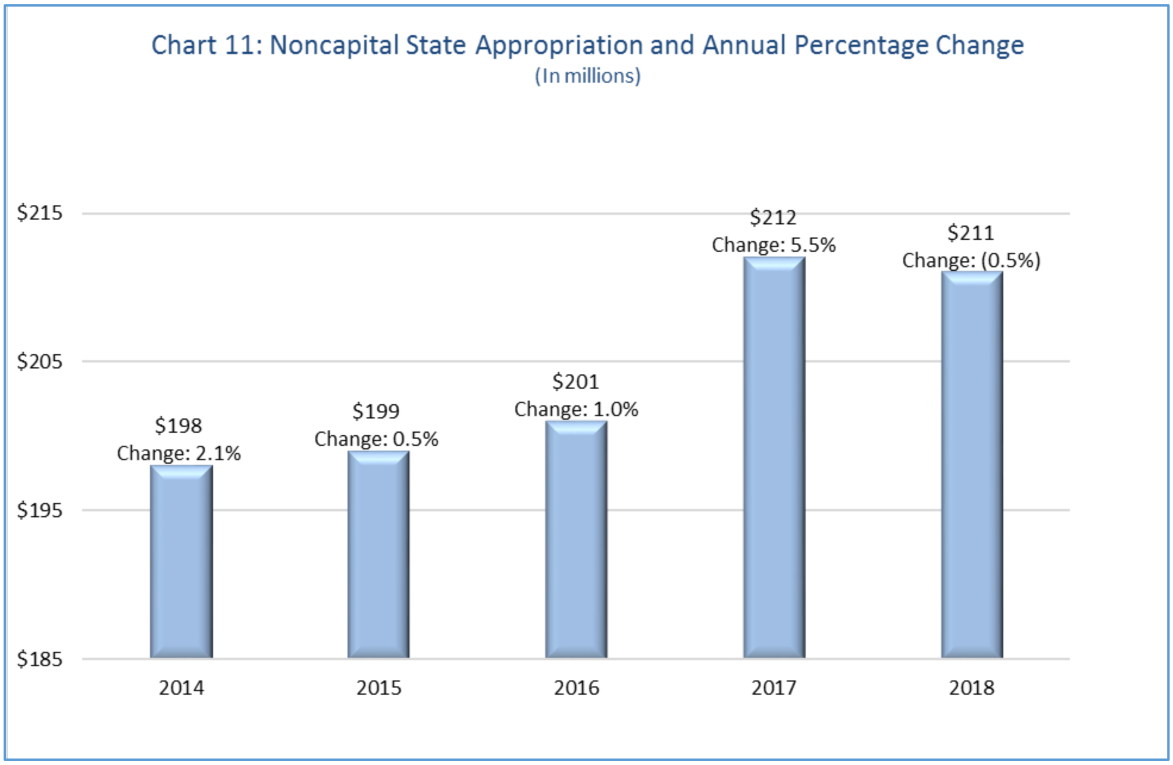
In addition to providing for direct costs, grants and contracts sponsors provide for recovery of Facilities and Administrative (F&A) costs, which are also known as indirect costs. The amount of allowable F&A costs is calculated for each grant and contract using the applicable negotiated rate subject to specific sponsor limitations and other proposal and award conditions. Recovery of indirect costs totaled $12 million for both FY18 and FY17, having increased slightly from the $11 million in FY16.

Noncapital State of Maine Appropriations

State noncapital appropriation revenue includes amounts for general operations and amounts legislatively earmarked for research and development, financial aid, and various other areas. Although not considered operating revenue under GASB reporting requirements, the noncapital state appropriation was the second largest funding source for educational and general operations behind Net Student Fees.

As shown in Chart 11, the System received $211 million in noncapital state appropriation revenue during FY18, down $1 million, or 0.5%, from FY17. The System received $212 million in noncapital state appropriation revenue during FY17, up $11 million, or 5.5%, from FY16.

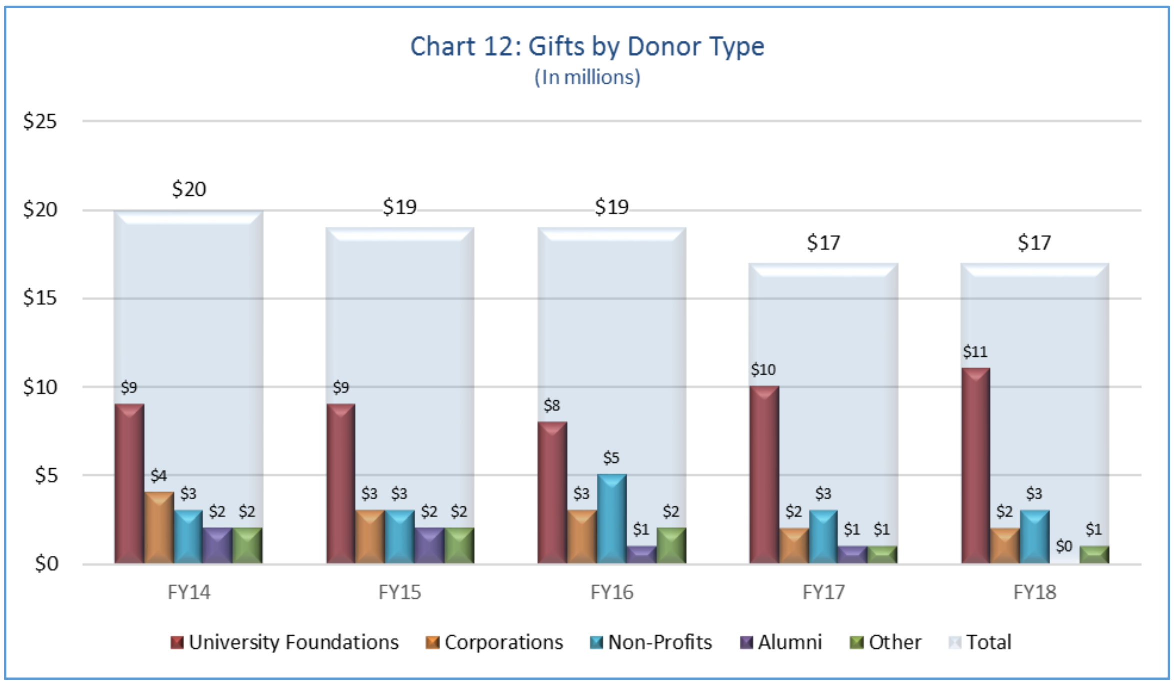
At $211 million, noncapital state appropriation revenue covered 90% of the $234 million operating loss in FY18, down from the operating loss coverage level of 96% in FY17, and consistent with the 90% level in FY16.



Cash Gifts

As shown in Chart 12, total gifts received were unchanged from the prior year, remaining at $17 million in FY18. FY18 gifts from university foundations increased $1 million while alumni gifts decreased $1 million with no change in gifts from other donor types. In FY17, gifts received decreased $2 million from the prior year. University foundations consistently contribute the most gift dollars.

Of the $17 million in gifts received in FY18, 90% were restricted, 8% were endowed, and 2% were unrestricted which was the same as FY17. Of the $19 million in gifts received in FY16, 89% were restricted, 6% were endowed, and 5% were unrestricted.



Operating Expenses

Table 6 shows expenses on a functional basis while Table 7 shows expenses by natural classification.

Table 6: Operating Expenses by Functional Classification
For the Years Ended June 30
(In millions)

	2018		Restated 2017		2016		2015		2014	
Instruction	**$ 174**	**25%**	**$ 171**	**26%**	$ 168	25%	$ 180	27%	$ 181	27%
Academic support	**74**	**11%**	**71**	**10%**	66	10%	70	10%	76	11%
Student services	**58**	**8%**	**54**	**8%**	54	8%	52	8%	49	7%
Subtotal	**306**	**44%**	**296**	**44%**	288	43%	302	45%	306	45%
Research	**76**	**11%**	**73**	**11%**	66	10%	65	10%	72	11%
Public service	**57**	**8%**	**60**	**9%**	60	9%	61	9%	60	9%
Institutional support	**64**	**9%**	**55**	**8%**	64	10%	58	9%	48	7%
Operation and maintenance of plant	**51**	**8%**	**51**	**7%**	49	7%	50	7%	51	8%
Depreciation and amortization	**40**	**6%**	**38**	**6%**	37	6%	35	5%	34	5%
Student aid	**34**	**5%**	**31**	**5%**	33	5%	31	5%	30	5%
Auxiliary enterprises	**64**	**9%**	**64**	**10%**	63	10%	67	10%	70	10%
Total Operating Expenses	**$ 692**	**100%**	**$ 668**	**100%**	$ 660	100%	$ 669	100%	$ 671	100%

Table 7: Total Expenses by Natural Classification
For the Years Ended June 30
(In millions)

	2018		Restated 2017		2016		2015		2014	
Operating:										
Compensation	**$ 310**	**45%**	**$ 302**	**45%**	$ 296	45%	$ 306	46%	$ 310	46%
Benefits	**124**	**18%**	**116**	**17%**	124	19%	130	19%	126	19%
Utilities	**30**	**4%**	**31**	**4%**	27	4%	30	4%	35	5%
Supplies and Services	**154**	**22%**	**150**	**22%**	143	21%	137	20%	136	20%
Depreciation and Amortization	**40**	**5%**	**38**	**6%**	37	5%	35	5%	34	5%
Student Aid	**34**	**5%**	**31**	**5%**	33	5%	31	5%	30	4%
Total Operating Expenses	**692**	**99%**	**668**	**99%**	660	99%	669	99%	671	99%
Nonoperating:										
Interest	**4**	**1%**	**5**	**1%**	5	1%	5	1%	6	1%
Total Expenses	**$ 696**	**100%**	**$ 673**	**100%**	$ 665	100%	$ 674	100%	$ 677	100%

Compensation and benefits expense totaled $434 million in FY18, increasing $16 million (4%) where FY17 saw a decrease of $2 million (0.5%) compared with FY16.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows examines the changes in cash position for each year of operations. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the System during the fiscal year. These statements help users assess the System's ability to generate future cash flows, its ability to meet obligations as they become due and its need for external financing.

STRATEGIC VISION AND PRIORITIES

The One University Promise

The System launched the *One University for all of Maine* promise in 2015, with the vision of seven mission-differentiated, mutually dependent campuses operating as one fully integrated university singularly focused on student success and responsive service to the State of Maine. This vision is front and center as we work to align our universities in size and in structure while understanding Maine's demographic challenges and workforce needs.

Strategic Priorities, Partnerships & Meeting the Needs of Maine

The Board of Trustees ("the Board") adopted a set of four strategic primary outcomes, which is the cornerstone that guides our work: increase enrollment; improve student success and completion; enhance the fiscal positioning of the System; and support Maine through research and economic development. The Board also identified two secondary outcomes to supplement this work: develop relevant academic programming that supports student success and meets state needs; and engage the System's employee workforce. These outcomes will guide the work of strategic resource planning through 2021.

The System continues to nurture and grow internal and external partnerships and otherwise align our efforts in support of Maine families, businesses and communities. To this end, the System:

- held in-state undergraduate tuition and unified fees flat from FY12 to FY17 and limited the increase in FY18 to just 2.6%.
- is enhancing diversity, growing enrollments, and providing opportunity for future workforce growth by adopting innovative tuition strategies to attract out-of-state students.
- is addressing a projected state-wide nursing workforce shortage with a five-year plan seeking to double nursing enrollment and bring new nursing programs to the regions of Maine with the most urgent need to replace retiring nurses. The plan will also cover tuition and mandatory fees for new, first-degree nursing education students with the greatest financial need attending certain campuses. In addition, the System plans to expand online education opportunities to provide a suite of programs for healthcare professionals.

- is developing the Maine Center for Graduate and Professional Studies to address our State's workforce challenges in innovative ways, inviting deeper engagement with Maine's employers and creating more relevant, responsive programming. The Maine Center comprises an academic consortium of graduate and professional programs working collaboratively and interactively with one another, and with the private and public sectors, to serve students, the employer community, and public organizations statewide.

ECONOMIC CONSIDERATIONS

The System routinely issues revenue bonds for its capital needs and S&P Global Ratings (S&P) reviews the credit worthiness of the System and its debt. In August 2018, S&P affirmed the System's AA- long-term rating and underlying rating on its various series of outstanding revenue bonds with a stable outlook. While the revenue bonds are secured by a broad pledge of the System's available resources, the State of Maine periodically provides debt service support. The State will provide such support starting in FY19 for $2 million and then an additional $3 million in FY20 with each commitment for 10 years, for a total of $50 million. The anticipated use of this funding is for costs associated with the construction of an Engineering Education Design Center at the University of Maine.

The Maine Legislature also overwhelmingly approved a $49 million University Workforce Development Bond for voter consideration in the fall of 2018. The bond proposal is the largest ever approved by the Legislature for the System. These funds would expand the capacity of the System to educate more students to become the nurses, engineers, educators and other in-demand professionals that the State's economy and communities need to grow and prosper. Such funding would enable the System to:

- improve and expand classrooms and labs to provide modern education and training in sectors where Maine most needs workers.
- increase student recruitment, retention and graduates who would be ready for good-paying Maine careers.
- reduce operating and maintenance costs and the System's facilities footprint.
- bring more students, jobs, investments and opportunities to our universities and communities.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	Restated 2017
Assets		
Current Assets		
Cash and cash equivalents *(Note 2)*	$ 1,528	$ 1,641
Operating investments *(Note 3)*	252,236	243,093
Accounts, grants, and pledges receivable, net *(Note 4)*	47,399	53,606
Inventories and prepaid expenses	5,637	5,391
Notes and lease receivable, net *(Note 5)*	63	63
Total Current Assets	306,863	303,794
Noncurrent Assets		
Deposits with bond trustees *(Notes 3 and 6)*	14,828	20,997
Accounts, grants and pledges receivable, net *(Note 4)*	738	3,193
Notes and leases receivable, net *(Note 5)*	40,060	41,288
Endowment investments *(Note 3)*	154,114	146,807
Capital assets, net *(Note 6)*	700,043	700,367
Irrevocable split interest agreements	1,673	1,602
Total Noncurrent Assets	911,456	914,254
Total Assets	1,218,319	1,218,048
Deferred Outflows of Resources *(Note 15)*	12,571	14,000
Total Assets and Deferred Outflows of Resources	**$ 1,230,890**	**$ 1,232,048**
Liabilities		
Current Liabilities		
Accounts payable	$ 16,791	$ 16,703
Unearned revenue and deposits *(Note 8)*	9,513	10,861
Accrued liabilities - current portion *(Notes 7, 11 and 13)*	25,979	25,042
Funds held for others - current portion	2,016	1,806
Long-term debt - current portion *(Note 7)*	13,958	14,931
Total Current Liabilities	68,257	69,343
Noncurrent Liabilities		
Accrued liabilities *(Notes 7, 11, 13 and 14)*	127,624	129,029
Funds held for others *(Note 3)*	22,887	20,475
Long-term debt *(Note 7)*	147,664	160,871
Government advances refundable *(Note 9)*	29,502	29,464
Total Noncurrent Liabilities	327,677	339,839
Total Liabilities	395,934	409,182
Deferred Inflows of Resources *(Note 15)*	21,283	25,027
Net Position		
Net investment in capital assets *(Note 10)*	550,658	543,984
Restricted		
Nonexpendable *(Note 10)*	59,459	58,696
Expendable *(Notes 3 and 10)*	114,988	113,507
Unrestricted *(Notes 3 and 10)*	88,568	81,652
Total Net Position	813,673	797,839
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 1,230,890**	**$ 1,232,048**

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF FINANCIAL POSITION – DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	2017
Assets		
Cash and cash equivalents	$ 2,727	$ 2,268
Other receivables	100	119
Promises to give, less allowance for uncollectible pledges of $140 and $70, respectively	10,901	1,397
Short-term investments	5,201	3,157
Cash surrender value of life insurance	153	157
Long-term investments, endowment	220,679	203,012
Long-term investments, life income plans	5,054	4,995
Notes receivable	150	227
Equity in Buchanan Alumni House	2,684	2,682
Investment real estate	5,877	5,767
Property and equipment, net of accumulated depreciation of $273 and $213, respectively	160	207
Other assets	577	439
Irrevocable trusts	8,308	8,515
Total Assets	**$ 262,571**	**$ 232,942**
Liabilities		
Accounts payable	$ 469	$ 287
Distributions due income beneficiaries	1,933	1,902
Accrued expenses	765	589
Notes payable	-	99
Custodial accounts payable	3,192	3,066
Total Liabilities	6,359	5,943
Net Assets		
Unrestricted net assets	11,613	9,943
Temporarily restricted net assets	82,202	59,743
Permanently restricted net assets	162,397	157,313
Total Net Assets	256,212	226,999
Total Liabilities and Net Assets	**$ 262,571**	**$ 232,942**

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	Restated 2017
Operating Revenues		
Tuition and fees	$ 299,827	$ 280,611
Residence and dining fees	63,842	62,222
Less: scholarship allowances	(107,561)	(97,344)
Net student fees	256,108	245,489
Federal, state and private grants and contracts	137,699	137,529
Recovery of indirect costs	12,264	12,333
Educational sales and services and other revenues	34,493	34,345
Other auxiliary enterprises	17,455	18,476
Total Operating Revenues	458,019	448,172
Operating Expenses		
Instruction	174,198	170,901
Research	76,005	73,175
Public service	57,586	59,950
Academic support	73,956	71,101
Student services	57,538	53,983
Institutional support	63,822	55,121
Operation and maintenance of plant	50,970	50,638
Depreciation and amortization *(Note 6)*	39,768	37,914
Student aid	33,797	31,007
Auxiliary enterprises	64,471	64,469
Total Operating Expenses	692,111	668,259
Operating Loss	(234,092)	(220,087)
Nonoperating Revenues (Expenses)		
Noncapital State of Maine appropriations	210,979	212,036
Gifts currently expendable	14,172	12,671
Endowment return used for operations *(Note 3)*	6,204	6,280
Investment income *(Note 3)*	6,490	9,455
Interest expense, net *(Note 7)*	(4,341)	(4,658)
Net Nonoperating Revenues (Expenses)	233,504	235,784
Income (Loss) Before Other Changes in Net Position	(588)	15,697
Other Changes in Net Position		
State of Maine capital appropriations	8,029	5,148
Capital grants and gifts	4,370	3,276
Endowment return, net of amount used for operations *(Note 3)*	3,086	7,358
True and quasi endowment gifts	1,380	1,313
Gain (Loss) on disposal of capital assets	(443)	1
Total Other Changes in Net Position	16,422	17,096
Change in Net Position	**15,834**	**32,793**
Net Position - Beginning of the Year - As Restated (Note 18)	797,839	765,046
Net Position - End of Year	$ 813,673	$ 797,839

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF ACTIVITIES – DISCRETELY PRESENTED COMPONENT UNIT
YEAR ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2017 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Revenues, Gains, Losses, and Reclassification					
Contributions	$ 5,222	$ 15,818	$ 5,099	$ 26,139	$ 10,362
Advancement services	3,696	-	-	3,696	4,649
Investment income and other revenue	875	15,165	81	16,121	23,483
Reinvestment of donor funds	-	457	(457)	-	-
Net assets released from restrictions	8,620	(8,981)	361	-	-
Total Revenues, Gains, Losses, and Reclassification	18,413	22,459	5,084	45,956	38,494
Expenses and Losses					
Program services	12,817	-	-	12,817	10,425
Management and general	1,365	-	-	1,365	1,300
Fundraising	2,561	-	-	2,561	2,461
Total Expenses	16,743	-	-	16,743	14,186
Change in Net Assets	**1,670**	**22,459**	**5,084**	**29,213**	**24,308**
Net Assets - Beginning of Year	9,943	59,743	157,313	226,999	202,691
Net Assets - End of Year	$ 11,613	$ 82,202	$ 162,397	$ 256,212	$ 226,999

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

	2018	Restated 2017
Cash Flows From Operating Activities		
Tuition, residence, dining, and other student fees	$ 253,012	$ 245,031
Grants and contracts	152,123	148,933
Educational sales and services and other auxiliary enterprise revenues	51,173	53,834
Payments to and on behalf of employees	(430,443)	(424,889)
Financial aid paid to students	(40,156)	(37,529)
Payments to suppliers	(183,601)	(178,971)
Loans issued to students	(4,888)	(6,599)
Collection of loans to students	5,748	5,571
Net Cash Used for Operating Activities	(197,032)	(194,619)
Cash Flows From Noncapital Financing Activities		
State appropriations	210,979	212,036
Noncapital grants and gifts	18,082	13,589
Agency transactions	5,701	4,740
Net Cash Provided by Noncapital Financing Activities	234,762	230,365
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt issuances	65	21,108
Capital appropriations	9,972	3,801
Capital grants and gifts	1,360	4,598
Proceeds from sale of capital assets	140	1
Acquisition and construction of capital assets	(34,425)	(27,933)
Principal paid on capital debt and leases	(12,841)	(10,007)
Interest paid on capital debt and leases	(6,540)	(6,564)
Net Cash Used for Capital and Related Financing Activities	(42,269)	(14,996)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	697,973	673,488
Purchases of investments	(699,361)	(698,696)
Earnings from investments	5,814	4,801
Net Cash Provided by (Used for) Investing Activities	4,426	(20,407)
Net Increase (Decrease) in Cash and Cash Equivalents	(113)	343
Cash and Cash Equivalents - Beginning of Year	1,641	1,298
Cash and Cash Equivalents - End of Year	**$ 1,528**	**$ 1,641**

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

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

	2018	Restated 2017
Operating Loss	$ (234,092)	$ (220,087)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	39,768	37,914
Changes in assets and liabilities:		
Accounts and grants receivable, net	1,921	773
Inventories and prepaid expenses	(246)	(39)
Notes receivable, net	1,165	(549)
Deferred outflows related to pensions	839	196
Deferred outflows related to OPEB	296	(5,170)
Accounts payable	(1,137)	748
Unearned revenue and deposits	(1,366)	188
Accrued liabilities	(403)	(26,385)
Grants refundable	38	(304)
Deferred inflows related to pensions	(114)	319
Deferred inflows related to OPEB	(3,251)	17,668
Deferred inflows related to dining contract	(450)	109
Net Cash Used for Operating Activities	**$ (197,032)**	**$ (194,619)**

Noncash investing, capital, and financing activities:

	2018	2017
Capital asset additions included in accounts payable and accrued liabilities as of June 30	$ 4,451	$ 3,233
Capital asset additions acquired through long-term debt	$ 644	$ -
Refunding of debt through new bond issuance	$ -	$ 13,245
Capital asset additions acquired through service concession arrangement	$ 1,785	$ 2,291

See accompanying notes to the basic financial statements.

UNIVERSITY OF MAINE SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017 (IN THOUSANDS)

1. SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The University of Maine System ("the System"), a discretely presented component unit of the State of Maine, consists of seven universities, eight 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 unit, the University of Maine Foundation, which is a not-for-profit entity controlled by a separate governing board whose goal is to support the System (see Note 16). The component unit receives funds primarily through donations and contributes 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 U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

Under the System's policy, operating activities in the Statements of Revenues, Expenses, and Changes in Net Position are those that generally result from exchange transactions such as payments received for services and payments made for the purchase of goods and services and certain grants. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* These nonoperating activities include the System's noncapital appropriations from the State of Maine, gifts currently expendable, endowment return used for operations, net investment income, and interest expense.

In FY18, the System adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75). This statement addresses accounting and financial reporting related to the System's postemployment health plan, or OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures.

Under GASB No. 75, the actuarially determined net OPEB liability is reported in full as a liability in the Statements of Net Position and certain items that were previously reported as assets and liabilities are reported as outflows of resources or inflows of resources in the year incurred or received. The System adopted the provisions of GASB No. 75 retroactive to July 1, 2016, and has restated its FY17 financial statements in accordance with the provisions of GASB No. 75. The adoption of GASB No. 75 is described further in Note 18.

In FY18, the System adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB No. 81). This statement addresses the accounting and financial reporting related to the System's irrevocable split-interest agreements which are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries. This statement establishes standards for recognizing and measuring assets, deferred inflows of resources, and revenues. The System adopted the provisions of GASB No. 81 retroactive to July 1, 2016, and has restated the accompanying FY17 Statements of Net Position and these notes to include an irrevocable split-interest agreement asset and related deferred inflow of resources.

Also, in FY18, the System early adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB No. 89) which was otherwise effective for periods beginning after December 15, 2019. GASB No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred rather than capitalized as part of the historical cost of the constructed asset. Implementation of GASB No. 89 is prospective; therefore, restatement of the FY17 data included in these notes and the accompanying financial statements is not required.

c. Net Position

The System's net position (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) is classified for accounting purposes in the following four categories:

> **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. It also includes the premiums/discounts related to the outstanding debt. This category excludes the portion of debt attributable to unspent bond proceeds.
>
> **Restricted – nonexpendable:** Net position subject to externally imposed conditions that the System maintain them in perpetuity. Such net position includes the historical gift value of restricted true endowment funds. In the event that market fluctuations have caused the fair value of an endowment to fall below corpus, the related net position is valued at the lower fair value amount.
>
> **Restricted – expendable:** Net position subject to externally imposed conditions that can be fulfilled by the actions of the System or by the passage of time. Such net position includes the accumulated net gains on true endowment funds, restricted gifts and income, and other similarly restricted funds.
>
> **Unrestricted:** All other categories of net position. Unrestricted net position may be committed 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

All investments are reported at fair value except for the state pool, which is reported at amortized cost. System management is responsible for the fair measurement of investments reported in the financial statements. The System has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the Statements of Net Position dates are reasonable.

Third party investments: Three outside entities, the UMS Other Post Employment Benefit (OPEB) Trust, Maine Maritime Academy and the University of Maine School of Law Foundation, pool monies with the System's endowment pool. Investment performance results of these pooled monies are allocated on a pro rata basis based on the number of pool shares held by each entity. Contributions to and withdrawals from the pool are allowed only on the first business day of a calendar quarter. Investment of these monies follows guidelines approved by the System's Board of Trustees Investment Committee. These guidelines are further disclosed in the remainder of this Note and Note 3 to these financial statements as part of the discussion of endowments.

Endowment: The System follows the pooled investment concept for its endowed funds, whereby all invested funds are included in one pool, except for funds that are separately invested as directed by the donor. Investment income is allocated to each endowed fund in the pool based on its pro rata share of the pool.

The income produced by the fund, including realized and unrealized gains, can be used to meet the spending objective. As determined by policy, the expendable income objective was 4.5% for FY18 and FY17. The percentage was applied to a 3-year market value average to determine expendable income.

Under State of Maine law, subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. The System's policy is to spend endowment appreciation to the extent of the approved annual spending rate while not invading corpus. The return (loss) net of the amount used for operations is presented as Other Changes in Net Position in the Statements of Revenues, Expenses and Changes in Net Position.

Authorized Investment Vehicles - Operating Investments: The System has a three-tiered approach regarding its operating investments:

- **Liquidity Pool** – The purpose of this pool is to meet the day-to-day obligations of the System. It consists of funds that are invested in a portfolio of highest quality short-term fixed-income securities (e.g., Treasury obligations, agency securities, repurchase agreements, money market funds, commercial paper, and/or short-term bond mutual funds) with adequate liquidity. The average quality of the pool will be rated at least “A-1” by Standard and Poor’s (or equivalent).

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

- **Income Pool** – The purpose of this pool is to provide sufficient income to meet budgetary goals and provide additional diversification to minimize downside risk. This pool invests in a diversified portfolio which may include items such as, but not limited to, fixed income securities, Federal Deposit Insurance Corporation insured or adequately collateralized certificates of deposit (CDs), or unconstrained, short or intermediate term bond funds with a normal average duration of -2 to 7 years. The pool may invest in funds rated from BB to AAA quality. The overall average quality rating of this pool will be at least “A-” by Standard and Poor’s (or equivalent).
- **Total Return Pool** – This pool is expected to add diversification and growth to the portfolio and may invest in diversified assets made up of, but not limited to, equities, hedge funds, and global asset allocation mandates.

Authorized Investment Vehicles - Endowment Investments: The fund is 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 ranges were applicable as of June 30, 2018 and 2017:

	2018	2017
Equity securities	35-55%	35-55%
Fixed income securities	13-29%	13-23%
Other	24-44%	27-47%
Cash	0-10%	0-10%

Authorized Investment Vehicles - Deposits with Bond Trustees: These monies are invested in accordance with the governing bond resolutions and arbitrage certificates.

f. Inventories

Inventories are stated at cost. Cost is determined using the first-in, first-out method or the average-cost 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. Gifts and bequests to be used for endowment purposes are categorized as endowment gifts. Other gifts are categorized as currently expendable. Pledges receivable are reported net of amounts deemed uncollectible and after discounting to the present value of the expected future cash flows. Since the System cannot fulfill the time requirement for gifts to endowments until the gift is received, pledges to endowments are not reported. 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 grants and contracts and capital appropriations at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

i. Capital Assets

Capital assets which include property, plant, equipment, intangible assets and library holdings are recorded at cost when purchased or constructed and at fair value at date of donation. Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred; major renewals and replacements are capitalized.

Prior to July 1, 2003, library materials were generally capitalized and depreciated over a ten-year period. Effective July 1, 2003, the System began to expense library materials as incurred. The System 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.
- Proceeds from sale of works of art and historical treasures are to be used to acquire other items for the collections.

A capitalization threshold of $50 is used for buildings, building additions and improvements, land improvements and internally generated intangibles. Equipment (including equipment acquired under capital leases) and purchased software are capitalized with a unit cost of $5 or more. These assets, with the exception of land, are depreciated and amortized using the straight-line basis over the estimated useful lives of the related assets, which range from 4 to 60 years.

j. Irrevocable Split-Interest Agreements

The System's irrevocable split-interest agreements consist of the System's remainder interest in trusts held by third parties. The System reports these irrevocable split-interest agreements as assets and deferred inflows of resources when it becomes aware of the agreement and has sufficient information to measure its beneficial interest. The System recognizes the annual change in the fair values of the split interest agreements as an increase or decrease in the asset and the related deferred inflows of resources. The System will recognize revenue at the termination of the agreement, as stipulated in the irrevocable split-interest agreement. Also, at the termination of the agreement, the split-interest asset and the related deferred inflow of resources will be eliminated.

k. Unearned Revenue and Deposits

Unearned revenue and deposits in the Statements of Net Position consists primarily of grant and contract advances and deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. Unearned revenue for summer programs is presented net of related expenses (e.g., student aid).

l. Compensated Absences

Employees earn the right to be compensated during absences for annual vacation leave. The accompanying Statements of Net Position reflect an accrual for the amounts earned, including related benefits ultimately payable. 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.

m. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources are the consumption of assets or increase in liabilities that is applicable to future reporting periods. Deferred outflows of resources are presented separately after Total Assets in the Statements of Net Position.

The System's deferred outflows consist of:

1. The difference between the reacquisition price and the carrying value of refunded revenue bonds. These amounts are to be recognized as a component of interest expense over the shorter of the remaining life of the refunded bonds or the life of the new bonds.
2. Assumption and experience changes and net investment losses that increase the pension and OPEB liabilities. These amounts are to be recognized as components of pension and postemployment health expense in future reporting periods.

Deferred inflows of resources are the acquisition of assets or reduction of liabilities that is applicable to future reporting periods. Deferred inflows of resources are presented separately after Total Liabilities in the Statements of Net Position.

The System's deferred inflows of resources consist of:

1. Assumption and experience changes and net investment gains that reduce the pension and OPEB liabilities. These amounts are to be recognized as components of pension and postemployment health expense in future reporting periods.
2. The unamortized balances of a service concession arrangement with Sodexo America, LLC that provided the System with equipment, facility improvements, and a signing bonus. These amounts will be recognized as revenue over the life of the agreement.

3. An offsetting credit to the fair value of the System's remainder interest in irrevocable split-interest agreements. These deferrals will be recognized as gift income at the termination of the split-interest agreement.

n. 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 student aid expense.

o. Tax Status

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

p. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

2. CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. Deposits are considered uninsured if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the System's name. The System's policy is that with the exception of daily operating cash, it will carry no deposits that are uncollateralized or uninsured. As of June 30, 2018 and 2017, bank balances with uninsured or uncollateralized operating cash deposits were $1,354 and $1,587, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. INVESTMENTS

a. Composition and Fair Value Measurements

Composition and Purpose of Investments:

The System uses a pooled investment approach for its endowments (including Affiliates' endowments invested with the System) unless otherwise required by the donor. As previously noted, three outside entities - the UMS OPEB Trust, Maine Maritime Academy, and the University of Maine School of Law Foundation - pool monies for investment purposes with the System's endowment. Investment policies and strategies are determined for this combined Managed Investment Pool (MIP). Fair values, credit ratings, and interest rate risk for the entire investment pool are presented below under 'endowment' investments. The amount held for the three outside entities is then deducted to show only the amount of the System's endowment investment.

Operating Investments: The System's operating investments are available to fund operations or other purposes as determined by System management.

Endowment Investments: Except for certain gifts invested separately at the request of the donors ($428 and $384 at June 30, 2018 and 2017, respectively), the System's endowment is managed as a pooled investment fund using external investment managers. The University of Maine at Fort Kent Foundation, the University of Southern Maine Foundation, and the John L. Martin Scholarship Fund, Inc. participate in the System's endowment pool through a management agreement. The fair values of the investments held for these affiliated organizations at June 30, 2018 and 2017, respectively are $22,883 and $20,475, and are reported as funds held for others in the accompanying Statements of Net Position.

Endowed gifts are invested to generate income to be used to fund various activities such as scholarships and research as specified by the donors. The total endowment accumulated net income and appreciation available to the System for spending is as follows at June 30:

	2018	2017
Restricted - expendable	$55,678	$52,688
Unrestricted	16,012	14,825
Total available for spending	$71,690	$67,513

Deposits with Bond Trustees: Deposits with bond trustees are composed of unexpended revenue bond proceeds.

Fair Value Measurements:

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the entity's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB No. 72 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, and describes three levels of inputs that may be used to measure fair value:

Level 1. Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access as of the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgement.

Level 2. Valuations based on significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilites, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement. They reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The above hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the hightest priority to level 1 measurements and the lowest priority to level 3 measurements. Investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The System measures the fair value of investments in certain entities that do not have a quoted market price at the calculated NAV per share or its equivalent. As these investments are not readily marketable the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The System's investments were composed of the following at June 30, 2018:

		Fair Value Measurements Using:					
	Total	Level 1	Level 2	Level 3	Credit Rating	Interest Rate Risk	
Operating Investments:							
Equities:							
Multi-strategy funds	$ 57,053	$ 57,053	$ -	$ -			
Fixed income funds:							
Bonds	125,999	48,729	77,270	-	Not rated	1.81-7.8 years	Duration
Money markets	22,290	22,290	-	-	Not rated	23-25 days	Weighted Average Maturity
Total operating investments by fair value level	**205,342**	**$ 128,072**	**$ 77,270**	**$ -**			
Operating investments measured at NAV							
Equities: Multi-Strategy	14,817						
Bank loans	18,704				Not rated	.10 years	Duration
Total operating investments measured at NAV	33,521						
Total operating investments measured at fair value plus NAV	238,863						
State pool measured at amortized cost	13,373				Not rated	.45 years	Duration
Total operating investments	**$ 252,236**						
Deposits with Bond Trustees:							
Bonds and money markets	**$ 14,828**	**$ 14,828**	**$ -**	**$ -**	Not rated	23-25 days	Weighted Average Maturity
Endowment Investments:							
MIP investments:							
Equities:							
Equity securities	$ 9,935	$ 9,935	$ -	$ -			
Equity funds	131,788	131,788	-	-			
Multi-strategy funds	68,014	68,014	-	-	Not rated	Not rated	
Fixed income funds:							
Money markets	14	14	-	-	Not rated	22 days	Weighted Average Maturity
Bonds	50,593	34,187	16,406	-	Not rated	2.28-7.8 years	Duration
Real assets	2,717	-	-	2,717	Not rated	Not rated	
Total MIP investments by fair value level	**263,061**	**$ 243,938**	**$ 16,406**	**$ 2,717**			
MIP investments measured at NAV							
Multi-strategy funds	38,655						
Bank Loans	15,883				Not rated	2 months	Duration
Total MIP investments measured at NAV	54,538						
Total MIP investments measured at fair value plus NAV	317,599						
Less portion held on behalf of outside entities	(167,680)						
Endowment portion of MIP investments	149,919						
Separately invested assets	4,195	$ 4,195	$ -	$ -			
Total endowment investments measured at fair value	**$ 154,114**						

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Additional disclosures for investments measured at NAV at June 30, 2018:

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
Operating Investments:			
Equities: Multi-strategy [1]	$ 14,817	Monthly, Quarterly	60, 90 days
Bank loans [2]	18,704	Bi-monthly	15 days
Total operating investments measured at NAV	**$ 33,521**		
Endowment Investments:			
MIP investments measured at NAV			
Multi-strategy funds [1]			
(includes unfunded commitments of $1,642)	$ 38,655	Monthly, Quarterly	30, 45, 60, 90 days
Bank loans [2]	15,883	Monthly	30 days
Total pooled investments measured at NAV	54,538		
Less portion held on behalf of outside entities	(28,794)		
Total endowment investments measured at NAV	**$ 25,744**		

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The System's investments were composed of the following at June 30, 2017:

	Total	Level 1	Level 2	Level 3	Credit Rating	Interest Rate Risk	
		Fair Value Measurements Using:					
Operating Investments:							
Equities:							
Multi-strategy funds	$ 44,393	$ 30,473	$ 13,920	$ -			
Fixed income funds:							
Bonds	116,854	39,804	77,050	-	Not rated	1.83-8.0 years	Duration
Money markets	45,139	45,139	-	-	Not rated	28-34 days	Weighted Average Maturity
Total operating investments by fair value level	**206,386**	**$ 115,416**	**$ 90,970**	**$ -**			
Operating investments measured at NAV							
Equities: Multi-Strategy	13,443						
Bank loans	18,075				Not rated	.10 years	Duration
Total operating investments measured at NAV	31,518						
Total operating investments measured at fair value plus NAV	237,904						
State pool measured at amortized cost	5,189				Not rated	.67 years	Duration
Total operating investments	**$ 243,093**						
Deposits with Bond Trustees:							
Bonds and money markets	**$ 20,997**	**$ 20,997**	**$ -**	**$ -**	Not rated	28-34 days	Weighted Average Maturity
Endowment Investments:							
MIP investments:							
Equities:							
Equity securities	$ 9,460	$ 9,460	$ -	$ -			
Equity funds	132,595	132,595	-	-			
Multi-strategy funds	64,416	64,416	-	-	Not rated	Not rated	
Fixed income funds:							
Money markets	8,550	8,550	-	-	Not rated	24 days	Weighted Average Maturity
Bonds	37,538	22,722	14,816	-	Not rated	4.29-8.0 years	Duration
Real assets	5,125	-	-	5,125	Not rated	Not rated	
Total MIP investments by fair value level	**257,684**	**$ 237,743**	**$ 14,816**	**$ 5,125**			
MIP investments measured at NAV							
Multi-strategy funds	23,685						
Bank Loans	14,470				Not rated	0.9 years	Duration
Total MIP investments measured at NAV	38,155						
Total MIP investments measured at fair value plus NAV	295,839						
Less portion held on behalf of outside entities	(151,880)						
Endowment portion of MIP investments	143,959						
Separately invested assets	2,848	$ 2,848	$ -	$ -			
Total endowment investments measured at fair value	**$ 146,807**						

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Additional disclosures for investments measured at NAV at June 30, 2017:

	Fair Value	Redemption Frequency (If Currently Eligible)	Redemption Period Notice
Operating Investments:			
Equities: Multi-strategy [1]	$13,443	Monthly, Quarterly	60, 90 days
Bank loans [2]	18,075	Bi-monthly	15 days
Total operating investments measured at NAV	**$31,518**		
Endowment Investments:			
MIP investments measured at NAV			
Multi-strategy funds [1]			
(includes unfunded commitments of $2,629)	$23,685	Monthly, Quarterly	30, 45, 60, 90 days
Bank loans [2]	14,470	Monthly	30 days
Total pooled investments measured at NAV	38,155		
Less portion held on behalf of outside entities	(19,588)		
Total endowment investments measured at NAV	**$18,567**		

Additional information for investments measured at NAV at June 30, 2018 and 2017 is as follows:

[1] Multi-strategy funds: Includes investments in equities and limited partnerships. Limited partnerships may invest in pooled vehicles in global equities, fixed income instruments, currencies, commodities; long and short positions with respect to bonds, leveraged loans, trade claims and other investments; or other hedge funds with objectives to outperform certain benchmarks. Fair values of these investments are completed on a monthly or quarterly basis using other significant direct or indirect observable inputs or recent observable transaction information for similar investments. Includes investments in liquidation status awaiting final distributions.

[2] Bank loans: Investments in these funds include floating rate loans in a diverse set of industries and are traditionally rated below investment grade. Other observable inputs determine fair value of this investment.

b. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's policy for managing interest rate risk is as follows:

Operating Investments: To limit interest rate exposure, the System diversifies its investments as specified in Note 1.e.

Endowment Investments: To limit interest rate exposure, the endowment investment policy restricts the average effective duration of the fixed income portfolio to no more than 1 year from the duration of the applicable benchmark (e.g., the Barclays Capital Aggregate Bond Index was 6.05 years and 6.02 years at June 30, 2018 and 2017, respectively).

c. Foreign Currency Risk

Operating Investments: The System's operating investments include various fixed income, equity, and hedge fund holdings which have foreign currency exposure, with some funds hedging against foreign currency risk. Portfolio foreign currency exposure was $17,993 and $13,918 at June 30, 2018 and 2017, respectively.

Endowment Investments: The System's endowments are invested in the System MIP. The MIP invests in various fixed income, equity, and hedge funds which have foreign currency exposure, with some funds hedging against foreign currency risk. The endowment investments share of the foreign currency exposure in the MIP was $44,591 and $48,773 at June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

d. Investment Income (Loss)

Income (loss) related to the System's investments is as follows:

2018

	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Income (Loss)
Endowment investment income and fees	$ 7,871	$ 2,023	$ (973)	$ 8,921
Net loss allocated to affiliates				369
System endowment net income				$ 9,290
Reported as endowment return used for operations				$ 6,204
Reported as endowment return, net of amount used for operations				3,086
System endowment income				$ 9,290
Operating investments	$ 1,040	$ 6,371	$ (1,125)	$ 6,286
Perkins savings account	-	3	-	3
Deposits with bond trustees	-	201	-	201
Total other investment income (loss)	$ 1,040	$ 6,575	$ (1,125)	$ 6,490

2017

	Net Gains (Losses)	Interest and Dividends	Investment Fees	Net Income (Loss)
Endowment investment income and fees	$13,038	$ 2,168	$ (903)	$ 14,303
Net income allocated to affiliates				(665)
System endowment net income				$ 13,638
Reported as endowment return used for operations				$ 6,280
Reported as endowment return, net of amount used for operations				7,358
System endowment income				$ 13,638
Operating investments	$ 5,114	$ 5,369	$ (1,051)	$ 9,432
Perkins savings account	-	2	-	2
Deposits with bond trustees	-	21	-	21
Total other investment income (loss)	$ 5,114	$ 5,392	$ (1,051)	$ 9,455

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

4. ACCOUNTS, GRANTS, AND PLEDGES RECEIVABLE

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

	2018			Restated 2017		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Student and other accounts receivable	$37,568	$37,167	$ 401	$38,016	$37,647	$ 369
Grants receivable	18,327	18,208	119	23,632	21,570	2,062
Pledges receivable	571	330	241	1,979	1,160	819
Total gross receivables	56,466	55,705	761	63,627	60,377	3,250
Less allowance for doubtful accounts	(8,309)	(8,306)	(3)	(6,778)	(6,771)	(7)
Less discount on pledges receivable	(20)	-	(20)	(50)	-	(50)
Total receivables, net	$48,137	$47,399	$ 738	$56,799	$53,606	$ 3,193

In accordance with GASB Statement No. 35, grants receivable related to the acquisition of capital assets is reported as a noncurrent receivable even though collection is expected within the next twelve months.

5. NOTES AND LEASES RECEIVABLE

Notes and leases receivable include the following at June 30:

	2018			2017		
	Total	Current Portion	Noncurrent Portion	Total	Current Portion	Noncurrent Portion
Perkins loans	$ 28,583	$ -	$ 28,583	$ 30,257	$ -	$ 30,257
Nursing loans	2,344	-	2,344	2,001	-	2,001
Institutional loans	10,203	-	10,203	9,960	-	9,960
Lease receivable **(a)**	689	63	626	751	63	688
Total notes and leases receivable	41,819	63	41,756	42,969	63	42,906
Less allowance for doubtful accounts	(1,696)	-	(1,696)	(1,618)	-	(1,618)
Total notes and leases receivable, net	$ 40,123	$ 63	$ 40,060	$ 41,351	$ 63	$ 41,288

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

(a) Lease receivable consists of a lease with the University of New Hampshire, secured by equipment with monthly payments of $5, including interest at 4.85% per annum. The lease matures in 2029.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	$ 17,895	$ -	$ 481	$ -	$ 18,376
Library materials	25,686	-	-	-	25,686
Construction in progress	18,929	32,465	(28,065)	(225)	23,104
Total nondepreciable assets	62,510	32,465	(27,584)	(225)	67,166
Land improvements	57,341	-	7,453	(55)	64,739
Buildings & improvements	896,762	-	16,966	(1,621)	912,107
Equipment	142,852	7,436	2,906	(116)	153,078
Software	32,652	120	259	-	33,031
Total depreciable assets	1,129,607	7,556	27,584	(1,792)	1,162,955
Less accumulated depreciation:					
Land improvements	37,228	2,215	-	(38)	39,405
Buildings & improvements	339,946	24,120	-	(1,344)	362,722
Equipment	90,836	10,746	-	(58)	101,524
Software	23,740	2,687	-	-	26,427
Total accumulated depreciation	491,750	39,768	-	(1,440)	530,078
Net depreciable assets	637,857	(32,212)	27,584	(352)	632,877
Total capital assets	$ 700,367	$ 253	$ -	$ (577)	$ 700,043

Capital asset activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reclassifications	Retirements	Ending Balance
Land	$ 17,895	$ -	$ -	$ -	$ 17,895
Library materials	25,686	-	-	-	25,686
Construction in progress	11,496	27,327	(19,894)	-	18,929
Total nondepreciable assets	55,077	27,327	(19,894)	-	62,510
Land improvements	55,130	-	2,211	-	57,341
Buildings & improvements	884,381	-	12,381	-	896,762
Equipment	133,342	4,257	5,253	-	142,852
Software	32,568	35	49	-	32,652
Total depreciable assets	1,105,421	4,292	19,894	-	1,129,607
Less accumulated depreciation:					
Land improvements	35,289	1,939	-	-	37,228
Buildings & improvements	316,935	23,011	-	-	339,946
Equipment	80,578	10,258	-	-	90,836
Software	21,034	2,706	-	-	23,740
Total accumulated depreciation	453,836	37,914	-	-	491,750
Net depreciable assets	651,585	(33,622)	19,894	-	637,857
Total capital assets	$ 706,662	$ (6,295)	$ -	$ -	$ 700,367

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

As of June 30, 2018 and 2017, $14,805 and $20,974, respectively, in proceeds from revenue bond issuances remain unspent. These amounts are included in the accompanying Statements of Net Position as part of deposits with bond trustees.

Also remaining unspent as of June 30, 2018 is $486 in capital appropriations awarded by the State of Maine. These amounts are not included in the accompanying financial statements because the System has not met all eligibility requirements (e.g., incurred costs).

Both the revenue bond and capital appropriation monies are earmarked for specific projects, most of which are capital construction projects. As monies are spent on these projects, the costs are included in capital assets in the accompanying Statements of Net Position.

Outstanding commitments on uncompleted construction contracts totaled $10,363 and $6,767 at June 30, 2018 and 2017, respectively.

7. ACCRUED LIABILITIES AND LONG-TERM DEBT

Changes in accrued liabilities and long-term debt during the year ended June 30, 2018 include the following:

	Beginning Balance Restated	Additions	Reductions	Ending Balance	Current Portion
Accrued liabilities:					
Workers' compensation *(Note 11)*	$ 3,235	$ 332	$ (996)	$ 2,571	$ 873
Health insurance *(Note 11)*	5,584	69,402	(68,516)	6,470	6,470
Postemployment health plan *(Note 14)*	76,614	30,266	(29,375)	77,505	-
Other employee benefit programs *(Note 13)*	51,521	56,507	(56,190)	51,838	4,757
Other	17,117	13,328	(15,226)	15,219	13,879
Total accrued liabilities	$ 154,071	$ 169,835	$ (170,303)	$ 153,603	$ 25,979
Long-term debt:					
Capital lease obligations [a]	$ 3,538	$ -	$ (564)	$ 2,974	$ 622
Bonds and notes payable [b]	172,264	65	(14,313)	158,016	13,213
Lease purchase agreement [b]	-	644	(12)	632	123
Total long-term debt	$ 175,802	$ 709	$ (14,889)	$ 161,622	$ 13,958

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Changes in accrued liabilities and long-term debt during the year ended June 30, 2017 include the following:

	Beginning Balance Restated	Additions Restated	Reductions Restated	Ending Balance Restated	Current Portion
Accrued liabilities:					
Workers' compensation *(Note 11)*	$ 4,306	$ 310	$ (1,381)	$ 3,235	$ 1,049
Health insurance *(Note 11)*	6,124	67,756	(68,296)	5,584	5,584
Postemployment health plan *(Note 14)*	102,341	38,156	(63,883)	76,614	-
Other employee benefit programs *(Note 13)*	52,311	54,585	(55,375)	51,521	4,364
Other	16,596	13,476	(12,955)	17,117	14,045
Total accrued liabilities	$181,678	$174,283	$ (201,890)	$154,071	$25,042
Long-term debt:					
Capital lease obligations [(a)]	$ 4,206	$ -	$ (668)	$ 3,538	$ 624
Bonds and notes payable [(b)]	162,079	34,353	(24,168)	172,264	14,307
Total long-term debt	$166,285	$ 34,353	$ (24,836)	$175,802	$14,931

a. Lease Obligations

The System leases certain equipment and real estate under leases with terms exceeding one year. 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, 2018 are as follows:

Year Ending	Capital Leases		Operating	
June 30:	Principal	Interest	Leases	Total
2019	$ 622	$ 91	$ 623	$ 1,336
2020	457	78	342	877
2021	426	71	233	730
2022	162	63	245	470
2023	169	56	239	464
2024-2028	967	158	1,211	2,336
2029-2033	171	5	1,013	1,189
2034-2038	-	-	527	527
Total minimum lease payments	$ 2,974	$ 522	$ 4,433	$ 7,929

The rent expense related to operating leases amounted to $756 for the year ended June 30, 2018 and $1,142 for the year ended June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

b. Bonds and Notes Payable

Bonds, notes payable and lease purchase agreements consist of the following at June 30:

	2018	2017
2017 Series A Revenue Bonds (original principal of $30,340)		
Serial bonds, maturing from 2018 to 2026, with annual principal payments from $2,285 to $4,460 and coupon interest rates from 4.0% to 5.0%. Issued to refund 2007A Series Revenue bonds and to provide funding for capital projects. Includes premiums of $2,993 and $3,898, respectively.	$ 28,873	$ 34,238
2015 Series A Revenue Bonds (original principal of $48,450)		
Serial bonds, maturing from 2016 to 2037, with annual principal payments from $405 to $3,760 and coupon interest rates from 3.0% to 5.0%. Issued to refund 2004A, 2005A, and 2007A Series Revenue bonds and to provide funding for capital projects. Includes premiums of $2,994 and $3,629, respectively.	47,619	49,494
2013 Series A Revenue Bonds (original principal of $65,255)		
Serial and Term bonds, maturing from 2014 to 2035, with annual principal payments from $1,275 to $4,425 and coupon interest rates from 2.0% to 5.0%. Issued to refund 2000A, 2003A, 2004A, and 2005A Series Revenue bonds. Includes premiums of $4,089 and $4,978, respectively.	57,679	61,688
2012 Series A Revenue Bonds (original principal of $34,975)		
Serial and Term bonds, maturing from 2013 to 2033, with annual principal payments from $1,070 to $2,620 and coupon interest rates from 2.0% to 4.0%. Issued to refund balloon on the 2002A Series Revenue bonds and to provide funding for a capital project. Includes premiums of $720 and $890, respectively.	21,775	24,485
University of Maine Foundation		
Note payable, drawn against $300 line of credit, unsecured, semi-annual payments of $5, including interest at 2.75%, matured in 2018	-	5
Note payable, secured by equipment, with annual payments of $75, including interest at 3.94%, matured in 2018.	-	83
Note payable, secured by equipment, with annual payments of $15, including interest at 4.25%, matures 2023	59	-

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

	2018	2017
Efficiency Maine Trust		
$2,595 loan for biomass energy project, quarterly principal payments of $65 plus interest at 1.5% beginning in June 2016 and continuing through March 2026.	$ 2,011	$ 2,271
Total bonds and notes payable, net	158,016	172,264
Banc of America		
Lease purchase agreement, secured by equipment, with semi-annual payments of principal and interest at 1.82% to 2.40%, maturing from October 2022 to June 2023	632	-
Total bonds, notes payable and lease purchase agreements, net	$ 158,648	$ 172,264
Total par value of outstanding bonds, notes payable and lease purchase agreements	$ 147,852	$ 158,869
Total unamortized premiums and discounts	10,796	13,395
Total bonds, notes payable and lease purchase agreements	$ 158,648	$ 172,264

with the issuance of revenue bonds have been expensed as incurred and included in the accompanying Statements of Revenues, Expenses and Changes in Net Position. Premiums, discounts, and deferred amounts on refunding are being amortized over the life of the respective bond issuances as part of interest expense using the effective interest method.

Principal and interest payments on bonds, notes payable and lease purchase agreements for the next five years and in subsequent five-year periods are as follows at June 30, 2018:

Year Ending June 30:	Principal	Interest	Total
2019	$ 11,090	$ 6,197	$ 17,287
2020	11,888	5,692	17,580
2021	10,842	5,168	16,010
2022	11,315	4,693	16,008
2023	10,783	4,160	14,943
2024-2028	47,439	13,605	61,044
2029-2033	36,465	5,182	41,647
2034-2037	8,030	458	8,488
Total Payments	$ 147,852	$ 45,155	$193,007

Interest costs related to the revenue bonds for FY18 and FY17 were $4,216 and $4,498, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

On May 17, 2017, the System issued $30,340 of 2017 Series A Revenue Bonds to currently refund $13,245 of 2007 Series A Revenue Bonds and to provide $18,225 for new projects. The System completed the refunding to reduce its total debt service payments over the following twenty years by $1,515 and to obtain economic gain (difference between the present values of the old and new debt service payments) of $1,406. The principal amount of debt refunded through in-substance defeasance was $13,245. The amount still outstanding at June 30, 2017 was $0. Refunding bond proceeds of $13,431 were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective call dates which was June 16, 2017.

The FY17 refunding resulted in a deferred amount on refunding of ($48) which represents the difference between the reacquisition price and the carrying value of the refunded bonds. Amortization of this deferred amount on refunding will be charged to operations as additional interest expense through the year FY24. The unamortized portion of the deferred amount on refunding, which was ($38) and ($43) as of June 30, 2018 and 2017, respectively, is included in deferred outflows of resources in the accompanying Statements of Net Position.

8. UNEARNED REVENUE AND DEPOSITS

Unearned revenue and deposits as of June 30 consist of the following:

	2018	2017
Unearned grant advances	$ 1,298	$ 3,527
Unearned summer session revenue	6,732	6,267
Other unearned revenue and deposits	1,483	1,067
Total unearned revenue and deposits	$ 9,513	$ 10,861

The System recognizes grant and contract revenue to the extent that it has fulfilled the eligibility requirements (e.g., incurred allowable costs) of the grant or contract award. Some awards pay the System in advance of the System fulfilling its obligations. In such situations, the System reports the cash as an asset and the offset as unearned revenue and deposits, a current liability, in the Statements of Net Position (see unearned grant advances in the above table).

The vast majority of grant and contract awards made to the System pay the funds to the System on a reimbursement basis. To the extent that the System has eligible, unreimbursed expenses, it recognizes a grant receivable in the Statements of Net Position. The System excludes from its financial statements the portion of an award not currently reimbursable because the System has not yet met the eligibility requirements. As of June 30, 2018 and 2017, the portion of outstanding awards excluded from the financial statements totaled $48,183 and $45,872, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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, 2018 and 2017 has been included in the accompanying Statements of Net Position as a noncurrent liability.

10. NET POSITION

The System's net position is composed of the following as of June 30:

	2018	Restated 2017
Net investment in capital assets	$ 550,658	$ 543,984
Restricted - Nonexpendable:		
Endowment funds	59,459	58,696
Restricted - Expendable:		
Student financial aid	49,026	46,370
Capital assets and retirement of debt	3,205	2,835
Loans	16,467	16,026
Academic support	12,862	13,888
Research and public service	8,203	10,127
Library	3,360	3,083
Other	21,865	21,178
Total restricted - expendable	114,988	113,507
Unrestricted:		
Educational and general reserves	67,358	65,361
Risk management	2,132	2,503
Budget stabilization	13,178	11,453
Auxiliary enterprises	12,981	11,610
Benefit pool carryover	15,729	9,923
Implementation of GASB 75 for OPEB	(89,607)	(89,607)
Information technology initiatives	430	25
Internally designated projects	18,421	17,700
Facility projects	28,521	34,718
Quasi endowment corpus	7,189	6,416
Endowment appreciation	8,823	8,409
Cost sharing and other	3,413	3,141
Total unrestricted	88,568	81,652
Total Net Position	$ 813,673	$ 797,839

11. COMMITMENTS AND CONTINGENCIES

a. Grant Program Involvement

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.

b. Risk Management – Insurance Programs

The System is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries; environmental pollution and natural disasters. The System manages these risks through a combination of commercial insurance policies purchased in the name of the System, a large deductible all-risk property insurance program and a self-insured retention program for physical damage to vehicles and mobile equipment.

The System's retention obligation for the general liability and vehicle liability is capped at $400 per claim, with an aggregate limit of $20,000 per year. Educator's legal liability risks are subject to a $150 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 Position as part of current accrued liabilities. As of June 30, 2018 and 2017 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.

At October 1, 2016, the System moved from a self-funded workers' compensation model to commercial insurance. Prior to October 1, 2016, the System was self-funded for the risk of loss related to workers' compensation. The liability for pre-existing 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 at June 30, 2018 and 2017 of $2,571 and $3,235, respectively, for pre-existing workers' compensation claims is included in accrued liabilities in the accompanying Statements of Net Position (see Note 7). The System now purchases commercial workers' compensation insurance which limits the exposure for any one incident to $1.

The System's active employee and under age 65 retiree health plans are self-funded with an Administrative Services Only (ASO) agreement with a commercial carrier. The System's Medicare eligible retiree health plan is a fully insured Medicare Advantage Private Fee for Service program with a commercial carrier. Both contracts are in effect from January 1 through December 31, 2018. As of June 30, 2018 and 2017, the estimated liability for claims incurred but not reported is included in total health insurance accrued liabilities in the accompanying Statements of Net Position (see Note 7). The System purchases stop-loss insurance which limits the exposure to $1,000 per individual.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The System's health insurance liability at June 30 consists of the following:

	2018	2017
Claims incurred but not reported	$ 5,358	$ 5,271
Reported claims	1,112	313
Total health insurance liability *(Note 7)*	$ 6,470	$ 5,584

Related to the System's self-insured health plan, certain collective bargaining agreements with System employees provide for a health insurance 'premium rebate' in the event that the total aggregate premium amount for the applicable two-year period (the "calculation period") exceeds, by a stated percentage, the total aggregate costs paid for claims and other expenses for the same period. Throughout each calculation period, the System receives periodic reports on how actual costs are trending in relation to the premiums; however, probability of a rebate cannot be determined prior to the end of the calculation period. The current calculation period ends December 31, 2018.

12. PASS THROUGH GRANTS

During FY18 and FY17, the System distributed $121,873 and $125,407, 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 or as cash disbursements and cash receipts in the accompanying financial statements.

13. PENSION PLANS

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

	2018	2017
Faculty and Professional Employees:		
Contributory retirement plan	$19,878	$19,450
Incentive retirement plan	1,399	1,533
Hourly Employees:		
Basic retirement plan	3,306	3,299
Defined benefit plan	1,575	772
Total net pension expense	$26,158	$25,054

a. Contributory Retirement Plan - Faculty and Professional Employees

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 of America (TIAA). The Board of Trustees and collective bargaining agreements establish benefit terms and 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. Participants may make additional voluntary contributions up to limits allowable by the Internal Revenue Service. The System implemented a five-year vesting schedule for the employer matching contribution for certain salaried employees hired on or after January 1, 2010. All participant contributions are fully and immediately vested.

Prior to June 1, 2014, participants had the option to direct up to 100% of existing accumulations and/or current contributions to selected investment vehicles outside of TIAA. As of June 1, 2014, all future contributions are directed to TIAA as the sole record-keeper. Upon separation from the System, participants may withdraw up to 100% of their vested account balances or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Contributory Plan.

b. Incentive Retirement Plan – Faculty and Professional Employees

The Incentive Retirement Plan is a single employer plan administered by the System. The Plan does not issue standalone financial statements.

Represented faculty who were employed before July 1, 1996 and other professional employees who were employed before July 1, 2006 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 subject to collective bargaining.

The Incentive Plan provides that eligible retiring employees with at least 10 years of continuous regular full-time equivalent service immediately prior to retirement will receive a benefit equivalent to 1½% times their completed years of service (up to a maximum of 27 years) times their final annual base salary. This amount is to be paid as a lump-sum contribution to the participant's retirement account. Employees enrolled in the Incentive Plan may elect to retire at any age on or after 55.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Employees covered by benefit terms: At June 30, total incentive retirement pension plan membership consisted of the following:

	2018	2017
Active plan participants	992	1,074

Contributions: The Incentive Plan is funded on a terminal funding basis - funded when costs become due and payable. Employees do not make contributions under the Incentive Plan.

The total pension liability related to the Incentive Plan at the measurement date of June 30, 2018 and 2017 was $21,504 and $22,312, respectively. The fiduciary net position as a percentage of the total pension liability was 0.00% as this plan has no assets.

The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	Not explicitly assumed
Salary increases	3.5% per year, including longevity
Discount rate	3.87% as of June 30, 2018
	3.58% as of June 30, 2017
Life expectancy:	
Non-annuitants:	RP-2000 Mortality Table projected to 2028 with Scale AA
Annuitants:	RP-2000 Mortality Table projected to 2020 with Scale AA

***Discount rate*:** GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* requires projected benefit payments be discounted to their actuarial present value using a tax-exempt, high-quality municipal bond rate.

For the Incentive Plan, which does not hold assets, the total pension liability is based on the discount rate of 3.87% and 3.58% as of June 30, 2018 and 2017, respectively. The rates are based on the municipal bond rates as of the measurement dates. The municipal bond rates for 2018 and 2017 are based on the Bond Buyer 20-Bond General Obligation (GO) Index published for the weeks of June 28, 2018 and June 29, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the total pension liability as of June 30, 2018 calculated using the discount rate of 3.87%, as well as what the total pension liability would be if it were calculated using a discount rate 1-percentage point lower (2.87 %) or 1-percentage point higher (4.87 %) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Total pension liability	$ 22,280	$ 21,504	$ 20,734

Changes in Total Pension Liability for the **Incentive Retirement Plan**:

Fiscal Year Ended June 30	2018	2017
Total pension liability – beginning	$ 22,312	$ 22,246
Changes for the year:		
Service cost	604	862
Interest	785	629
Differences between expected and actual experience	-	1,287
Changes of assumptions and other inputs	(225)	(628)
Benefit payments	(1,972)	(2,084)
Total pension liability – ending (a)	21,504	22,312
Fiduciary net position – beginning	-	-
Contributions – employer	1,972	2,084
Benefit payments	(1,972)	(2,084)
Fiduciary net position – ending (b)	-	-
Net pension liability – ending (a)-(b)	$ 21,504	$ 22,312
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%
Covered-employee payroll	$ 72,541	$ 77,644
Net pension liability as a percentage of covered-employee payroll	29.64%	28.74%
Contributions as a percentage of covered-employee payroll	2.72%	2.68%

c. Basic Retirement Plan - Classified Employees

The Basic Retirement Plan is a single employer defined contribution plan administered by the System. The Plan does not issue standalone financial statements.

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.

Eligible employees who were hired before July 1, 1998 could elect to roll 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, or remain in the Defined Benefit Plan. Eligible employees that remained in the Defined Benefit Plan and were age 50 and over on June 30, 1998 would continue to accrue additional benefits while the value of the benefit for those under age 50 would remain static. The majority of those under age 50 chose to roll over the value of their accrued benefit to the Basic 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. Since June 1, 2014, all contributions have been directed to TIAA as the sole record-keeper.

Employees hired prior to July 1, 1998 and who have more than five years of completed service may voluntarily contribute up to 4% of base pay to the Basic Plan and receive a 100% match from the System. Employees hired July 1, 1998 or later are required to contribute 1%. Employee contributions to the Basic Plan of up to 4% of base pay are matched 100% by the System. In addition, employees who have four or more years of completed service and do not participate in the Defined Benefit Plan, receive System contributions equal to 6% of their base pay, for a total maximum employer contribution of 10%.

The System implemented a four-year vesting schedule for the employer matching contribution for classified employees hired on or after January 1, 2010 and, on January 1, 2013, implemented a five-year vesting schedule. Employees hired before January 1, 2010 were fully and immediately vested in the employer matching contribution. All participant contributions are fully and immediately vested.

Upon separation from the System, participants may withdraw up to 100% of their vested account balances or transfer funds to other investment alternatives subject to Internal Revenue Service limitations and the contractual provisions of the Basic Plan.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

d. Defined Benefit Plan – Classified Employees

The Defined Benefit Plan (the Plan) is a single employer plan administered by the System. The Plan does not issue standalone financial statements. The Plan is maintained for eligible classified 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. Eligible employees receive the sum of:

a. 1.25% or 1.50% (based on years of service) of the participant's average annual compensation times credited service (up to a maximum of 30 years); plus
b. 1.25% or 1.50% (based on years of service) of the participant's unused sick leave.

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 age 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. Participants are also eligible for disability and death benefits.

The Board of Trustees has authority to establish or amend provisions of all classified employee plans noted above, including contribution requirements, subject to collective bargaining agreements.

Employees who participate in the 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.

Employees covered by benefit terms: At June 30, pension plan membership consisted of the following:

	2018	2017
Inactive plan participants or beneficiaries currently receiving benefits	715	751
Inactive plan participants entitled to but not yet receiving benefits	304	310
Active plan participants	6	6
Total plan participants	1,025	1,067

The Plan is closed to new entrants.

Contributions: The System adopted a funding strategy for the Plan on February 27, 2014. The System's funding strategy follows a long-term contribution schedule, such that a level annual dollar amount will be contributed to the plan indefinitely, while never allowing the Plan's assets to be depleted. The actuarially determined annual projected contribution to the Plan is $714 through and including FY47, at which point the projected fiduciary net position is estimated to be sufficient to meet annual benefit payments; however, any required contribution amount will be re-determined with each actuarial valuation as market performance and other factors will impact the required future funding. Funding the Plan over the long-term allows the System to minimize contribution volatility.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Employees do not make contributions under the Plan.

The components of the net pension liability at the measurement date of June 30 were as follows:

	2018	2017
Total pension liability	$ 38,397	$ 40,291
Fiduciary net position	(28,930)	(31,216)
Net pension liability	$ 9,467	$ 9,075
Fiduciary net position as a percentage of the total pension liability	75.34%	77.48%

For purposes of determining fiduciary net position, benefits are recorded when paid.

The total pension liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Actuarial asset method	The actuarial value of assets is the market value of assets
Inflation	3%
Salary increases	3.5% for all years
Investment rate of return	6.25% net of investment expenses, including inflation
Life expectancy:	
Pre-retirement	RP-2000 Mortality Table projected to 2028 with Scale AA
Post-retirement healthy	RP-2000 Mortality Table projected to 2020 with Scale AA
Post-retirement disabled	RP-2000 Mortality Table, no projection

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	8.0%	4.50%
Small/Mid Cap Equity	4.0%	4.75%
International Equity	7.0%	4.75%
Emerging Market Equity	3.0%	6.25%
Core Fixed Income	35.0%	0.75%
Global Asset Allocation	27.5%	3.60%
Real Estate	8.0%	3.25%
Alternative Investments	4.5%	6.50%
Cash	3.0%	0.00%
Total	100.0%	

Investment Returns: Fiscal Year Ended June 30	2018	2017
Annual money-weighted rate of return, net of investment expenses	4.80%	7.04%

Discount Rate: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* requires that projected benefit payments be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's assets are sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

For the Plan, the discount rate used to measure the total pension liability at June 30, 2018 and 2017 was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the Plan’s funding policy adopted on February 27, 2014. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current plan participants. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability as of June 30, 2018 calculated using the discount rate of 6.25%, as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage point lower (5.25 %) or 1-percentage point higher (7.25 %) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net pension liability	$ 12,146	$ 9,467	$ 7,104

Changes in Net Pension Liability for the **Defined Benefit Pension Plan**:

Fiscal Year Ended June 30	2018	2017
Total pension liability – beginning	$ 40,291	$ 42,934
Changes for the year:		
Service cost	1	6
Interest	2,385	2,545
Differences between expected and actual experience	-	(759)
Benefit payments	(4,280)	(4,435)
Total pension liability – ending (a)	38,397	40,291
Fiduciary net position – beginning	31,216	32,763
Contributions – employer	695	735
Net investment income	1,335	2,173
Benefit payments	(4,280)	(4,435)
Administrative expenses	(36)	(20)
Fiduciary net position – ending (b)	28,930	31,216
Net pension liability – ending (a)-(b)	$ 9,467	$ 9,075
Plan fiduciary net position as a percentage of the total pension liability	75.34%	77.48%
Covered-employee payroll	$ 105	$ 168
Net pension liability as a percentage of covered employee payroll	9052.65%	5400.37%
Contributions as a percentage of covered employee payroll	664.54%	437.48%
Plan assets measured at fair value	$ 28,930	$ 31,216

e. Funding of Basic and Defined Benefit Plans – Classified Employees

While the Basic Plan and Defined Benefit Plan are administratively separate, they are both part of the Retirement Plan for Classified Employees and are 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 any excess assets in the Defined Benefit Plan, subject to certain limitations.

14. POSTEMPLOYMENT HEALTH PLAN

The Other Postemployment Benefits (OPEB) Health Plan ("OPEB Plan") is a defined benefit, single employer plan, administered by the System. The OPEB Plan does not produce standalone financial statements. Within certain limits, the Board of Trustees has authority to establish and amend provisions under the Plan for retirees. This authority is subject to collective bargaining agreements for active employees.

System retirees at or above the normal retirement age of 65 with at least ten years of continuous full-time regular university service immediately prior to retirement and who have remained in the System health plan are provided group health coverage. This coverage is also extended to those former employees in the plan receiving benefits under the System's long-term disability (LTD) insurance and to widows/widowers of university employees and retirees. Employees who retire on or after April 1, 2008 and former employees receiving LTD benefits will have a one-time election to cease coverage under the System health plan and later reenroll for coverage provided continuous coverage is documented.

The System subsidizes the cost of insurance for eligible persons who are retired from the System and have reached age 65 and former employees approved for LTD benefits regardless of age or service. The subsidies have changed over time as summarized here:

- For employees who retired prior to July 1, 2010, the subsidy is 100% of the cost for the retiree and 50% of the costs for eligible dependents.
- For employees who retired on or after July 1, 2010, but before January 1, 2017, the subsidy is reduced to 93%, 90%, or 85%, of the individual health premium, depending on the employee's years of System service.
- For employees who retired on or after January 1, 2017, the subsidy is 80% of the cost for the retiree and 50% of the costs for eligible dependents.
- Former employees who began LTD benefits on or after September 20, 2016 are eligible to continue the health plan for a maximum of 24 months with an 80% individual premium subsidy and a 50% dependent premium subsidy.

With certain restrictions, dependents are eligible to continue coverage at the 50% rate after the death of a retiree meeting the above criteria.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Eligible persons who were under age 65 and who retired from the System prior to January 1, 2011 do not receive a direct subsidy until they reach age 65. They must pay 100% of the active employee premium rate for the medical plan elected which includes an implicit subsidy as the actual medical plan premiums for this age group would be more than the active employee population. Eligible retirees under age 65 who retire on or after January 1, 2011 no longer receive the implicit subsidy but rather contribute a percentage of the actual medical plan premium for the early retiree group. The contribution percentage is phased in through calendar year 2019 (from 62.5% in 2011 to 100% in 2019).

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-of payment to secure coverage under independent plans.

The System's OPEB expense for June 30, 2018 and 2017 was $9,878 and $2,918, respectively.

Plan membership: At June 30, OPEB Plan membership consisted of the following:

	2018	2017
Inactive plan participants or beneficiaries currently receiving benefits	2,359	2,134
Active plan participants	3,961	3,950
Total plan participants	6,320	6,084

Contributions: The System annually contributes an actuarially determined contribution to a Trust, based on the results of the most recent actuarial valuation.

Funding the OPEB Plan over the long-term allows the System to smooth market impacts, limiting contribution volatility. The required contribution amount will be re-determined with each actuarial valuation as market performance and other factors will impact the required future funding.

The components of the net OPEB liability at June 30 were as follows:

	2018	2017
Total OPEB liability	$202,855	$191,497
Fiduciary net position	(125,350)	(114,883)
Net OPEB liability	$ 77,505	$ 76,614
Fiduciary net position as a percentage of the total OPEB liability	61.79%	59.99%

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to the measurement date of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Actuarial asset method	Market value
Inflation	3%
Investment rate of return	7.5% net of investment expenses, including inflation
Healthcare cost trend rate	8% for 2017 decreasing 1% per year to an ultimate rate of 5% for 2020 and later years
Life expectancy:	
Pre-retirement	RP-2014 Mortality Table projected with fully generational mortality improvement using scale MP-2014. For disabled lives, RP-2014 Disabled Mortality Table
Post-retirement	RP-2014 Mortality Table projected with fully generational mortality improvement using scale MP-2014

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap	16%	4.50%
Domestic Small/Mid Cap	6%	4.75%
International Equity	23%	4.75%
Fixed Income	21%	1.39%
Global Asset Allocation	23%	3.60%
Hedge Funds	6%	4.25%
Real Assets	3%	3.25%
Private Equity	2%	6.50%
Cash and Equivalents	0%	0.00%
Total	100%	

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Discount Rate: Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB Plan investments to the extent that the OPEB Plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB Plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The discount rate used to measure the total OPEB liability at the measurement date was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made in accordance with the OPEB Plan's funding policy. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability calculated using the current discount rate of 7.5%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net OPEB liability	$ 105,713	$ 77,505	$ 56,466

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability calculated using the current healthcare cost trend rates as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (7 % year 1 decreasing to 4%) or 1-percentage point higher (9 % year 1 decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease 7% Year 1 Decreasing to 4%	Healthcare Cost Trend Rates 8% Year 1 Decreasing to 5%	1% Increase 9% Year 1 Decreasing to 6%
Net OPEB liability	$ 52,779	$ 77,505	$ 110,373

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

Changes in the net OPEB liability:

Fiscal Year Ended June 30	2018	2017
Total OPEB liability – beginning	$ 191,497	$ 199,877
Changes for the year:		
Service cost	6,330	6,174
Interest	14,482	15,567
Changes of benefit terms	-	(8,670)
Differences between expected and actual experience	-	(17,138)
Changes of assumptions	-	6,051
Benefit payments	(9,454)	(10,364)
Total OPEB liability – ending (a)	202,855	191,497
Fiduciary net position – beginning	114,883	97,536
Contributions – employer	11,942	16,146
Net investment income	7,979	11,565
Benefit payments	(9,454)	(10,364)
Fiduciary net position – ending (b)	125,350	114,883
Net OPEB liability – ending (a)-(b)	$ 77,505	$ 76,614

Plan fiduciary net position as a percentage of the total OPEB liability	61.79%	59.99%
Covered-employee payroll	$ 220,849	$ 214,956
Net OPEB liability as a percentage of covered employee payroll	35.09%	35.64%
Contributions as a percentage of covered employee payroll	5.41%	7.51%
Plan assets measured at fair value	$ 125,350	$ 114,883

Changes of assumptions from FY16 to FY17 include a decrease in the investment rate of return/discount rate from 7.75% to 7.5% and changes to the actuarial funding method from Projected Unit Credit to Entry Age Normal.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

15. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30 is summarized as follows:

2018

	Pension Liability	OPEB	Deferred Amount on Debt Refunding	Irrevocable Split-Interest Agreements	Service Concession Arrangement	Total
Deferred outflows of resources	$ 3,403	$ 4,874	$ 4,294	$ -	$ -	$ 12,571
Deferred inflows of resources	$ 1,593	$ 14,417	$ -	$ 1,673	$ 3,600	$ 21,283

2017

	Pension Liability	OPEB	Deferred Amount on Debt Refunding	Irrevocable Split-Interest Agreements	Service Concession Arrangement	Total
Deferred outflows of resources	$ 4,242	$ 5,170	$ 4,588	$ -	$ -	$ 14,000
Deferred inflows of resources	$ 1,707	$ 17,668	$ -	$ 1,602	$ 4,050	$ 25,027

Deferred outflows of resources and deferred inflows of resources for pensions and OPEB were related to the following sources for the year ended June 30:

2018

	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
Deferred outflows of resources				
Changes of assumption or other inputs	$ 847	$ -	$ 847	$ 4,289
Difference between expected and actual experience	932	-	932	-
Net difference between projected and actual earnings on plan investments	-	1,624	1,624	585
Total deferred outflows of resources	1,779	1,624	3,403	4,874
Deferred inflows of resources				
Changes of assumption or other inputs	649	-	649	-
Difference between expected and actual experience	944	-	944	12,148
Net difference between projected and actual earnings on plan investments	-	-	-	2,269
Total deferred inflows of resources	1,593	-	1,593	14,417
Net deferred outflows (inflows)	$ 186	$1,624	$1,810	$ (9,543)

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

2017 Restated

	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
Deferred outflows of resources				
Changes of assumption or other inputs	$ 1,019	$ -	$1,019	$ 5,170
Difference between expected and actual experience	1,110	-	1,110	-
Net difference between projected and actual earnings on plan investments	-	2,113	2,113	-
Total deferred outflows of resources	2,129	2,113	4,242	5,170
Deferred inflows of resources				
Changes of assumption or other inputs	541	-	541	
Difference between expected and actual experience	1,166	-	1,166	14,643
Net difference between projected and actual earnings on plan investments	-	-	-	3,025
Total deferred inflows of resources	1,707	-	1,707	17,668
Net deferred outflows (inflows)	$ 422	$2,113	$2,535	$(12,498)

Deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension expense and postemployment health expense, respectively, during the years ending June 30 as follows:

Year Ending June 30:	Incentive Retirement Plan	Defined Benefit Plan	Total Pension	OPEB
2019	$ 11	$ 992	$ 1,003	$ (2,224)
2020	11	479	490	(2,224)
2021	11	52	63	(2,224)
2022	11	101	112	(1,467)
2023	130	-	130	(1,404)
Thereafter	12	-	12	-
	$ 186	$ 1,624	$ 1,810	$ (9,543)

16. COMPONENT UNITS

The System is supported in part by several foundations and alumni associations that raise funds on the System's behalf. The System determined that one of those entities, the University of Maine Foundation ("the Foundation"), meets the criteria set forth under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, for inclusion as a discretely presented component unit of the System.

The Foundation is a legally separate, tax-exempt organization, which 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 Foundation holds and invests resources almost entirely for the System's benefit (specifically the University of Maine); the System is entitled to access a majority of the economic resources held; and the economic resources held are "significant to the System" based on a 5% of net position threshold. The Foundation has accordingly been discretely presented as a component unit of the System in the accompanying financial statements as of and for the years ended June 30, 2018 and 2017, and is reported in separate financial statements as the Foundation reports its financial results under Financial Accounting Standards Board standards rather than GASB standards. Contributions to the permanent endowment were $5,099 for FY18 and $3,804 for FY17.

The Foundation asset category, long-term investments, endowment, comprised 84% and 87% of the Foundation's total assets as of June 30, 2018 and 2017, respectively. Remaining disclosures in this note relate to this asset group.

Long-term investments, endowment

The Foundation maintains a general pool of investments for its endowments. These investment securities are stated at fair value based on quoted market prices within active markets. The fair values of alternative investments are determined from information supplied by the investment managers based on the market values of underlying investments on a net asset value basis. Investment income is reflected in the Statements of Activities as unrestricted or temporarily restricted based upon the existence and nature of any donor-imposed restrictions.

The Foundation has established a specific set of investment objectives and guidelines for investment managers that attempt to provide a predictable stream of income while seeking to maintain the purchasing power of the endowment assets over the long-term. The investment policy establishes an achievable return objective and seeks to manage risk through diversification of asset classes. The current long-term return objective is to return 7.25% in 2018 and 2017. Actual returns in any given year may vary from these amounts.

Endowment spending policy

The Foundation utilizes a spending policy for its pooled endowment in order to provide for the current and long-term needs of endowment recipients. The spending policy determines the endowment income to be distributed. For the years ended June 30, 2018 and 2017, the spending policy was 4.5% of the average market value for the five previous years ending December 31. For subsequent fiscal years, distributions will be calculated as of September 30.

Endowment spending is contingent upon a fund's market value exceeding its historic dollar value (principal). In accordance with the Uniform Prudent Management of Institutional Funds Act, a prudent expenditure may be allowed unless the donor has explicitly prohibited expenditure of principal. During the years ended June 30, 2018 and 2017, the Foundation distributed $10,755 and $8,769, respectively, to the System for both restricted and unrestricted purposes.

Fair value measurements

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The following table summarizes the Foundation's long-term endowment investments by class in the fair value hierarchy as of June 30:

	2018				
	Level 1	Level 2	Level 3	Total	Liquidity
U.S. equities	$ 55,654	$ -	$ -	$ 55,654	Daily/Monthly
Non U.S. equities	76,070	-	-	76,070	Daily/Monthly/Quarterly
U.S. fixed income	25,355	-	-	25,355	Daily
Global fixed income	5,046	-	-	5,046	Monthly
Total private investments	-	-	3,740	3,740	Illiquid
Alternative investments	-	-	54,462	54,462	Iliquid/Monthly/Quarterly/ Semi-Annually/Annually
Cash	352	-	-	352	Daily
Total long-term investments, endowment	**$ 162,477**	**$ -**	**$ 58,202**	**$ 220,679**	

Complete financial statements for the Foundation may be obtained from the Foundation’s office at Two Alumni Place, Orono, ME 04469-5792.

17. SERVICE CONCESSION ARRANGEMENTS

In June 2016, the System contracted with Sodexo America LLC (“Sodexo”) to provide food services at all campuses except the University of Maine. The agreement is for a term of 5 years (subject to renewal for 5 additional 1 year terms, upon mutual agreement of the parties). Upon execution of the contract, the System received a signing bonus of $500 and a commitment by Sodexo to provide up to $4,000 for equipment and improvements to the System’s dining facilities during the first 2 years of the agreement. Any such improvements and equipment provided will remain the property of the System. Improvements to facilities are materially complete as of June 30, 2018.

As of June 30, 2018 and 2017, the equipment and improvements provided under this agreement have been classified as either capital assets or expenses in accordance with the System’s capitalization policies, with an offsetting deferred inflow of resources. The signing bonus has also been classified as a deferred inflow of resources. Over the life of the contract, the System will amortize the deferred inflows of resources while recognizing auxiliary revenue each year. If the agreement expires, terminates or is amended in a way that has an adverse impact on Sodexo, the System will be liable for the unamortized portion of Sodexo’s investment.

As of June 30, 2018 and 2017 the balance of the deferred inflows of resources related to the Sodexo service concession arrangement is $3,600 and $4,050, respectively (see Note 15). During FY18 and FY17, amortization in the amount of $450 has been recognized as auxiliary revenue.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

18. PRIOR PERIOD ADJUSTMENTS

The provisions of GASB No. 75 are effective for periods beginning after June 15, 2017. This statement applies to the System's OPEB plan and the System adopted GASB No. 75 for its June 30, 2018 financial statements. The change represents a change from one generally accepted accounting principle to another generally accepted accounting principle that is the current preferred industry practice.

The changes adopted to conform to the provisions of GASB No. 75 are applied retroactively by restating the FY17 financial statements. The effect of the FY17 restatement was to reduce beginning net position (unrestricted), increase the change in net position and decrease ending net position (unrestricted) by the following amounts:

Net Position – Beginning of the year – as previously reported	$ 866,705
Cumulative adjustment to net position	
OPEB liability	(101,659)
Net Position – Beginning of the year – as restated	765,046
FY17 Change in net position – as previously reported	20,741
Effect on change in net position	
Decrease in benefits expense	12,052
FY17 Change in net position – as restated	32,793
Net Position at June 30, 2017 – as restated	$ 797,839

UNIVERSITY OF MAINE SYSTEM
REQUIRED SUPPLEMENTAL INFORMATION – RETIREMENT AND OPEB PLANS
YEAR ENDED JUNE 30, 2018 (UNAUDITED)
(IN THOUSANDS)

Incentive Retirement Plan:

Changes in Total Pension Liability and Related Ratios

Fiscal Year Ended June 30	2018	2017	2016	2015
Service cost	$ 604	$ 862	$ 718	$ 880
Interest	785	629	877	1,110
Differences between expected and actual experience	-	1,287	-	(1,831)
Changes of assumptions and other inputs	(225)	(628)	921	505
Benefit payments	(1,972)	(2,084)	(5,260)	(3,114)
Net change in total pension liability	(808)	66	(2,744)	(2,450)
Total pension liability – beginning	22,312	22,246	24,990	27,440
Total pension liability – ending	$ 21,504	$ 22,312	$ 22,246	$ 24,990
Covered-employee payroll	$ 72,541	$ 77,644	$ 95,653	$ 92,419
Total pension liability as a percentage of covered-employee payroll	29.64%	28.74%	23.26%	27.04%

Schedule of Employer Contributions

Fiscal Year Ended June 30	2018	2017	2016	2015
Actuarially determined contribution	$ -	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	1,972	2,084	5,260	3,114
Contribution deficiency (excess)	$ (1,972)	$ (2,084)	$ (5,260)	$ (3,114)
Covered-employee payroll	$ 72,541	$ 77,644	$ 95,653	$ 92,419
Contributions as a percentage of covered-employee payroll	2.72%	2.68%	5.50%	3.37%

Incentive Retirement Plan – Continued:

Notes to Required Supplementary Information:

Changes of benefit terms:	None.
Changes of assumptions and other inputs:	2018: The discount rate changed from 3.58% as of the beginning of the measurement period to 3.87% as of the end of the measurement period. 2017: The discount rate changed from 2.85% as of the beginning of the measurement period to 3.58% as of the end of the measurement period.
Methods and assumptions used in calculations of actuarially determined contributions:	The University of Maine System Incentive Retirement Plan is funded on a terminal funding basis - funded when costs become due and payable.

Actuarial cost method	Entry age normal
Inflation	Not explicitly assumed
Salary increases	3.5% per year, including longevity
Payroll growth	3.5% per year

Assets:	There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

Defined Benefit Pension Plan:

Changes in Total Pension Liability and Related Ratios

Fiscal Year Ended June 30	2018	2017	2016	2015	2014**
Changes for the year:					
Service cost	$ 1	$ 6	$ 5	$ 40	$
Interest	2,385	2,545	2,769	2,884	
Differences between expected and actual experience	-	(759)	-	12	
Changes of assumptions	-	-	1,427	-	
Benefit payments	(4,280)	(4,435)	(4,585)	(4,693)	
Net change in total pension liability	(1,894)	(2,643)	(384)	(1,757)	
Total pension liability – beginning	40,291	42,934	43,318	45,075	
Total pension liability – ending (a)	38,397	40,291	42,934	43,318	45,075
Contributions – employer	695	735	538	1,100	
Net investment income	1,335	2,173	202	27	
Benefit payments	(4,280)	(4,435)	(4,585)	(4,693)	
Administrative expenses	(36)	(20)	(19)	(8)	
Net change in plan fiduciary net position	(2,286)	(1,547)	(3,864)	(3,574)	
Fiduciary net position – beginning	31,216	32,763	36,627	40,201	
Fiduciary net position – ending (b)	28,930	31,216	32,763	36,627	40,201
Net pension liability – ending (a)-(b)	$ 9,467	$ 9,075	$ 10,171	$ 6,691	$ 4,874
Plan fiduciary net position as a percentage of the total pension liability	75.34%	77.48%	76.31%	84.56%	89.19%
Covered-employee payroll*	$ 105	$ 168	$ 312	$ 301	$ 692
Net pension liability as a percentage of covered-employee payroll	9052.65%	5400.37%	3259.34%	2219.09%	704.23%

* Covered payroll for 2016 is the 2015 covered payroll, increased by payroll growth of 3.5%

** Detailed information regarding the change in the total pension liability for FY14 has not been presented as that information was not available.

Schedule of Employer Contributions

Fiscal Year Ended June 30	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 695	$ 735	$ 538	$ 550	$ 550
Contributions in relation to the actuarially determined contribution	695	735	538	1,100	550
Contribution deficiency (excess)	$ -	$ -	$ -	$ (550)	$ -
Covered-employee payroll*	$ 105	$ 168	$ 312	$ 301	$ 692
Contributions as a percentage of covered-employee payroll	664.54%	437.48%	172.49%	364.84%	79.47%

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

Defined Benefit Pension Plan – continued:

Notes to Required Supplementary Information:

Changes of benefit terms:

None.

Changes of assumptions:

2018: *None*
2017: *None*
2016: The investment return rate was changed from 6.75% to 6.25% and the administrative expense assumption was changed from $50, increasing by 3% per year, to $30, increasing by 2% per year up to a maximum of $70.
2015: The actuarial funding method was changed from Projected Unit Credit to Entry Age Normal, the investment return rate was changed from 7.25% to 6.75% and the administrative expense assumption was changed from $90 per year to $50 per year.

Methods and assumptions used in calculations of actuarially determined contributions:

The actuarially determined contributions in the schedule of employers' contributions are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contributions reported in that schedule:

Actuarial cost method	2015 to 2018: Entry age normal 2014: Projected Unit Credit
Asset valuation method	The actuarial value of assets is the market value of assets.
Inflation	2016 to 2018: 3% per year 2015: 3.25% per year
Salary increases	3.5% per year
Payroll increases	3.5% per year
Investment rate of return/discount rate	2016 to 2018: 6.25%, net of investment expenses, compounded annually. 2015: 6.75%, net of investment expenses, compounded annually. 2014: 7.25%, net of investment expenses, compounded annually.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

Defined Benefit Pension Plan – continued:

Investment Returns: Fiscal Year Ended June 30	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	4.80%	7.04%	0.64%	0.12%	14.27%

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the pension plan investments to the ending fair value of pension plan investments.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

OPEB Plan:

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ended June 30	2018	2017	2016**
Changes for the year:			
Service cost	$ 6,330	$ 6,174	$
Interest	14,482	15,567	
Changes in benefit terms	-	(8,670)	
Differences between expected and actual experience	-	(17,138)	
Changes of assumptions	-	6,051	
Benefit payments	(9,454)	(10,364)	
Net change in total OPEB liability	11,358	(8,380)	
Total OPEB liability – beginning	191,497	199,877	
Total OPEB liability – ending (a)	202,855	191,497	199,877
Contributions – employer	11,942	16,146	
Net investment income	7,979	11,565	
Benefit payments	(9,454)	(10,364)	
Net change in plan fiduciary net position	10,467	17,347	
Fiduciary net position – beginning	114,883	97,536	
Fiduciary net position – ending (b)	125,350	114,883	97,536
Net OPEB liability – ending (a)-(b)	$ 77,505	$ 76,614	$ 102,341
Plan fiduciary net position as a percentage of the total OPEB liability	61.79%	59.99%	48.80%
Covered-employee payroll	$ 220,849	$ 214,956	
Net OPEB liability as a percentage of covered-employee payroll	35.09%	35.64%	

** Detailed information regarding the change in the total OPEB liability for FY16 has not been presented as that information was not available.

REQUIRED SUPPLEMENTAL INFORMATION - RETIREMENT PLANS (UNAUDITED) (IN THOUSANDS)

OPEB Plan - continued:

Schedule of Employer Contributions

Fiscal Year Ended June 30	**2018**	**2017**
Actuarially determined contribution	$ 12,819	$ 14,970
Contributions in relation to the actuarially determined contribution	11,942	16,146
Contribution deficiency (excess)	$ 877	$ (1,176)
Covered-employee payroll	$220,849	$214,956
Contributions as a percentage of covered-employee payroll	5.41%	7.51%

Notes to Required Supplementary Information:

Changes of assumptions:

2018: *None*

2017: The investment rate of return/discount rate was changed from 7.75% to 7.5% and the actuarial funding method was changed from Projected Unit Credit to Entry Age Normal.

Methods and assumptions used in calculations of actuarially determined contributions:

The actuarially determined contributions in the schedule of employers' contributions are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contributions reported in that schedule:

Actuarial cost method	2017 to 2018: Entry age normal 2016: Projected Unit Credit
Amortization method	Level dollar amount over 30 years on a closed amortization period
Amortization period	30 years
Asset valuation method	Market value
Inflation	3% per year
Healthcare cost trend rate	8% for 2017 decreasing 1% per year to an ultimate rate of 5% for 2020 and later years
Investment rate of return/ discount rate	2017 to 2018: 7.5% net of investment expenses, including inflation 2016: 7.75% net of investment expenses, including inflation

OPEB Plan - continued:

Investment Returns: Fiscal Year Ended June 30	2018	2017
Annual money-weighted rate of return, net of investment expenses	6.90%	11.56%

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of OPEB plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates the sum of the weighted external cash flows into and out of the OPEB plan investments to the ending fair value of OPEB plan investments.

UNIVERSITY OF MAINE SYSTEM
SUPPLEMENTAL INFORMATION REQUIRED BY THE STATE OF MAINE
SCHEDULES OF ACTIVITIES
(IN THOUSANDS)

Year Ended June 30, 2018

Functions/Programs	Expenses	Charges for Services	Program Investment Gain	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$696,452	$ 308,056	$ 3,086	$ 170,339	$ 4,370	$ (210,601)

General Revenues:	
Unrestricted interest and investment income	6,490
Additions to endowments - gifts	1,380
State of Maine noncapital appropriation	210,979
State of Maine capital appropriation	8,029
Loss on disposal of capital assets	(443)
Total Revenues and Extraordinary Items	226,435
Change in Net Position	15,834
Net Position, Beginning of Year	797,839
Net Position, End of Year	$ 813,673

Year Ended June 30, 2017 - Restated

Functions/Programs	Expenses	Charges for Services	Program Investment Gain	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue
University of Maine System	$672,917	$ 298,310	$ 7,358	$ 168,813	$ 3,276	$ (195,160)

General Revenues:	
Unrestricted interest and investment income	9,455
Additions to endowments - gifts	1,313
State of Maine noncapital appropriation	212,036
State of Maine capital appropriation	5,148
Gain on disposal of capital assets	1
Total Revenues and Extraordinary Items	227,953
Change in Net Position	32,793
Net Position, Beginning of Year - As Restated	765,046
Net Position, End of Year	$ 797,839

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INDEPENDENT AUDITOR'S 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*

To the Board of Trustees
University of Maine System

We have audited, in accordance with the 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 business-type activities and the discretely presented component unit of the University of Maine System (the System), a component unit of the State of Maine, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated REPORT DATE Our report includes a reference to other auditors, who audited the financial statements of the discretely presented component unit of the System, as described in our report on the System's financial statements. The audit of the financial statements of the component unit was not conducted in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance or other matters associated with the discretely presented component unit of the System.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Trustees
University of Maine System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bangor, Maine
REPORT DATE

Maine's Public Universities
UNIVERSITY OF MAINE SYSTEM

AGENDA ITEM SUMMARY

1. **NAME OF ITEM**: Property Removal, Northern Road Duplexes, UMPI

2. **INITIATED BY**: James H. Page, Chancellor

3. **BOARD INFORMATION**: **BOARD ACTION: X**

4. **OUTCOME:** Enhance Fiscal Positioning **BOARD POLICY:** 802 – Disposition of Real Property

5. **BACKGROUND:**

The University of Maine System acting through the University of Maine at Presque Isle requests a renewal of previously-granted authorization to dispose of the property consisting of approximately 1 acres of land and three duplex housing units located at 17, 19, 21, 23, 25 and 27 Northern Road in Presque Isle.

The duplexes are no longer needed by UMPI. Altogether they total approximately 6,700 gross square feet and were previously appraised for $240,000.

This request to dispose of them is duplicative of the exact same request approved by Trustees in September 2017. This duplicate or renewal request is necessary because the federal government requires a governing body in such a circumstances, in this case the University's Board of Trustees, to have acted within 1 year of the transaction at hand. While both the University and federal government have been working on this matter throughout, the approval previously granted by Trustees is now more than a year old.

Moreover, the federal government in its most recent communication has requested feedback from the University and confirmation of the University's intention by November 1, 2018. This matter has been expedited to Trustees in an effort to meet that timeline.

Substantively, in brief, this land and these facilities were once associated with the former Loring Air Force Base. They came to the University when the base was closed, and the University now intends to surrender its interests. The Aroostook Band of Micmacs will pay a fee of approximately $96,000 that will be triggered and would be otherwise owed by the University when UMS abrogates its ownership agreement for the real property. The tribe, which currently owns and occupies the adjacent similar parcels and facilities, will then become the owner of these properties. Absent abrogation, the University would not be able to lease or to dispose of the property until 2029. This transaction is being done in coordination with the federal government. The University's expects to incur only nominal, if any, costs.

The Finance, Facilites, and Technology Committee approved this recommendation to be forwarded to the Consent Agenda for Board of Trustee approval at the October 29, 2018 Special Board meeting.

6. TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees approves the recommendation of the Finance, Facilities and Technology Committee authorizing the University of Maine System acting through the University of Maine at Presque Isle to dispose of three housing units located at 17, 19, 21, 23, 25 and 27 Norther Road, Presque Isle, Maine, subject to review and approval of all final terms and conditions by the General Counsel and the University Treasurer of the final terms and conditions.

Furthermore, per the USDOE's request, that the Board of Trustees authorizes Chip Gavin, Chief Facilities and General Services Officer, to be the sole individual empowered to carry out the intent of this resolution, including the authority to make payments as necessary to secure the abrogation.

Maine's Public Universities
UNIVERSITY OF MAINE SYSTEM

AGENDA ITEM SUMMARY

1. **NAME OF ITEM**: Property Removal, Northern Road Duplexes, UMPI

2. **INITIATED BY**: James H. Page, Chancellor

3. **BOARD INFORMATION**: **BOARD ACTION: X**

4. **OUTCOME:** Enhance Fiscal Positioning **BOARD POLICY:** 802 – Disposition of Real Property

5. **BACKGROUND:**

The University of Maine System acting through the University of Maine at Presque Isle requests authorization to dispose of the property consisting of approximately 1 acre of land and three duplex housing units located at 17, 19, 21, 23, 25 and 27 Northern Road in Presque Isle.

This request is pursuant to Board policy 802 – Disposition of Real Property, which requires Board of Trustees consideration of real property sales or transfers when the value is greater than $50,000. The appraised value and abrogation fee in this instance are both greater than $240,000.

The property was acquired by the University in 1999 from the U.S. Department of Education through a Public Benefit Allowance and was part of the former Loring Air Force Base housing. The University is requesting to dispose of the property by executing the abrogation clause of the deed followed by transfer of the property to the Aroostook Band of Micmacs who currently own and occupy many of the remaining and nearby housing units in this location.

The units are each approximately 2,237 gross square feet (GSF), totaling 6,712 GSF, and sit on approximately 1 acre of land. Two of the units have been used by faculty, staff, and students in the past; the third was utilized by the Maine School Administrative District (MSAD) 1 for educational programing until recently. MSAD 1 is no longer interested in using this building and recently returned the property to the University.

Since the units were not being used in the recent past, they were not part of the Sightlines review and there is no Sightlines data available.

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The campus currently has sufficient space on the campus to meet its current housing needs. Moreover, UMPI would need to dedicate significant financial resources in order to upgrade these three buildings to meet current standards.

The deed restrictions limit the use of this property to educational purposes and also restrict the selling or leasing for the property for 30 years, which in this case is until 2029. In order for the University to dispose of the property, it must either return the property to the government or abrogate the remaining Public Benefit Allowance.

The preference is to abrogate in coordination with the U.S. Department of Education and have the Aroostook Band of Micmacs pay the abrogation fee and closing cost, including the appraisal, which will relieve the University of this obligation and will help meet other needs in the community. The Micmacs have indicated to UMPI that they have secured the required financing to pay the abrogation fee.

The Duplexes were appraised for $240,000. The official abrogation fee from the DOE is $96,000. The University will bear nominal if any costs in connection with this transfer.

The removal of these buildings from the university's inventory will reduce the campus gross square footage, and reduce the need for the campus to invest maintenance and operational dollars in the underutilized space.

The resolve language in this case is slightly different than in many other real estate matters before the Board because certain language was required by the federal government. In practical effect, while a single person is being empowered to carry forward the Board's approval, if it is granted, that person will nonetheless still consult with General Counsel and the University Treasurer before executing any agreements. 13

The Finance, Facilities and Technology Committee approved this recommendation to be forwarded to the Consent Agenda for Board of Trustee approval at the September 17-18, 2017 Board meeting.

5. TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees approves the recommendation of the Finance, Facilities and Technology Committee authorizing the University of Maine System acting through the University of Maine at Presque Isle to dispose of three housing units located at 17, 19, 21, 23, 25 and 27 Northern Road, Presque Isle, Maine, subject to review and approval by General Counsel and the University Treasurer of the final terms and conditions.

Furthermore, per the USDOE's request, that the Board of Trustees authorizes Chip Gavin, Chief Facilities and General Services Officer, to be the sole individual empowered to carry out the intent of this resolution, including the authority to make payments as necessary to secure the abrogation.

9/7/17